

LOAN CONTRACT No. 2798/BL-RG

between the

CARIBBEAN DEVELOPMENT BANK

and the

INTER-AMERICAN DEVELOPMENT BANK

CDB Global Loan Program for the IDA-Eligible OECS Member Countries

May 21, 2013

LOAN CONTRACT

SPECIAL CONDITIONS

INTRODUCTION

Parties, Purpose, Constituent Elements and Executing Agency

1. PARTIES AND PURPOSE OF THE CONTRACT

CONTRACT entered into on May 21, 2013, between the CARIBBEAN DEVELOPMENT BANK (hereinafter referred to as the “Borrower” or “CDB”) and the INTER-AMERICAN DEVELOPMENT BANK (hereinafter referred to as the “Bank” or “IDB”) to finance the execution of the CDB Global Loan Program for the IDA¹-Eligible OECS² Member Countries (hereinafter referred to as the “Program”).

The major aspects of the Program are described in detail in Annex A (hereinafter referred to as the “Annex”).

2. CONSTITUENT ELEMENTS OF THE CONTRACT AND REFERENCE TO THE GENERAL CONDITIONS

(a) This Contract consists of these Special Conditions, the General Conditions, and the Annex A which are attached hereto. If any provision of the Special Conditions or the Annex A should present any inconsistency or contradiction with the General Conditions, the provisions of the Special Conditions or the Annex A shall prevail. In case of inconsistencies or contradictions between the Special Conditions or the Annex A, specific rules shall prevail over general rules.

(b) Rules for the application of amortization, interest, credit fee, inspection and supervision and disbursement clauses, as well as other conditions related to Program execution and supervision are established in detail in the General Conditions. The General Conditions also include general definitions. In addition, environmental and social definitions are set forth in the Annex A and the Credit Regulations referred to in Section 3.03 of these Special Conditions.

3. EXECUTING AGENCY

The parties agree that the execution of the Program and the utilization of the resources of the financing from the Bank shall be carried out in their entirety by the Borrower, which for the purposes of this Contract shall be referred to, without distinction, as the “Borrower”, the “Executing Agency” or “CDB”.

1 International Development Association.

2 Organization of Eastern Caribbean States.

CHAPTER I

Costs, Financing and Additional Resources

SECTION 1.01 **Cost of the Program.** The total cost of the Program is estimated to be the equivalent of twenty million dollars of the United States of America (US\$20,000,000). Unless otherwise stated in this Contract, the term “dollars” hereinafter signifies the currency of legal tender in the United States of America.

SECTION 1.02 **Amount of the Financing.** (a) In accordance with this Contract, the Bank agrees to make available to the Borrower, to assist the Borrower in carrying out the Program, and the Borrower accepts, a Financing, composed as follows:

- (i) up to the equivalent of fourteen million dollars (US\$14,000,000) chargeable to the resources of the Single Currency Facility of the ordinary capital resources of the Bank (hereinafter the “Ordinary Capital Financing”); and
 - (ii) up to the equivalent of six million dollars (US\$6,000,000) chargeable to the resources of the Bank’s Fund for Special Operations (hereinafter the “Fund for Special Operations Financing”).
- (b) The amounts disbursed from the Financing shall constitute the “Loan”.

CHAPTER II

Amortization, Interest, General Inspection and Supervision and Credit Fee

SECTION 2.01 **Amortization.** (a) The Loan shall be completely repaid by the Borrower according to the rules as set forth in Article 3.01 of the General Conditions.

(b) **Ordinary Capital Financing.** The portion of the Loan disbursed against the Ordinary Capital Financing shall be repaid by the Borrower by means of semiannual, consecutive, and, insofar as possible, equal installments. The first repayment installment of this portion of the Loan shall be paid seventy two (72) months from the date of signature of this Contract and the last installment shall be paid no later than thirty (30) years from the same date.

(c) **Fund for Special Operations Financing.** The portion of the Loan disbursed against the Fund for Special Operations Financing shall be repaid in one single installment forty (40) years from the date of signature of this Contract.

SECTION 2.02 **Interest.** (a) **Ordinary Capital Financing.** Interest payable on the portion of the Loan disbursed against the Ordinary Capital Financing shall accrue on the daily outstanding balances of such portion of the Loan and shall be at a rate determined pursuant to Article 3.04(a) of the General Conditions for a Single Currency Facility loan with a USD

LIBOR-Based Rate until the Determination Date of the Fixed Base Rate, according to Article 2.01(l) of the General Conditions of this Contract. From the Determination Date of the Fixed Base Rate the Bank will apply a Fixed Interest Rate, according to Article 2.01(r) of the General Conditions.

(b) **Fund for Special Operations Financing.** Interest payable on the portion of the Loan disbursed against the Fund for Special Operations Financing shall accrue on the daily outstanding balances of such portion of the Loan at the rate set forth in Article 3.04(b) of the General Conditions.

(c) Interest shall be payable to the Bank semiannually, beginning six (6) months from the date of signature of this Loan Contract, and taking into account Article 3.01(c) of the General Conditions.

SECTION 2.03 Resources for General Inspection and Supervision. During the disbursement period, the Borrower shall not be required to cover the Bank's expenses for general inspection and supervision of the Financing, except if the Bank determines otherwise in respect to the Ordinary Capital Financing, as a result of its periodic review of financial charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology in Ordinary Capital loans, and the Borrower is notified by the Bank in this regard. In such event, the Borrower shall pay the Bank directly the corresponding amount, in dollars, during the disbursement period and on the dates on which interest payments are due. Under no circumstance shall there be a charge for this purpose in any Semester which is greater than the amount which results from applying 1% to the amount of the Ordinary Capital Financing, divided by the number of Semesters included in the original disbursement period.

SECTION 2.04 Credit Fee. The Borrower shall pay a credit fee at a percentage that will be established by the Bank on a periodic basis as a result of its review of financial charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology in Ordinary Capital loans, provided that, under no circumstance, may it exceed the percentage contemplated in Article 3.02 of the General Conditions.

CHAPTER III

Disbursements

SECTION 3.01 Currency of Disbursements of the Financing and Use of Funds.

(a) The amount of the Financing shall be disbursed in dollars chargeable to the resources of the Single Currency Facility of the ordinary capital resources of the Bank, in the case of the Ordinary Capital Financing, and to the resources of the Fund for Special Operations, in the case of the Fund for Special Operations Financing, to pay for goods and services acquired in accordance with Section 4.07 hereof and for such other purposes as are indicated in this Contract.

(b) With respect to goods and services, the resources of the Financing shall only be used for payments of goods and services originating in the member countries of the Bank and of the Borrower.

SECTION 3.02 Currency Availability. (a) Notwithstanding Sections 1.02(a) and 3.01 hereof, if the Bank is unable to obtain access to the agreed upon Single Currency to make disbursements as established in Article 4.04 of the General Conditions, the Bank, in consultation with the Borrower, may disburse in any other Single Currency of the Bank's choice, until such time as the Bank is able to regain access to the agreed upon Single Currency.

(b) If pursuant to Section 3.02(a) above, the Bank disburses in a Single Currency that is not the agreed Single Currency, the financial charges for the Ordinary Capital Financing shall be those which correspond to such Single Currency, while financial charges for the Fund for Special Operations shall remain unchanged.

SECTION 3.03 Special Conditions Prior to First Disbursement. In addition to the conditions precedent stipulated in Article 4.01 of the General Conditions, the first disbursement of the Financing shall be subject to the adoption by the Borrower of the Credit Regulations of the Program governing the making of the sub-loans by the Borrower to sub-borrowers under the Program (hereinafter referred to as the "Credit Regulations"), in terms previously agreed with the Bank. A draft of the Credit Regulations is attached to this Contract as Annex B.

SECTION 3.04 Reimbursement of Expenditures Chargeable to the Financing. With the consent of the Bank, the resources of the Financing may be used to reimburse expenditures incurred or to finance those that may be incurred in the Program on or after October 24, 2012, and up to the effective date of this Contract, provided that requirements substantially similar to those set forth in this Contract have been fulfilled.

SECTION 3.05 Periods for the Commitment and Disbursement of the Financing.

(a) The period for commitment of the resources of the Financing for credits in favor of the sub-borrowers of the Program shall expire four (4) years from the effective date of this Contract. Resources shall be considered to have been committed for a given sub-loan as of the date on which the Borrower and the respective sub-borrower have signed the respective contract.

(b) The period for final disbursement of the portion of the Financing which has been committed in accordance with paragraph (a) above shall expire six (6) years from the effective date of this Contract.

SECTION 3.06 Exchange Rate. For the purposes of the provisions set forth in Article 3.06 of the General Conditions of this Contract, the parties agree that the applicable exchange rate shall be that which is indicated in subsection (b) (ii) of said Article. For this purpose, the exchange rate to be applied will be that in effect on the day on which the Borrower makes the disbursement of the Loan resources to the sub-borrower to finance the sub-loans.

CHAPTER IV

Execution of the Program

SECTION 4.01 Utilization of the Resources of the Financing. (a) With the resources of the Financing, the Borrower may make sub-loans to be used to finance eligible public sector projects/programs in the IDA-eligible OECS countries³, currently Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines (“Eligible CDB Member Countries”) in accordance with this Contract and the Credit Regulations referred to in Section 3.03 above.

(b) The Borrower:

- (i) shall make sub-loans to at least two (2) of the Eligible CDB Member Countries with resources of the Financing;
- (ii) shall not make a sub-loan with the resources of the Financing which exceeds the equivalent of ten million dollars (US\$10,000,000), unless, on the basis of special circumstances, it obtains the prior written acceptance of the Bank; and
- (iii) shall not use more than the equivalent of twenty five percent (25%) of the Financing to finance loan operations that support policy reforms, such as Policy-Based Loan (PBL) operations.

(c) The Borrower shall on-lend the resources of the Financing to the sub-borrowers at terms that are comparable to the concessionality of the Financing. Each sub-loan shall have the following structure as to the portion corresponding to the resources of the Financing:

- (i) The resources of the Ordinary Capital Financing shall be on-lent by the Borrower as its OCR (Ordinary Capital Resources) with the corresponding terms and conditions (namely, loans with a 20-year maturity period, 5 years of grace period, and a variable interest rate);
- (ii) The resources of the Fund for Special Operations Financing shall be on-lent by the Borrower as a 38-year bullet loan with a 0.5% lending rate; and
- (iii) The portion of each sub-loan constituted by the resources of the Financing shall always be comprised of 70% of the resources of the Ordinary Capital Financing, and 30% of the resources of the Fund for Special Operations Financing.

3 Includes any of CDB borrowing OECS member countries that are IDA eligible from time to time, and which are not members of the IDB.

(d) Loan resources shall be allocated to the Eligible CDB Member Countries by prorating the proportions received by each such country under CDB's current Performance-Based Allocation (PBA) formula, except for any reallocation carried out in accordance with paragraph 2.03(d) of the Annex.

SECTION 4.02 Other Conditions of the Sub-loans. All sub-loans granted by the Borrower with the resources of the Financing shall include among the conditions required from each sub-borrower, at least the following:

(a) the commitment of the sub-borrower to use the proceeds of the sub-loans that are investment loans exclusively to acquire goods and services required for the execution of the respective sub-projects;

(b) the right of the Borrower and of the Bank to inspect the goods, sites, works and structures of the respective sub-project;

(c) the obligation of the sub-borrower to furnish all information that the Borrower may reasonably request of the sub-borrower with respect to the sub-project and the financial situation of the sub-borrower;

(d) the right of the Borrower to suspend disbursements of the sub-loan if the sub-borrower does not fulfill its obligations;

(e) the commitment of the sub-borrower to ensure that procurement of goods and services with sub-loan resources are carried out according to principles of efficiency and economy, at a reasonable cost, considering market price, quality, and any other pertinent factors;

(f) the commitment of the sub-borrower to comply with the environmental, social, health, safety and labor requirements set forth in paragraph 4.06 of the Annex, and in the Credit Regulations;

(g) in cases where the sub-borrower is not an Eligible CDB Member Country, the guaranty of the relevant Eligible CDB Member Country; and

(h) an undertaking by the sub-borrower to insure the goods purchased with the sub-loan, and to keep them insured, against the risks and for amounts consistent with normal commercial practices within the possibilities existing in the country.

SECTION 4.03 Assignment of Sub-loans. With respect to sub-loans granted from the resources of the Loan, the Borrower agrees to: (a) maintain them in its portfolio free of all encumbrances; and (b) request and obtain the prior approval of the Bank in cases in which it proposes to sell, assign or transfer them to third parties.

SECTION 4.04 Modification of Legal Provisions and Credit Regulations. In addition to the provisions of Article 6.01(b) of the General Conditions, the parties agree that written consent of the Bank shall be required for any change in the Credit Regulations.

SECTION 4.05 Use of Funds from Repayment of Sub-loans. Funds obtained from the repayment of sub-loans made from the resources of the Program, to the extent they accumulate in excess of the amounts required for the service of the Loan, shall be utilized for the making of new loans to Eligible CDB Member Countries.

SECTION 4.06 Environmental and Social Conditions. In the implementation of the Program, the Borrower shall comply with the requirements relating to environmental and social aspects; in particular, those described in these Special Conditions and in paragraphs 4.06, 4.07 and 5.01 of the Annex.

SECTION 4.07 Conditions concerning Procurement. The procurement of goods, works and services with resources of sub-loans will be carried out in accordance with applicable CDB policies and procedures; provided, however, that unrestricted participation of firms and individuals from member countries of the Bank is permitted. Consequently, no conditions shall be established in such procurement procedures or specific requirements that would prevent or restrict the offer of goods, works or services or the participation of contractors from such countries.

SECTION 4.08 “Ex post” evaluation report. The Borrower shall collect and maintain available information, indicators and parameters needed to carry out an “*ex post*” evaluation, if required, of the Program results, based on CDB’s standard policies, procedures and practices.

SECTION 4.09 Credit Regulations of the Program. The parties agree that the execution of the Program will be governed by the terms of this Contract and the provisions of the Credit Regulations referred to in Section 3.03 of these Special Conditions, provided that it may not be modified during the execution of the Program without the prior written consent of the Bank in accordance with Section 4.04 above. In case of inconsistencies or contradictions between the provisions of this Contract and those of the Credit Regulations, provisions of this Contract shall prevail.

CHAPTER V

Supervision

SECTION 5.01 Records, Inspections, and Reports. The Borrower agrees to maintain records, permit inspections, submit reports, maintain a financial information system and a structure of internal control acceptable to the Bank, including all information required to be delivered by the Borrower to the Bank pursuant to the provisions of paragraphs 4.07 of the Annex and the Credit Regulations, and submit audited financial reports to the Bank, in accordance with the provisions established in this Chapter and in Chapter VII of the General

Conditions. For purposes of this Contract, provisions set forth in Article 7.04(f) of the General Conditions will not be applicable.

SECTION 5.02 Financial Statements and Other Reports. The Borrower agrees to submit the following reports to the Bank:

(a) within one hundred eighty (180) days following the closing of each fiscal year of the Borrower and up to one (1) year following the date of the last disbursement of the Financing, the audited financial statements of the Borrower, duly audited by a firm of independent public accountants acceptable to the Bank; and

(b) during the disbursement period of the Financing, semi-annual progress reports, within sixty (60) days following the end of each Semester. The progress reports shall include financial reports on the overall disbursement of the Loan and status of the sub-loans under the Program.

CHAPTER VI

Miscellaneous Provisions

SECTION 6.01 Entry into Effect. The parties agree that this Contract shall enter into effect on the date of its signature.

SECTION 6.02 Termination. Payment in full of the Loan and of all interest and fees shall terminate this Contract and all obligations arising thereunder.

SECTION 6.03 Validity. The rights and obligations established in this Contract are valid and enforceable in accordance with its terms, regardless of the laws of any given country.

SECTION 6.04 Communications. Any notice, request, or communication from one party to another by virtue of this Contract shall be made in writing and shall be considered to have been made when the relevant document is delivered to the addressee at the respective address given below, unless the parties agree otherwise in writing:

For the Borrower:

Mailing address:

Caribbean Development Bank
Wilkey
St. Michael
Barbados, W.I.

Facsimile: (246) 426 7269

For the Bank:

Mailing address:

Inter-American Development Bank
1300 New York Avenue, N.W.
Washington, D.C. 20577
U.S.A.

Facsimile: (202) 623-3096

CHAPTER VII

Arbitration

SECTION 7.01 **Commitment to Arbitrate.** For the solution of any controversy which may arise out of this Contract and which is not resolved by agreement between the parties, they unconditionally and irrevocably submit themselves to the procedure and ruling of the Arbitration Tribunal referred to in Chapter IX of the General Conditions.

IN WITNESS WHEREOF, the Borrower and the Bank, each acting through its authorized representative, have signed this Contract, in two (2) equally authentic copies in Gros Islet, St. Lucia, on the date above written.

CARIBBEAN DEVELOPMENT BANK

INTER-AMERICAN DEVELOPMENT
BANK

/s/ Carla Barnett

/s/ Gerard S. Johnson

Dr. Carla Barnett, Vice-President (Operations)

Gerard S. Johnson
General Manager
Caribbean Country Department

PART TWO

GENERAL CONDITIONS

CHAPTER I

Application of the General Conditions

ARTICLE 1.01. **Application of the General Conditions.** These General Conditions apply to the Loan Contracts entered into by the Inter-American Development Bank with its Borrowers, and accordingly the provisions hereof form an integral part of this Contract.

CHAPTER II

Definitions

ARTICLE 2.01. **Definitions.** For the purposes of the obligations contracted between the parties, the following definitions are adopted:

(a) “Advance of Funds” means the amount of resources advanced by the Bank to the Borrower, chargeable to the resources of the Financing, to cover eligible expenditures of the Project, as provided in Article 4.08 of these General Conditions.

(b) “Bank” means the Inter-American Development Bank.

(c) “Bank Group” means the Bank, the Inter-American Investment Corporation and the Multilateral Investment Fund.

(d) “Board” means the Board of Executive Directors of the Bank.

(e) “Borrower” means the party to which the Financing is made available.

(f) “Closing Period” means a ninety (90)-day period from the date stipulated for the final disbursement of the Financing, in order to finalize pending payments to third parties, to present the final justification of expenditures made, to reconcile the books and records, and to reimburse to the Bank the resources disbursed from the Financing but not used and/or justified, as provided in Article 4.09 of these General Conditions.

(g) “Contract” means the entirety of the Special Conditions, the General Conditions and the Annexes.

(h) “Contracting Agency” means the entity with the legal capacity to sign the Contract for the Procurement of Works and Goods and the Selection and Contracting of Consultants with the Contractor, Supplier, Consulting Firm or Individual Consultant, as the case may be.

(i) “Convertible currency” or “currency of a country other than that of the Borrower” means any currency which is legal tender in a country other than that of the Borrower, the Special Drawing Rights of the International Monetary Fund, and any other unit which represents the debt service obligation of a borrowing by the Bank.

(j) “Cost of Single Currency Qualified Borrowings with a LIBOR Interest Rate” means the cost to the Bank of the Single Currency Qualified Borrowings with a LIBOR Interest Rate in the Single Currency of the Financing, expressed as a percentage per annum, as determined by the Bank.

(k) “Determination Date of the LIBOR Interest Rate for each Quarter” means the 15th day of the months of January, April, July and October of each calendar year. The LIBOR Interest Rate determined by the Bank on an Interest Rate Determination Date of the LIBOR for each Quarter shall apply retroactively to the first fifteen (15) days of the respective Quarter, and shall continue to apply through and including the last day of the Quarter.

(l) “Determination Date of the Fixed Base Rate” means the 15th day of the months of January, April, July and October of each calendar year, following the date in which the minimum amount of an automatic conversion between the greater of three million dollars (US\$3,000,000) or 25% of the net amount of the Financing (amount of the Financing minus cancellations) is reached.

(m) “Dollars” means dollars of the United States of America, unless otherwise stated.

(n) “Effective Date” means the date on which the Loan Contract acquires full legal validity pursuant to the provisions of Section 6.01 of the Special Conditions.

(o) “Executing Agency/Agencies” means the entity/entities responsible for executing all or part of the Project.

(p) “Financing” means the funds which the Bank has agreed to make available to the Borrower to assist in carrying out the Project and comprises the Ordinary Capital Financing and the Fund for Special Operations Financing.

(q) “Fixed Base Rate” means the market swap rate on the effective date of the LIBOR-Based Rate fixing.

(r) “Fixed Interest Rate” means: (i) the Fixed Base Rate, as defined in Article 2.01(q) of these General Conditions, plus (ii) the Ordinary Capital lending spread expressed in basis points (bps) which shall be periodically determined by the Bank.

(s) “Fund for Special Operations” means the Bank’s Fund for Special Operations.

(t) “Fund for Special Operations Financing” means the portion of the Financing chargeable to the Fund for Special Operations.

(u) “General Conditions” means the entirety of articles which comprise Part Two of this Contract and reflect the basic policies of the Bank uniformly applicable to its Loan Contracts.

(v) “Guarantor” means the party which guarantees the fulfillment of the obligations contracted by the Borrower and which assumes other obligations for which it is liable in accordance with the Guarantee Contract.

(w) “LIBOR Interest Rate” means in the case of Single Currency Facility Loans¹:

- (i) The LIBOR Interest Rate on an Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be “USD-LIBOR-BBA”, which is the rate for deposits in Dollars for a period of three (3) months that appears on the Telerate Page 3750 <LIBOR01> as of 11:00 a.m., London time, on the day that is two (2) London Banking Days preceding that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter. If such rate does not appear on the Telerate Page 3750 <LIBOR01>, the rate for that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be determined as if the parties had specified "USD-LIBOR-Reference Banks" as the applicable LIBOR Interest Rate.
- (ii) “USD-LIBOR-Reference Banks” means that the rate for an Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be determined on the basis of the rates at which deposits in Dollars are offered by the Reference Banks at approximately 11:00 a.m., London time, on the day that is two (2) London Banking Days preceding that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter to prime banks in the London interbank market for a period of three (3) months commencing on that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter and in a Representative Amount. The Calculation Agent or Agents utilized by the Bank will request the principal London office of each of the Reference Banks to provide a quotation of its rate. If at least two (2) quotations are provided, the rate for that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be the arithmetic mean of the quotations. If fewer than two (2) quotations are provided as requested, the rate for that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be the arithmetic mean of the rates quoted by major banks in New York City, selected by the Calculation Agent or Agents utilized by the Bank, at approximately 11:00 a.m., New York City time, on that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter for loans in Dollars to leading European

¹ Any capitalized terms used in paragraph (w) of Article 2.01 and not otherwise defined herein shall have the meaning assigned to them in the 2000 ISDA Definitions as published by the International Swaps and Derivatives Association, Inc., as amended and supplemented from time to time, which are hereby incorporated by reference.

banks for a period of three (3) months commencing on that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter and in a Representative Amount. If more than one Calculation Agent provides an interest rate to the Bank as a result of the procedure described above, the Bank will determine, in its own discretion, the applicable LIBOR Interest Rate for each Quarter for the Interest Rate Determination Date, based on the interest rates received from the Calculation Agents. For purposes of the foregoing provision, if the Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter is not a Banking Day in New York City, the rates quoted on the first day immediately thereafter which is a Banking Day in New York City shall be utilized.

- (x) “Loan” means the funds disbursed from the Financing.
- (y) “Official Auditing Authority” means the Borrower’s official auditing authority.
- (z) “Ordinary Capital Financing” means the portion of the Financing chargeable to the Single Currency Facility.
- (aa) “Prohibited Practices” means the act(s) defined in Article 5.03 of these General Conditions.
- (bb) “Project” means the Program or Project for which the Financing has been extended.
- (cc) “Quarter” means each of the following three-month (3-month) periods of the calendar year: the period beginning on January 1 and ending on March 31; the period beginning on April 1 and ending on June 30; the period beginning on July 1 and ending on September 30; and the period beginning on October 1 and ending on December 31.
- (dd) “Semester” means the first or second six months of a calendar year.
- (ee) “Single Currency” means any convertible currency which the Bank has selected for lending under the Ordinary Capital Financing and the Fund for Special Operations Financing.
- (ff) “Single Currency Facility” means the facility the Bank has established to lend in certain convertible currencies which the Bank selects from time to time.
- (gg) “Single Currency Qualified Borrowings” for borrowings denominated in any Single Currency means either: (i) from the date that the first Loan in such Single Currency is approved by the Bank's Board, resources of such Single Currency's transitional stabilization mechanism and borrowings of the Bank in such Single Currency that are assigned to fund loans in such Single Currency under the Single Currency Facility; or (ii) beginning on the first day of the seventh Semester following the above-mentioned date, borrowings of the Bank that are assigned to fund loans in such Single Currency under the Single Currency Facility.

(hh) “Special Conditions” means the entirety of the provisions which comprise Part One of this Contract and contain the particular terms of the operation.

CHAPTER III

Amortization, Interest and Credit Fee

ARTICLE 3.01. Dates of Payment of Amortization and Interest. (a) **Ordinary Capital Financing.** The Borrower shall amortize the portion of the Loan disbursed against the Ordinary Capital Financing in semiannual, consecutive, and, insofar as possible, equal installments on the same dates as those determined in accordance with Section 2.02(c) of the Special Conditions for payment of interest.

(b) **Fund for Special Operations Financing.** The Borrower shall amortize the portion of the Loan disbursed against the Fund for Special Operations Financing in one installment payable on the date set forth in Section 2.01(c) of the Special Conditions.

(c) If the date of signature of the Loan Contract falls between June 15 and 30 or between December 15 and 31, the dates for the payment of interest shall be June 15 and December 15, as the case may be.

ARTICLE 3.02. Credit Fee. (a) **Ordinary Capital Financing.** The Borrower shall pay on the undisbursed balance of the Ordinary Capital Financing a credit fee, which shall begin to accrue sixty (60) days after the date of signature of the Contract. The amount of said fee shall be as indicated in the Special Conditions and under no circumstance may exceed 0.75% per annum. The fee shall be payable in dollars, on the same dates as those specified for the payment of interest pursuant to the provisions of the Special Conditions.

(b) The credit fee shall cease to accrue in full or in part, as the case may be, to the extent that: (i) the respective disbursements have been made; or (ii) the Financing has been cancelled totally or partially pursuant to Articles 3.14, 3.15, 4.02 or 5.02 of these General Conditions and the relevant provisions of the Special Conditions.

(c) **Fund for Special Operations Financing.** The Borrower shall not pay a credit fee with respect to the Fund for Special Operations Financing.

ARTICLE 3.03. Computation of Interest and Credit Fee. The interest and credit fee shall be calculated according to the exact number of days in the respective Semester.

ARTICLE 3.04. Interest. (a) **Ordinary Capital Financing.** (1) Interest shall be charged on the daily outstanding balances of the Loan until the Determination Date of the Fixed Base Rate, at an annual rate for each Quarter as determined by the Bank on the Determination Date of the LIBOR-Based Interest Rate for each Quarter, calculated as follows: (i) the respective LIBOR Interest Rate as defined in Article 2.01(w) of these General Conditions; (ii) plus or minus a cost margin computed quarterly as the weighted average of all the cost margins to the Bank related to the borrowings assigned to the pool of Bank borrowings which funds the Single Currency

Facility Loans with a LIBOR-Based Interest Rate; (iii) plus the Ordinary Capital lending spread prevailing on the Determination Date of the LIBOR-Based Interest Rate for each Quarter, expressed as a percentage per annum.

(2) From the Determination Date of the Fixed Base Rate, interest shall be charged on the daily outstanding balances of the Loan at an annual fixed rate as determined by the Bank on the Determination Date of the Fixed Base Rate, calculated as follows: (i) the respective Fixed Base Rate as defined in Article 2.01(q) of these General Conditions; (ii) plus the Ordinary Capital lending spread prevailing on the Determination Date of the LIBOR-Based Interest Rate for each Quarter, expressed as a percentage per annum. The Bank shall promptly notify the Borrower of the Fixed Base Rate upon its determination, according to Article 2.01(l) of these General Conditions.

(3) The Borrower and Guarantor expressly acknowledge and agree that: (i) the LIBOR Interest Rate referred to in Article 3.04(a)(1)(i) above, and the cost margin of the Bank borrowings referred to in Article 3.04(a)(1)(ii) above, may be subject to significant fluctuations during the life of the Loan and, therefore, the LIBOR-Based Interest Rate may involve significant financial risks to the Borrower and the Guarantor; and (ii) any risk of fluctuations in the LIBOR-Based Interest Rate for Single Currency Facility loans is assumed entirely by the Borrower and the Guarantor, if applicable.

(4) Whenever, in light of changes in market practice affecting the determination of the LIBOR-Based Interest Rate for Single Currency Facility loans, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rate applicable to the Loan other than as provided in Article 3.04(a)(1) above, the Bank may modify the basis for determining the interest rate applicable to the Loan upon not less than three (3) months' notice to the Borrower and the Guarantor of the new basis. The new basis shall become effective on the expiration of the notice period unless the Borrower or the Guarantor notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

(b) **Fund for Special Operations Financing.** The interest rate chargeable to the portion of the Loan disbursed against the Fund for Special Operations Financing shall be 0.25% per annum.

ARTICLE 3.05. Currency Obligations. All payments of amortization and interest shall be made in the Single Currency disbursed.

ARTICLE 3.06. Rate of Exchange. (a) The rate of exchange to be used to determine the equivalency of the currency of the Borrower's country, in relation to dollars, shall be as follows:

- (i) The rate of exchange pursuant to the understanding in force between the Bank and the respective member country for the purposes of maintaining the value of the currency in conformity with the provisions of Article V, Section 3 of the Agreement Establishing the Bank.

- (ii) Should there be no agreement in force between the Bank and the respective member country with regard to the rate of exchange to be applied for the purpose of maintaining the value of its currency held by the Bank, the latter shall have the right to require that the rate of exchange to be applied for the purposes of payment of amortization and interest shall be that which on the due date is utilized by the Central Bank of the member country or by the corresponding monetary authority to sell dollars to residents of such country, other than government agencies, for the following transactions: (a) payment of principal and interest due; (b) remittance of dividends or other income from capital investments in the respective country; and (c) remittance of investment capital. In the event that there is no uniform rate of exchange for these three types of operations, the highest rate shall be applied, i.e., the rate representing the highest number of units of the currency of such country per dollar.
- (iii) If, on the date on which the payment is due, the foregoing rule cannot be applied because the operations referred to do not exist, payment shall be made on the basis of the most recent rate of exchange used for such operations within the thirty (30) days preceding the respective due date.
- (iv) If, notwithstanding the application of the foregoing rules, the effective rate of exchange for the purpose of determining payment cannot be ascertained, or if discrepancies arise in the determination thereof, the determination of the Bank shall prevail, taking into consideration the realities of the foreign exchange market of the member country concerned.
- (v) If, due to non-compliance with the foregoing rules, the Bank considers that any payment made in the respective currency has been insufficient, it shall so notify the Borrower immediately in order that the latter shall pay the difference within a period not greater than thirty (30) business days from receipt of the notification. If, on the other hand, the sum received by the Bank is higher than that due, it shall return the excess amount within the same time period.
- (vi) In case of a delayed payment the Bank may require that the rate of exchange in effect at the time of payment be applied.

(b) For the purpose of determining the equivalency in dollars of an expenditure incurred in the currency of the Borrower's country, one of the following rates of exchange shall be used, in accordance with the provisions set forth in the Special Conditions of this Contract and pursuant to paragraph (a) of this Article: (i) the same exchange rate used in the conversion of the resources disbursed in dollars of the United States of America to the currency of the Borrower's country. In this case, for purposes of the reimbursement of expenditures chargeable to the Financing and the recognition of expenditures chargeable to the local counterpart, the applicable exchange rate shall be the prevailing exchange rate on the date on which the request is

presented to the Bank; or (ii) the prevailing exchange rate in force in the Borrower's country on the effective date of the payment of the expenditure in the currency of the Borrower's country.

ARTICLE 3.07. Valuation of Convertible Currencies. Whenever it shall be necessary pursuant to this Contract to determine the value of a currency of a country other than that of the Borrower in terms of another currency, such value shall be as reasonably determined by the Bank.

ARTICLE 3.08. Participations. (a) The Bank may cede to other public or private institutions, in the form of participations, the rights corresponding to the Borrower's pecuniary obligations under this Contract. The Bank shall promptly notify the Borrower of each assignment.

(b) Participations may be granted in respect of either of the following: (i) amounts of the Loan disbursed prior to execution of the participation agreement; or (ii) amounts of the Financing which are still undisbursed at the time of the participation agreement's execution.

ARTICLE 3.09. Application of Payments. All payments shall be applied first to returns of unjustified advances of funds, then to fees and interest due on the payment date, and if a balance exists, to the amortization of installments of principal due.

ARTICLE 3.10. Advance Payments. (a) Pursuant to an irrevocable request in writing to the Bank, accompanied by the written consent of the Guarantor, if any, at least thirty (30) days in advance, the Borrower may prepay, on one of the amortization payment dates, all or part of the outstanding balance of the Loan, provided that on the payment date no sum is due and outstanding in respect of fees or interest. The Borrower shall specify in the notice the amount the Borrower intends to prepay.

(b) Each partial advance payment shall be applied to the portion of the Loan disbursed against the Ordinary Capital Financing and the portion of the Loan disbursed against the Fund for Special Operations Financing in the same proportion that each represents of the total Financing. The part of the partial advance allocated to the Ordinary Capital Financing shall be applied *pro rata* to each unpaid installment of principal. The Borrower may not prepay the outstanding balance of a Loan disbursed against the Ordinary Capital Financing in an amount lower than three million dollars (US\$3,000,000), unless the remaining outstanding balance of the Loan is lower than that amount. The part of the partial advance allocated to the Fund for Special Operations Financing shall be applied against the single amortization installment.

(c) Notwithstanding the provisions of sub-paragraph (b) above, in cases of partial or total prepayment of the outstanding balance of the Loan disbursed against the Ordinary Capital Financing, any gain or loss resulting from the cancellation or change of the Bank's funding associated with the corresponding prepayment will be either credited or charged by the Bank to the Borrower, as the case may be, within thirty (30) days from the date of prepayment. In the event of any gain, it will be credited first to any amounts due and payable by the Borrower to the Bank. The Bank shall also charge the Borrower any cost the Bank may incur as a result of failure on the part of the Borrower to comply with a partial or total prepayment of the outstanding

balance of the Loan as previously requested in writing by the Borrower, in accordance with the provisions of this Article.

ARTICLE 3.11. Receipts. At the request of the Bank, the Borrower shall sign and deliver to the Bank, upon the completion of disbursements, a receipt or receipts for the amounts disbursed. Likewise, the Borrower shall sign and deliver to the Bank, at its request, promissory notes or other negotiable instruments representing the Borrower's obligation to repay the Loan with the interest agreed upon in the Contract. Such documents shall be in the form prescribed by the Bank taking into account the applicable legal provisions of the country of the Borrower.

ARTICLE 3.12. Transactions Falling Due on Public Holidays. Any payment or other transaction which, pursuant to this Contract, should be effected on Saturday, Sunday or a day which is a banking holiday according to the law of the place where it is required to be made, shall be considered validly effected if carried out on the first business day immediately thereafter, and in such case no penalty whatsoever shall apply.

ARTICLE 3.13. Place of Payments. All payments shall be made at the principal office of the Bank in Washington, District of Columbia, United States of America, unless the Bank designates another place or places for this purpose by written notification to the Borrower.

ARTICLE 3.14. Renunciation of Part of the Financing. The Borrower, with the concurrence of the Guarantor, if any, may renounce, by written notice to the Bank, its right to utilize any amount of the Financing which has not been disbursed before the receipt of the notice, provided that the amounts foreseen in Article 5.04 of these General Conditions are not involved. The renunciation shall be deemed to have been made in respect of the Ordinary Capital Financing and the Fund for Special Operations Financing, and shall be applied in the same proportion that each represent, of the total amount of the Financing.

ARTICLE 3.15. Automatic Cancellation of Part of the Financing. Unless the Bank and the Borrower and the Guarantor, if any, expressly agree in writing to extend the term for making disbursements, that portion of the Financing not committed or disbursed, as the case may be, within the corresponding term, shall automatically be canceled.

CHAPTER IV

Conditions Relating to Disbursements

ARTICLE 4.01. Conditions Precedent to First Disbursement. The first disbursement of the Financing shall be subject to fulfillment of the following requirements to the satisfaction of the Bank:

(a) The Bank shall have received one or more well-founded legal opinions which establish, with citations of the pertinent constitutional, legal, and regulatory provisions, that the obligations undertaken by the Borrower in this Contract, and those of the Guarantor, if any, in the Guarantee Contract, are valid and enforceable. Such opinions shall also refer to any other legal question that the Bank may reasonably deem relevant.

(b) The Borrower, directly or through the Executing Agency, if any, shall have designated one or more officials to represent it in all acts relating to the implementation of this Contract and shall have furnished the Bank with authentic copies of the signatures of said representatives. Should two or more officials be designated, the designation shall indicate whether such officials may act separately or must act jointly.

(c) The Borrower, either directly or through the Executing Agency, as the case may be, shall have presented to the Bank an initial report prepared in the form indicated by the Bank, which in addition to such other information as the Bank may reasonably request pursuant to the provisions of this Contract, shall set forth: (i) a plan for implementation of the Project including, except with respect to a program for the granting of credits, the plans and specifications deemed necessary by the Bank; (ii) a calendar or schedule of work or granting of credits, as the case may be; (iii) a table of the source and use of funds setting forth a detailed schedule of investments in accordance with the categories of investment established in this Contract and an indication of the annual contributions needed from the various sources of funds from which the Project will be financed; and (iv) the content that the progress reports referred to in Article 7.03 of these General Conditions shall have. If this Contract permits the recognition of expenditures made prior to its entry into effect, the initial report shall include a statement of the investments and, in accordance with the objectives of the Financing, a description of works carried out under the Project or a statement as to credits granted, as the case may be, up to a date immediately preceding the report.

(d) The Borrower or Executing Agency shall have demonstrated to the Bank that it has an adequate financial information system and internal control structure for the purposes indicated in this Contract.

ARTICLE 4.02. Period for Fulfilling the Conditions Precedent to First Disbursement.

If within one hundred eighty (180) days from the effective date of this Contract, or within such longer period as the parties may agree in writing, the conditions precedent to the first disbursement established in Article 4.01 of these General Conditions and in the Special Conditions have not been fulfilled, the Bank may terminate this Contract by giving notice to the Borrower.

ARTICLE 4.03. Requisites for All Disbursements. For the Bank to make any disbursement, it shall be necessary that: (a) the Borrower, or the Executing Agency, as the case may be, shall have submitted in writing, or by electronic means in such form and conditions as may be specified by the Bank, a disbursement request and, in support thereof, shall have supplied to the Bank such pertinent documents and other background materials as the Bank may have required; (b) the Borrower or the Executing Agency, as the case may be, shall have opened and maintains one or more bank accounts in a financial institution to which the Bank shall make the disbursements of the Financing; (c) unless the Bank otherwise agrees, disbursement requests must be presented no later than thirty (30) calendar days in advance of the date of expiration of the term for disbursement or of any extension thereof which the Borrower and the Bank may have agreed to in writing; (d) none of the circumstances described in Article 5.01 of these General Conditions shall have occurred; and (e) the Guarantor, if any, shall not be in non-compliance for more than one hundred twenty (120) days with any obligation to make payments to the Bank on any Loan or Guarantee.

ARTICLE 4.04. Application of Disbursed Amounts. The Bank shall calculate the percentage that each of the Ordinary Capital Financing and the Fund for Special Operations Financing represent of the total Financing and shall charge each disbursement to the Ordinary Capital and the Fund for Special Operations in the respective proportion.

ARTICLE 4.05. Disbursements for Technical Cooperation. If the Special Conditions contemplate the Financing of expenses for technical cooperation, the disbursements therefore may be made once the conditions established in Article 4.01(a) and (b) and in Article 4.03 of these General Conditions have been fulfilled.

ARTICLE 4.06. Disbursement Procedures. The Bank may make disbursements against the Financing: (a) by transferring to the Borrower the sums to which it is entitled under this Contract, under the modality of reimbursement of expenses and/or Advances of Funds; (b) by making payments on behalf of and in agreement with the Borrower to third parties; (c) by utilizing such other modality as the parties may agree upon in writing. Any banking expenses that may be charged by a third party in connection with disbursements shall be borne by the Borrower. Unless the parties agree otherwise, disbursements shall be made only in amounts of not less than the equivalent of one hundred thousand dollars of the United States of America (US\$100,000) each.

ARTICLE 4.07. Reimbursement of Expenditures. (a) With resources of the Financing and upon fulfillment of the requirements set forth in Articles 4.01 and 4.03 of these General Conditions and the pertinent requirements established in the Special Conditions, the Bank may disburse resources of the Financing to reimburse the Borrower and/or the Executing Agency, as the case may be, for expenditures related to the execution of the Project that are eligible to be financed with resources of the Financing, pursuant to the provisions of this Contract.

(b) Except by express agreement between the parties, the disbursement requests for reimbursing expenditures financed by the Borrower and/or Executing Agency, as the case may be, in accordance with paragraph (a) above, shall be made promptly following the incurrence of such expenses, or not later than sixty (60) days following the conclusion of each Semester or within such other term as the parties may agree.

ARTICLE 4.08. Advance of Funds. (a) Provided that the requirements of Articles 4.01 and 4.03 of these General Conditions and those which may be established in the Special Conditions have been fulfilled, the Bank may disburse resources from the Financing as an Advance of Funds to the Borrower or the Executing Agency, as the case may be, to cover eligible expenditures related to the execution of the Project, in accordance with the provisions of this Contract.

(b) The maximum amount of each Advance of Funds shall be set by the Bank on the basis of the liquidity needs of the Project to cover periodic projected expenditures, in accordance with paragraph (a) above. At no time may the maximum amount of an Advance of Funds exceed the amount required to finance such expenditures, during a period of up to six (6) months, in accordance with the investment schedule and the cash flow required to meet such purpose and

the capacity demonstrated by the Borrower or the Executing Agency, as the case may be, to use the resources of the Financing.

(c) The Bank may: (i) increase the maximum amount of an Advance of Funds when immediate cash flow needs that merit such increase arise, upon presentation of a request duly justified and accompanied by a statement of projected expenditures for the execution of the Project during the corresponding Advance of Funds period in effect; or (ii) make a new Advance of Funds on the basis of the provisions contained in paragraph (b) above, provided that at least eighty percent (80%) of the total amount of resources disbursed as an Advance of Funds has been justified. The Bank may take any of the above-mentioned actions, provided that the requirements of Articles 4.01 and 4.03 of these General Conditions and those which may be established in the Special Conditions have been fulfilled.

(d) The Bank may also reduce or cancel the total aggregate balance of any Advance or Advances of Funds should the Bank determine that the disbursed resources of the Financing have not been used and/or have not been justified to the Bank sufficiently and on a timely basis, in accordance with the provisions of this Contract.

ARTICLE 4.09. Closing Period. The Borrower or the Executing Agency, as the case may be, shall: (a) present to the Bank's satisfaction, within a period of ninety (90) days from the date stipulated for the final disbursement of the Financing, the supporting documentation relating to expenditures made for the execution of the Project, and any other information that the Bank may have requested; and (b) return to the Bank, at the latest on the day of expiration of the Closing Period, the balance of disbursed resources of the Financing that has not been duly justified. If audit services are to be financed with resources of the Financing, and such services will not be concluded or billed prior to the expiration of the Closing Period referred to in section (a) above, the Borrower or the Executing Agency, as the case may be, shall inform and reach agreement with the Bank as to the way in which payment for such services will take place, and shall return to the Bank the resources of the Financing allotted for such purpose, should the Bank not receive the audited financial statements and/or audited financial reports within the periods stipulated in this Contract.

ARTICLE 4.10. Availability of Local Currency. The Bank shall be obliged to make disbursements to the Borrower in local currency only to the extent that the respective depository of the Bank has placed such currency at its effective disposition.

CHAPTER V

Suspension of Disbursements, Accelerated Maturity and other Dispositions

ARTICLE 5.01. Suspension of Disbursements. The Bank, by written notice to the Borrower, may suspend disbursements if any of the following circumstances occurs and so long as it continues:

(a) Delay in the payment of any sums owed by the Borrower to the Bank for principal, fees, interest, return of Advances of Funds or for any other reason, under this Contract or any other Loan Contract entered into between the Bank and the Borrower.

(b) Nonfulfillment by the Borrower of any other obligation set forth in this Contract or in any other Contract entered into with the Bank for the Financing of the Project.

(c) Withdrawal or suspension from membership in the Bank of the country in which the Project is to be executed.

(d) The Project or the purposes of the Financing may be affected by: (i) any restriction, modification or alteration of the legal capacity, functions or assets of the Borrower or the Executing Agency; or (ii) any modification or change made without the written concurrence of the Bank of the basic conditions fulfilled before the approval of the Resolution authorizing the Financing or the signature of the Contract. In such cases, the Bank will have the right to require the Borrower and the Executing Agency to provide reasoned and detailed information. Only after hearing the Borrower or the Executing Agency and weighing the information or clarification received, or if the Borrower and the Executing Agency fail to respond, may the Bank suspend disbursements if it considers that the modifications made affect the Project substantially and unfavorably or make its execution impossible.

(e) The non-compliance on the part of the Guarantor, if any, of any obligation set forth in the Guarantee Contract.

(f) When the Borrower is not a member country, any extraordinary circumstance which, in the opinion of the Bank, makes it unlikely that the Borrower will be able to comply with the obligations established in this Contract or to fulfill the purposes for which it was entered into.

(g) If it is determined, in accordance with the sanctions procedures of the Bank, that an employee, agent, or representative of the Borrower, Executing Agency or Contracting Agency, has engaged in a Prohibited Practice during the procurement process or during the execution of a contract.

ARTICLE 5.02. Termination, Accelerated Maturity or Partial Cancellation of Undisbursed Balances.

(a) The Bank may terminate this Contract with respect to the part of the Financing not yet disbursed or may declare the entire loan or a portion thereof immediately due and payable, together with interest and fees accrued up to the date of payment if: (i) any of the circumstances set forth in paragraphs (a), (b), (c) and (e) of the preceding article continues for more than sixty (60) days; or (ii) the information referred to in paragraph (d) of the preceding article, or the clarifications or additional information presented by the Borrower or the Executing Agency, if any, are not satisfactory to the Bank. If the Bank declares a portion of the loan immediately due and payable, payment received by the Bank shall be applied to the portion of the Loan disbursed against the Ordinary Capital Financing and the portion of the Loan disbursed against the Fund for Special Operations Financing, in the same proportion that each represents of the total Financing. The payment allocated to the Ordinary Capital Financing shall be applied

pro rata to each unpaid installment of principal. The payment allocated to the Fund for Special Operations Financing shall be applied against the single amortization installment.

(b) The Bank may cancel the undisbursed portion of the Financing or accelerate repayment of that part of the Financing earmarked for a contract, when it is determined in accordance with the sanctions procedures of the Bank, that a firm, entity or individual bidding for or participating in an activity financed by the Bank, including, *inter alia*, applicants, bidders, suppliers, contractors, consulting firms and individual consultants, personnel, subcontractors, sub-consultants, service providers or suppliers, concessionaires, the Borrower, the Executing Agency or the Contracting Agency (including their respective officers, employees and agents, irrespective of whether the agency is express or implied) has engaged in a Prohibited Practice at any stage of the procurement or implementation of a contract; and that there is evidence that the Borrower, the Executing Agency or the Contracting Agency has not taken adequate remedial measures (including, *inter alia*, providing adequate notice to the Bank upon learning of the Prohibited Practice) within a period of time the Bank considers reasonable.

(c) The Bank may also cancel the undisbursed portion of the Financing or accelerate the maturity of that part of the Financing pertaining to the procurement of certain goods, works or related services, or consulting services, if it determines at any time that the procurement was carried out without following the procedures set forth in this Contract. Any cancellation shall be deemed made with respect to the Ordinary Capital Financing and the Fund for Special Operations Financing, in the percentage that each represents of the total amount of the Financing.

ARTICLE 5.03. Prohibited Practices. (a) For the purposes of this Contract, a “Prohibited Practice” shall be understood to include the following acts: (i) a “corrupt practice”, is the offering, giving, receiving, or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party; (ii) a “fraudulent practice”, is any act or omission, including a misrepresentation that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation; (iii) a “coercive practice”, is impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party; (iv) a “collusive practice”, is an arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party; and (v) an “obstructive practice” is (A) deliberately destroying, falsifying, altering or concealing evidence material to the investigation or making false statements to investigators in order to materially impede a Bank Group investigation into allegations of a corrupt, fraudulent, coercive or collusive practice; and/or threatening, harassing or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation, or (B) acts intended to materially impede the exercise of the Bank’s inspection and audit rights provided for under Articles 7.01(c), 7.02(e) and 7.04(g) of these General Conditions.

(b) In addition to the provisions established in Articles 5.01(g) and 5.02(b) of these General Conditions, if it is determined in accordance with the sanctions procedures of the Bank, that a firm, entity or individual bidding for or participating in an activity financed by the Bank, including, *inter alia*, applicants, bidders, suppliers, contractors, consulting firms and individual consultants, personnel, subcontractors, sub-consultants, service providers, concessionaires, the

Borrower, the Executing Agency or the Contracting Agency (including their respective officers, employees and agents, irrespective of whether their authority has been formally or implicitly granted) has engaged in a Prohibited Practice at any stage during the procurement process or during the execution of a contract, the Bank may:

- (i) not finance any proposal to award a contract for works, goods and related services or for consultant services;
- (ii) determine that a contract will not be eligible for Bank financing whenever there is evidence that the Borrower, the Executing Agency or the Contracting Agency has not taken adequate remedial measures (including, *inter alia*, providing adequate notice to the Bank upon learning of the commission of the Prohibited Practice) within a period of time the Bank considers reasonable;
- (iii) issue the firm, entity or individual a reprimand in the form of a formal letter of censure for its behavior;
- (iv) declare that a firm, entity or individual is ineligible, either permanently or for a stated period of time, to (A) be awarded or participate in contracts under activities financed by the Bank; and (B) be a nominated sub-consultant, sub-contractor, supplier or service provider of an otherwise eligible firm being awarded a Bank-financed contract;
- (v) refer the matter to appropriate law enforcement authorities; and/or
- (vi) impose other sanctions that it deems to be appropriate under the circumstances, including the imposition of fines representing reimbursement to the Bank for costs associated with investigations and proceedings. Such other sanctions may be imposed in addition to or in lieu of other sanctions set forth in Article 5.01(g), Article 5.02(b) and Article 5.03(b)(i) to (v).

(c) The provisions of Article 5.01(g) and Article 5.03(b)(i) will also be applicable in cases where firms, entities or individuals have been declared temporarily ineligible for the awarding of additional contracts pending the final outcome of a sanction proceeding, or other resolution.

(d) The imposition of any action to be taken by the Bank pursuant to the provisions referred to above will be made public.

(e) Any firm, entity or individual bidding for or participating in an activity financed by the Bank, including, *inter alia*, applicants, bidders, suppliers, contractors, consulting firms and individual consultants, personnel, subcontractors, sub-consultants, service providers, concessionaires, the Borrower, the Executing Agency or the Contracting Agency (including their respective officers, employees and agents, (irrespective of whether the agency is express or implied) may be subject to sanctions pursuant to agreements the Bank may have with other

international financial institutions regarding the mutual enforcement of debarment decisions. For purposes of this paragraph (e) the term “sanction” shall mean any permanent debarment, conditions on future contracting or any publicly-disclosed action taken in response to a violation of an international financial institution’s applicable framework for addressing allegations of Prohibited Practices.

(f) When a Borrower procures works, goods or related services directly from a specialized agency or hires a specialized agency to provide consulting services using resources of the Financing, under an agreement between the Borrower and such specialized agency, all provisions under this Contract regarding sanctions and Prohibited Practices shall apply in their entirety to applicants, bidders, suppliers, contractors, consulting firms or individual consultants, personnel, sub-contractors, sub-consultants, service providers, concessionaires (including their respective officers, employees and agents, irrespective of whether the agency is express or implied), or to any other entities that have signed contracts with such specialized agency to supply works, goods and related services, in connection with the Bank-financed activities. The Bank reserves the right to require the Borrower to invoke remedies such as suspension or termination. The Borrower agrees that contracts with specialized agencies shall include provisions requiring them to consult the Bank’s list of firms and individuals debarred, either temporarily or permanently by the Bank. In the event a specialized agency signs a contract or purchase order with a firm or an individual temporarily or permanently debarred by the Bank, the Bank will not finance the related expenditures and will apply other remedies as appropriate.

ARTICLE 5.04. Obligations not Affected. Notwithstanding the provisions of the foregoing Articles 5.01 and 5.02, none of the measures set forth in this Chapter shall affect the disbursement by the Bank of: (a) any amounts subject to the guarantee of an irrevocable letter of credit; and (b) any amounts which the Bank by specific written agreement with the Borrower or the Executing Agency, or the Contracting Agency, if any, has agreed to provide from the resources of the Financing to make payments to a contractor, or to a supplier of goods and related services or consultant services. The exceptions set forth in subparagraph (b) shall not apply if the Bank determines that Prohibited Practices occurred with respect to the procurement of, or the negotiation or execution of the contract for, the works, goods and related services or consultant services.

ARTICLE 5.05. Non-waiver of Rights. Any delay by the Bank in the exercise of its rights pursuant to this Contract, or failure to exercise them, shall not be construed as a waiver by the Bank of any such rights nor as acquiescence in events or circumstances which, had they occurred, would have empowered it to exercise them.

ARTICLE 5.06. Provisions not Affected. The application of any of the measures provided for by this Chapter shall not affect the obligations of the Borrower established in this Contract, which shall remain in full force and effect, except that in case the entire Loan has been declared due and payable, only the pecuniary obligations of the Borrower shall continue in force.

CHAPTER VI

Execution of the Project

ARTICLE 6.01. General Provisions for Execution of the Project. (a) The Borrower undertakes that the Project shall be executed with due diligence in conformity with sound financial and technical practices, and in accordance with the plans, specifications, investment schedule, budgets, regulations, and other documents approved by the Bank. The Borrower further undertakes that its obligations shall be fulfilled to the satisfaction of the Bank.

(b) Any important modification in the plans, specifications, investment schedule, budgets, regulations or other documents which the Bank has approved, as well as any substantial change in the contract or contracts for goods or services which may be funded with the resources devoted to the execution of the Project, or in the categories of investment, shall require the written consent of the Bank.

ARTICLE 6.02. Prices of Public Tenders. Contracts for execution of works, procurement of goods, and rendering of services for the Project shall be undertaken at a reasonable cost which shall generally be the lowest market price, taking into account quality, efficiency, and any other pertinent factors.

ARTICLE 6.03. Use of Goods. Except with the express authorization of the Bank, the goods acquired with the resources of the Financing shall be used exclusively for the purposes of the Project. Once the Project has been completed, the construction machinery and equipment utilized in the execution of the Project may be used for other purposes.

ARTICLE 6.04. Additional Resources. (a) The Borrower shall contribute in a timely manner all of the resources in addition to those of the Loan which may be necessary for the complete and uninterrupted execution of the Project. If during the process of disbursement of the Financing an increase in the estimated cost of the Project takes place, the Bank may require the modification of the investment schedule referred to in Article 4.01(c) of these General Conditions such that the Borrower shall meet such increase.

(b) Within the first sixty (60) days of each calendar year of Project execution, the Borrower shall demonstrate to the Bank that it will have available when needed, the resources necessary to make the local contribution during the respective year, if any.

CHAPTER VII

Financial Information and Internal Control Systems, Inspections, Reports and External Audits

ARTICLE 7.01. Financial Information and Internal Control Systems. (a) The Borrower or the Executing Agency, or the Contracting Agency, as the case may be, shall maintain: (i) a financial information system acceptable to the Bank that enables accounting, budgetary and financial record-keeping, as well as the issuance of financial statements and other reports related to the resources of the Financing and other financial sources, as the case may be; and (ii) an

internal control structure that enables effective Project management; provides reliability regarding the financial information and the physical, magnetic and electronic records and files; and enables the fulfillment of the provisions of this Contract.

(b) The Borrower or the Executing Agency, or the Contracting Agency, as the case may be, shall preserve the original records of the Project for a minimum period of three (3) years after the date agreed upon for the final disbursement of the Financing, in such a way as to: (i) make possible the identification of the sums received from the different sources; (ii) show, in accordance with the financial information system approved by the Bank, the investments in the Project, financed both with the resources of the Loan and with the other funds to be provided for its complete execution; (iii) include sufficient detail to show the works performed, goods procured and services contracted, as well as the utilization of such works, goods and services; and (iv) provide evidence as to conformity in the acceptance, authorization and payments for the purchase or contracted works, goods and services; (v) maintain documentation relating to the bidding process and the execution of the contracts financed by the Bank and other financial sources, including, but not limited to, bid requests, bid packages, summaries, bid evaluations, contracts, correspondence, work product and drafts, invoices, certificates and acceptance reports, and receipts, including documents relating to the payment of commissions, and payments to agents, consultants and contractors; and (vi) show the cost of the investments in each category and the physical and financial progress of the works, goods and services. With respect to credit programs, the records shall also detail the credits granted, the recoveries obtained, and the utilization of the funds recovered.

(c) The Borrower agrees that all bidding documents, requests for proposals and contracts financed with a Bank loan that are entered into by the Borrower, the Executing Agency or the Contracting Agency shall include a provision that requires that providers of goods or services, suppliers and subcontractors, consultants and their agents, personnel or concessionaires, keep all documents and records related to Bank-financed activities for a period of seven (7) years after completion of the work contemplated in the relevant contract.

ARTICLE 7.02. Inspections. (a) The Bank may establish such inspection procedures as it deems necessary to ensure the satisfactory development of the Project.

(b) The Borrower, the Executing Agency and the Contracting Agency, if any, shall permit the Bank to inspect at any time the Project and the equipment and materials involved therein, and to examine such records and documents as the Bank may deem pertinent. The personnel which the Bank shall send or designate as investigators, agents, auditors or experts for this purpose, shall receive the complete cooperation of the respective authorities. All the costs relating to transportation, salaries, and other expenses of such personnel shall be borne by the Bank.

(c) The Borrower, the Executing Agency or the Contracting Agency, as the case may be, shall, upon request of an authorized representative of the Bank, provide to the Bank any documents, including procurement-related documents that the Bank might reasonably request. In addition, the Borrower, the Executing Agency and the Contracting Agency shall make their personnel available, upon reasonable notice, to respond to questions from Bank personnel, which

arise during the review or audit of such documents. The Borrower, the Executing Agency or the Contracting Agency, as the case may be, shall produce the documents in a timely manner or shall submit an affidavit to the Bank setting forth the reasons why the requested material is unavailable or is being withheld.

(d) If the Borrower, the Executing Agency or Contracting Agency, as the case may be, refuses to comply with the Bank's request, or otherwise obstructs the Bank's review of the matter, the Bank in its sole discretion, may take appropriate action against the Borrower, Executing Agency or Contracting Agency, as the case may be.

(e) The Borrower agrees that all bidding documents, requests for proposals and contracts financed by the Bank that are entered into by the Borrower, the Executing Agency or the Contracting Agency shall include a provision that requires applicants, bidders, suppliers and their agents, contractors, consultants, personnel, sub-contractors, sub-consultants, service providers and concessionaires to: (i) allow the Bank to inspect any and all accounts, records and other documents relating to the submission of bids and contract performance as well as to have them audited by auditors appointed by the Bank; (ii) provide full assistance to the Bank in the case of an investigation; and (iii) deliver to the Bank any document deemed necessary for the investigation of allegations of Prohibited Practices and ensure that those employees or agents who are responsible for Bank-financed activities will be available to respond to inquiries within the context of an investigation, be it from Bank personnel or from any investigator, agent, auditor or consultant duly assigned to the investigation. If any applicant, bidder, supplier or its agent, contractor, consulting firm or individual consultant, personnel, subcontractor, sub-consultant, service provider, or concessionaire refuses to cooperate or fails to comply with the Bank's request or otherwise obstructs an investigation carried out by the Bank, the Bank, in its sole discretion, may take appropriate action against said applicant, bidder, supplier and its agent, contractor, consultant, personnel, subcontractors, sub-consultants, service provider, or concessionaire.

ARTICLE 7.03. Reports. The Borrower or the Executing Agency, as appropriate, shall present to the Bank's satisfaction the reports on the execution of the Project within sixty (60) days following the end of each Semester, or within such other period as the parties may agree, prepared in accordance with the relevant rules agreed to with the Bank; and such other reports as the Bank may reasonably request regarding the investment of the sums lent, the use of goods acquired with such sums, and the progress of the Project.

ARTICLE 7.04. External Audit. (a) The Borrower shall present to the Bank, directly or through the Executing Agency, within the deadlines, for the period of duration, and with the frequency provided in the Special Conditions of this Contract, the financial statements and other reports, and any additional financial information that the Bank may request, in accordance with accounting principles and standards acceptable to the Bank.

(b) The Borrower agrees to have the financial statements and other reports, as indicated in the Special Conditions of this Contract, audited by independent auditors acceptable to the Bank, in accordance with auditing principles and standards acceptable to the Bank, and to

present to the Bank's satisfaction such information as may be requested by the Bank related to the independent auditors whose services have been engaged.

(c) The Borrower shall select and hire directly or through the Executing Agency, as the case may be, the independent auditing services that are necessary for the timely submission of the financial statements and other reports indicated in paragraph (b) above, no later than four (4) months before the closing of each fiscal year of the Borrower, beginning on the date on which this Contract enters into effect, or such other time as may be agreed upon between the parties, in accordance with procedures and terms of reference previously agreed upon with the Bank. The Borrower or the Executing Agency, as the case may be, shall authorize the external auditors to provide the Bank with any additional information it may reasonably request with respect to the audited financial statements and/or audited financial reports.

(d) In cases in which the audit is to be performed by an official auditing agency and such agency is unable to perform the audit in accordance with requirements satisfactory to the Bank or within the deadlines, for the period of duration or with the frequency mentioned in this Contract, the Borrower or the Executing Agency, as the case may be, shall select and contract the services of independent auditors acceptable to the Bank, as provided under section (c) above.

(e) Notwithstanding the provisions above, the Bank may, on an exceptional basis and subject to prior agreement between the parties, select and hire the services of independent auditors to prepare the financial statements of the Project and other audited reports as provided in this Contract when: (i) the benefits of the selection and hiring of such services by the Bank outweigh the costs of doing so; (ii) there is limited access to auditing services within the country; or (iii) special circumstances warrant the selecting and hiring of such services by the Bank.

(f) The Bank shall have the right to request the Borrower or the Executing Agency, as the case may be, to have other types of independent audits and/or services carried out relating to the auditing of projects, of the Executing Agency and related entities, of the financial information system, and of the bank accounts of the Project, among others. The nature, frequency, scope, timing, methodology, type of applicable auditing norms, reports, selection procedures and terms of reference shall be agreed upon between the parties.

(g) All bidding documents, requests for proposals and contracts financed by the Bank that are entered into by the Borrower, the Executing Agency or the Contracting Agency with a provider of goods or services, contractor, subcontractor, consultant, sub-consultant, personnel or concessionaire shall include a provision allowing the Bank to inspect any and all accounts, records and other documents related to the submission of bids and contract performance as well as to have them audited by auditors appointed by the Bank.

CHAPTER VIII

Provision on Encumbrances and Exemptions

ARTICLE 8.01. Commitment on Encumbrances. If the Borrower should agree to create any specific encumbrance on all or part of its assets or revenues to secure an external debt, it

shall at the same time create an encumbrance guaranteeing to the Bank, equally and proportionally, the fulfillment of the pecuniary obligations arising from this Contract. However, the foregoing shall not apply: (a) to encumbrances on goods used as security for payment of the unpaid balance of the purchase price; and (b) to encumbrances created in banking operations to secure payment of debts with maturities of not more than one year. In the event that the Borrower is a member country, the term "assets or revenues" shall mean all types of assets or revenues which belong to the Borrower or any of its dependent agencies which are not autonomous entities with their own separate capital.

ARTICLE 8.02. Tax exemption. The Borrower undertakes to ensure that both the principal and the interest and other charges of the Loan shall be paid without any deduction or restriction whatsoever, exempt from any tax, fee, duty or charge established or that may be established by the laws of its country, and to pay any tax, fee, or duty applicable to the signing, negotiation, and execution of this Contract.

CHAPTER IX

Arbitration Procedure

ARTICLE 9.01. Composition of the Tribunal. (a) The Arbitration Tribunal shall be composed of three members to be appointed in the following manner: one by the Bank, another by the Borrower, and a third, hereinafter called the "Referee", by direct agreement between the parties or through their respective arbitrators. If the parties or the arbitrators fail to agree on who the Referee shall be, or if one of the parties should not designate an arbitrator, the Referee shall be appointed, at the request of either party, by the Secretary General of the Organization of American States. If either of the parties fails to appoint an arbitrator, one shall be appointed by the Referee. If either of the appointed arbitrators or the Referee is unwilling or unable to act or to continue to act, his successor shall be appointed in the same manner as for the original appointment. The successor shall have the same functions and faculties as his predecessor.

(b) If the controversy affects not only the Borrower but also the Guarantor, if any, both shall be considered a single party and consequently shall act jointly in the designation of the arbitrator and for the other purposes of the arbitration proceedings.

ARTICLE 9.02. Initiation of the Procedure. In order to submit the controversy to arbitration, the claimant shall address to the other party a written communication setting forth the nature of the claim, the satisfaction or compensation which it seeks, and the name of the arbitrator it appoints. The party receiving such communication shall, within forty-five (45) days, notify the adverse party of the name of the person it appoints as arbitrator. If, within thirty (30) days after delivery of such notification to the claimant, the parties have not agreed upon the person who is to act as Referee, either party may request the Secretary General of the Organization of American States to make the appointment.

ARTICLE 9.03. Convening of the Tribunal. The Arbitration Tribunal shall be convened in Washington, District of Columbia, United States of America, on the date designated by the Referee, and, once convened, shall meet on the dates which the Tribunal itself shall establish.

ARTICLE 9.04. Procedure. (a) The Tribunal shall be competent to hear only the matters in controversy. It shall adopt its own procedures and may on its own initiative designate whatever experts it considers necessary. In any case, it shall give the parties the opportunity to make oral presentations.

(b) The Tribunal shall proceed ex aequo et bono, basing itself on the terms of this Contract, and shall issue an award even if either party should fail to appear or present its case.

(c) The award shall be in writing and shall be adopted with the concurrent vote of at least two members of the Tribunal. It shall be handed down within approximately sixty (60) days from the date on which the Referee is appointed, unless the Tribunal determines that, due to special and unforeseen circumstances, such period should be extended. The award shall be notified to the parties by means of a communication signed by at least two members of the Tribunal, and shall be complied with within thirty (30) days from the date of notification. The award shall be final and will not be subject to any appeal.

ARTICLE 9.05. Costs. The fees of each arbitrator shall be paid by the party which appointed him and the fees of the Referee shall be paid by both parties in equal proportion. Prior to the convening of the Tribunal, the parties shall agree on the remuneration of the other persons who, by mutual agreement, they deem should take part in the arbitration proceedings. If such agreement is not reached in a timely manner, the Tribunal itself shall determine the compensation which may be reasonable for such persons under the circumstances. Each party shall defray its own expenses in the arbitration proceedings, but the expenses of the Tribunal shall be borne equally by the parties. Any doubt regarding the division of costs or the manner in which they are to be paid shall be determined, without appeal, by the Tribunal.

ARTICLE 9.06. Notification. All notifications relative to the arbitration or to the award shall be made in the manner provided in this Contract. The parties waive any other form of notification.

ANNEX A

THE PROGRAM

CDB Global Loan Program for the IDA-Eligible OECS Member Countries

I. Objectives

- 1.01** The objective of the Program is to contribute to accelerate the social and economic development of the IDA¹-eligible OECS² member countries, currently Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines (“Eligible CDB Member Countries”).
- 1.02** The specific objective is to enhance those countries’ access to long-term and lower-cost external finance, with which they could finance projects to address their social and economic challenges.

II. Description

- 2.01** In order to achieve the abovementioned objectives, Loan resources will be on-lent by CDB to finance eligible sub-loans in the Eligible CDB Member Countries.
- 2.02** CDB would determine which sub-projects will receive funding with Loan resources, based, among other factors, on the beneficiary countries’ development priorities and on CDB’s internal programming and country strategy processes.
- 2.03** The following shall be taken into account in the selection of the sub-loans to be financed with Loan resources:
- a. Priority shall be given to sub-projects that are consistent with the Bank’s GCI-9 priority lending targets described in the Credit Regulations.
 - b. Loan resources may be used by CDB to finance sub-loans that support policy reforms, such as Policy-Based Loan (PBL) operations. Such sub-loans shall be based on a sound macroeconomic framework of the beneficiary country, requiring a determination that the country’s macroeconomic policy framework is appropriate at the moment of approval of the sub-loan and the maintenance of an appropriate macroeconomic policy framework for each disbursement under that sub-loan. For that, CDB shall conduct an independent macroeconomic assessment (IMA) in consultation with the Bank. As part of the IMA, coordination with other institutions is required; in particular, the view of the International Monetary Fund (IMF) shall be

¹ International Development Association.
² Organisation of Eastern Caribbean States.

taken into account, *i.e.*, the presence of an on-track IMF program or an Article IV assessment completed within six (6) months prior to the presentation of the sub-loan to CDB Board of Directors. In the absence of an on-track IMF Program or an Article IV assessment completed within this time period, CDB must request a written assessment from the IMF. No more than twenty five percent (25%) of the Financing may be used to finance sub-loans that support policy reforms. The Bank's negative list for PBLs, which will be included in the Credit Regulations, will be applied to this type of sub-loans.

- c. Individual sub-loan operations that have been approved by CDB prior to October 24, 2012 would be eligible for financing with resources of this Loan, as long as Program eligibility criteria are met; in particular, their procurement eligibility should be extended to Bank member countries that are not members of CDB.
- d. Loan resources shall be allocated to the Eligible CDB Member Countries by prorating the proportions received by each such country under CDB's current Performance-Based Allocation (PBA) formula as set forth in Section 4.01(d) of the Special Conditions. However, in order to manage the demand by the Eligible CDB Member Countries, if an Eligible CDB Member Country does not use its allocated resources as per this mechanism for the approval of new projects after one year from the date of entry into force of this Loan Contract, CDB will inform the Bank of such a situation and may request the authorization of a reallocation of the unused resources among the other Eligible CDB Member Countries that have additional demand for resources of the Loan³. Nonetheless, there must be at least two Eligible CDB Member Countries receiving sub-loans with resources of the Financing, as set forth in Section 4.01(b)(i) of the Special Conditions. CDB has the option of demonstrating *ex post*, at project completion,⁴ that each Eligible CDB Member Country received an allocation of Loan resources equal to its respective prorated proportion under CDB's current PBA, except for the case of a reallocation authorized by the Bank, in which case, CDB would have to demonstrate that each Eligible CDB Member Country received a total of Loan resources equal to its respective prorated proportion under CDB's PBA, plus or minus the total amount of Loan resources reallocated.

2.04 Sub-project eligibility criteria include: (i) projects/programs (either investment loan or loan operations that support policy reforms) must be public sector operations, (ii) projects/programs shall have a result matrix that includes project impact, outcome and output indications, with baseline data and targets; and (iii) projects/programs must meet the environmental and social safeguard criteria established in this Contract and the Credit Regulations.

³ The reallocations will be made on the basis of demand and according to the CDB's programming process.

⁴ Project completion refers to when resources of the Financing have been fully disbursed to the Borrower and committed by the Borrower in sub-loan approvals.

III. Total Cost of the Program and Financing Plan

- 3.01** The estimated cost of the Program is twenty million dollars (US\$20,000,000).
- 3.02** To ensure that the benefits of the concessionality of Loan resources are transferred to the sub-borrowers, any sub-loan financed with Loan resources shall have the proportion and terms established in Clause 4.01(c) of the Special Conditions.

IV. Execution

- 4.01** CDB will be the Borrower and the Executing Agency of the Program.
- 4.02** Sub-loans financed by the Program would be selected and appraised in accordance with the policies and procedures of CDB and the Credit Regulations. The Credit Regulations will detail the eligibility criteria and requirements for access to the funds of the Program. In particular, the Credit Regulations will limit the access of the Loan resources to operations in the Eligible CDB Member Countries, and to public sector projects/programs. In addition, the Credit Regulations will specify the types of operations and uses of funds that are prohibited by Bank policies. The Bank will rely on CDB's fiduciary oversight procedures for sub-loans.
- 4.03** As operations are executed, CDB will present disbursement requests consistent with Article 4.08 of the General Conditions.
- 4.04** CDB will monitor and supervise operations based on their policies and procedures. The results of this monitoring and supervision will be reported to the Bank on a semi-annual basis pursuant to Article 7.03 of the General Conditions, which content is described in paragraph 5.01 below.
- 4.05** CDB will conduct evaluations of sub-projects or hire third parties to conduct them within nine (9) months of the final disbursement of the sub-loan. The information in these evaluations will be presented in Project Completion Reports (PCRs), and will include the progress in meeting the project results as defined in the results matrix, as well as information on the execution of the sub-projects and lessons learned. The PCRs for each individual operation should be completed and provided to the Bank within twelve (12) months after the final disbursement of the sub-loans. Where more rigorous impact evaluations are to be conducted at a later date, the results of these evaluations will be provided to the Bank once completed.
- 4.06** Environmental and Social aspects: Sub-loans financed with Loan resources shall comply with all applicable environmental, social, health and safety, and labor regulatory requirements, with the Fundamental Principles and Rights at Work⁵ and compliance with

⁵ "Fundamental Principles and Rights at Work" means: (a) freedom of association and the effective recognition of the right to collective bargaining; (b) prohibition of all forms of forced or compulsory labor; (c) prohibition of child labor, including the prohibition of persons under eighteen (18) years of age from working in hazardous conditions (which includes construction activities), persons under eighteen (18) years

CDB Environmental and Social Review Procedures (ESRP) dated May 2008, CDB Disaster Management Strategy and Operational Guidelines dated May 2009, and other applicable policies and procedures, including the Bank's List of Excluded Activities which will be included in the Credit Regulations.

- 4.07** In addition, CDB shall: (i) apply its ESRP to all sub-loans financed with Loan resources; (ii) implement a list of excluded activities, consistent with Bank's List of Excluded Activities included in the Credit Regulations; (iii) in accordance with a schedule agreed upon with the Bank, within three (3) months of the signature of the Loan Agreement, undertake awareness raising and training for CDB Operations Officers and clients on environmental and social risk management, and the application of the ESRP, with respect to its application to projects financed with IDB use of proceeds; (iv) notify and provide the Bank with copies of the environmental and social documentation (environmental appraisal, environmental impact assessment (EIA), consultation) related to the first three (3) Category A or B CDB sub-loans to be financed with Loan resources, prior to investing, for non-objection; (v) notify and provide the Bank with copies of the environmental and social documentation (environmental appraisal, EIA, consultation), for CDB sub-loans to be financed with Loan resources that were approved by CDB prior to October 24, 2012, for non-objection; (vi) for operations expected to generate significant (understood to be emissions of 25,000 metric tons of CO₂eq per year) quantities of greenhouse gas (GHG) emissions, CDB will require clients to quantify and report these on an annual basis (in line with IDB requirements and guidance); and (vii) disclose the environmental and social documentation (summary of the environmental appraisal) of sub-projects, as well as provide details of where the EIA or SIA⁶ may be consulted in no case for less than thirty (30) days prior to the consideration by CDB's Board of Directors. Final approval shall take into consideration any material concerns raised during the above mentioned disclosure period.

V. Monitoring and Evaluation

- 5.01** Progress reports. In accordance with Article 7.03 of the General Conditions, CDB will provide semi-annual progress reports within sixty (60) days following each Semester. These reports will include: a report on each individual operation financed with Loan resources and its consistency with the Credit Regulations' eligibility and environmental and social safeguard criteria, as well as with the IDB's GCI-9 priority lending targets referred to in paragraph 2.03(a) above; data for the results matrix of each individual operation; CDB financial statements of the individual operations and summary updates on their situation, the problems encountered and measures taken to address them. The latter will be based on information in CDB's project supervision reports (PSR), copies of which will be annexed to the reports. The PSRs also provide data on the outcome and

of age from working at night, and that persons under eighteen (18) years of age be found fit to work via medical examinations; (d) elimination of discrimination in respect of employment and occupation, where discrimination is defined as any distinction, exclusion or preference based on race, color, sex, religion, political opinion, national extraction or social origin; (e) compliance with all applicable law relating to labor; and (f) compliance with all international labor organizations conventions and treaties which have been ratified by the sub-borrower's country.

⁶ Social Impact Assessment.

outputs of the results matrix of the individual operations and on the compliance with the environmental and social requirements as established in this Contract and the Credit Regulations. These semi-annual progress reports will also include the level of commitment of the Loan resources allocated to each Eligible CDB Member Country as described in paragraph 2.03(d) above.

5.02 Mid-term and End-of-Project Review.

- (a) Once fifty percent (50%) of the Financing is disbursed, or after forty two (42) months from the initiation of Program execution, whichever is earlier, within the following sixty (60) days, a mid-term review will be jointly conducted by CDB and the Bank. This review will consist of a detailed assessment of Program execution by CDB, which will be reviewed by the Bank, and followed by a workshop of the Bank project team and CDB staff involved in the design and supervision of the individual CDB operations and the financial management of the Program. The workshop would serve to clarify accomplishments, to identify bottlenecks, shortfalls as wells as lessons learned, and to agree on any corrective measures that need to be taken to enhance execution and Program effectiveness.
- (b) The end-of-project review will be conducted once one hundred percent (100%) of Loan resources are disbursed, within the following three (3) months. This review will include the same activities as the mid-term review.

ANNEX B

CREDIT REGULATIONS

CDB Global Loan Program for the IDA-Eligible OECS Member Countries

I. PURPOSE

- 1.01 These Credit Regulations establish the terms and conditions for the execution of the CDB Global Loan Program for the IDA-eligible OECS member countries (the “Program”). These Regulations should be interpreted together with the agreement set out in Loan Contract 2798/BL-RG (the “Loan Contract”) entered into by and between the Inter-American Development Bank (IDB) and the Caribbean Development Bank (CDB) on May 21, 2013.

II. DEFINITIONS

- 2.01 For the purposes of the obligations contracted between the parties, the following definitions are adopted:
- (a) **CDB:** Caribbean Development Bank
 - (b) **Eligible CDB Member Countries:** any of CDB borrowing OECS member countries that are IDA eligible, and not members of the IDB. Currently, these countries include Dominica, Grenada, St. Lucia, and St. Vincent & the Grenadines
 - (c) **FSO:** IDB’s Fund for Special Operations
 - (d) **IDA:** International Development Association
 - (e) **IDB:** Inter-American Development Bank
 - (f) **Loan Funds:** funds received by CDB under Loan Contract 2798/BL-RG and on-lent by CDB to an Eligible CDB Member Country to finance a sub-project
 - (g) **OC:** IDB’s Ordinary Capital
 - (h) **OECS:** Organization of Eastern Caribbean States
 - (i) **PBL:** sub-loan that is a Policy-Based Loan or other sub-loan supporting policy reforms
 - (j) **Regulations:** these Credit Regulations

- (k) **Sub-borrowers:** Recipients of Loan Funds lent by CDB for individual projects contemplated by the terms of the Program
- (l) **Sub-loans:** the Loan Funds lent to Sub-borrowers
- (m) **Sub-projects:** the projects funded with the Sub-loans

III. OBJECTIVE AND DESCRIPTION OF THE PROGRAM

- 3.01 The objective of the Program is to contribute to accelerate the social and economic development of the Eligible CDB Member Countries. The specific objective is to enhance those countries' access to long-term and lower-cost external finance, with which they could finance projects to address their social and economic challenges.
- 3.02 The Program consists of financing a series of public-sector projects/programs in the Eligible CDB Member Countries. For that, Loan Funds will be on-lent by CDB to finance eligible Sub-loans in the Eligible CDB Member Countries.
- 3.03 The resources of the Program consist of up to the equivalent of US\$14 million in funds from the IDB's Ordinary Capital (OC) and up to the equivalent of US\$6 million in funds from the IDB's Fund for Special Operations (FSO).

IV. ELIGIBILITY OF THE SUB-PROJECTS

- 4.01 Sub-project eligibility criteria are:
 - (i) Sub-projects must be public sector operations (investment loans or PBLs);
 - (ii) Sub-projects will have a results matrix that includes project impact, outcome and output indicators, with baseline data and targets; and
 - (iii) Sub-projects will have to meet the environmental and social safeguard criteria as specified in these Credit Regulations, and section IV of the Annex of the Loan Contract.

V. TERMS AND CONDITIONS OF THE SUB-LOANS

- 5.01 CDB undertakes to:
 - (a) include in the Sub-loan agreements the terms and conditions specified in Section 4.02 of the Special Conditions of the Loan Contract;
 - (b) include provisions in the Sub-loan agreements to ensure appropriate maintenance of equipment or works financed with Loan Funds, as well as requiring periodic reports regarding the Sub-borrower's maintenance programs;

- (c) ensure that all Sub-project result matrices are agreed with the Sub-borrower and the executing agency of the Sub-project and form part of the Sub-project appraisal reports referred to in paragraph 8.3(i) below; and
 - (d) prepare a Project Completion Report (PCR) for all Sub-projects financed with Loan Funds within twelve (12) months following the date of the final disbursement of the Sub-loan.
- 5.02 The resources of the Loan may be used to finance up to 100% of the total cost of Sub-projects in Eligible CDB Member Countries. The resources of the Loan may be blended with other resources of CDB, in proportions to be determined by CDB. In any case, the portion of each Sub-loan financed with Loan Funds shall be in the proportion and in terms established in Section 4.01 of the Special Conditions of the Loan Contract.
- 5.03 To ensure the preservation of the environment, CDB will ensure that its social and environmental safeguard policies and procedures are being followed.
- 5.04 Loan Funds may not be used to finance:
- (a) the payment of debts or the refinancing of loans;
 - (b) the purchase of shares, bonds, participation's in private-sector enterprises, or other securities;
 - (c) sub-projects which do not comply with CDB's environmental regulations and with those of the Eligible CDB Member Country in which the Sub-project is located;
 - (d) taxes or duties;
 - (e) military equipment; or
 - (f) the acquisition of goods and services from countries, which are not members of CDB or IDB.
- 5.05 CDB shall comply with the following IDB List of Excluded Activities:
- Loan Funds may not be used to finance sub-projects/programs or entities¹ involved in the production, trade or use of the products, substances or activities listed below.
- Products, substances and activities that are illegal under host country laws, regulations or ratified international conventions and agreements.
 - Weapons and ammunitions.

1 "entities" means the Borrower's clients (Sub-borrowers) that benefit from a Sub-loan.

- Tobacco.²
- Gambling, casinos and equivalent enterprises.³
- Wildlife or wildlife products regulated under Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).⁴
- Radioactive materials.⁵
- Unbonded asbestos fibers.⁶
- Forestry projects or operations that are not consistent with the IDB's Environmental and Safeguards Compliance Policy (GN-2208-20).
- Polychlorinated biphenyl compounds (PCBs).
- Pharmaceuticals subject to international phase outs or bans.⁷
- Pesticides/herbicides subject to international phase outs or bans.⁸
- Ozone depleting substances subject to international phase out.⁹
- Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
- Transboundary trade in waste or waste products,¹⁰ except for non-hazardous waste destined for recycling.

2 This does not apply to "entities" who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a company's primary operations.

3 This does not apply to "entities" who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a company's primary operations.

4 <http://www.cites.org>

5 This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where it can be demonstrated that the radioactive source is to be trivial and/or adequately shielded.

6 This does not apply to the purchase and use of bonded asbestos cement sheeting where the asbestos content is <20%.

7 Pharmaceutical products subject to phase outs or bans in United Nations, *Banned Products: Consolidated List of Products Whose Consumption and/or Sale Have Been Banned, Withdrawn, Severely Restricted or not Approved by Governments*. (Last version 2008, http://www.who.int/medicines/areas/quality_safety/safety_efficacy/pharm_restrictions/en/index.html)

8 Pesticides and herbicides subject to phase outs or bans included in both the Rotterdam Convention (<http://www.pic.int>) and the Stockholm Convention (<http://www.pops.int>).

9 Ozone Depleting Substances (ODSs) are chemical compounds which react with and deplete stratospheric ozone, resulting in the widely publicized 'ozone holes'. The Montreal Protocol lists ODSs and their target reduction and phase out dates. The chemical compounds regulated by the Montreal Protocol include aerosols, refrigerants, foam blowing agents, solvents, and fire protection agents. (http://ozone.unep.org/Publications/6ii_publications%20handbooks.shtml).

- Persistent Organic Pollutants (POPs).¹¹
- Non-compliance with the Fundamental Principles and Rights at Work.¹²

5.6 In addition to the exclusions listed in paragraph 5.5 above, PBLs financed with Loan Funds shall not be used to finance, and the respective Sub-loan agreements shall require the Sub-borrower not to use the resources of the Sub-loan to finance:

- (i) expenditures in goods included in the groups or sub-groups of the United Nations Standard International Trade Classification (SITC) list described below;
- (ii) expenditures in goods acquired under contracts in an amount below ten thousand dollars (US\$10,000) equivalent;
- (iii) expenditures in goods financed with another financing, under medium or long term;
- (iv) expenditures in luxury goods;
- (v) expenditures in weapons;
- (vi) expenditures in goods for the use of the armed forces;
- (vii) expenditures in goods from countries that are not members of IDB or CDB; and
- (viii) expenditures under a contract in which CDB or IDB has determined: (i) that there is sufficient evidence to support a finding that an employee, agent or representative of the Sub-borrower, or Sub-project executing agency or contracting agency has engaged in an act of fraud or corruption during any stage of the process of bidding, negotiation or execution of such contract; and (ii) that the Sub-borrower, or Sub-project executing agency or contracting agency has not taken any appropriate action, acceptable to CDB or IDB in accordance with the due process warranties established under the Sub-borrower's legislation, in order to correct such situation.

10 Define by the Basel Convention (<http://www.basel.int>).

11 Defined by the Stockholm Convention on the reduction and elimination of persistent organic pollutants (POPs) (2001) and presently include the pesticides aldrin, chlordane, dieldrin, endrin, heptachlor, mirex, and toxaphene, as well as the industrial chemical chlorobenzene (<http://chm.pops.int/>).

12 Fundamental Principles and Rights at Work means (i) freedom of association and the effective recognition of the right to collective bargaining; (ii) prohibition of all forms of forced or compulsory labor; (iii) prohibition of child labor, including without limitation the prohibition of persons under 18 from working in hazardous conditions (which includes construction activities), persons under 18 from working at night, and that persons under 18 be found fit to work via medical examination; and (iv) elimination of discrimination in respect of employment and occupation, where discrimination is defined as any distinction, exclusion or preference based on race, color, sex, religion, political opinion, national extraction, or social origin. (International Labor Organization: <http://www.ilo.org>).

- 5.7 If IDB determines at any time that Loan Funds have been used by CDB to finance expenditures referred to in the paragraph 5.4 above, CDB will have to immediately return to IDB the corresponding amounts used to finance expenditures excluded from the financing mentioned above. If CDB or IDB determines at any time that Loan Funds have been used to pay for any expenditures referred to in the paragraphs 5.5 and 5.6 above, the Sub-borrower will have to immediately reimburse to CDB the total amount of the Loan Funds used for the payment of expenditures excluded from the financing mentioned above, which requirement shall be included in the Sub-loan agreement.
- 5.8 The goods referred to in subsection (i) of paragraph 5.6 above are included in the following groups and sub-groups of the United Nations Standard International Trade Classification (SITC)¹³, including any amendment that may be made to these groups or sub-groups:

<u>GROUPS</u>	<u>SUB-GROUPS</u>	<u>DESCRIPTION OF ITEM</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 semi-precious stones, worked or unworked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors
897	897.3	Gold, silver or platinum jewelry (except watches, and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

- 5.9 CDB will give priority to Sub-projects consistent with the IDB's GCI-9 priority lending targets as described below:

- (i) **Poverty reduction and equity enhancement.** This target includes:
- (a) Operations supporting health, nutrition, early childhood development, education including pre-school, targeted poverty alleviation programs, social programs for at risk children and youth, programs to improve the functioning of labor markets, social insurance (social protection and social security) reforms, measures that improve the insertion of poor workers

13 See 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).

into higher productivity jobs (regulatory, fiscal, financial market reforms that aim at increasing firms' incentives to hire workers formally), emergency employment programs, social investment funds, urban development of marginalized areas, housing, access to water and sanitation, small-holder agricultural production; or

- (b) Operations in other sectors that are expected to have significant direct impact on poverty reduction and equity enhancement, such as infrastructure projects in transport, water, and energy in poor areas. The latter will be assessed by complying with at least one of the following criteria:
 - i. **Geographic Classification:** project benefits are targeted to regions, cities, neighborhoods, or areas identified as poor within each country. Proxy income and consumption measures such as unsatisfied basic needs, multi-dimensional poverty indicators, welfare indices derived from mean and proxy mean tests, below country-average social indicators or other household characteristics that are strongly correlated with poverty may be used to classify such areas. Projects will include a justification on a case by case basis on how the targeting mechanism was used, giving the specific characteristics of the operation and how it targets resources directed to the poor. Generally, if the indicators are below the country averages, the project will be classified as a Poverty Reduction and Equity Enhancement; or
 - ii. **Headcount Classification:** when more than 50% of the potential beneficiaries of the operation are likely to be poor according to a country's official poverty line. If headcount classification is used, then the calculation will be included as part of the project document.
- (c) **Climate change initiatives, sustainable energy (including renewable), and environmental sustainability.** This target includes three areas of operation:
 - i. **Mitigation,** that includes activities for: low carbon transport, renewable energy including bio-energy, energy efficiency (industrial, public buildings, residential, and commercial), reforestation, and forest preservation as well as management of solid waste and waste water treatment that increase methane capture and/or converts waste to energy.

- ii. **Adaptation**, that includes activities for the: technological development for resilient agricultural production, integrated water resources management, prevention of natural disasters, and attention to ex-post health related issues (particularly for malaria, dengue, and other vectors diseases increased by climate change), as well as sustainable management of coastal zones (includes conservation and protection).
 - iii. **Sustainable practices**, that include activities for the: conservation and sustainable use of biodiversity, reduction of industrial contamination including management of persistent organic contaminants. Institutional strengthening for environmental sustainability and climate change adaptation or mitigation activities will also be included.
- (d) **Regional cooperation and integration.** This target includes both national and regional operations that include activities in six areas:
- i. **Infrastructure** for the building infrastructure corridors, including the transport sector (airports, road networks); energy sector (regional generation, transmission, and distribution); and telecommunication sector.
 - ii. **Regional initiatives** for public and private (or PPP) operations under the umbrellas of the Mesoamerican Project (the former Puebla-Panama plan) and the Initiative for South American Regional Infrastructure Integration (IRSA).
 - iii. **Institutional strengthening** operations that support regional integration and cooperation, both at the national and regional levels, including regulatory frameworks for trade policy, trade facilitation, trade finance, financial integration and cross-border investment.
 - iv. **Regional public goods** operations that foster regional cooperation practices in areas such as education, health (including animal health), climate change, environment, migration, governance, and natural disasters.
 - v. **Capacity development** of both public and private sector initiatives that foster the promotion and sustainability of the integration agenda, both at the national and regional levels, including capacity building, training programs, regional project design, monitoring, and development effectiveness.

- vi. **Integration** of regional labor and financial markets.

VI. PROCUREMENT

6.01 CDB's procurement procedures will be used with the following provisions:

- (i) eligibility for procurement using Loan Funds should be open only to CDB and IDB member countries;
- (ii) to further simplify procedures for Sub-borrowers of programs that are financed with a blend of resources from the Loan and from other CDB financing sources, CDB administration will recommend to its Board that a waiver be granted, which would apply these eligibility conditions for the entire program in question, and therefore give access to IDB member countries for procurement on components which are not financed with Loan Funds;
- (iii) procurement of contracting services for works with an estimated cost above US\$1.5 million, for goods above US\$300,000, and for consulting services above US\$200,000 should be based on international competitive bidding; and
- (iv) the IDB reserves the right to carry out an *ex post* review of the procurement procedures being followed, on a yearly basis, or as it deems necessary. The *ex post* review may be carried out by the IDB, expert consultants engaged by the IDB, or during the audit of the Borrower, in accordance with the Loan Contract.

VII. SUB-LOAN LIMITS

7.01 The portion of each Sub-loan financed with Loan Funds shall not exceed US\$10 million.

7.02 Not more than twenty five percent (25%) of the Loan Funds may be used to finance PBLs.

VIII. AUDITS, INSPECTIONS AND SUPERVISION

8.01 IDB and CDB reserve the right to audit and inspect the Sub-projects on an *ex post* basis to verify the correct application of the Loan Funds and compliance with these Credit Regulations. CDB will inspect each Sub-project, at least once a year during execution, to determine the compliance with social and environmental regulations, implementation benchmarks, and performance indicators, and agree on measures with Sub-borrowers to ensure compliance.

8.02 If the IDB determines that a Sub-project is not following CDB's and IDB's environment and social safeguard criteria as specified in these Credit Regulations and section IV of the Annex of the Loan Contract, CDB shall:

- (a) inform the Sub-project executing entity of the lack of compliance;

- (b) inform the government of the Eligible CDB Member Country in which the Sub-project is located; and
 - (c) inform the IDB and exclude the relevant Eligible CDB Member Country from participation in the Program until all its Sub-projects are in compliance with the relevant social and environmental safeguard regulations.
- 8.03 To facilitate effective supervision and evaluation of the Loan by the IDB, CDB will provide to the IDB copies of: (i) the Sub-project appraisal reports including the results matrices with the submission of the Sub-project for program financing, (ii) Sub-project supervision reports, (iii) project completion reports and any other evaluation of the Sub-projects financed with Loan Funds once they are completed, and (iv) in each case, including, the environmental and social aspects of each Sub-project.
- 8.04 All records and files will be maintained by CDB, according to accepted best practices, and be kept for a minimum of three (3) years beyond the end of the operation's execution period.

IX. MODIFICATION OF THESE CREDIT REGULATIONS

- 9.01 CDB may request modifications to these Credit Regulations, in order to adapt the Program to new conditions that may present themselves during the execution of the Program. Any modification to these Regulations will become effective as and when the IDB expresses its agreement in writing.
- 9.02 These Regulations will become effective on the date that the IDB makes the Loan Funds available for on-lending pursuant to IDB Loan Contract 2798/BL-RG.