

CONFORMED COPY

INTERIM FUND CREDIT NUMBER N033-BO

Interim Fund
Development Credit Agreement

(Financial Decentralization and Accountability Project)

between

REPUBLIC OF BOLIVIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION as Administrator of the interim trust fund established with funds contributed by certain members of International Development Association pursuant to Resolution No. IDA 184 of the Board of Governors of International Development Association

Dated August 19, 1997

INTERIM FUND CREDIT NUMBER N033-BO

INTERIM FUND DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 19, 1997, between REPUBLIC OF BOLIVIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) as administrator (the Administrator) of the interim trust fund (Interim Fund) established with funds contributed by certain members of the Association pursuant to Resolution No. IDA 184 (the Interim Fund Resolution) of the Board of Governors of the Association, adopted on June 26, 1996.

WHEREAS (A) by the Interim Fund Resolution, the Interim Fund has been established, constituted of the funds contributed by certain members of the Association and administered by the Association acting as Administrator of the Interim Fund, in accordance with the provisions of the Interim Fund Resolution;

(B) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Administrator to assist in the financing of the Project through the provision of resources from the Interim Fund, and the Administrator has determined that such assistance would be in accordance with the provisions of the Interim Fund Resolution;

(C) On July 20, 1990 the National Congress of the Borrower passed Law No. 1178, Ley del Sistema de Administración, Fiscalización y Control Gubernamental (the SAFCO Law) which, together with its regulations, sets forth the general rules for the Borrower's administration, monitoring and control system; and

WHEREAS the Administrator has agreed, on the basis, inter alia, of the foregoing, to extend the Interim Fund 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, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The term "Association", wherever used in the General Conditions means the International Development Association acting as Administrator of the Interim Fund referred to in the Preamble to the Interim Fund Development Credit Agreement.

(b) The terms "Development Credit Agreement", "Credit" and "Credit Account", wherever used in the General Conditions, are amended to read "Interim Fund Development Credit Agreement", "Interim Fund Credit" and "Interim Fund Credit Account", respectively.

(c) A new paragraph, numbered 15, is added to Section 2.01 to read as follows:

"15. 'Participating Country' means any country that meets the requirements set forth in Section 5 (e) of Resolution No. IDA 184 of the Board of Governors of the Association, adopted on June 26, 1996, as determined by the Administrator as of the date on which the Interim Fund Credit was approved pursuant to Section 5 (c) of said Resolution; and 'Participating Countries' means, collectively, all such countries."

(d) The last sentence of Section 3.02 is deleted.

(e) The second sentence of Section 5.01 is modified to read:

"Except as the Administrator and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Administrator, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(f) In Sections 6.02 and 7.01 of the General Conditions, the term "Association" shall also mean the International Development Association acting in its own capacity.

(g) Section 6.03 is modified to read as follows:

"Section 6.03. Cancellation by the Administrator. If (a) the right of the Borrower to make withdrawals from the Interim Fund Credit Account shall have been suspended with respect to any amount of the Interim Fund Credit for a continuous period of thirty days, or (b) at any time, the Administrator determines, after consultation with the Borrower, that an amount of the Interim Fund Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Interim Fund Credit, or (c) at any time the Administrator determines, with respect to any contract to be financed out of the proceeds of the Interim Fund Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Interim Fund Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Administrator to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Interim Fund Credit, or (d) at any time, the Administrator determines that the procurement of any contract to be financed out of the proceeds of the Interim Fund Credit is inconsistent with the procedures set forth or referred to in the Interim Fund Development Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Interim Fund Credit, or (e) after the Closing Date, an amount of the Interim Fund Credit shall remain unwithdrawn from the Interim Fund Credit Account, the Administrator may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount

of the Interim Fund Credit shall be canceled."

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) "Administrative Decentralization Law" means the Borrower's Law No. 1654 of July 28, 1995;

(b) "CG" means Contraloría General, the Borrower's Comptroller General's Office;

(c) "Decentralized Entities" means any national autonomous or semi-autonomous entity of the Borrower, including social security funds, other than the municipalities;

(d) "Executing Agency" means any Public Sector Entity (as hereinafter defined) that has entered into a Technical Cooperation Arrangement (as hereinafter defined);

(e) "Implementation Plan" means the plan for the implementation of the Project set forth in the letter from the Borrower to the Administrator of even date herewith;

(f) "MDH" means the Borrower's Ministry of Finance;

(g) "Municipalities Organic Law" means the Borrower's Law No. 696 of January 10, 1985;

(h) "Performance Indicators" means the indicators to monitor the progress of the Project and the achievement of its objectives, set forth in the letter from the Borrower to the Administrator of even date herewith;

(i) "Popular Participation Law" means the Borrower's Law No. 1551 of April 20, 1994;

(j) "Prefectures" means any of the departmental administrations in the territory of the Borrower;

(k) "Project Coordinating Units" means the Project coordinating units referred to in Section 3.05 (a) of this Agreement;

(l) "Project Preparation Advance" means the project preparation advance granted by the Administrator to the Borrower pursuant to a letter from the Administrator dated May 12, 1997, countersigned by the Borrower on June 13, 1997;

(m) "Public Sector Entity" means any department or agency of the Borrower, (including the Decentralized Entities and the Prefectures) and the Selected Municipalities (as hereinafter defined);

(n) "Operational Manual" means the manual referred to in Section 6.01 (c) of this Agreement;

(o) "Selected Municipalities" means the autonomous municipal governments in the territory of the Borrower referred to in paragraph 1.3 of the Annex to the letter referred to in (e) and (h) above;

(p) "Special Account" means collectively Special Accounts A and B (as hereinafter defined);

(i) (q) "Special Account A" means the account referred to in Section 2.02 (b)

(ii) (r) "Special Account B" means the account referred to in Section 2.02 (b)

(s) "Subsidiary Agreements" means any of the agreements referred to in Section 3.04 (c) of this Agreement;

(t) "Technical Cooperation Arrangement" means any of the arrangements referred to in Section 3.04 (a); and

(u) "Telecommunications Agreement" means the agreement referred to in Section 3.04 (b) of this Agreement.

ARTICLE II

The Interim Fund Credit

Section 2.01. The Administrator agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Interim Fund Development Credit Agreement, an amount in various currencies equivalent to ten million eight hundred thousand Special Drawing Rights (SDR 10,800,000).

Section 2.02. (a) The amount of the Interim Fund Credit may be withdrawn from the Interim Fund Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Administrator 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 Interim Fund Credit.

(b) The Borrower may, for the purposes of each of: (i) Parts A, B, C, D and E of the Project; and (ii) Parts F, G, H and I of the Project, open and maintain in Dollars, in the Borrower's central bank, separate special deposit accounts on terms and conditions satisfactory to the Administrator. Deposits into, and payments out of, each respective Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

(c) Promptly after the Effective Date, the Administrator shall, on behalf of the Borrower, withdraw from the Interim Fund Credit Account and pay to the Association 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 canceled. Section 2.03. The Closing Date shall be July 31, 2002 or such later date as the Administrator shall establish. The Administrator 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 Interim Fund 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 Interim Fund Credit Account or canceled; 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 Interim Fund Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on January 1 and July 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Interim Fund Credit in semiannual installments payable on each January 1 and July 1 commencing January 1, 2008 and ending July 1, 2037. Each installment to and including the installment payable on July 1, 2017 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (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 Administrator may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by the Administrator 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 Interim Fund Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Interim Fund 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 Administrator 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 Administrator 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 Administrator on the principal amount of the Interim Fund Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Administrator, 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 Administrator 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

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: (i) Parts A, B, C, D and E of the Project, through MDH; and (ii) Parts F, G, H and I of the Project through CG, with due diligence and efficiency and in conformity with appropriate managerial, administrative, financial and accounting practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Administrator shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Plan and the Operational Manual, with due regard to the Performance Indicators.

(c) The Borrower shall:

- (i) take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Executing Agencies to participate in the carrying out of Parts A, B, C and D of the Project; and
- (ii) not take or permit to be taken any action which would prevent or interfere with the participation of the Executing Agencies in the carrying out of Parts A, B, C and D of the Project.

Section 3.02. Except as the Administrator shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Interim Fund Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Administrator, and furnish to the Administrator 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 Administrator, a plan designed to ensure the sustainability of the Project; and

(b) afford the Administrator a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.04. (a) The Borrower, through MDH, shall enter into technical cooperation arrangements with any Public Sector Entity interested in participating in the carrying out of Parts A, B, C and D of the Project, establishing terms and conditions for such participation, satisfactory to the Administrator, including, inter alia:

- (i) appropriate provisions for the operation and maintenance, in accordance with adequate technical standards, of the informatic equipment financed out of the proceeds of the Interim Fund Credit and the training of the respective Public Sector Entity's personnel; and
- (ii) provisions whereby MDH may suspend the participation of the respective Entity in any case of non-compliance by such Entity under the corresponding arrangements.

(b) The Borrower shall enter into an agreement with a telecommunications services provider, under terms and conditions satisfactory to the Administrator, for the purposes of the operation and maintenance, in accordance with adequate technical standards, of the communications infrastructure required for the functioning of the information systems financed out of the proceeds of the Interim Fund Credit.

(c) The Borrower shall enter into agreements with MDH and CG providing for the transfer to MDH and CG of part of the proceeds of the Interim Fund Credit for the purposes of the implementation of: (i) Parts A, B, C, D and E of the Project by MDH; and (ii) Parts F, G, H and I of the Project by CG, under terms and conditions satisfactory to the Administrator.

(d) The Borrower shall exercise its rights under the Technical Cooperation Arrangements in such a manner as to:

- (i) protect the interests of the Borrower and the Administrator;
- (ii) comply with its obligations under this Agreement; and
- (iii) achieve the purposes of the Project. (e) The Borrower shall exercise its rights and comply with its obligations under the Telecommunications Agreement in such a manner as to protect the interests of the Borrower and the Administrator, and to accomplish the purposes of the Interim Fund Credit, and, except as the Administrator shall otherwise agree, the Borrower shall not assign, suspend, amend, abrogate, repeal or waive the Telecommunications Agreement or any provision thereof.

Section 3.05. (a) The Borrower shall establish, not later than one month after the Effective Date, and maintain, at all times until completion of the Project, two Project coordinating units, one within MDH (with respect to Parts A, B, C, D and E of the Project) and other within CG (with respect to Parts F, G, H and I of the Project), both with the following functions and responsibilities:

- (i) conducting the overall planning and monitoring of their respective Parts of the Project;
- (ii) preparing the reports referred to in Sections 3.07 and 3.08 (b) of this Agreement for their respective Parts of the Project;
- (iii) undertaking the procurement of the goods and consultants' services required for their respective Parts of the Project; and
- (iv) administering the withdrawals of the proceeds of the Interim Fund Credit and related records, accounts and audits for their respective Parts of the Project, all pursuant to the provisions of this Agreement.

(b) For the purposes of the Project, the Borrower shall ensure that the Project Coordinating Units are, at all times during the execution of the Project, headed by technical directors assisted by professional staff in adequate numbers, all with qualifications, experience, functions and responsibilities satisfactory to the Administrator.

Section 3.06. With regard to the training programs to be carried out under the Project in accordance with the provisions of this Agreement, the Borrower shall:

(a) furnish to the Administrator, for its approval, the overall contents and annual implementation schedule of the respective programs;

(b) carry out such training programs in accordance with the overall contents and annual implementation schedule approved by the Administrator; and

(c) within one month after the conclusion of each such annual training program, furnish to the Administrator a report, of such scope and in such detail as the Administrator shall reasonably request, on the results of the training program and the benefits to be derived therefrom.

Section 3.07. Without limitation or restriction upon the provisions of Section 9.07 of the General Conditions, the Borrower, through the Project Coordinating Units, shall, not later than February 28 of each year during the execution of the Project, furnish to the Administrator, for its review and comments, a report on the progress achieved in the execution of the Project, with regard to the preceding calendar year of such scope and in such detail as the Administrator may reasonably request.

Section 3.08. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Performance Indicators, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Administrator, and furnish to the Administrator, on or about February 15, 2000, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Administrator, by March 15, 2000, or such later date as the Administrator shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Administrator's views on the matter.

ARTICLE IV

Financial Covenants

Section 4.01 (a) The Borrower shall maintain or cause to be maintained records and separate accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Accounts for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Administrator;

(ii) furnish to the Administrator, as soon as available, but in any case not later than four months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Administrator shall have reasonably requested;

and

(iii) furnish to the Administrator such other information concerning said records and accounts and the audit thereof as the Administrator shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Interim

Fund 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, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Administrator has received the audit report for the fiscal year in which the last withdrawal from the Interim Fund Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Administrator'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 and the Administrator

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

(a) the SAFCO Law or the Decentralization Law or the Municipal Organic Law or the Popular Participation Law or their regulations or any provision thereof shall have been amended, suspended, abrogated, repealed or waived so as to affect, in the opinion of the Administrator, materially and adversely, the ability of the Borrower or any of the Executing Agencies to perform any of their respective obligations or undertakings set forth or referred to in this Agreement;

(b) as a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Borrower or any of the Executing Agencies will be able to perform their respective obligations or undertakings under the Technical Cooperation Arrangements or the Telecommunications Agreement, as the case may be;

(c) except as the Administrator shall otherwise agree, the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of any Executing Agency or for the suspension of their operations so as to affect, in the opinion of the Administrator, materially and adversely, the ability of such Executing Agency to perform any of their respective obligations or undertakings set forth or referred to in this Agreement; and

(d) the Borrower or the Executing Agencies shall have failed to perform any of their respective obligations or undertakings under the Technical Cooperation Arrangements or the Telecommunications Agreement.

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

(a) that the event specified in paragraph (d) 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 Administrator to the Borrower; and

(b) that any of the events specified in paragraphs (a) or (c) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination Designation of Administrator

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Interim Fund Development Credit Agreement within the meaning of

Section 12.01 (b) of the General Conditions:

(a) that at least four Technical Cooperation Arrangements with Prefectures shall have been entered into;

(b) that the Subsidiary Agreements shall have been entered into; and

(c) that MDH and CG have issued a Project operational manual satisfactory to the Association.

Section 6.02. The date November 19, 1997 is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.03. In the event that the Executive Directors of the Association decide to terminate the functions of the Association as administrator of the Interim Fund pursuant to Section 7 of the Interim Fund Resolution, all of the rights and obligations of the Administrator under this Agreement shall be assumed by the Association in accordance with the Interim Fund Resolution and such decision of said Executive Directors, as of a date to be notified by the Administrator to the Borrower.

ARTICLE VII

Representative 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 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 and the Administrator:

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)

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

REPUBLIC OF BOLIVIA

By /s/ Edgar Millares

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION
as Administrator of the interim trust fund established with
funds contributed by certain members of

International Development Association pursuant to
Resolution No. IDA 184 of the Board of Governors of
International Development Association

By /s/ Shahid Javed Burki

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Interim Fund Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Interim Fund Credit, the allocation of the amounts of the Interim Fund Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Interim Fund Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Consultants' Services and Training	8,340,000	100% of foreign expenditures and 85% of local expenditures
(2) Goods	370,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(3) Incremental Operating Costs	870,000	85%
(4) Refunding of Project Preparation Advance	600,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(5) Unallocated	620,000	
TOTAL	10,800,000	

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;

(c) the term "Incremental Operating Costs" means expenditures for the operation and maintenance of the Project Coordinating Unit within MDH, including: (i) office supplies; (ii) services rendered by public utilities; (iii) operation and maintenance of goods financed out of the proceeds of the Interim Fund Credit; (iv) staff of the Project Coordinating Unit; and (v) domestic and international travels and per diems of its personnel, required for the execution of the Project; and

(d) the term "Training" means: (i) remuneration of trainers; (ii) domestic and international travel and per diems of trainers and trainees; and (iii) training materials.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement except that withdrawals, in an aggregate amount not exceeding the equivalent of \$900,000 may be made in respect of Categories (1) through (3) in the table in

paragraph 1 of this Schedule on account of payments made for expenditures before that date but after a date twelve months before the date of this Agreement.

4. The Administrator may require withdrawals from the Interim Fund Credit Account to be made on the basis of statements of expenditure under such terms and conditions as the Administrator shall specify by notice to the Borrower, for expenditures under:

- (a) contracts for goods costing less than \$40,000 equivalent each;
- (b) contracts for services of consulting firms costing less than \$50,000 equivalent each;
- (c) contracts for services of individual consultants costing less than \$25,000 equivalent each; and
- (d) all Incremental Operating Costs and Training.

SCHEDULE 2

Description of the Project

The objectives of the Project are the establishment of: (a) integrated financial management systems in the Prefectures, the Decentralized Entities, and the Selected Municipalities; and (b) uniform professional accounting, auditing and evaluation standards across the Borrower's public sector.

The Project consists of the following Parts, subject to such modifications thereof as the Borrower and the Administrator may agree upon from time to time to achieve such objectives:

Part A: Decentralized Integrated Financial Management Systems

Development of modern and automated financial management systems for the Prefectures, the Decentralized Entities and the Selected Municipalities to assist in the implementation of the Borrower's budget regulations and administrative procedures, as well as in the institutionalization of operating procedures for treasury transactions and implementation of the financial accounting norms established by the SAFCO Law, through:

- (a) modernization and computerization of operating procedures in the treasury area (including cash and debt management);
- (b) implementation of accounting systems and procedures, and budget execution and reporting systems;
- (c) implementation of automated administrative systems in the Prefectures to track inventories, procurement processes, personnel count and fixed assets;
- (d) integration of the above systems into independent financial management computerized systems, for the Prefectures and the Decentralized Entities; and
- (e) development of a standard project accounting system to monitor expenditures financed by international financial institutions.

Part B: Public Sector Integration of Financial Management Systems

Development of telecommunications links between the financial and budget reporting systems implemented under Part A of the Project, aimed at establishing a nationally integrated system of accounting, reporting and public expenditure monitoring, including:

- (a) connection of the integrated financial management systems of the Borrower, the Prefectures and the Decentralized Entities, via telecommunications networks;
- (b) installation of wireless telecommunications networks to allow consolidation of financial reporting, budget expenditure data and public debt information; and
- (c) development of on-line electronic processing procedures for financial transactions, and installation of modules to capture remote entry of budget expenditure transactions, so as to record budget movements and balances.

Part C: Decentralized Budget Transactions and Payment Systems

Establishment of efficient transfer procedures for budgetary funds, aimed at allowing more efficient budget distributions to the Prefectures and to the Selected Municipalities, along with supporting budgeting and public investment systems, through the development of:

- (a) automated public funds transfers via the commercial banking network; and
- (b) electronic transfer of records and accounts within the Borrower's centrally integrated financial management systems.

Part D: Dissemination of Integrated Financial Management Systems

Development and implementation of programs to assure the efficient operation of the systems established under Parts A, B and C of the Project, including:

- (a) provision of technical assistance and training to key staff in each Executing Agency on the operation and management of integrated financial management systems;
- (b) carrying out of national workshops for the Borrower's public sector financial and technical staff, in the operation and applications of such systems; and
- (c) carrying out of a dissemination campaign among the general public on the scope and impact of the SAFCO Law.

Part E: Project Operation Operation of the Project Coordinating Unit within MDH.

Part F: Strengthening of the Institutional Capacity of the Borrower's Audit and Evaluation Function

Provision of technical assistance to improve the Borrower's auditing capacity in the following areas:

- (a) evaluation of audits conducted on the operations of Public Sector Entities;
- (b) institutionalization of procedures for conducting the auditing of the SAFCO Law financial and administrative systems in Public Sector Entities;
- (c) auditing of financial management capability and administrative controls in the Prefectures and the Selected Municipalities;
- (d) auditing of budget distribution programs implemented under the Popular Participation Law and the Administrative Decentralization Law and their regulations; and
- (e) strengthening of the regional offices of CG through the installation of modernized information technology systems that allow the central office of CG to share information with the regional offices.

Part G: Strengthening of Audit Capabilities for Operational and Non-Financial Audits and Evaluations

Strengthening of CG's capabilities to conduct operational audits (including ex-post and in-process evaluations of the operational execution and performance of investment programs, environmental operations and other special audit areas) as a supplement to the financial audits, including:

- (a) development of information technology system audits to adapt traditional audit techniques to the features of automated financial transactions processing; and
- (b) conducting audits of privatization processes of Public Sector Entities.

Part H: Anti-Corruption Techniques

Provision of technical assistance for:

- (a) developing and implementing audit techniques for anticorruption

detection;

(b) carrying out of:

- (i) training programs for CG staff in the audit techniques for anticorruption detection;
- (ii) specific audits on major public contracting procedures;
- (iii) audit exercises for the detection of corruption; and
- (iv) forensic auditing seminars and workshops for the Borrower's officials involved in audit and accounting matters; and

(c) dissemination of the ethics and transparency principles applicable to the Borrower's public administration under the SAFCO Law and its regulations.

Part I: Training in Accounting, Auditing and Financial Management

Provision of technical assistance to CG for the development of continuing professional and technical education programs aimed at strengthening the Public Sector Entities' skills base and organizational effectiveness in applying the provisions of the SAFCO Law to accounting, auditing and financial management, including periodic training seminars at the CG's national training center, and specific audit training for the regional offices of the CG.

* * *

The Project is expected to be completed by January 31, 2002.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: General

Subject to the eligibility restrictions set forth in Section III of this Schedule, goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Two-stage Bidding Procedure

The bidding procedure for computer hardware and software shall be carried out in two stages in accordance with the provisions of paragraph 2.6 of the Guidelines.

(b) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. Limited International Bidding

Goods estimated to cost less than \$140,000 but more than \$40,000 equivalent per contract, up to an aggregate amount not to exceed \$1,200,000 equivalent, and goods which the Administrator agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in

accordance with the provisions of paragraph 3.2 of the Guidelines.

2. International or National Shopping

Goods estimated to cost \$40,000 equivalent or less per contract, up to an aggregate amount not to exceed \$600,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Administrator of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Administrator for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods shall be undertaken in accordance with such procurement plan as shall have been approved by the Administrator, and with the provisions of said paragraph 1.

2. Prior Review

With respect to: (a) each contract for goods awarded under Part B hereof; and (b) each contract for goods awarded under Part C.1 hereof, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services for the development, implementation and dissemination of decentralized integrated financial management systems, and Project operation under Parts A, D and E of the Project, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Under a Fixed Budget

Services for training in accounting, auditing and financial management under Part I of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

2. Least-cost Selection

Services for the operation of the Project Coordinating Unit within MDH under Part E of the Project estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Single Source Selection

Services for the development of telecommunications links and the establishment of efficient transfer procedures for budgetary funds under Parts B and C of the Project, which are estimated to cost less than \$100,000 equivalent per contract, may, with the Administrator's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

Services for the development, implementation and dissemination of decentralized integrated financial management systems, the establishment of efficient transfer procedures for budgetary funds and telecommunications links, Project operation, the strengthening of the Borrower's audit and evaluation functions, the strengthening of audit capabilities for operational and non-financial audits and evaluations, and the development of anti-corruption techniques and training, under Parts A through I of the Project, in tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines, shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Administrator of Procurement Decisions

1. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$50,000 or more, but less than the equivalent of \$100,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$25,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Administrator for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

2. Post Review

With respect to each contract not governed by paragraph 1 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

Section III. Eligibility Restrictions

1. Notwithstanding the provisions of paragraph 1.6 of the Guidelines, the proceeds of the Interim Fund Credit may only be withdrawn on account of expenditures for goods provided by nationals of, and produced in or supplied from, Participating Countries; consequently, nationals of countries that are not Participating Countries and bidders offering goods from such countries shall be disqualified from bidding for such contracts, and the bidding documents shall so specify.

2. Notwithstanding the provisions of paragraph 1.02 of the Consultant Guidelines, only consultants from Participating Countries shall be eligible to provide services financed out the proceeds of the Interim Fund Credit.

Section IV. Special Provisions for the Employment of Consultants

In addition and without limitation to any other provisions set forth in this Schedule or the Consultant Guidelines, the following rules shall expressly govern all procurement of consultants' services referred to in Section II of this Schedule:

1. Foreign consultants shall not, as a condition for participating in the selection process, be required to enter into a joint venture agreement with local consultants, unless the conditions stated in paragraph 1.12 of the Consultant Guidelines are met.

2. Foreign consultants shall not be required to legalize their proposals or any documentation related to such proposals with Bolivian authorities as a prerequisite

for participating in the selection process.

3. Foreign consultants shall not be required to be registered in the Borrower's National Registry of Consultants (Registro Nacional de Consultoría).

SCHEDULE 4

Special Accounts

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 Interim Fund 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 \$600,000 in respect of the Special Account A and an amount equivalent to \$500,000 in respect of the Special Account B, to be withdrawn from the Interim Fund Credit Account and deposited into the Special Accounts pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Administrator shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$300,000 in respect of the Special Account A and an amount equivalent to \$250,000 in respect of the Special Account B, until: (i) in respect of the Special Account A, the aggregate amount of withdrawals from the Interim Fund Credit Account plus the total amount of all outstanding special commitments entered into by the Administrator pursuant to Section 5.02 of the General Conditions with respect to Parts A through E of the Project shall be equal to or exceed the equivalent of \$850,000; and (ii) in respect of the Special Account B, the aggregate amount of withdrawals from the Interim Fund Credit Account plus the total amount of all outstanding special commitments entered into by the Administrator pursuant to Section 5.02 of the General Conditions with respect to Parts F through I of the Project shall be equal to or exceed the equivalent of \$750,000.

2. Payments out of the respective Special Account shall be made exclusively for Eligible Expenditures in accordance with the provisions of this Schedule.

3. After the Administrator has received evidence satisfactory to it that the respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Administrator a request or requests for deposit into the respective Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Administrator shall, on behalf of the Borrower, withdraw from the Interim Fund Credit Account and deposit into the respective Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Administrator requests for deposits into the respective Special Account at such intervals as the Administrator shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Administrator the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Administrator shall, on behalf of the Borrower, withdraw from the Interim Fund Credit Account and deposit into the respective Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the respective Special Account for Eligible Expenditures. All such deposits shall be withdrawn by the Administrator from the Interim Fund Credit Account under the respective Eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the respective Special Account, the Borrower shall, at such time as the Administrator shall reasonably request, furnish to the Administrator such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Administrator shall not be required to make further deposits into any Special Account:

(a) if, at any time, the Administrator shall have determined that all further withdrawals should be made by the Borrower directly from the Interim Fund Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Administrator, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Administrator pursuant to said Section in respect of the audit of the records and accounts for the Special Accounts;

(c) if, at any time, the Administrator shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Interim Fund Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Interim Fund Credit allocated to the Eligible Categories for the respective Special Account, minus the total amount of all outstanding special commitments entered into by the Administrator pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawals from the Interim Fund Credit Account of the remaining unwithdrawn amount of the Interim Fund Credit allocated to the Eligible Categories shall follow such procedures as the Administrator shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Administrator shall have been satisfied that all such amounts remaining on deposit in the respective Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

6. (a) If the Administrator shall have determined at any time that any payment out of any Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Administrator, the Borrower shall, promptly upon notice from the Administrator: (A) provide such additional evidence as the Administrator may request; or (B) deposit into the respective Special Account (or, if the Administrator shall so request, refund to the Administrator) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Administrator shall otherwise agree, no further deposit by the Administrator into any Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Administrator shall have determined at any time that any amount outstanding in any Special Account will not be required to cover further payments for Eligible Expenditures, the Borrower shall, promptly upon notice from the Administrator, refund to the Administrator such outstanding amount.

(c) The Borrower may, upon notice to the Administrator, refund to the Administrator all or any portion of the funds on deposit in the respective Special Accounts.

(d) Refunds to the Administrator made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Interim Fund Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

