

Public Disclosure Authorized

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CREDIT NUMBER 4067-BO

Development Policy Credit Agreement

(Social Sector Programmatic Development Policy Credit II)

between

REPUBLIC OF BOLIVIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 22, 2005

Public Disclosure Authorized

CREDIT NUMBER 4067-BO

DEVELOPMENT POLICY CREDIT AGREEMENT

AGREEMENT, dated July 22, 2005, between REPUBLIC OF BOLIVIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower a letter of development policy dated April 21, 2005 describing a program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof;

(B) the Borrower has carried out the measures and taken the actions described in Schedule 2 of this Agreement to the satisfaction of the Association and has maintained a macroeconomic policy framework satisfactory to the Association; and

(C) on the basis, *inter alia*, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower by making the Credit in one single tranche as hereinafter provided;

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 2.01, paragraph 12, is modified to read:

“‘Project’ means the program, referred to in the Preamble to the Development Credit Agreement, in support of which the Credit is made.”;

- (b) Section 4.01 is modified to read:

“Except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account shall be made in the currency specified in Section 2.02 (b) of the Development Credit Agreement; provided, however, that withdrawals in the currency of the Borrower shall be made in such currency or currencies as the Association shall from time to time reasonably select.”;

- (c) Section 5.01 is modified to read:

“The Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in accordance with the provisions of the Development Credit Agreement and of these General Conditions.”;

- (d) The last sentence of Section 5.03 is deleted;

- (e) Section 9.06 (c) is modified to read:

“(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit”; and

- (f) Section 9.04 is deleted in its entirety and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07.

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) “Bilingual education” means the education in the Spanish and the Quechua, Guarani and Aymara languages to be used in the school system of the Borrower;

- (b) “Donor” means any country, bilateral or multilateral agency, public or private financial institution, development finance institution or international organization, which is proposing to make, or has made, financing available to the Borrower on a grant basis or under concessional terms to support a development program of the Borrower;

- (c) “DPT” means Diphtheria, Polio and Tetanus vaccine;

(d) “DUF” means *Directorio Unico de Fondos*, the Borrower’s Board responsible for the operation of social funds under the *Ministerio sin cartera responsable de la participación popular*, the Borrower’s Ministry in charge of people’s participation;

(e) “LDP” means the Borrower’s Letter of Development Policy referred to in the Preamble to this Agreement;

(f) “MDGs” means the Millennium Development Goals established by the General Assembly of the United Nations to implement the Millennium Declaration unanimously adopted in September 2000 by the Member States of the United Nations as a framework for measuring development progress in social sectors, most notably in health and education, and to be achieved by 2015;

(g) “PLANE” means *Plan Nacional de Empleo*, the Borrower’s national plan/strategy for employment;

(h) “PNC” means *Política Nacional de Compensación*, the Borrower’s policy of transfer allocations to municipalities based on population and poverty criteria;

(i) “POMA” means *Plan Operativo Multi Anual*, means the Borrower’s Multi-Annual Operational Plan 2004-2008 for the education sector; and

(j) “RPS” means *Red de protección social*, the Borrower’s national network for social protection.

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 ten million Special Drawing Rights (SDR10,000,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b) and (c) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in support of the Program.

(b) Except as the Association may otherwise agree: (i) all withdrawals from the Credit Account shall be deposited by the Association into an account in Dollars designated by the Borrower and acceptable to the Association; and (ii) the Borrower shall ensure that upon each deposit of an amount of the Credit into said account, an equivalent amount is accounted for in the Borrower’s budget management system, in a manner acceptable to the Association.

(c) The Borrower undertakes that the proceeds of the Credit shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association determines at any time that an amount of the Credit was used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association, refund an amount equal to the amount of said payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

Section 2.03. The Closing Date shall be May 31, 2006 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 cancelled; 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 one and one-fourth 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 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 the Association 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

Particular Covenants

Section 3.01. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association on any proposed action to be taken after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 2 to this Agreement.

Section 3.02. (a) Without limitation upon the provisions of Section 9.01 (a) of the General Conditions, the Borrower shall promptly furnish to the Association such information relating to the provisions of Article II of this Agreement as the Association may, from time to time, reasonably request.

(b) Upon the Association's request, the Borrower shall:

- (i) have the account referred to in Section 2.02 (b) audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than four months after the date of the Association's request for such audit, 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 account referred to in Section 2.02 (b) and the audit thereof as the Association shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified :

(a) a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out;

(b) the Borrower's macroeconomic policy framework has become inconsistent with the objectives of the Program; and

(c) an action has been taken or a policy has been adopted to reverse any action or policy under the Program, including any action listed under Schedule 2 to this Agreement, in a manner that would, in the opinion of the Association, adversely affect the achievement of the objectives of the Program.

ARTICLE V

Effective Date; Termination

Section 5.01 The date October 20, 2005, is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of the Borrower responsible for finance is designated as the representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. 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:

FINANZA
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:

248423 (MCI) or
64145 (MCI)

Facsimile:

(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 city of La Paz, Bolivia, as of the day and year first above written.

REPUBLIC OF BOLIVIA

By/s/ Eduardo Rodríguez Veltzé
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By/s/ Marcelo Giugale
Acting Authorized Representative
Latin America and the Caribbean Region

SCHEDULE 1**Excluded Expenditures**

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Credit shall not be used to finance any of the following expenditures:

1. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Association or the Bank shall have financed or agreed to finance under another credit, loan, or grant;

2. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Borrower:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors

728

728.43

Tobacco processing
machinery

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

3. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
4. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);
5. expenditures on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
6. expenditures under a contract in respect of which the Association determines that corrupt, fraudulent, collusive, or coercive practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation.

SCHEDULE 2**Actions Referred to in Recital (B)
of the Preamble to this Agreement**Health and Nutrition Sector

1. Pursuant to the objective of reducing morbidity and mortality associated with transmissible diseases stated in the LDP, the Borrower has, between January 1, 2004 and December 31, 2004:

(a) increased coverage with the third dose of DPT by at least 5 percentage points in no less than 40% of the municipalities chronically at risk;

(b) maintained the malaria Annual Parasite Index (API) below or equal to 5.0 in municipalities;

(c) not experienced a chagas infestation rate above 3% in more than 16% of the municipalities in the territory of the Borrower; and

(d) succeeded in curing 85% of the new positive reported cases of tuberculosis (TB).

Education Sector

2. Pursuant to the objective of fostering the institutionalization of participative democracy in the education sector stated in the LDP, and as set forth in the list of activities described in POMA, the Borrower has discussed POMA in 8 departmental congresses and 12 national workshops, and as a result thereof, has caused: (i) at least 36 municipalities to distribute educational material by May 2005, and (ii) at least 20% of public schools to adopt the Bilingual Education method by May 2005.

Social Protection

3. Pursuant to the objective of developing a national social protection strategy stated in the LDP, the Borrower has:

(a) defined the general conceptual and technical framework of a national social protection strategy covering at least the RPS, PNC and PLANE programs supervised by the Borrower's DUF, including, *inter alia*, the definition of: (i) populations at risk and their associated needs; (ii) strategic priorities; (iii) main Borrower's interventions; (iv) budgetary requirements and investment timetable; and (v) the monitoring and evaluation system in relation thereto; and thereafter;

- (b) has initiated the implementation of said strategy through the following activities:
- (i) design and ensuing initiation of the implementation, in 25 priority municipalities, of a nutrition plan to prevent chronic malnutrition and associated infant mortality;
 - (ii) expansion of PLANE within the context of a fully operational RPS in order to mitigate the effects of unemployment, thereby committing funds to generate at least 200,000 temporary jobs between January 2004 and June 2005; and
 - (iii) initiation on a pilot basis, conditional transfers to municipalities according to agreed changes to the Borrower's conditional transfer policy for the allocation to municipalities of investment funds for the carrying out of projects related to the achievement of MDGs in the health sector.

Participative Evaluation and Monitoring of MDGs

4. Pursuant to the objective of establishing participative monitoring of the actions towards achievement of the MDGs stated in the LDP, the Borrower has:
- (a) defined a strategy to ensure technical evaluation of the progress towards the achievement of the MDGs, including relevant links to the information systems and financing developments and requirements in relation thereto;
 - (b) ensured the participation of civil society and Donors in the discussion events concerning the Borrower's progress with respect to the MDGs; and
 - (c) initiated the monitoring and participative evaluation of the MDGs and issued reports communicated to all organs of the Borrower's government.