

CONFORMED

CREDIT NUMBER 3787-BO

Development Credit Agreement

(Social Safety Net Structural Adjustment Credit)

between

REPUBLIC OF BOLIVIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 23, 2003

CREDIT NUMBER 3787-BO

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 23, 2003, between REPUBLIC OF BOLIVIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) The Association has received from the Borrower a letter, dated May 12, 2003, (hereinafter called the Letter of Development Policy), describing a program of actions, objectives and policies designed to achieve effective social protection in the Borrower's economy (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; and

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

WHEREAS 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 two tranches 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 October 6, 1999) with the modifications thereof 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 of the deposit account specified in Section 2.02 of the Development Credit Agreement.”;

(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 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) “ANED” means ‘*Asociación Nacional Ecuménica de Desarrollo*’, the national ecumenical association for development, established and operating under the Laws of the Borrower;

(b) “CONAPES” means ‘*Consejo Nacional de Política Económica y Social*’, the Borrower’s national council for economic and social policy, established and operating under the Laws of the Borrower;

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

(d) “DUF” means ‘*Directorio Único de Fondos*’, the Unified Directorate of Funds within the Borrower’s Ministry in charge of sustainable development, established and operating under the Laws of the Borrower;

(e) “First Tranche” means the portion of the Credit not exceeding SDR18,100,000 to be disbursed by the Association on or after the Effective Date;

(f) “FPS” means ‘*Fondo Nacional de Inversión Productiva y Social*’, the Borrower’s national productive and social investment fund established by the Borrower

pursuant to Supreme Decree No. 25984, dated November 16, 2000 and to Law No. 2235, dated March 31, 2001;

(g) “National Congress of Education” means the Borrower’s participative meeting which convenes periodically in order to discuss public policies in the area of education with the participation, *inter alia*, of the Borrower’s executive branch, the Borrower’s national education administration and the teachers’ associations;

(h) “PLANE II” means ‘*Plan Nacional de Empleo de Emergencia*’, the Borrower’s national emergency employment plan, established and operating pursuant to Supreme Decree No. 26849, dated November 20, 2002;

(i) “PRODEM” means ‘*Fundación para la Promoción y el Desarrollo de la Micro-Empresa*’, a foundation established and operating under the Laws of the Borrower for the promotion and development of micro-enterprises;

(j) “Second Tranche” means the portion of the Credit not exceeding SDR7,300,000 to be disbursed by the Association upon compliance by the Borrower with the requirements set forth or referred to in paragraph (d) of Section 2.02 of this Agreement;

(k) “SEDES” means ‘*Servicios Departamentales de Salud*’, each and all of the Borrower’s nine departmental services within the Borrower’s Ministry in charge of health;

(l) “SUMI” means ‘*Seguro Universal Materno-Infantil*’, the Borrower’s universal mother-child health insurance, established and operating under Law No. 2426, dated November 21, 2002; and

(m) “UNDP” means United Nations Development Program.

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 twenty five million and four hundred thousand Special Drawing Rights (SDR 25,400,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c) and (d) 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) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain in its central bank,

a deposit account in Dollars on terms and conditions satisfactory to the Association. All withdrawals from the Credit Account shall be deposited by the Association into the Deposit Account.

(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 shall have determined at any time that any proceeds of the Credit shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association: (i) deposit into the Deposit Account an amount equal to the amount of said payment; or (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

(d) No withdrawals shall be made from the Credit Account for the Second Tranche unless:

- (i) the proceeds of the First Tranche have been withdrawn from the Credit Account; and
- (ii) the Association shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Association: (A) with the progress achieved by the Borrower in the carrying out of the Program; (B) that the macroeconomic policy framework of the Borrower is satisfactory, as measured on the basis of indicators satisfactory to the Association; and (C) that the actions described in Schedule 3 to this Agreement have been taken in form and substance satisfactory to the Association. If, after said exchange of views, the Association shall have given notice to the Borrower that the progress achieved, the macroeconomic framework or the actions taken are not satisfactory and, within 90 days after such notice, the Borrower shall not have achieved progress, restored the macroeconomic framework or taken actions, then the Association may, by notice to the Borrower, cancel the unwithdrawn amount of the Credit or any part thereof.

Section 2.03. The Closing Date shall be June 30, 2004, 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, 2013, and ending February 15, 2023. Each installment to and including the installment payable on February 15, 2023, shall be five percent (5%) 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 or Schedule 3 to this Agreement.

Section 3.02. Upon the Association's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(b) 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

(c) furnish to the Association such other information concerning the Deposit Account 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.

(c) An action has been taken or a policy has been adopted to reverse any action or policy under the Program in a manner that would, in the opinion of the Association, adversely affect the achievement of the objectives of the Program.

(d) An action has been taken or a policy has been adopted to reverse any action listed under Schedule 2 and Schedule 3 to this Agreement.

ARTICLE V

Termination

Section 5.01. The date September 22, 2003 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 at the time 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

Facsimile:

(591-2) 235

9955

For the Association:

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

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

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

REPUBLIC OF BOLIVIA

By /s/ Jaime Aparicio Otero
Authorized Representative

ASSOCIATION INTERNATIONAL DEVELOPMENT

By /s/ David de Ferranti
Regional Vice President
Latin America and the Caribbean

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 in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.
2. 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 or a loan.
3. 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

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
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)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. 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);

6. expenditures: (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories; or (b) 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

7. expenditures under a contract in respect of which the Association determines that corrupt or fraudulent 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

Budget Protection

1. The Borrower's 2003 budget proposal has been approved, in form and substance acceptable to the Association, by the Borrower's legislative branch and became Law No. 2449.

2. The Borrower's 2003 budget approved as set forth in paragraph 1 above, assigns the following appropriations to the following nine social programs:

- (i) PLANE II: US\$25 million equivalent;
- (ii) Health reform: US\$14.76 million equivalent;
- (iii) Epidemiological shield for Chagas: US\$5.85 million equivalent;
- (iv) Epidemiological shield for Malaria: US\$0.74 million equivalent;
- (v) Epidemiological shield for Tuberculosis: US\$0.64 million equivalent;
- (vi) Universal mother-child insurance: US\$11.60 million equivalent;
- (vii) Extended immunization: US\$4.02 million equivalent;
- (viii) Education reform: US\$25.40 million equivalent; and
- (ix) Education quality: US\$18.81 million equivalent.

Social Protection and Workfare

3. A consultant contract has been signed between DUF and UNDP to administer PLANE II, in form and substance acceptable to the Association.

4. DUF has signed separate contracts with each of PRODEM and ANED for recruiting temporary labor under PLANE II, both contracts in form and substance acceptable to the Association.

5. A revised technical guide for the operation of PLANE II has been adopted by DUF in form and substance acceptable to the Association.

6. CONAPES has issued a Resolution, dated November 7, 2002, containing new and reduced rates of municipal counterpart financing for investment projects and FPS has issued related implementing rules and regulations through the Minutes of the meeting of its Technical Committee No. 02/003-03, dated January 31, 2003, both in form and substance acceptable to the Association.

Health Sector Reform

7. Nine performance management agreements have been signed between the Borrower's Ministry in charge of health and each of the Borrower's nine SEDES regarding the delivery of public health services, all in form and substance acceptable to the Association.

8. The Borrower has established SUMI and related rules and regulations have been issued by the Borrower's Ministry in charge of health through Resolution No. 736, dated December 31, 2002, all in form and substance acceptable to the Association.

9. The Borrower's Ministry in charge of health has issued Ministerial Resolution No. 414, dated July 31, 2002, with regard to the rights of pregnant women, in form and substance acceptable to the Bank.

Education Sector Reform

10. The Borrower's Ministry in charge of education has adopted a schedule for consultations with the Borrower's National Congress of Education for the future adoption of a strategic sector plan for education, in form and substance acceptable to the Association.

11. The Borrower has presented to the Association terms of reference for a study on school attendance and enrollment in the Borrower's territory, in form and substance acceptable to the Association.

SCHEDULE 3

Actions Referred to in Section 2.02 (d) of this Agreement

Budget Protection

1. Evidence has been presented to the Association of the satisfactory execution of the budgets for seven of the following nine programs, at the following levels of execution, and of the satisfactory execution of 85% or more of the total aggregate 2003 appropriation, as listed in paragraph 2 of Schedule 2 to this Agreement, for the combination of all nine programs, all in form and substance acceptable to the Association:

- (i) PLANE II: 100% of US\$25 million equivalent;
- (ii) Health reform: 80% of US\$14.76 million equivalent;
- (iii) Epidemiological shield for Chagas: 80% of US\$5.85 million equivalent;
- (iv) Epidemiological shield for Malaria: 75% US\$0.74 million equivalent;
- (v) Epidemiological shield for Tuberculosis: 85% of US\$0.64 million equivalent;
- (vi) Universal mother-child insurance: 75% of US\$11.60 million equivalent;
- (vii) Extended immunization: 95% of US\$4.02 million equivalent;
- (viii) Education reform: 75% of US\$25.40 million equivalent; and
- (ix) Education quality: 100% of US\$18.81 million equivalent.

Social Protection and Workfare

2. DUF has submitted to the Association a report on the implementation of PLANE II, confirming the generation during calendar year 2003 of a minimum of

300,000 temporary employments of a one-month duration, in form and substance acceptable to the Association.

3. DUF has presented to the Association: (a) terms of reference for the evaluation of program impact of PLANE II, setting out objectives, scope, and methodology; (b) a progress report on impact evaluation, describing steps taken, information obtained, and preliminary findings; and (c) a signed contract for the audit of PLANE II financial operations, all in form and substance acceptable to the Association.

4. FPS has presented to the Association a study on options for increased financing of labor-intensive projects, in form and substance acceptable to the Association.

Health Sector Reform

5. The Borrower's Ministry in charge of health has issued a regulation setting forth procedures by which SUMI may reimburse transportation costs incurred by the rural poor in accessing secondary and tertiary health care, in form and substance acceptable to the Association.

Education Sector Reform

6. The Borrower has presented to the Association evidence, in the form of a copy of a transmittal letter signed by the Borrower's Minister in charge of education, that the draft of the strategic sector plan for education, referred to in paragraph 10 of Schedule 2 of this Agreement, has been presented to the Borrower's National Congress of Education for its consideration and in form and substance acceptable to the Association.