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LOAN NUMBER 1510 BO
CREDIT NUMBER 762 BO

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Project Agreement

(Ulla Ulla Development Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

INSTITUTO NACIONAL DE FOMENTO LANERO

Dated April 6, 1978

LOAN NUMBER 1510 BO
CREDIT NUMBER 762 BO

PROJECT AGREEMENT

AGREEMENT, dated April 6, 1978, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank), INTERNATIONAL DEVELOPMENT ASSOCIATION (hereinafter called the Association) and INSTITUTO NACIONAL DE FOMENTO LANERO (hereinafter called INFOL).

WHEREAS (A) by the Loan Agreement of even date herewith between Republic of Bolivia (hereinafter called the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to nine million dollars (\$9,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that INFOL agree to undertake such obligations toward the Bank as hereinafter set forth;

(B) by the Development Credit Agreement of even date herewith between the Borrower and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to nine million dollars (\$9,000,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that INFOL agrees to undertake such obligations toward the Association as hereinafter set forth;

(C) by a financing agreement between the Borrower and INFOL, part of the proceeds of the Loan and the Credit provided for under the Loan Agreement and the Development Credit Agreement, respectively, will be made available to INFOL on the terms and conditions therein set forth; and

WHEREAS INFOL, in consideration of the Bank's and the Association's entering into, respectively, the Loan Agreement and the Development Credit Agreement with the Borrower, has agreed to undertake the obligations hereinafter set forth;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Wherever used in this Agreement, unless the context shall otherwise require, the several terms defined in the Loan Agreement, the Development Credit Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. INFOL shall carry out the Project described in Schedule 2 to the Development Credit Agreement, with the exception of Parts A.3 and C.1 thereof, with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and agro-industrial practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the purpose.

Section 2.02. Except as the Bank and the Association shall otherwise agree, INFOL shall:

(a) employ the following consultants and experts on the dates and for the purposes indicated hereinafter: (i) not later than July 1, 1978, an expert in administration and management to assist INFOL's general manager in coordinating INFOL's activities and in the management of the Project; (ii) not later than July 1, 1978, consultants to carry out a research program of llama dehairing; (iii) not later than January 1, 1979, engineering consultants and a textile expert to provide technical expertise for the operation of the spinning plant, to establish grading norms and fiber pricing mechanisms and to set up a training program for the plant's personnel; (iv) not later than January 1, 1979, an expert in solar energy to assist in developing and testing simple and low-cost solar energy devices for heating, cooking, pumping, drying and greenhouse agriculture; and (v) experts in pasture and forage and in animal breeding and production;

(b) to provide support to INBOPIA on all aspects of the handicraft component of the Project, make appropriate arrangements with INBOPIA for the employment of (i) an expert in organization and management and an expert in marketing and fair organization, not later than July 1, 1978; and (ii) consultants in textile engineering and design, not later than January 1, 1979;

(c) make appropriate arrangements with the project unit established under Loan No. 1404-BO (Education and Vocational Training Project) for the employment, not later than June 1, 1978, of an education expert to be seconded to INFOL for the carrying out of the education component of the Project;

(d) The qualifications, experience and terms and conditions of employment of the consultants and experts referred to in paragraphs (a) to (c) of this Section shall be satisfactory to the Bank and the Association.

Section 2.03. (a) In carrying out Parts A.5, C.2 and 3, D, E, F, G, and I.2 of the Project, INFOL shall enter into such contractual arrangements with the agencies and departments of the Borrower concerned with the carrying out of such Parts namely, Servicio de Parques Nacionales y Vida Silvestre (Part A.5), Instituto Boliviano de Pequeña Industria y Artesanía (Part C.2 and 3), Servicio Nacional de Caminos (Part D), Ministerio de Previsión Social y Salud Pública (Parts E and F), Ministerio de Educación (Part G), and Instituto de Investigaciones Físicas (Part I.2), as shall be appropriate for the purpose.

(b) Without limitation upon the generality of paragraph (a) of this Section, INFOL shall:

- (i) enter into contractual arrangements with INBOPIA requiring INBOPIA to enter into contractual arrangements with: (1) BE for assistance to BE in the carrying out of the credit program included in Part C.1 of the Project; and (2) FOMO for the training program for participating artisans and radio broadcasting in Spanish, Aymara and Quechua; and
- (ii) enter into contractual arrangements with MPSSP requiring MPSSP to: (1) enter into contractual arrangements with the Department of Public Health of the University of San Andrés for the carrying out of the training, monitoring, supervision and evaluation of the health program included in Part E of the Project; (2) conduct detailed investigations to determine priority areas to be provided with potable water and availability of aquifers in such areas; and (3) prepare a plan of operation before purchasing pumps.

Section 2.04. Except as the Bank and the Association shall otherwise agree, procurement of the goods and civil works to be financed out of the proceeds of the Loan and the Credit, shall be governed by the provisions of the Schedule to this Agreement.

Section 2.05. (a) INFOL undertakes to insure, or make adequate provision for the insurance of, the imported goods to be financed out of the proceeds of the Loan and the Credit made available to it by the Borrower against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable by INFOL to replace or repair such goods.

(b) Except as the Bank and the Association may otherwise agree, INFOL shall cause all goods and services financed out of the proceeds of the Loan and the Credit made available to it by the Borrower to be used exclusively for the Project.

Section 2.06. (a) INFOL shall furnish to the Bank and the Association, promptly upon their preparation, the plans, specifications, reports, contracts documents and work and procurement schedules for the Project, and any material modifications thereof or additions thereto, in such detail as the Bank and the Association shall reasonably request.

(b) INFOL: (i) shall maintain records and procedures adequate to record and monitor the progress of the Project (including its cost and the benefits to be derived from it) and to identify the goods and services financed out of the proceeds of the Loan and the Credit made available to it by the Borrower, and to disclose their use in the Project; (ii) shall, without limitation upon the provisions of paragraph (c) of this Section, enable the Bank's and the Association's representatives to visit the facilities and construction sites included in the Project and to examine the goods financed out of such proceeds and any relevant records and documents; and (iii) shall furnish to the Bank and the Association at regular intervals all such information as the Bank and the Association shall reasonably request concerning the Project, its cost and, where appropriate, the benefits derived from it, the expenditure of the proceeds of the Loan and the Credit so made available to it and the goods and services financed out of such proceeds.

(c) INFOL shall enable the Bank's and the Association's representatives to examine all plants, installations, sites, works, buildings, property and equipment of INFOL and any relevant records and documents.

(d) Promptly after completion of the Project, but in any event not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Bank, the Association and INFOL, INFOL shall prepare and furnish to the Bank and the Association a report, of such scope and in such detail as the Bank and the Association shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Bank, the Association and INFOL of their respective obligations under the Project Agreement and the accomplishment of the purposes of the Loan and the Credit.

Section 2.07. INFOL shall, not later than April 1, 1978 or such later date as the Bank and the Association shall agree, furnish to the Bank and the Association a satisfactory proposal for the purchase of alpacas for the Experiment Station and Commercial Farm included in Part A.1 and 2 of the Project.

Section 2.08. INFOL shall sell to FOTRAMA the alpaca wool necessary to meet FOTRAMA's annual requirements, subject to an annual ceiling of 50 metric tons of alpaca wool.

Section 2.09. INFOL shall, not later than October 31, 1978 or such later date as the Bank and the Association shall agree, furnish to the Bank and the Association, for its comments, a proposal for: (i) the establishment of (1) a pricing mechanism for alpaca and llama wool and yarn, and (2) a stabilization fund initially provided with contributions from the Borrower and subsequently supported by profits from the spinning plant to support a price guarantee scheme; and (ii) the putting into operation of such price mechanism and stabilization fund.

Section 2.10. INFOL shall, not later than September 1, 1978 or such later date as the Bank and the Association shall agree, furnish to the Bank and the Association a proposal for the adequate compensation of the workers at the processing plant in Pulacayo upon the termination of such plant's operation.

Section 2.11. INFOL shall duly perform all its obligations under the Financing Agreement. Except as the Bank and the Association shall otherwise agree, INFOL shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Financing Agreement or any provision thereof.

Section 2.12. (a) INFOL shall, at the request of the Bank and the Association, exchange views with the Bank and the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Financing Agreement, and other matters relating to the purposes of the Loan and the Credit.

(b) INFOL shall promptly inform the Bank and the Association of any condition which interferes or threatens to interfere with, the progress of the Project, the accomplishment of the purposes of the Loan and the Credit, or the performance by INFOL of its obligations under this Agreement and under the Financing Agreement.

Section 2.13. INFOL shall establish, not later than July 1, 1978 or such later date as the Bank and the Association shall agree, and thereafter maintain a monitoring unit for collecting data to measure the physical, financial, economic and social impact of the Project, and furnish to the Bank and the Association quarterly reports on the program and operating results of the Project within two months of the end of each quarter.

ARTICLE III

Management and Operations of INFOL

Section 3.01. (a) INFOL shall at all times maintain its corporate existence and right to carry on its operations and shall take all steps necessary to acquire, maintain and renew all rights, powers, privileges, concessions and franchises which are necessary or useful in the conduct of its business.

(b) INFOL shall at all times operate and maintain its equipment and property, the equipment and property held by INFOL on behalf of the Borrower, and from time to time make all necessary renewals and repairs thereof, all in accordance with appropriate engineering, construction and agro-industrial practices.

Section 3.02. (a) INFOL shall at all times manage its affairs, plan the future expansion of its operations and maintain its financial position, all in accordance with appropriate business, financial and agro-industrial principles and practices and under the supervision of experienced and competent management assisted by competent staff in adequate numbers.

(b) Without limitation upon the generality of the paragraph (a) of this Section, INFOL shall obtain the approval of the Bank and the Association before making any replacement in the position of the Gerente General and the chief of ASI.

(c) INFOL shall refrain from extending its operations to the production or marketing of handicrafts.

Section 3.03. INFOL shall take out and maintain with responsible insurers, or make other provisions satisfactory to the Bank and the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

Section 3.04. INFOL shall establish an ad hoc technical committee in the Project Area to advise INFOL on matters relating to the various programs undertaken under the Project, INFOL's investment plans, and any issues arising between participating farmers and INFOL. Such committee shall be chaired by the chief of ASI, and shall have as members the unit chiefs of ASI, two representatives of the participating farmers and two women from the Project Area, the last four members being elected and serving one-year terms.

Section 3.05. INFOL shall share the profits of the Commercial Farm included in Part A.2 of the Project with the communities which contributed land for the establishment of the Farm's facilities and, ten years after the start of the Farm's operation, transfer title to the Farm to such communities for operation of the Farm as a cooperative enterprise. To that end, INFOL shall, not later than January 1, 1982 or such later date as the Bank and the Association shall agree, furnish to the Bank and the Association a proposal setting forth the terms and conditions of such transfer to such communities.

ARTICLE IV

Financial Covenants

Section 4.01. INFOL shall maintain records adequate to reflect in accordance with consistently maintained appropriate accounting practices its operations and financial condition.

Section 4.02. INFOL shall: (i) have its accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied,

by independent auditors acceptable to the Bank and the Association; (ii) furnish to the Bank and 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 Bank and the Association shall have reasonably requested; and (iii) furnish to the Bank and the Association such other information concerning the accounts and financial statements of INFOL and the audit thereof as the Bank and the Association shall from time to time reasonably request.

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement and the Development Credit Agreement become effective.

Section 5.02. (a) This Agreement and all obligations of the Bank, the Association and of INFOL thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Loan Agreement or the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) a date twenty years after the date of this Agreement.

(b) If the Loan Agreement or the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Bank or the Association, as the case may be, shall promptly notify INFOL of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the Loan Agreement or the Development Credit Agreement.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. 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 address 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 Bank.

International Bank for
Reconstruction and Development
1813 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

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

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 INFOL:

Instituto Nacional
de Fomento Lanero
La Paz, Bolivia

Cable address:

INFOL
La Paz

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of INFOL may be taken or executed by its Gerente General or such other person or persons as he shall designate in writing, and INFOL shall furnish to the Bank and the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. 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 representatives thereunto duly authorized, 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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Adalbert Krieger
Regional Vice President
Latin America and the Caribbean

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Adalbert Krieger
Regional Vice President
Latin America and the Caribbean

INSTITUTO NACIONAL DE FOMENTO LANERO

By /s/ Miguel Zalles
Authorized Representative

SCHEDULE

Procurement

A. International Competitive Bidding

1. Except as provided in Part B and/or D hereof, contracts for the purchase of goods shall be procured in accordance with procedures consistent with those set forth in the "Guidelines for Procurement under World Bank Loans and IDA Credits" published by the Bank in March 1977 (hereinafter called the Guidelines), on the basis of international competitive bidding as described in Part A of the Guidelines.

2. For goods to be procured on the basis of international competitive bidding under the Project, INFOL shall prepare and forward to the Bank and the Association as soon as possible, and in any event not later than 60 days prior to the date of availability to the public of the first tender or prequalification documents relating thereto, as the case may be, a general procurement notice, in such form and detail and containing such information as the Bank and the Association shall reasonably request; the Bank and the Association will arrange for the publication of such notice in order to provide timely notification to prospective bidders of the opportunity to bid for the goods in question. INFOL shall provide the necessary information to update such notice annually so long as any goods remain to be procured on the basis of international competitive bidding.

3. All equipment and vehicles required by the agencies and departments of the Borrower referred to in Section 2.03 of this Agreement and to be procured on the basis of international competitive bidding shall be grouped into appropriate bid packages and be procured by INFOL.

B. Other Procurement Procedures

1. Contracts for the construction of the health centers, schools, trading posts and storage facilities, spinning plant, dehairing research facilities, and the Project facilities in Ulla Ulla may be procured by competitive bidding on the basis of local advertising.

2. Contracts for the purchase of laboratory equipment, equipment for the commercial farm and schools, equipment for the

health, project administration, water and waste disposal facilities, and for the solar energy and handicraft component estimated to cost the equivalent of \$100,000 or less may be procured by competitive bidding on the basis of local advertising.

3. Second-hand equipment for the llama dehairing research facilities may be procured by negotiated purchase.

C. Evaluation and Comparison of Bids for Goods; Preference for Domestic Manufacturers

1. For the purpose of evaluation and comparison of bids for the supply of goods except those to be procured in accordance with local procedures: (i) bidders shall be required to state in their bid the c.i.f. (port of entry) price for imported goods, or the ex-factory price for domestically-manufactured goods; (ii) customs duties and other import taxes on imported goods, and sales and similar taxes on domestically-supplied goods, shall be excluded; and (iii) the cost to the Borrower of inland freight and other expenditures incidental to the delivery of goods to the place of their use or installation shall be included.

2. Goods manufactured in Bolivia may be granted a margin of preference in accordance with, and subject to, the following provisions:

(a) All bidding documents for the procurement of goods shall clearly indicate any preference which will be granted, the information required to establish the eligibility of a bid for such preference and the following methods and stages that will be followed in the evaluation and comparison of bids.

(b) After evaluation, responsive bids will be classified in one of the following three groups:

(1) Group A: bids offering goods manufactured in Bolivia if the bidder shall have established to the satisfaction of the Borrower and the Bank and the Association that the manufacturing cost of such goods includes a value added in Bolivia equal to at least 20% of the ex-factory bid price of such goods.

(2) Group B: all other bids offering goods manufactured in Bolivia.

(3) Group C: bids offering any other goods.

(c) All evaluated bids in each group shall be first compared among themselves, excluding any customs duties and other import taxes on goods to be imported and any sales or similar taxes on goods to be supplied domestically, to determine the lowest evaluated bid of each group. Such lowest evaluated bids shall then be compared with each other, and if, as a result of this comparison, a bid from group A or group B is the lowest, it shall be selected for the award.

(d) If, as a result of the comparison under paragraph (c) above, the lowest bid is a bid from group C, all group C bids shall be further compared with the lowest evaluated bid from group A after adding to the c.i.f. bid price of the imported goods offered in each group C bid, for the purpose of this further comparison only, an amount equal to: (i) the amount of customs duties and other import taxes which a non-exempt importer would have to pay for the importation of the goods offered in such group C bid; or (ii) 15% of the c.i.f. bid price of such goods if said customs duties and taxes exceed 15% of such price. If the group A bid in such further comparison is the lowest, it shall be selected for the award; if not, the bid from group C which as a result of the comparison under paragraph (c) is the lowest evaluated bid shall be selected.

D. Procurement Without Contracting

Road work, installation of drinking water wells, and construction of pit privies may be carried out by force account.

E. Review of Procurement Decisions by the Bank and the Association

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

With respect to all contracts for civil works, equipment, materials and vehicles estimated to cost the equivalent of \$100,000 or more:

(a) Before bids are invited, the Borrower shall furnish to the Bank and the Association, for their comments, the text of the invitations to bid and the specifications and other bidding

documents, together with a description of the advertising procedures to be followed for the bidding, and shall make such modifications in the said documents or procedures as the Bank and the Association shall reasonably request. Any further modification to the bidding documents shall require the Bank's and the Association's concurrence before it is issued to the prospective bidders.

(b) After bids have been received and evaluated, the Borrower shall, before a final decision on the award is made, inform the Bank and the Association of the name of the bidder to which it intends to award the contract and shall furnish to the Bank and the Association, in sufficient time for their review, a detailed report on the evaluation and comparison of the bids received, and such other information as the Bank and the Association shall reasonably request. The Bank and the Association shall, if they determine that the intended award would be inconsistent with the Guidelines or this Schedule, promptly inform the Borrower and state the reasons for such determination.

(c) The terms and conditions of the contract shall not, without the Bank's and the Association's concurrence, materially differ from those on which bids were asked or prequalification invited.

(d) Two conformed copies of the contract shall be furnished to the Bank and the Association promptly after its execution and prior to the delivery to the Bank and the Association of the first application for withdrawal of funds from, respectively, the Loan or Credit Account in respect of such contract.

2. With respect to each contract to be financed out of the proceeds of the Loan or the Credit and not governed by the preceding paragraph, the Borrower shall furnish to the Bank and the Association, promptly after its execution and prior to the delivery to the Bank and the Association of the first application for withdrawal of funds from, respectively, the Loan or Credit Account in respect of such contract, two conformed copies of such contract, together with the analysis of the respective bids, recommendations for award and such other information as the Bank and the Association shall reasonably request. The Bank and the Association shall, if they determine that the award of the contract was not consistent with the Guidelines or this Schedule, promptly inform the Borrower and state the reasons for such determination.