

CONFORMED COPY

CREDIT NUMBER 1842 BO

(La Paz Municipal Development Project)

between

REPUBLIC OF BOLIVIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 7, 1987

CREDIT NUMBER 1842 BO

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 7, 1987, between REPUBLIC OF BOLIVIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) 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;

(B) the Project will be carried out by the Municipality of La Paz (La Paz) with the Borrower's assistance and, as part of such assistance, the Borrower shall make available to La Paz the proceeds of the Credit as provided in this Agreement;

(C) the Borrower has requested from the Government of Spain a grant (the Spanish Grant) in an amount equivalent to 50,000,000 Pesetas, to assist in financing training under Part A.1 of the Project on the terms and conditions to be set forth in the agreement (the Spanish Grant Agreement) to be entered into between the Borrower and the Government of Spain;

(D) the Borrower has requested from the Government of France, a grant (the French Grant) in an amount equivalent to approximately \$600,000, to assist in

financing Parts A.2 and A.3 of the Project on the terms and conditions to be set forth in the agreement (the French Grant Agreement) to be entered into between the Borrower and the Government of France;

(E) the Borrower has requested from the Government of the Netherlands, a grant (the Netherlands Grant) in an amount equivalent to approximately 1,240,000 Netherlands Florins, to assist in financing Part A.4 of the Project on the terms and conditions to be set forth in the agreement (the Netherlands Grant Agreement) to be entered into between the Borrower and the Government of the Netherlands;

(F) the Borrower has obtained from the German Technical Cooperation Agency (GTZ), a grant (the GTZ Grant) in an amount equivalent to 2,679,000 German Marks, to assist in financing regulation of the Irvavi Achumani river basin (Part C.2 of the Project), on the terms and conditions set forth in an agreement (the GTZ Grant Agreement) entered into between the Borrower and the Federal Republic of Germany and dated January 16, 1987, as the same may be revised from time to time; 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 and in the Project Agreement (as hereinafter defined) of even date herewith between the Association and La Paz;

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, (the General Conditions) constitute an integral part of this Agreement with the modification that the last sentence of Section 3.02 is deleted.

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

(a) "Project Agreement" means the agreement between the Association and La Paz, of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(b) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated June 12, 1986 and August 25, 1986, between the Borrower and the Association, as amended and supplemented by letter dated April 28, 1987 and confirmed by the Borrower on June 12, 1987;

(c) "Subsidiary Agreement" means the agreement to be entered into between the Borrower and La Paz pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Subsidiary Agreement;

(d) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(e) "Project Account" means the account referred to in Section 2.07 of the Project Agreement;

(f) "EEVV" means the Municipal Enterprise for Urban Services of Medellin, Colombia;

(g) "Twinning Agreement" means the agreement to be entered into between La Paz and EEVV for purposes of carrying out Part C.3 of the Project, pursuant to the provisions of Section 2.06 (b) of the Project Agreement;

(h) "Project Office" means the unit within the Planning Office of La Paz, which shall monitor and coordinate the carrying out of the Project and which shall be maintained pursuant to Section 2.09 (a) of the Project Agreement;

(i) "National Tax Reform" means the fiscal system established by the Ley de Reforma Tributaria No. 843 of the Borrower, dated May 20, 1986;

(j) "IMP" means the investment and modernization program of La Paz, certain components of which are included in the Project, including a timetable for implementation of the IMP, provided by the Borrower to the Association by letter of even date herewith;

(k) "El Alto" means the Municipality of El Alto, Bolivia;

(l) "El Alto Agreement" means the agreement to be entered into between La Paz and El Alto pursuant to Section 2.06 (a) of the Project Agreement;

(m) "Municipal Law" means Ley Organica de Municipalidades of January 10, 1985 of the Borrower;

(n) "national currency" means the unit of currency of the Borrower;

(o) "Central Bank" means the Borrower's central bank;

(p) "Municipal Training Institute" means the institute created by La Paz pursuant to Municipal Ordinance No. 10/87, dated February 14, 1987, for the purpose of strengthening the various departments of La Paz through training and technical assistance;

(q) "Personnel Policy" means the policy of La Paz with respect to its municipal employees, including management and compensation systems, referred to in Section 2.10 (a) and (b) of the Project Agreement;

(r) "Project Specialists" means managerial and technical specialists required to carry out the Project employed by La Paz at the level of department head or above and acceptable to the Association;

(s) "Project Coordinator" means the head of the Project Office, referred to in Section 2.09 (b) of the Project Agreement; and

(t) "La Paz Procurement Manual" means the manual for procurement for the Project referred to in Section 2.03 (b) of the Project 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 the Development Credit Agreement, an amount in various currencies equivalent to eleven million seven hundred thousand Special Drawing Rights (SDR 11,700,000).

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, as such Schedule may be amended from time to time by agreement between the Borrower and the Association, in consultation with La Paz, for amounts paid by La Paz for expenditures made, or, if the Association shall so agree, to be made, in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for purposes of the Project, open and maintain in dollars a Special Account in a commercial bank acceptable to the Association, 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 3 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be June 30, 1995 or such later date as the Association shall establish. The Association shall promptly notify the Borrower and La Paz of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge

at the rate of one-half of one percent (1/2 of 1%) per annum on the principal amount of the Credit not withdrawn from time to time. The commitment charge shall accrue from a date sixty days after the date of the Development Credit Agreement to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or shall be cancelled.

(b) 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 November 15 and May 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 15 and November 15 commencing November 15, 1997, and ending May 15, 2022. Each installment to and including the installment payable on May 15, 2007, shall be one and one-fourth of one percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years 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 terms of repayment of installments under paragraph (a) above by 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. If so requested by the Borrower, the Association may revise such modification 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.

(c) 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.

Section 2.09. The Central Bank is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V 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, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement shall:

- (i) cause La Paz to perform, in accordance with the provisions of the Project Agreement, all the obligations of La Paz therein set forth; and
- (ii) take all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable La Paz to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such

performance.

(b) The Borrower shall transfer the proceeds of the Credit to La Paz for purposes of carrying out the Project under a Subsidiary Agreement, satisfactory to the Association, to be entered into between the Borrower and La Paz and which shall include the terms and conditions set forth in Schedule 4 to this Agreement.

(c) The Borrower shall exercise its rights under the Subsidiary Agreement 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 change, assign, amend, abrogate or waive the Subsidiary Agreement or any provision thereof.

Section 3.02. 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 the Project Agreement.

Section 3.03. The Borrower and the Association hereby agree that 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, respectively) in respect of the Project shall be carried out by La Paz pursuant to Section 2.04 of the Project Agreement.

Section 3.04. The Borrower shall take such measures as shall be appropriate to assist La Paz in carrying out the IMP, as the same may be revised from time to time by La Paz with the prior agreement of the Association.

Section 3.05. The Borrower shall, annually at a time requested by the Association, and through completion of the Project: (a) review the implementation of the revenue sharing provisions of the National Tax Reform, with the Association; and (b) take such measures as the Association may reasonably request, within the legal framework of the National Tax Reform, to improve or accelerate such revenue sharing.

Section 3.06. The Borrower shall take all measures necessary to assist La Paz in complying with the cost recovery provisions set forth in Section 3.05 of the Project Agreement.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall maintain, or cause to be maintained, separate records and accounts adequate to reflect, in accordance with consistently maintained sound accounting practices, the operations, resources and expenditures in respect of the Project.

(b) The Borrower shall:

(i) have the accounts referred to in paragraph (a) of this Section, including the Special 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 copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning the said accounts and the audit thereof and said records 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 expenditure, the Borrower shall:

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

(ii) retain, until at least one year after the completion of the audit

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.

## ARTICLE V

### Remedies of the Association

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

(a) La Paz shall have failed to perform any of its obligations under the Project Agreement;

(b) as a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that La Paz will be able to perform its obligations under the Project Agreement;

(c) the Municipal Law shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of La Paz to perform any of its obligations under the Project Agreement;

(d) the Borrower or any other authority having jurisdiction over La Paz shall have taken any action for the dissolution or disestablishment of La Paz or for the suspension of its operations;

(e) the National Tax Reform shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of La Paz to perform any of its obligations under the Project Agreement;

(f) any party to the Subsidiary Agreement shall have failed to perform any of its obligations thereunder;

(g) the Spanish Grant Agreement or the French Grant Agreement or the Netherlands Grant Agreement shall have failed to become effective by January 30, 1988, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement; and

(h) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of the Spanish Grant, the French Grant, the Netherlands Grant or the GTZ Grant or any other loan or grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant respectively to the terms of the Spanish Grant Agreement, the French Grant Agreement, the Netherlands Grant Agreement or the GTZ Grant Agreement; or

(B) any loan made to the Borrower for financing of the Project shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or acceleration of maturity

is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) the events specified in paragraph (a), (f) or (g) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower;

(b) any event specified in paragraphs (c), (d) or (e) of Section 5.01 of this Agreement shall occur; and

(c) any event specified in paragraph (h) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (h) (ii) of that Section.

#### 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) that the Subsidiary Agreement has been entered into between the Borrower and La Paz;

(b) that La Paz has taken all actions referred to in Section 2.03 (b) of the Project Agreement; and

(c) that La Paz has established the Project Account and deposited therein an amount equivalent to at least \$125,000.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Project Agreement has been duly authorized or ratified by, and is legally binding upon, La Paz in accordance with its terms;

(b) that the Subsidiary Agreement has been duly authorized or ratified by, and is legally binding upon, the Borrower and La Paz in accordance with its terms; and

(c) that all necessary actions have been taken by La Paz to ensure that the La Paz Procurement Manual is lawful under the laws of the Borrower and La Paz, and is legally binding upon La Paz in accordance with its terms.

Section 6.03. The date November 5, 1987, is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.04. The obligations of the Borrower under Articles III and IV 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

##### Representatives of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.09 of this Agreement, 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:

Minister of Finance

Ministerio de Finanzas  
Calle Bolivar No. 582  
La Paz, Bolivia

Cable address:

MINFIN  
La Paz, Bolivia

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)

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/ Fernando Illanes

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ S. Shahid Husain

Regional Vice President  
Latin America and the Caribbean

#### 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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works under Parts B, C.1, C.2 and C.3 of the Project	5,833,000	100% of foreign expenditures and 78% of local expenditures
(2) Goods under Parts A, B and C of the Project	1,166,500	100% of foreign expenditures and 78% of local expenditures
(3) Technical assis- tance, including	1,945,000	100% of foreign expenditures and



	consultants' services and training under Parts A, B and C of the Project		78% of local expenditures
(4)	Personnel management improvement under Part A.2 of the Project	389,000	100% of incremental Project Specialists costs during 1987; and 100% of incremental Project Specialists costs during 1988
(5)	Refunding of Project Pre-paration Advance	1,166,500	Amounts due pursuant to Section 2.02 (c) of this Agreement
(6)	Unallocated	1,200,000	
	TOTAL	SDR 11,700,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "incremental Project Specialists costs" means monthly salary expenditures for Project Specialists, acceptable to the Association, over and above salary expenditures for such Project Specialists incurred in January 1987.

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

(a) payments made for expenditures eligible under Categories (1) through (4) prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 1,166,500, may be made on account of payments made for expenditures before that date but after February 20, 1987;

(b) unless otherwise agreed by the Association, payments made for expenditures eligible under Category (4) incurred during 1987, unless the Association shall have received evidence, satisfactory to the Association, that the actions required to be taken by La Paz during 1987 to carry out the IMP have been taken and provided that payments made for such expenditures shall not exceed one-half (1/2) of the total amount allocated to Category (4); and

(c) unless otherwise agreed by the Association, payments made for expenditures eligible under Category (4) incurred during 1988, unless the Association shall have received evidence, satisfactory to the Association, that the actions required to be taken by La Paz during 1988 to carry out the IMP have been taken.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to: (i) strengthen the institutional, managerial and fiscal capacity of La Paz; (ii) promote municipal investment, the provision of basic municipal services, and the maintenance of urban infrastructure; and (iii) alleviate the effects of economic stabilization and adjustment on the population of the City of La Paz.

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 objectives:

Part A. Municipal Management Improvement

1. Administrative Reorganization Program

Improvement of municipal and administrative organizational structure; decentralization of and creating autonomous enterprises for selected municipal activities; computerization of records and accounts; improving responsiveness and service levels to the public; and acquisition and utilization of data management and office equipment.

2. Personnel Management System and Training Program

Implementation of a new and strengthened personnel management system, and developing in-house training capacity.

3. Financial Management Improvement Program

Implementation of computerized accounting systems to improve budgeting, financial and investment planning, and management information and control, including establishing cost and revenue centers for services and direct user charges.

4. Municipal Cadastre

Improved application of the municipal cadastre to increase revenues from property taxes and improve development planning and urban service management, including updating and improving registration of urban property, revising assessment procedures, adjusting tax rates and improving the billing and collection system.

Part B. Urban Transport

Rehabilitation of the main thoroughfares; improvements to the street network and traffic lights; design and enforcement of traffic and parking systems; construction of bus terminals; and establishment of a maintenance system for municipal equipment, including provision of maintenance facilities, equipment and spare parts.

Part C. Urban Development and Infrastructure Improvement

1. Urban Upgrading

Provision of basic infrastructure including water drainage and pedestrian walkways, in approximately nineteen selected neighborhoods, with community participation.

2. Landslide Control

Construction of flood and erosion control works along drainage basins, including landslide prevention works; institution of land use regulations and procedures to prevent irregular settlements; and establishment of an early warning system and emergency assistance procedures for flooding and landslides.

3. Solid Waste Management

Design and implementation of a garbage collection and disposal system and street cleaning system; establishment of a laboratory of bromatology and sanitation control; decentralization of the solid waste and sanitation management system; repair and maintenance of trash collection and compaction vehicles, including provision of spare parts therefor.

4. Community Education

Establishment and implementation of a pilot community education program covering urban services, civic duties and responsibilities and community participation, including radio campaigns, and an experimental curriculum on community education in five pilot elementary schools.

\* \* \*

The Project is expected to be completed by December 31, 1994.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "Eligible Categories" means Categories (1) through (3) 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 and services 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 equivalent to \$900,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Association shall otherwise agree, 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 may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Association requests for replenishment of the Special Account at such intervals as the Association shall specify. On the basis of such requests, the Association shall withdraw from the Credit Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made 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 the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Association, prior to or at the time of such request, such and other evidence as the Association shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Association when either of the following situations first arises:

(i) 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; or

(ii) the total unwithdrawn amount of the Credit allocated to the Eligible Categories, minus the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) 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 any expenditure or in any amount not eligible

pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Association 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. No further deposit by the Association into the Special Account shall be made until the Borrower has made such deposit or refund.

(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 for crediting to the Credit Account and immediate cancellation.

#### SCHEDULE 4

##### Terms and Conditions of Subsidiary Agreement

The Borrower and La Paz shall enter into a written agreement satisfactory to the Association, that shall provide the terms and conditions for the transfer of the proceeds of the Credit from the Borrower to La Paz and for the repayment of a portion of such funds to the Borrower including, inter alia, provisions that:

- (i) for purposes of carrying out technical assistance under the Project the Borrower shall transfer, on a grant basis, the amounts set forth under Categories (3) and (4) of the Table included in paragraph 1 of Schedule 1 to this Agreement (as amended from time to time), as such amounts are withdrawn from the Credit Account from time to time as reimbursement of expenditures eligible for financing under the Project; provided, however, that the aggregate amount so transferred as a grant shall not exceed the equivalent of SDR 2,960,000; and
- (ii) the Borrower shall on-lend to La Paz the proceeds of the Credit, other than such proceeds transferred as a grant pursuant to the immediately preceding clause (i), for purposes of carrying out the Project in accordance with the following terms and conditions:
  - (a) Interest Rate. A fixed interest rate of eight and one-half percent (8.5%) per annum shall be paid on the principal amount withdrawn and outstanding from time to time.
  - (b) Currency. On-lent proceeds of the Credit shall be denominated in dollars and repaid to the Borrower in national currency, at the official rate of exchange in effect on the date that each payment is made.
  - (c) Amortization. On-lent proceeds of the Credit shall be amortized over a period of twenty years from the date of on-lending.

