

CONFORMED COPY

CREDIT NUMBER 1809 BO

(Public Financial Management Project)

between

REPUBLIC OF BOLIVIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 31, 1987

CREDIT NUMBER 1809 BO

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 31, 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 Borrower intends to obtain from the United States Agency for International Development (USAID) a Loan (the USAID Loan) in an amount equivalent to three million dollars (\$3,000,000) to assist in financing Part A of the Project on the terms and conditions set forth in an agreement (the USAID Loan Agreement) to be entered into between the Borrower and USAID;

(C) the Borrower intends to obtain from Inter-American Development Bank (IDB) a grant (the IDB Grant) in an amount equivalent to one million three hundred thousand dollars (\$1,300,000) to assist in financing Part B of the Project on the terms and conditions set forth in an agreement (the IDB Grant Agreement) to be entered into between the Borrower and IDB; 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;

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), with the last sentence of Section 3.02 deleted, constitute an integral part of this Agreement.

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 Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated January 27, 1986 and May 5, 1986 between the Borrower and the Association, as amended and supplemented by a letter dated March 2, 1987 and confirmed by the Borrower on March 17, 1987;

(b) "MINFIN" means Ministerio de Finanzas (Ministry of Finance) of the Borrower;

(c) "MINPLAN" means Ministerio de Planeamiento y Coordinacion (Ministry of Planning and Coordination) of the Borrower;

(d) "CONTRALORIA" means Contraloria General de la Republica (Office of the Controller General of the Republic) of the Borrower;

(e) "MINTAX" means Ministerio de Recaudaciones Tributarias (Ministry of Taxation) of the Borrower;

(f) "BCB" means Banco Central de Bolivia, the Central Bank of the Borrower, established by Decreto Ley No. 17491 of August 1, 1977;

(g) "BAB" means Banco Agricola de Bolivia (Bolivian Agricultural Bank) established by Decreto Ley No. 09440 of November 4, 1970, and reorganized by Decreto Ley No. 15545 of June 14, 1978;

(h) "BANEST" means Banco del Estado (State Bank) established by Decreto Supremo of February 11, 1942, and reorganized by Decreto Supremo No. 11658 of July 26, 1974;

(i) "SAFCO" means Sistema Integrado de Administracion Financiera y Control Gubernamentales (Public Financial Administration and Control System) to be established pursuant to Section 3.05 (a) of this Agreement;

(j) "CONSAFCO" means the council, composed of the Controller General and the Ministers of MINFIN, MINPLAN and MINTAX of the Borrower, and such other members (hereinafter referred to as "Additional Members") as shall be acceptable to the Association, which shall oversee implementation of SAFCO;

(k) "Executive Secretariat" means the executing unit empowered to act on behalf of CONSAFCO, to be established pursuant to Section 3.05 (b) of this Agreement;

(l) "Implementing Agencies" means collectively, MINTAX, BCB, CONSAFCO; the term "Implementing Agency" means any one of the Implementing Agencies;

(m) "Component Implementation Program" means a program for carrying out each Part of the Project through completion thereof, including an Annual Action Plan (as hereinafter defined) for the first year of implementation, as the same may be revised from time to time with the prior approval of the Association;

(n) "Annual Action Plan" means a detailed annual plan of the activities to be carried out, consultants' services, and results to be achieved during the relevant year for each Part of the Project, as the same may be revised from time to time with the prior approval of the Association;

(o) "Eligible Public Entities" means those public entities, wholly or partially owned by the Borrower, selected by CONSAFCO and accepted by the Association for participation in Part A of the Project; and

(p) "Administrative Services Contract" means the contract referred to in Section 3.04 (a) of this 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 nine million Special Drawing Rights (SDR 9,000,000).

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 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) 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, 1992 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 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 March 1 and September 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 1 and September 1 commencing September 1, 1997, and ending March 1, 2037. Each installment to and including the installment payable on March 1, 2007 shall be one-half of one percent (1/2 of 1%) of such principal amount, and each installment thereafter shall be one and one-half percent (1-1/2%) of such principal amount.

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

### 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 shall carry out, or cause to be carried out through the Implementing Agencies, the Project with due diligence and efficiency and in conformity with appropriate financial practices, and shall provide, promptly as needed, the funds, facilities, services and other

resources required for the Project.

(b) Without limitation to the provisions of paragraph (a) of this Section, the Borrower shall:

(i) ensure that, unless otherwise agreed by the Association, the following Implementing Agencies shall have primary responsibility for carrying out the stated Part of the Project:

(1) Part A - CONSAFCO,

(2) Part B - MINTAX,

(3) Part C - BCB; and

(ii) cause the Eligible Public Entities and such other ministries and public entities as shall be required to carry out the Project or any Part thereof, to participate and assist in the implementation of the Project.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods 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 Schedule 3 to this Agreement.

Section 3.03 (a) The Borrower shall enter into contractual arrangements, satisfactory to the Association, with BCB for purposes of carrying out Part C of the Project, providing for, inter alia, the obligation to:

(i) comply with the auditing, reporting and other applicable obligations set forth or referred to in this Agreement and the General Conditions;

(ii) enter into arrangements, satisfactory to the Association, with BAB and BANEST to assist in the carrying out of Part C of the Project, including the obligation to comply with the provisions of Section 4.01 of this Agreement for all operations, expenditures and resources in respect of the Project; and

(iii) provide, by January 1, 1988, a plan of action, acceptable to the Association, for the restructuring of BAB and BANEST.

(b) The Borrower shall exercise its rights under the contractual arrangements referred to in paragraph (a) of this Section in such a manner so as to protect the interest 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 assign, amend, abrogate or waive such arrangements or any provision thereof.

Section 3.04. (a) The Borrower shall enter into a contract for purposes of providing administrative services for the Project on behalf of the Borrower, including the contracting of consultants and the procurement of any goods to be financed from the proceeds of the Credit.

(b) The Borrower shall exercise its rights under the contract referred to in paragraph (a) of this Section in such a manner so as to protect the interests of the Borrower, the Association and the Implementing Agencies and to accomplish the purposes of the Credit and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive such arrangements or any provision thereof.

Section 3.05. The Borrower shall, for purposes of carrying out Part A of the Project:

(a) establish, in a manner satisfactory to the Association, a financial administration and control system for ministries and public entities (SAFCO);

(b) establish CONSAFCO and maintain the same through completion of the Project, with such functions and such Additional Members as shall be acceptable to the Association;

(c) establish an Executive Secretariat of CONSAFCO and maintain the same through completion of the Project, with such functions and composed of such members

with qualifications and experience as shall be acceptable to the Association, and assisted by qualified staff in adequate numbers;

(d) not change the scope of SAFCO, the functions or membership composition of CONSAFCO or the Executive Secretariat without the prior approval of the Association;

(e) ensure that, prior to requesting any reimbursement from the Credit Account for expenditures benefitting a public entity, that such public entity has been accepted by the Association as an Eligible Public Entity for participation in Part A of the Project; and

(f) review, at such times as the Association or CONSAFCO shall reasonably request, those public entities which are included or proposed to be included as Eligible Public Entities.

Section 3.06. The Borrower shall:

(a) cause each Implementing Agency to prepare and furnish to the Association, a Component Implementation Program, acceptable to the Association, for the Part of the Project for which such Agency is responsible;

(b) cause each Implementing Agency to prepare and furnish to the Association, by November 30 of each year during Project implementation, an Annual Action Plan acceptable to the Association, for carrying out the Part of the Project for which such Agency is responsible; and

(c) cause each Implementing Agency to carry out the Component Implementation Program and Annual Action Plans for the Part of the Project for which such Agency is responsible, in accordance with the respective terms of such Program and Plans.

Section 3.07. Without limitation or restriction upon the provisions of Section 9.06 of the General Conditions:

(a) the Borrower and the Association shall exchange views on the progress achieved by each Implementing Agency in carrying out their respective Part of the Project quarterly on February 15, May 15, July 15 and October 15 of each year beginning on February 15, 1988, and at all such other times as shall be reasonably requested by either the Association or the Borrower; and

(b) not later than 15 days prior to each such exchange of views, the Borrower through each Implementing Agency shall furnish to the Association for its review and comment, a report, of such detail and scope as the Association shall reasonably request, of the progress made by each Implementing Agency toward carrying out its respective Part of the Project.

Section 3.08. In the event that the IDB Grant Agreement has not been entered into by the Borrower and IDB within one year after the Effective Date of the Credit, the Borrower shall promptly make other arrangements, satisfactory to the Association, for the provision of funds equivalent to the proposed IDB Grant, for Part B of the Project.

#### 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 sound accounting practices the operations, resources and expenditures in respect of the Project of the ministries, departments or agencies of the Borrower and of each Implementing Agency responsible for carrying out the Project or any part thereof, and of each Eligible Public Entity Participating in Part A of the Project.

(b) The Borrower shall:

(i) have the separate records and accounts referred to in paragraph (a) of this Section 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 four 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 said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of 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 records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure 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. (a) Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified, subject to paragraph (b) of this Section:

(i) the right of the Borrower to withdraw the proceeds of the IDB Grant or the USAID Loan or any loans or credits or other grants to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreements providing therefor; or

(ii) the USAID Loan or any loan or credit for the financing of the Project shall have become due and payable prior to the agreed maturity thereof; and

(iii) provided, however, that with respect to sub-paragraphs (i) and (ii) above, the remedies of Section 6.02 of the General Conditions may apply, if the Association shall so choose, only to the amount of the Credit that corresponds to the Part of the Project to be financed by such IDB Grant, USAID Loan or any other loan, credit or grant.

(b) Paragraph (a) of this Section shall not apply if the Borrower establishes to the satisfaction of the Association that: (i) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (ii) 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 event is specified, namely that the event specified in paragraph (a) (ii) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b) 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 Borrower shall have entered into the contractual arrangements referred to in Section 3.03 (a) of this Agreement;

(b) that the Borrower shall have entered into the Administrative Services Contract referred to in Section 3.04 (a) of this Agreement; and

(c) that the Borrower shall have established CONSAFCO and the Executive Secretariat respectively referred to in paragraphs (b) and (c) of Section 3.05 of this Agreement.

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 contractual arrangements and Administrative Services Contract respectively referred to in paragraphs (a) and (b) of Section 6.01 have been duly executed and authorized or ratified and are legally binding upon the parties thereto in accordance with their respective terms; and

(b) that all necessary actions have been taken, and no other action is required to be taken, by or on behalf of the Borrower for the lawful establishment of CONSAFCO and the Executive Secretariat.

Section 6.03. The date of October 29, 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, IV and V 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. 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:

Ministerio de Finanzas  
La Paz  
Bolivia

Cable address:

MINFINANZAS  
La Paz, Bolivia

Telex:

BX 5332

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) Consultants' Services under Part A of the Project	4,315,000	100%
(2) Consultants' Services under Part B of the Project	555,000	100%
(3) Consultants' Services under Part C of the Project	1,055,000	100%
(4) Goods under Part A of the Project	645,000	100% of foreign expenditures
(5) Goods under Part C of the Project	160,000	100% of foreign expenditures
(6) Personnel costs of Executive Secretariat under Part A of the Project	310,000	100% of fixed-term personnel costs
(7) Personnel costs of MINTAX under Part B of the Project	425,000	100% of fixed-term personnel costs
(8) Refunding of Project Preparation Advance	1,170,000	Amount due pursuant to Section 2.02 (b) of this Agreement



(9) Project Administrative Services	365,000	100%
TOTAL	9,000,000	

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; and

(b) the term "fixed-term personnel costs" means the expenditures for salaries of the members, acceptable to the Association, of the Executive Secretariat or MINTAX, as the case may be, with employment contracts, approved by the Association, for a fixed-term not exceeding three years.

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

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 390,000, may be made in respect of Categories (1) through (7) on account of payments made for expenditures before that date but after May 1, 1987;

(b) payments made for expenditures under Part A of the Project unless the Borrower shall: (i) have established SAFCO in a manner satisfactory to the Association; (ii) have provided to the Association the Component Implementation Program, acceptable to the Association, for Part A of the Project; and (iii) have furnished to the Association evidence satisfactory to the Association that all conditions precedent to the first disbursement of the USAID Loan have been met;

(c) payments made for expenditures under Part B of the Project, unless the Borrower shall have provided to the Association the Component Implementation Program, acceptable to the Association, for Part B of the Project; and

(d) payments made for expenditures under Part C of the Project, unless the Borrower shall have provided to the Association the Component Implementation Program, acceptable to the Association, for Part C of the Project.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to: (a) improve financial administration and control of ministries and public entities; (b) enable implementation of tax reform and improved tax administration; and (c) improve the national banking system, strengthen BCB and restructure main development banks.

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: Financial Administration and Control System

1. Establishment of CONSAFCO and its Executive Secretariat for the overall management of the implementation of a financial administration and control system for ministries and public entities (SAFCO).

2. Establishment of sound and timely accounting, internal control and financial reporting systems and related capabilities in MINFIN, MINPLAN, CONTRALORIA and Eligible Public Entities.

3. Establishment of improved cash and debt management systems and capabilities in MINFIN and Eligible Public Entities.

4. Establishment of operational programming, budgeting and execution systems and capabilities in MINFIN, MINPLAN and Eligible Public Entities, and project execution and monitoring capabilities in Eligible Public Entities and MINPLAN.

5. Strengthening auditing and systems development functions by CONTRALORIA.

6. Acquisition and utilization of equipment and materials required to carry out Part A of the Project.

Part B: Tax Administration

1. Implementation of appropriate organization, staffing and systems for tax administration.
2. Establishment of systems for, and the carrying out of, tax auditing and statistical functions.

Part C: Banking Systems Reform

1. Improvements in organization, systems and capabilities of BCB, including improvements in banking inspection, accounting and internal controls, economic research, policy and operational procedures and debt monitoring.
2. Restructuring and building of appropriate capabilities in the main development banks, including BAB and BANEST.
3. Acquisition and utilization of equipment required to carry out Part C of the Project.

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The Project is expected to be completed by December 31, 1991.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Shopping

Goods may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three qualified suppliers, eligible under the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines), at least two of which shall be from countries other than the Borrower, and in accordance with procedures satisfactory to the Association.

Part B: Review by the Association of Procurement Decisions

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

(a) With respect to each contract for goods estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply.

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

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

Section II. Employment of Consultants

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

