

CONFORMED COPY

CREDIT NUMBER 1842 BO

(La Paz Municipal Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

MUNICIPALITY OF LA PAZ

Dated August 7, 1987

PROJECT AGREEMENT

AGREEMENT, dated August 7, 1987 between the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and the MUNICIPALITY OF LA PAZ (La Paz).

WHEREAS (A) by the Development Credit Agreement of even date herewith between the Republic of Bolivia (the Borrower) and the Association, the Association has agreed to lend to the Borrower an amount in various currencies equivalent to eleven million seven hundred thousand Special Drawing Rights (SDR 11,700,000) on the terms and conditions set forth in the Development Credit Agreement, but only on condition that La Paz agree to undertake such obligations toward the Association as are set forth in this Agreement; and

(B) by a Subsidiary Agreement to be entered into between the Borrower and La Paz, the proceeds of the Credit provided for under the Development Credit Agreement will be made available to La Paz on the terms and conditions set forth in said Subsidiary Agreement; and

WHEREAS La Paz, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project;
Management and Operations of La Paz

Section 2.01. La Paz declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and to this end, shall carry out the Project and conduct its operations and affairs, with due diligence and efficiency and in conformity with appropriate economic, financial and managerial standards and practices, with qualified and experienced personnel and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 2.02. La Paz shall enter into, and duly perform all of its obligations under, the Subsidiary Agreement. Except as the Association shall otherwise agree, La Paz shall not take or concur in any action which would have the effect of changing, assigning, amending, abrogating or waiving the Subsidiary Agreement or any provision thereof.

Section 2.03. (a) Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of the Schedule to this Agreement.

(b) La Paz shall prepare, issue and put into effect, a manual, satisfactory to the Association and consistent with the Guidelines referred to in Section I, Part A.1, and Section II of the Schedule to this Agreement, setting forth the procedures that shall be followed and conditions that shall be applied by La Paz in the procurement of goods, works and consultants' services for the Project (the La Paz Procurement Manual).

Section 2.04. La Paz shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of the Project.

Section 2.05. Without limitation to or restriction upon its other obligations under this agreement and the Development Credit Agreement, La Paz shall:

(a) carry out the IMP in accordance with the timetable stated therein, as the same may be revised from time to time with the prior agreement of the Association; and

(b) review the progress of implementing the IMP with the Association on an annual basis.

Section 2.06. In accordance with and subject to the provisions of the Development Credit Agreement, La Paz shall:

(a) enter into an agreement, satisfactory to the Association, with El Alto for purposes of coordination and cooperation in connection with the Project;

(b) enter into a Twinning Agreement, satisfactory to the Association, with EEVV providing for the assistance of EEVV to La Paz in the carrying out of Part C.3 of the Project; and

(c) exercise its rights under the El Alto Agreement and the Twinning Agreement in such a manner as to protect the interests of the Borrower, the Association and La Paz, and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, La Paz shall not assign, amend, abrogate or waive any provision of the El Alto Agreement or the Twinning Agreement.

Section 2.07. La Paz shall:

(a) establish, and maintain through the Closing Date, in a commercial bank acceptable to the Association, a Project Account in national currency, on terms and conditions satisfactory to the Association;

(b) make payments out of the Project Account exclusively for expenditures for goods, works, consultants services and personnel costs required for the Project;

(c) deposit into the Project Account: (A) an initial deposit of the equivalent of \$125,000; (B) at monthly intervals, beginning the month after the establishment of the Project Account, an amount equal to the aggregate of payments made during the previous month for expenditures under the Project not financed from the proceeds of the Spanish Grant, French Grant, Netherlands Grant or GTZ Grant; and (C) any additional amounts necessary to maintain a minimum balance in such account of the equivalent of \$125,000 or another amount acceptable to the Association.

Section 2.08. (a) La Paz shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and the Subsidiary Agreement, the execution of the El Alto Agreement, the Twinning Agreement and the IMP, as well as other matters relating to the purposes of the Credit.

(b) La Paz shall promptly inform the Association of any condition which interferes, or threatens to interfere, with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by La Paz of its obligations under this Agreement, the Subsidiary Agreement, the El Alto Agreement, the Twinning Agreement and the IMP.

Section 2.09. La Paz shall: (a) maintain through completion of the Project, a project office with facilities, employees, management staff and responsibilities satisfactory to the Association for purposes of implementing, coordinating, supervising and evaluating the Project; and

(b) at all times until completion of the Project, provide such Project Office with adequate personnel, including a Project Coordinator acceptable to the Association, funds, resources and facilities to carry out its responsibilities under the Project.

Section 2.10. La Paz shall:

(a) develop, implement and apply a personnel policy, satisfactory to the Association, for the purpose of improving the efficiency and effectiveness of its staff;

(b) from time to time, as reasonably requested by the Association, exchange views with the Association on the implementation and application of such Personnel Policy;

(c) provide to the Association, information with respect to the qualifications and experience of any proposed replacement of a Project Specialist, prior to such replacement taking place; and

(d) not replace the Project Coordinator unless the Association shall have expressed no objection to the qualifications, experience, and terms and conditions of employment of the proposed replacement.

Section 2.11. La Paz shall at all times, until completion of the Project, provide the Municipal Training Institute with adequate personnel, funds, resources and facilities to carry out its functions.

Section 2.12. Without limitation to its obligations under the Project and IMP, La Paz shall: (a) not later than December 31, 1987, furnish to the Association, a program satisfactory to the Association, including a timetable for implementation thereof, for the purposes of improving its administrative and organizational structure, decentralizing and creating autonomous enterprises for selected municipal activities, taking into account efficiency, available resources, and the provisions of the IMP; and (b) promptly carry out such program in accordance with the agreed timetable.

Section 2.13. Without limitation to its obligations under the Project and IMP, La Paz shall undertake a program, satisfactory to the Association, to improve its capacity to maintain, repair and, if appropriate, replace public works and buildings,

equipment, machinery, roads, transportation systems and any other items constituting the urban infrastructure system of La Paz.

ARTICLE III

Financial Covenants

Section 3.01. (a) La Paz shall maintain records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices its operations and financial condition, including separate records and accounts adequate to reflect the operations resources and expenditures in respect of the Project.

(b) La Paz shall:

(i) have the accounts and financial statements (balance sheets, statements of income and expenses and related statements referred to in paragraph (a) of this Section), and the Project Account, for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, 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: (A) certified copies of its financial statements for such year as so audited; and (B) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a review and commentary of such auditors regarding the performance of La Paz in implementing measures to improve revenue generation, municipal accounting procedures and internal budgetary control; and

(iii) furnish to the Association such other information concerning said records, accounts and financial statements as well as the audit thereof as the Association shall 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 expenditures, La Paz shall:

(i) maintain, in accordance with paragraph (a) of this Section, separate records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for 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;

(iii) enable, the Association's representatives to examine such records; and

(iv) ensure that such separate accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report thereof contains, in respect of such separate accounts, a separate opinion by said auditors as to whether the statements of expenditure referred to in this paragraph (c) and submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 3.02. La Paz shall take such steps satisfactory to the Association as shall be necessary to protect itself against risk of loss resulting from changes in the rates of exchange between the various currencies used in the implementation of the Project.

Section 3.03. (a) Except as the Association shall otherwise agree, La Paz shall not:

(i) incur any debt from and after December 31, 1987, and through December 31, 1989, unless the current revenues of La Paz for the fiscal year immediately preceding the date of such incurrence or for the twelve-month period ending on the date of such incurrence,

whichever is the greater, shall be at least two and eight-tenths (2.8) times the estimated maximum debt service requirement of La Paz for any succeeding fiscal year on all debt of La Paz, including debt to be incurred; and

(ii) incur any debt after December 31, 1989, unless the current revenues of La Paz for the fiscal year immediately preceding the date of such incurrence or for the twelve-month period ending on the date of such incurrence, whichever is greater, shall be at least three and three-tenths (3.3) times the estimated maximum debt service requirement of La Paz for any succeeding fiscal year on all debt of La Paz, including debt to be incurred.

(b) For the purposes of this Section:

(i) The term "debt" means any indebtedness of La Paz maturing by its terms more than one year after the date on which it is originally incurred.

(ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(iii) The term "current revenues" means revenues from all sources related to municipal operations, including revenues derived from revenue sharing by the Borrower, but excluding revenues related to capital transactions.

(iv) The term "capital transactions" means sales, exchanges or other dispositions of fixed assets.

(v) The term "debt service requirement" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

(vi) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 3.04. (a) Except as the Association shall otherwise agree, La Paz shall produce:

(i) for each of its fiscal years after its fiscal year ending on December 31, 1987, and through December 31, 1989, funds from current account surplus equivalent to not less than 28% of the annual average of La Paz's capital expenditures incurred, or expected to be incurred, for that year and the next following fiscal year;

(ii) for each of its fiscal years after its fiscal year ending on December 31, 1989, funds from current account surplus equivalent to not less than 35% of the annual average of La Paz's capital expenditures incurred, or expected to be incurred, for that year and the next following year.

(b) Before October 1 in each of its fiscal years, La Paz shall, on the basis of forecasts prepared by La Paz and satisfactory to the Association, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year, and shall furnish to the Association the results of such review upon its completion.

(c) If any such review shows that La Paz would not meet the requirements set forth in paragraph (a) for La Paz's fiscal years covered by such review, La Paz shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its rates) in order to meet such requirements.

(d) For the purposes of this Section:

(i) The term "current account surplus" means the difference between current revenues and current expenditures.

(ii) The term "current expenditures" means all expenditures related to municipal operations, including administration and adequate maintenance, debt service requirement, taxes and payments in lieu of taxes, if any (excluding provision for depreciation, if any, and other non-cash operating charges), increase in working capital other than cash, and other cash outflows, but excluding capital expenditures.

(iii) The terms "current revenues" and "capital transactions" as used in the definition of "current revenues", shall have the same meanings as set forth in Section 3.03 of this Agreement.

(iv) The term "debt service requirements" shall have the same meaning as set forth in Section 3.03 of this Agreement.

(v) The term "capital expenditures" means all expenditures incurred on account of fixed assets, including interest charged to construction and related to operations.

Section 3.05. La Paz shall, until completion of the Project establish and enforce a rate structure or other user charge system designed to achieve recovery of the full capital, maintenance and operation costs of: (i) its traffic signaling, parking system, bus terminals and sanitation services; and (ii) its upgrading of basic infrastructure, including without limitation, water drainage and pedestrian walkways.

ARTICLE IV

Effective Date; Termination; Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 4.02. (a) This Agreement and all obligations of the Association and of La Paz thereunder shall terminate on the earlier of the following two dates:

(i) the date on which the Development Credit Agreement shall terminate; or

(ii) a date twenty years after the date of this Agreement.

(b) If the Development Credit Agreement terminates before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify La Paz of this event.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other addresses as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Association:

International Development Association
1818 H Street, N.W.

Washington, D.C. 20433
United States of America

Cable address:

INDEVAS
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

For the Municipality:

Mayor of La Paz
Municipalidad de La Paz
Mercado Esquina Colon
La Paz, Bolivia

Telex:

3591 MUNIPAZBV

Section 5.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of La Paz or by La Paz on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by its Mayor, or by such other person or persons as the Mayor of La Paz shall designate in writing, and La Paz shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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, month and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ S. Shahid Husain

Regional Vice President
Latin America and the Caribbean

MUNICIPALITY OF LA PAZ

By /s/ Ronald McLean

Authorized Representative

SCHEDULE

Procurement of Goods, Works
and Services

Section I: Procurement of Goods and Works

Part A: International Competitive Bidding

1. Contracts for the procurement of civil works estimated to cost the equivalent of \$250,000 or more, and contracts for the procurement of goods estimated to cost the equivalent of \$100,000 or more, shall be awarded through international competitive bidding in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines), subject to the following modifications:

(a) Paragraph 2.8 of the Guidelines is deleted and the following is

substituted therefor:

"2.8 Notification and Advertising

The international community should be notified in a timely manner of the opportunity to bid. This will be done by advertising invitations to apply for inclusion in a bidder's invitation list, to apply for prequalification, or to bid; such advertisements should be placed in at least one newspaper of general circulation in the Borrower's country and, in addition, in at least one of the following forms:

- (i) a notice in the United Nations publication, Development Forum, Business Edition; or
- (ii) an advertisement in a newspaper, periodical or technical journal of wide international circulation; or
- (iii) a notice to local representatives of countries and territories referred to in the Guidelines, that are potential suppliers of the goods required."

(b) The following is added at the end of paragraph 2.21 of the Guidelines:

"As a further alternative, bidding documents may require the bidder to state the bid price in a single currency widely used in international trade and specified in the bidding documents."

(c) Paragraphs 2.55 and 2.56 of the Guidelines are deleted.

2. To the extent practicable, contracts should be grouped into packages for purposes of bidding.

3. Bidders for civil works contracts estimated to cost more than the equivalent of \$1,000,000 shall be prequalified as described in paragraph 2.10 of the Guidelines.

Part B: Other Procurement Procedures

1. Local Competitive Bidding

Civil works estimated to cost less than the equivalent of \$250,000 may be procured under contracts awarded in accordance with competitive bidding procedures, locally advertised, satisfactory to the Association.

2. Local Shopping

Goods estimated to cost the equivalent of less than \$100,000 each, may be procured under contracts awarded to suppliers of such goods on the basis of comparison of price quotations from at least three suppliers eligible under the Guidelines, in accordance with Section I and Section II, paragraph 3.4 of the Guidelines, or with procedures acceptable to the Association.

3. Direct Contracting

Contracts for goods which are proprietary goods or for which there is a sole source of supply worldwide, may be purchased by direct contracting with the supplier or manufacturer, in accordance with procedures acceptable to the Association.

4. Force Account

Minor civil works may be carried out by La Paz under force account procedures acceptable to the Association, up to an aggregate amount not exceeding the equivalent of \$1,000,000.

Part C: Review by the Association of Procurement Decisions

1. With respect to the prequalification of bidders as provided in Part A.3 hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

2. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to: (i) each contract for goods and civil works procured under the provisions of Part A.1 hereof; and (ii) the first two contracts procured

under the provisions of either Part B.1 hereof or Part B.2 hereof, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. When payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contracts required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraph 3 and 4 of Appendix 1 to the Guidelines shall apply. When payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 3 to this Development Credit Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 3.01 (c) (ii) of this Agreement and Section 4.01 (c) (ii) of the Development Credit Agreement.

3. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II: Employment of Consultants

In order to assist La Paz in carrying out the Project, La Paz shall employ consultants whose qualifications, experience, terms of reference and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

