

LOAN CONTRACT No. 1695/OC-BH

between the

COMMONWEALTH OF THE BAHAMAS

and the

INTER-AMERICAN DEVELOPMENT BANK

Support Program for Transforming Education and Training - Phase I

July 7, 2006

LOAN CONTRACT

SPECIAL CONDITIONS

INTRODUCTION

Parties, Purpose, Constituent Elements and Executing Agency

1. PARTIES AND PURPOSE OF THE CONTRACT

CONTRACT entered into on July 7, 2006, between the COMMONWEALTH OF THE BAHAMAS (hereinafter referred to as the "Borrower") and the INTER-AMERICAN DEVELOPMENT BANK (hereinafter referred to as the "Bank") to cooperate in the execution of the first phase of an education and training support program (hereinafter referred to as the "Program"). The major aspects of the Program are described in detail in Annex A.

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

(a) This Contract consists of these Special Conditions, the General Conditions and Annex A which is attached hereto. If any provision of the Special Conditions or the Annex should present any inconsistency or contradiction with the General Conditions, the provisions of the Special Conditions or the Annex shall prevail. In case of inconsistencies or contradictions between the Special Conditions or the Annexes, 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, are established in detail in the General Conditions. The General Conditions also include general definitions.

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 by the Borrower, through the Ministry of Education ("MOE"), which for the purposes of this Contract shall be referred to, without distinction, as either the "Executing Agency" or the "MOE".

CHAPTER I

Costs, Financing and Additional Resources

SECTION 1.01. Cost of the Project. The total cost of the Program is estimated to be the equivalent to twenty two million five hundred thousand dollars of the United States of America (US\$22,500,000). 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 grant to the Borrower, and the Borrower accepts, a "Financing," chargeable to the resources of the Single Currency Facility of the ordinary capital resources of the Bank, of up to the amount of eighteen million dollars (US\$18,000,000). The amounts disbursed from the Financing shall constitute the "Loan."

(b) The Loan shall be a Single Currency Facility Loan with an Adjustable Interest Rate, and may be converted to a Single Currency Facility Loan with a LIBOR-Based Interest Rate only if such selection is made by the Borrower pursuant to Section 2.03 of these Special Conditions and Article 4.01(g) of the General Conditions.

SECTION 1.03. Currency Availability. Notwithstanding Sections 1.02 and 3.01(a), if the Bank is unable to obtain access to the agreed upon Single Currency, the Bank may disburse in any other Single Currency of its choice, until such time as it is able to regain access to the agreed upon Single Currency. Amortization payments shall be made in the Single Currency disbursed, and interest and other financial charges shall be those, which correspond to such Single Currency. In the event the Bank has to disburse in any other Single Currency of its choice, the Bank shall previously discuss its options with the Borrower.

SECTION 1.04. Additional Resources. The amount of the additional resources which, pursuant to Article 6.04 of the General Conditions, the Borrower shall undertake to contribute in a timely manner for the complete and uninterrupted execution of the Project, is estimated to be the equivalent of four million five hundred thousand dollars (US\$4,500,000), although this estimate shall not imply any limitation or reduction of the obligation of the Borrower under said Article. To compute the equivalency in dollars, the rules set forth in Article 3.06(b) of the General Conditions shall be followed.

CHAPTER II

Amortization, Interest, General Inspection and Supervision and Credit Fee

SECTION 2.01. Amortization. The Loan shall be completely repaid by the Borrower by means of semiannual, consecutive, and, insofar as possible, equal installments. The first installment shall be paid four (4) years from the date of signature of this Contract, taking into account the provisions of Article 3.01 of the General Conditions, and the last installment shall be paid no later than twenty (20) years from the same date.

SECTION 2.02. Interest. (a) The Borrower shall pay interest on the daily outstanding balances of the Loan, at a rate determined pursuant to the provisions of Article 3.04 of the General Conditions for a Single Currency Facility Loan with an Adjustable Interest Rate. The Bank shall notify the Borrower of the rate of interest applicable during each Quarter or Semester, as the case may be, as soon as practicable after the determination thereof. If the Borrower elects to change the interest rate alternative of a Single Currency Facility Loan pursuant to Section 2.03 of these Special Conditions and Article 4.01(g) of the General Conditions, the Borrower shall pay interest at a rate determined pursuant to the provisions of Article 3.04 of the General Conditions for a Single Currency Facility

Loan with a LIBOR-Based Interest Rate.

(b) Interest shall be payable semiannually, beginning six (6) months from the date of signature of this Contract, taking into account the provisions of Article 3.01 of the General Conditions.

(c) Resources of the Financing shall be used to pay interest during the period of disbursement thereof, without a request from the Borrower and on the dates established in the previous paragraph.

SECTION 2.03. Confirmation of or option to change the interest rate alternative of the Financing. Pursuant to Article 4.01(g) of the General Conditions, the Borrower shall confirm to the Bank in writing, as a condition precedent to the first disbursement of the Financing, either its decision to maintain the interest rate alternative of the Financing as determined in Sections 1.02(b) and 2.02(a) of these Special Conditions, or its decision to elect to change the interest rate alternative of the Financing to a LIBOR-Based Interest Rate. Once this selection is made by the Borrower pursuant to Article 4.01(g) of the General Conditions, at no other time during the life of the Loan may the interest rate alternative of the Financing be modified or converted.

SECTION 2.04. Resources for General Inspection and Supervision. During the disbursement period, resources of the Financing shall not be allocated to cover the Bank's expenses for general inspection and supervision, unless otherwise established by the Bank during said period as a result of its semiannual review of financial charges, and the Borrower is notified by the Bank in this regard. Under no circumstance shall there be a charge for this purpose in any semester, which is greater than the amount, which results from applying one percent (1%) to the amount of the Financing, divided by the number of semesters included in the original disbursement period.

SECTION 2.05. Credit Fee. The Borrower shall pay a credit fee of 0.25% per annum pursuant to the provisions set forth in Article 3.02 of the General Conditions. This percentage may be modified by the Bank on a semiannual basis, who shall promptly notify the Borrower of the same, provided that, under no circumstance, may it exceed the percentage contemplated in the above-cited Article.

CHAPTER III

Disbursements

SECTION 3.01 Currencies of Disbursement and Use of Funds. (a) The amount of the Financing shall be disbursed in dollars from the Single Currency Facility of the ordinary capital resources of the Bank, to pay for goods and services acquired in accordance with the Procurement procedures stipulated in this Contract and for such other purposes as are indicated in this Contract.

(b) The resources of the Financing shall only be used for payments of goods and services originating in the member countries of the Bank.

SECTION 3.02. 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 fulfillment, to the satisfaction of the Bank, of the following requirements:

- (a) Evidence that Project's Operations Manual is in force.
- (b) Evidence of the hiring of two senior long-term expert consultants for The Bahamas Technical and Vocational Institute ("BTVI") to support institutional strengthening.
- (c) Evidence of the hiring of a Program Manager, two Procurement Officers, and an Operations Manager through competitive processes to work in the Program Management Unit ("PMU").
- (d) Evidence of the establishment of the Program Management Steering Committee.

SECTION 3.03. Reimbursement of Expenditures Chargeable to the Financing. (a) With the consent of the Bank, up to the equivalent of one million five hundred thousand dollars (US\$1,500,000) of the resources of the Financing may be used to reimburse expenditures incurred in the Program for the following Program activities; (i) all consultancies related to Program preparation, including sector and technical studies, as well as the development of the Program baseline; (ii) essential workshops and study tours related to key components of the Project; and (iii) the initial development of procurement documentation, (iv) Reconfiguration of the PMU and rental of the facilities of the Pre-school and Special Education units. Said expenditures shall have been incurred before November 30, 2005 but after (Eighteen months prior to Loan Approval), provided that requirements substantially similar to those set forth in this Contract have been fulfilled. It is understood that, with the consent of the Bank, the resources of the Financing may also be used to reimburse expenditures incurred or to finance those that may be incurred in the Program on or after November 30, 2005 and up to the date of this Contract, provided that the requirements set forth above have been substantially fulfilled.

- (b) The reimbursement of expenditures under paragraph (a) above will be subject to an ex-post evaluation as to their eligibility and compliance with the procurement procedures established in this Loan Contract.

SECTION 3.04. Disbursement Period. The period for final disbursement of the resources of the Financing shall expire three and a half (3.5) years from the effective date of this Contract.

SECTION 3.05. Revolving Fund. (a) For the purposes of the provisions established forth in Article 4.07(b) of the General Conditions, the amount of the revolving fund shall not exceed the five percent (5%) of the amount of the Financing.

- (b) The reports on the execution of the Project, which the Borrower shall submit to the Bank, in accordance with Article 7.03(a)(i) of the General Conditions, shall include the financial-

accounting information about management of the Revolving Fund resources, upon request by the Bank.

CHAPTER IV

Execution of the Project

SECTION 4.01. Procurement of Works and Goods. Works and goods shall be procured in accordance with the provisions set forth in Document GN-2349-4 (“Policies for the procurement of works and goods financed by the IDB”), dated January 19, 2005 (hereinafter called “the Procurement Policies”) and the following provisions of this Section:

(a) International Competitive Bidding: Except as otherwise provided in subsection (b) of this Section, works and goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Procurement Policies and paragraph 4 of Appendix 1 thereto.

(b) Other Procurement Procedures: The following procurement methods may be used for the procurement of works and goods that the Bank agrees meet the requirements established in the provisions of Section III of the Procurement Policies:

(i) National Competitive Bidding: For works estimated to cost less than three million dollars (US\$3,000,000) equivalent per contract and goods estimated to cost less than one hundred and fifty thousand dollars (US\$150,000) equivalent per contract, in accordance with the provisions of paragraphs 3.3 and 3.4 of the Procurement Policies.

(ii) Other Methods of Procurement: May also be used in accordance with the provisions set forth in Section III of the Procurement Policies.

(c) Additional Procurement Requirements. The Borrower, through the Executing Agency, shall carry out the procurement of works and goods in accordance with the general plans, technical, social and environmental specifications, budgets and other documents required for the acquisition or the construction, and, as the case may be, the specific guidelines and other documents necessary for the call for prequalification or bids; and in the case of works, evidence that it has, prior to initiation of construction, with respect to the real property where the works will be constructed, the right of legal possession, easements or other rights necessary to initiate the construction, as well as the riparian rights required for the respective works.

(d) Review by the Bank of Procurement Decisions:

(i) Procurement Planning: Prior to the issuance of any invitations to prequalify or to bid for contracts, the Borrower, through the Executing Agency, shall present the proposed procurement plan for the Program to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Procurement Policies. This plan shall be updated every six

(6) months during Program execution, and the updated version thereof shall be submitted to the Bank for its review and approval. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1 of Appendix 1 of the Policies.

- (ii) Prior Review: Unless the Bank agrees otherwise in writing, all contracts shall be subject to prior review, in accordance with the procedures spelled out in paragraphs 2 and 3 of Appendix 1 to the Procurement Policies. The Borrower, through the Executing Agency, shall present to the satisfaction of the Bank evidence that it has complied with the requirements set out in subparagraph (c) of this Clause.
- (iii) Ex-Post Review: With respect to each contract not governed by subsection (d)(ii) of this Section, the procedures set forth in paragraph 4 of Appendix 1 to the Procurement Policies shall apply. The Borrower, through the Executing Agency, shall make always available to the Bank, evidence that it has complied with the requirements set forth in subparagraph (c) of this Clause.

SECTION 4.02. Maintenance of Equipment and Software. The Borrower undertakes to ensure that (a) the equipment and software included in the Program shall be adequately operated and maintained according to generally accepted technical standards; and (b) present to the Bank a report on the status of said equipment and software as well as an annual maintenance plan for the forthcoming year, during the three (3) years following the acquisition of the first equipment and within the first quarter of each calendar year. If from the inspections conducted by the Bank or from the reports it receives, it is determined that maintenance and operation do not meet the levels agreed upon, the Bank shall notify the Borrower so that it shall undertake the necessary measures to correct these shortcomings.

SECTION 4.03. Reimbursement of Expenses chargeable to the local Contribution. The Bank may recognize as part of the local contribution expenditures incurred or which may be incurred in the Program on or after November 30, 2005 and up to the date of this Contract, provided that requirements substantially similar to those set forth in this Contract have been fulfilled.

SECTION 4.04. Contracting of consulting services. (a) The Borrower shall select and contract the services of consulting firms, specialized agencies or individual experts that may be necessary to fulfill the pertinent provisions of this Contract, in accordance with the Bank's Policies and Procedures for the Procurement of Consulting Services set forth in document GN-2350-4 ("Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank") dated January 19, 2005. The Executing Agency confirms its familiarity with those provisions of Document GN-2350-4.

(b) For the purposes of this Contract, it is hereby specified that the threshold amount requiring utilization of international public bidding, as a means of selection of consulting services,

shall be the equivalent of two hundred thousand dollars (US\$200,000).

(c) For purposes of paragraph 2.7 of Document GN-2350-4, the short list of consultants whose contracts are estimated to be below two hundred thousand dollars (US\$200,000), may be composed in its entirety by national consultants provided the requirements under above cited paragraph 2.7 are met.

(d) Sole Sourcing Selection: The borrower can sole source, within the Bank policy, to contract the services of the International Education Collaborative Foundation (“IECF”) to assist MOE in creating a sustainable framework for the Public Private Partnership (“PPP”) initiative. IECF has a proven track record in the establishment of public-private partnerships in the education sector and during the last year has worked successfully in The Bahamas to engage stakeholders from all sectors to build the trust necessary to structure the partnership and catalyze initial funding resources. IECF has experience of exceptional worth for the assignment and also implies a natural continuation of ongoing work carried out by the firm in The Bahamas.

(e) Review by the Bank of Procurement Decisions. The Bank shall conduct its review of the procurement process in the following manner:

- (i) Procurement Planning: Prior to the issuance of any Request for Proposals, the Borrower, through the Executing Agency, shall present the proposed procurement plan for the Program to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Policies. This plan shall be updated every six (6) months during Program execution, and submitted to the Bank for its review and approval. Procurement of consulting services shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1 of Appendix 1 of the Policies.
- (ii) Prior Review: Unless the Bank agrees otherwise in writing, all contracts shall be subject to prior review, in accordance with the procedures spelled out in Appendix 1 to the Consultant Policies: The Borrower, through the Executing Agency, shall present, to the satisfaction of the Bank, evidence that it has complied with the requirements set forth in subparagraph (c) of this Clause.
- (iii) Ex-Post Review: With respect to each contract not governed by subsection (d)(ii) of this Section, the procedures set forth in paragraph 4 of Appendix 1 to the Procurement Policies shall apply. The Borrower, through the Executing Agency, shall make always available to the Bank, evidence that it has complied with the requirements set forth in subparagraph (c) of this Clause.

(f) The consultants shall perform their work in accordance with the terms of reference previously agreed upon, for each of them by the Executing Agency and the Bank, on the understanding that said terms of reference may be adjusted or expanded during the execution of the Program by mutual agreement between the Executing Agency and the Bank.

(g) International consultants shall have to perform their work in an integrated manner with the local professional staff assigned or contracted by the Executing Agency to participate in the execution of the Program, with a view to carrying out technical and operational training of such staff by the conclusion of the work.

SECTION 4.05. Ex Post Evaluation Report. The Borrower shall compile and maintain the Program information readily available to present to the Bank, should the Bank wish to conduct at its own expense an ex post evaluation on the results of the Project.

SECTION 4.06. Annual Work Plans. The parties agree that the Program will be executed by the implementation of Annual Work Plans that will be prepared by the PMU. The Annual Work Plans will describe the specific activities to be undertaken to achieve each output of the Project, the timeframe for implementation, and the entity or individual responsible for executing each activity of the Project. These plans will also contain a detailed annual and quarterly budget estimates. The Annual Work Plans will be presented by the Executing Agency to the Bank during the second half of November of each calendar year during the execution of the Project. The Annual Work Plan for the first year of the Program execution will be presented as part of the Initial Report referred to in Article 4.01(d) of the General Conditions.

CHAPTER V

Records, Inspections, and Reports

SECTION 5.01. Records, Inspections, and Reports. The Borrower agrees to maintain records, permit inspections, and submit reports and financial statements in accordance with the provisions established in Chapter VII of the General Conditions.

SECTION 5.02. Audits. With respect to the provisions of Article 7.03 of the General Conditions, the financial statements of the Program during its period of execution shall be submitted on an annual basis, duly certified by a firm of independent public accountants acceptable to the Bank.

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:

Ministry of Finance
Cable Beach
P.O. Box N-3017
Nassau, The Bahamas

Facsimile: (242) 327-1618 or 1620

For matters related to execution of the Project

Mailing address:

Ministry of Education
Thompson Blvd., next to the Customs Building
P.O. Box N-3913/4
Nassau, The Bahamas

Facsimile: (242) 322-8491

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 Nassau, Commonwealth of The Bahamas, on the date above written.

COMMONWEALTH OF THE
BAHAMAS

INTER-AMERICAN DEVELOPMENT
BANK

/s/ James H. Smith

/s/ Iwan P. Sewberath Misser

James H. Smith
Minister of State for Finance

Iwan P. Sewberath Misser
Acting Representative

WITNESS OF HONOR

WITNESS OF HONOR

/s/ Alfred M. Sears

/s/ D. Shane Gibson

Alfred M. Sears, MP
Minister of Education, Science
& Technology

D. Shane Gibson, MP
Minister of Immigration, Labour
& Training

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) "Bank" means the Inter-American Development Bank.
- (b) "Board" means the Board of Executive Directors of the Bank.
- (c) "Borrower" means the party to which the Financing is made available.
- (d) "Contract" means the entirety of the Special Conditions, the General Conditions and the Annexes.
- (e) "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.
- (f) "Cost of Single Currency Qualified Borrowings with an Adjustable Interest Rate" means the cost to the Bank of the Single Currency Qualified Borrowings with an Adjustable Interest Rate in the Single Currency of the Financing, expressed as a percentage per annum, as determined by the Bank.
- (g) "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.

- (h) "Executing Agency/Agencies" means the entity/entities responsible for executing all or part of the Project.
- (i) "Financing" means the funds which the Bank has agreed to make available to the Borrower to assist in carrying out the Project.
- (j) "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.
- (k) "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.
- (l) "Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter" means the 15th day of the months of January, April, July and October of each calendar year. The LIBOR-Based Interest Rate determined by the Bank on an Interest Rate Determination Date of the LIBOR-Based Interest Rate 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.
- (m) "LIBOR Interest Rate" means any of the following definitions, in accordance with the currency of the Loan:¹
 - (i) In the case of Single Currency Facility Loans in Dollars:
 - (A) 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 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, the rate for that Interest Rate Determination Date

¹ Any capitalized terms used in paragraph (m) 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.

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.

- (B) “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 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.

(ii) In the case of Single Currency Facility Loans in Euros:

- (A) The LIBOR Interest Rate on an Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be “EUR-EURIBOR-Telerate,” which is the rate for deposits in euros for a period of three (3) months that appears on the Telerate Page 248 as of 11:00 a.m., Brussels time, on the day that is two (2) TARGET Settlement 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 248, 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 “EUR-EURIBOR-Reference Banks” as the applicable LIBOR Interest Rate.
- (B) “EUR-EURIBOR-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 euros are offered by the Reference Banks at approximately 11:00 a.m., Brussels time, on the day that is two (2) TARGET Settlement Days preceding that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter to prime banks in the Euro-zone 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 assuming an Actual/360 day count basis. The Calculation Agent or Agents utilized by the Bank, will request the principal Euro-zone 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 the Euro-zone, selected by the Calculation Agent or Agents utilized by the Bank, at approximately 11:00 a.m., Brussels time, on that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter for loans in euros to leading European 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 Brussels and in the Euro-zone, the rates quoted on the first day immediately thereafter which is a Banking Day in Brussels and in the Euro-zone shall be utilized.

(iii) In the case of Single Currency Facility Loans in Yen:

- (A) The LIBOR Interest Rate on an Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be “JPY-LIBOR-BBA,” which is the rate for deposits in Yen for a period of three (3) months that appears on the Telerate Page 3750 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, 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 “JPY-LIBOR-Reference Banks” as the applicable LIBOR Interest Rate.
- (B) “JPY-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 Yen 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 Tokyo, selected by the Calculation Agent or Agents utilized by the Bank, at approximately 11:00 a.m., Tokyo time, on that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter for loans in Yen to leading European 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 Tokyo, the rates quoted on the first day immediately thereafter which is a Banking Day in Tokyo shall be utilized.

(iv) In the case of Single Currency Facility Loans in Swiss Francs:

- (A) The LIBOR Interest Rate on an Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be “CHF-LIBOR-BBA,” which is the rate for deposits in Swiss Francs for a period of three (3) months that appears on the Telerate Page 3750 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, 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 “CHF-LIBOR-Reference Banks” as the applicable LIBOR Interest Rate.
- (B) “CHF-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 Swiss Francs 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 Zurich, selected by the Calculation Agent or Agents utilized by the Bank, at approximately 11:00 a.m., Zurich time, on that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter for loans in Swiss Francs to leading European 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 Zurich, the rates quoted on the first day immediately thereafter which is a Banking Day in Zurich shall be utilized.

- (n) "Loan" means the funds disbursed from the Financing.
- (o) "Project" means the Program or Project for which the Financing has been extended.
- (p) "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.
- (q) "Revolving Fund" means a fund that the Bank may establish as provided in Article 4.07 of these General Conditions, for the purpose of advancing resources to defray Project expenses chargeable to the Financing.
- (r) "Semester" means the first or second six months of a calendar year.

- (s) "Single Currency" means any convertible currency which the Bank has selected for lending under the Single Currency Facility.
- (t) "Single Currency Facility" means the facility the Bank has established to lend in certain convertible currencies which the Bank selects from time to time.
- (u) "Single Currency Facility Loan with an Adjustable Interest Rate" means any Loan or portion of a Loan made by the Bank to be disbursed, accounted for, and repaid in a Single Currency under the Single Currency Facility and which, in accordance with the Special Conditions of this Loan Contract, will bear an Adjustable Interest Rate as determined pursuant to Article 3.04(a) of these General Conditions.
- (v) "Single Currency Facility Loan with a LIBOR-Based Interest Rate" means any Loan or portion of a Loan made by the Bank to be disbursed, accounted for, and repaid in a Single Currency under the Single Currency Facility and which, in accordance with the Special Conditions of this Loan Contract, will bear a LIBOR-Based Interest Rate as determined pursuant to Article 3.04(b) of these General Conditions.
- (w) "Single Currency Qualified Borrowings" for Loans 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.
- (x) "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. The Borrower shall amortize the Loan in semiannual installments on the same dates as those determined in accordance with Section 2.02 of the Special Conditions for payment of interest. If the date of signature of the Loan Contract falls between June 15th and 30th or between December 15th and 31st, the dates for the payment of interest and for the payment of the first and subsequent amortization installments shall be June 15th and December 15th, as the case may be.

ARTICLE 3.02. Credit Fee. (a) The Borrower shall pay on the undisbursed balance of the Financing which is not in the currency of the Borrower's country a credit fee, which shall begin to accrue sixty (60) days after the date 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.

(b) For Single Currency Facility Loans in dollars of the United States of America, this fee shall be paid in dollars of the United States of America. For Single Currency Facility Loans in currencies other than U.S. dollar Single Currency Facility Loans, this fee shall be paid in the currency of the particular Loan. This fee shall be paid on the same dates as those specified for the payment of interest pursuant to the provisions of the Special Conditions.

(c) This 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 3.15, 3.16 and 4.02 of these General Conditions and the relevant provisions of the Special Conditions.

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. Interest shall be charged on the daily outstanding balances of the Loan at an annual rate that shall be determined by the Bank periodically in accordance with its lending rate policy, and may be one of the following as set forth in the Special Conditions, or in the letter from the Borrower to which reference is made in Article 4.01(g) of these General Conditions, if the Borrower elects to change the interest rate alternative of a Single Currency Facility Loan pursuant to Section 2.03 of the Special Conditions:

- (a) In the case of Single Currency Facility Loans with an Adjustable Interest Rate, interest shall accrue on the daily outstanding balances of the Loan and shall be at a rate per annum for each Semester as determined by the Cost of Single Currency Qualified Borrowings with an Adjustable Interest Rate in the Single Currency of the Financing, plus the prevailing ordinary capital lending spread expressed as a percentage per annum; or
- (b) In the case of Single Currency Facility Loans with a LIBOR-Based Interest Rate, interest shall accrue on the daily outstanding balances of the Loan and shall be at a rate per annum for each Quarter as determined by the Bank on an Interest Rate 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(m) 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 net of any costs and/or gains, computed quarterly, associated with any derivatives transactions which may be entered into by the Bank to mitigate the impact of extreme fluctuations in the LIBOR Interest Rate of the borrowings obtained by the Bank to finance the Single Currency Facility Loans with a LIBOR-Based Interest Rate; (iv) plus the ordinary capital lending spread prevailing on the Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter, expressed as a percentage per annum.

(c) For the purposes of Article 3.04(b) above:

- (i) The Borrower and Guarantor of any Single Currency Facility Loan with a LIBOR-Based Interest Rate expressly acknowledge and agree that: (A) the LIBOR Interest Rate referred to in Article 3.04(b)(i) above, and the cost margin of the Bank borrowings referred to in Article 3.04(b)(ii) above, may be subject to significant fluctuations during the life of the Loan and, therefore, the LIBOR-Based Interest Rate alternative for Single Currency Facility loans may involve significant financial risks to the Borrower and the Guarantor; (B) the Bank may, at its sole discretion, enter into any derivatives transactions to mitigate the impact of extreme fluctuations in the LIBOR Interest Rate of the borrowings obtained by the Bank to finance the Single Currency Facility Loans with a LIBOR-Based Interest Rate, as referred to in Article 3.04(b)(iii) above; and (C) any risk of fluctuations in the LIBOR-Based Interest Rate alternative for Single Currency Facility loans is assumed entirely by the Borrower and the Guarantor, if applicable.
- (ii) Whenever, in light of changes in market practice affecting the determination of the LIBOR-Based Interest Rate alternative 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(b)(i) 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.

ARTICLE 3.05. Disbursements and Payments of Amortization and Interest in National Currencies. (a) Amounts which are disbursed in the currency of the Borrower's country shall be applied against the Financing and owed in accordance with the equivalency in dollars of the United

States of America as determined in accordance with the rate of exchange in effect on the date of the respective disbursement.

(b) Payments of amortization and interest shall be made in the currency disbursed, in an equivalent amount of dollars of the United States of America, as determined in accordance with the rate of exchange in effect on the payment date.

(c) For the purpose of determining the equivalencies stipulated in paragraphs (a) and (b) above, the relevant rate of exchange, in accordance with Article 3.06, shall be used.

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 of the United States of America, 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 of the United States of America 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 of the United States of America.
- (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.

(b) For the purpose of determining the equivalency in dollars of the United States of America of an expenditure incurred in the currency of the Borrower's country, the rate of exchange which is applicable on the date of payment of such expenditure shall be utilized, pursuant to paragraph (a) above. To that end, the date of payment of such expenditure shall mean the date on which the Borrower, the Executing Agency or any natural or juridical person in whom the power to incur expenditures has been vested makes the respective payments to the order of the contractor or supplier.

ARTICLE 3.07. Disbursements and Payments of Amortization and Interest in Single Currencies. For Single Currency Facility Loans, disbursements and payments of amortization and interest shall be in the Single Currency of the particular Loan.

ARTICLE 3.08. 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 3.09. 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.

(c) With the prior consent of the Borrower, the Bank may cede all or part of the undisbursed amount of the Financing to other public or private institutions. To that end, the portion subject to participation shall be denominated in terms of a fixed number of units of one or more convertible currencies. Likewise, with the Borrower's prior consent, the Bank may set, for the portion

subject to participation, an interest rate other than that established in the present Contract. Interest payments and amortization installments shall be made in the specified currency in which the participation was granted and on the dates specified in Article 3.01 of these General Conditions. After the final disbursement has been made, the Bank shall give the Borrower and the Participant a schedule of amortization.

ARTICLE 3.10. 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 3.11. Advance Payments. Upon advance notice in writing to the Bank of at least forty-five (45) days, the Borrower may pay, on one of the interest payment dates indicated in the Special Conditions, any part of the Loan prior to its maturity, provided that on the payment date no sum is owing in respect of fees or interest. Unless otherwise agreed in writing, each partial advance payment shall be applied to unpaid installments of principal in the inverse order of their maturity.

ARTICLE 3.12. 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.

ARTICLE 3.13. 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 3.14. 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 3.15. 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 part of the Financing which has not been disbursed before the receipt of the notice, provided that the amounts foreseen in Article 5.03 of these General Conditions are not involved.

ARTICLE 3.16. 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, if any, shall have demonstrated to the Bank that sufficient resources have been allocated to cover, at least during the first calendar year, the execution of the Project in accordance with the investment schedule referred to in the following paragraph. If this Financing constitutes a continuation of the same lending operation, the earlier stage or stages of which the Bank is financing, the obligation set forth in this paragraph shall not be applicable.
- (d) The Borrower, either directly or through the Executing Agency, if any, shall have presented to the Bank an initial report prepared in the form indicated by the Bank, which shall serve as the basis for the preparation and evaluation of the progress reports referred to in Article 7.03(a)(i) of these General Conditions. In addition to such other information as the Bank may reasonably request pursuant to the provisions of this Contract, the initial report 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; and (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 Annex A of this Contract and an indication of the annual contributions needed from the various sources of funds from which the Project will be

financed. If this Contract permits the recognition of expenditures made prior to its signature or to the date of the Resolution authorizing the Financing, 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.

- (e) The Borrower or Executing Agency shall have presented to the Bank the plan, catalog or code of accounts referred to in Article 7.01 of these General Conditions.
- (f) The official auditing agency referred to in the Special Conditions shall have agreed to perform the auditing function foreseen in Article 7.03(b) of these General Conditions and in the Special Conditions, or the Borrower or the Executing Agency shall have agreed with the Bank with respect to a firm of independent public accountants to perform the above functions.
- (g) The Bank shall have received a letter duly signed by the Borrower, with the express written conformity of the Guarantor, if applicable, confirming either its decision to maintain the interest rate alternative originally selected for the Financing as determined in Sections 1.02(b) and 2.02(a) of the Special Conditions, or its decision to elect to change the interest rate alternative of the Financing as determined in Section 2.03 of the Special Conditions of this Loan Contract. In case the Borrower, with the express written conformity of the Guarantor, if applicable, decides to elect to change the interest rate alternative of the Financing, the Borrower shall give written notice to the Bank of such election at least thirty (30) calendar days prior to presentation to the Bank of the request for the first disbursement of the Financing. For purposes of this notification, the Borrower shall use the form letter required by the Bank. Under no circumstances may such option be elected at any point in time which is later than thirty (30) calendar days prior to the presentation of the request for the first disbursement of the Financing.

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, if any, shall have submitted in writing 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; provided, however, that for Loans in which the Borrower has opted to receive financing in a combination of Single

Currencies, or in one or more Single Currencies, the request must indicate the specific amounts of the particular Single Currency(ies) requested for disbursement; (b) requests must be presented no later than thirty (30) calendar days in advance of the date of expiry of the term for disbursement or of any extension thereof which the Borrower and the Bank may have agreed to; (c) none of the circumstances described in Article 5.01 of these General Conditions shall have occurred; and (d) 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. 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 4.05. Charges for the Inspection and Supervision Fee. If the Bank determines that an amount shall be charged to cover its expenses for general inspection and supervision in accordance with the Special Conditions, the Bank will notify the Borrower and the latter will indicate whether it will pay the corresponding amount directly to the Bank or whether such amount should be withdrawn and retained by the Bank from the resources of the Financing. Both the payment by the Borrower and the retention by the Bank of any fee allocated to general inspection and supervision will be carried out in the currency of the Loan.

ARTICLE 4.06. Disbursement Procedures. The Bank may make disbursements against the Financing: (a) by transferring to the order of the Borrower the sums to which it is entitled under this Contract; (b) by making payments on behalf of and in agreement with the Borrower to other banking institutions; (c) by establishing or replenishing the Revolving Fund referred to in Article 4.07 below; and (d) by utilizing such other method 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. Revolving Fund. (a) 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 advance resources of the Financing for the purpose of establishing, increasing or replenishing a Revolving Fund to defray costs pertaining to the execution of the Project which, pursuant to provisions of this Contract, are eligible for financing with such resources.

(b) Except by express agreement between the parties, the amount of the Revolving Fund shall not exceed five percent of the amount of the Financing. Upon justified request, the Bank may increase or replenish the Revolving Fund as the resources are used, provided that the requirements of

Article 4.03 of these General Conditions and those which may be established in the Special Conditions have been fulfilled. The Bank may also reduce or cancel the Revolving Fund should it determine that the resources provided through the Revolving Fund exceed the needs of the Project. The establishment and the replenishment of the Revolving Fund shall be regarded as disbursements for the purposes of this Contract.

(c) The plan, catalog or code of accounts that the Borrower or Executing Agency must present to the Bank in accordance with Article 4.01(e) of these General Conditions shall indicate the accounting method used by the Borrower to verify the transactions and statements of account of the Revolving Fund.

(d) Not later than thirty (30) days prior to the date agreed upon for the final disbursement of the Financing, the Borrower shall present a final justification of the use of the Revolving Fund and return any unused portion thereof.

(e) For Loans in which the Borrower has opted to receive financing in a combination of Single Currencies, or in one or more Single Currencies, the Borrower may, subject to availability in the undisbursed balance of the Loan, choose to receive disbursements for the Revolving Fund in any of the Single Currencies of the Loan, or in any combination thereof.

ARTICLE 4.08. 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 and Accelerated Maturity

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 the 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.

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 commissions 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.

(b) The Bank may cancel the part of the Financing pertaining to the procurement of certain goods, works or related services, or consulting services, or may declare the portion of the loan pertaining to such items immediately due and payable, if it determines at any time that: (i) the procurement was carried out without following the procedures set forth in this Contract; or (ii) representatives of the Borrower, Executing Agency, or Beneficiary of the grant have committed corrupt practices, either in the process of selecting the contractor or supplier or in the execution of the respective contract, and the Borrower has not taken timely and remedial measures, observing the due process guarantees of the Borrowing country's legislation, and acceptable to the Bank.

(c) For the purposes of the above paragraph, corrupt practices shall be understood to include, but not be limited to, acts of: (i) bribery, meaning the offering or giving of anything of value to influence the actions or decisions of third parties or the receiving or soliciting of any benefit in

exchange for actions or omissions related to the performance of duties; (ii) extortion or coercion, meaning the act of obtaining something, compelling an action or influencing a decision through intimidation, threat or the use of force, where potential or actual injury may befall upon a person, his/her reputation or property; (iii) fraud, meaning any action or omission intended to misrepresent the truth so as to induce others to act in reliance thereon, with the purpose of obtaining some unjust advantage or causing damage to others; and (iv) collusion, meaning a secret agreement between two or more parties to defraud or cause damage to a person or entity or to obtain an unlawful purpose.

ARTICLE 5.03. 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, if any, has agreed to provide from the resources of the Financing to make payments to a contractor or supplier of goods or services. The exceptions set forth in subparagraph (b) shall not apply if the Bank determines that corrupt practices occurred with respect to the procurement of, or the execution of the contract for, the works, goods or services.

ARTICLE 5.04. 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 5.05. 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 and Public Tender. (a) 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.

(b) In the acquisition of machinery, equipment and other goods for the Project, and in the awarding of contracts for the execution of works, the system of public tender shall be utilized in each case in which the value of such acquisitions is equal to or exceeds the amounts set forth in Chapter IV of the Special Conditions. The procedures for tendering shall be set forth in Annex B of this Contract.

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 the resources in addition to those of the Loan which may be necessary for the complete and uninterrupted execution of the Project, the estimated amount of which is specified in the Special Conditions. If during the process of disbursement of the Financing an increase in the estimated cost of the Project arises, the Bank may require the modification of the investment schedule referred to in Article 4.01(d) of these General Conditions in order that the Borrower shall meet such increase.

(b) Beginning with the calendar year following the initiation of the Project and during the period of its execution, the Borrower shall demonstrate to the Bank in the first sixty (60) days of each calendar year that it will have available when needed the resources necessary to make the local contribution to the Project during that year.

CHAPTER VII

Records, Inspections and Reports

ARTICLE 7.01. Internal Control and Records. The Borrower or the Executing Agency, as the case may be, shall maintain an appropriate system of internal accounting and administrative controls. The accounting system shall be organized so as to provide the necessary documentation to permit the

verification of transactions and facilitate the timely preparation of financial statements and reports. The records of the Project shall be maintained in such a way that: (a) they make it possible to identify the sums received from the various sources; (b) they show, in accordance with the catalogue of accounts approved by the Bank, the investments in the Project, both with the resources of the Loan and with the other funds to be provided for its complete execution; (c) they include sufficient detail to show the goods acquired and the services contracted, as well as the utilization of such goods and services; and (d) they show the cost of the investments in each category and the progress of the works. With respect to credit programs, the records shall also detail the credits granted, the recoveries obtained, and the utilization of the funds recovered.

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

(b) The Borrower and the Executing Agency, if any, shall permit the Bank to inspect at any time the Project, 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 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.

ARTICLE 7.03. Reports and Financial Statements. (a) The Borrower or the Executing Agency, as appropriate, shall present to the Bank the following reports, within the periods specified with respect to each:

- (i) Reports on the execution of the Project, within sixty (60) days following the end of each calendar Semester, or within such other period as the parties may agree, prepared in accordance with the relevant rules agreed to with the Bank.
- (ii) 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.
- (iii) Three copies of the financial statements for the entire Project as of the close of each fiscal year of the Executing Agency, and supplementary financial information relating to such statements. Such financial statements shall be submitted within one hundred and twenty (120) days following the close of each fiscal year of the Executing Agency, beginning with the fiscal year in which the Project was initiated and during the period stipulated in the Special Conditions.
- (iv) When the Special Conditions so require, three copies of the financial statements of the Borrower as of the close of each fiscal year, and

supplementary financial information relating to such statements. The financial statements shall be submitted during the period stipulated in the Special Conditions, beginning with the fiscal year in which the Project was initiated and within one hundred and twenty (120) days following the close of each fiscal year of the Borrower. This obligation shall not apply if the Borrower is the Republic or the Central Bank.

- (v) When the Special Conditions so require, three copies of the financial statements of the Executing Agency as of the close of each fiscal year, and supplementary financial information relating to such statements. The statements shall be submitted during the period stipulated in the Special Conditions, beginning with the fiscal year in which the Project was initiated and within one hundred and twenty (120) days following the close of each fiscal year of the Executing Agency.

(b) The statements and documents described in subparagraphs (a)(iii), (iv) and (v) shall be submitted with the opinion of the auditing entity specified in the Special Conditions of this Contract and in accordance with requirements satisfactory to the Bank. The Borrower or the Executing Agency, as the case may be, shall authorize the auditing entity to provide the Bank with any additional information it may reasonably request with respect to the financial statements and audit reports issued.

(c) 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 periods mentioned above, the Borrower or the Executing Agency shall contract the services of a firm of independent public accountants acceptable to the Bank. The services of a firm of independent public accountants may also be utilized if the contracting parties so agree.

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 as to 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****Support Program for Transforming Education and Training - Phase I****I. Objective**

- 1.01** The long-term goal of the Program is to enhance human capital accumulation through the development of a dynamic system of education and training that is aligned with the demands of the economy for skilled human resources. The purpose of the Program is to effectively implement targeted innovations that address the educational needs of Bahamian youth, including: (i) a relevant education and training system, articulated at the secondary and post-secondary levels; (ii) improved quality and access to early education; and (iii) a strengthened capacity in schools to accommodate children with special needs.

II. Description

- 2.01** The Program is Phase I of a multiphase operation (hereinafter the Program is also referred to as “Phase I”) that will provide systemic and longer-term support to the education sector over an estimated period of seven (7) years. The activities of the multi phase operation shall be financed in two (2) phases, with a Phase I of approximately three (3) years, and eventually a Phase II of four (4) years. The Program will focus on strengthening institutional capacity, testing new initiatives and establishing the foundations for the transformation of the country’s technical and vocational education system. Within this context, Phase I will support MOE efforts to: (a) build the required internal systems within the Ministry of Education (“MOE”) and other agencies to improve overall sector management; (b) develop policy and regulatory frameworks required for a coherent and well-articulated education and training system; (c) implement and evaluate new initiatives in early education and inclusive education; and (d) strengthen the relationship between the public and private sectors, deemed important for a more responsive education and training system.
- 2.02** Phase II shall build upon activities initiated in Phase I, taking into account the results of the external evaluation and lessons learned. In particular, Phase II aims to complete the transformation of the Technical Education and Vocational Training (“TVET”) system and expand newly tested initiatives to the national level. The multiphase approach should allow for a sustained effort to be made in key areas of vocational and technical education, early education and inclusive education.

In order to achieve the above-mentioned objective, the Program will be implemented through the following components:

Component 1: A National Framework for Technical Education and Vocational Training

- 2.03** This component will contribute to the creation of an articulated TVET system characterized by a permanent relationship with the productive sectors, aligned with the demands of the employment sector, and adherent to standards that allow its graduates to become successful participants in the labor market.
- 2.04** Activities will support the establishment of the National Workforce Development Council (“NWDC”), ultimately responsible for monitoring the quality of the TVET sector. The Council will be developed in two stages. In Phase I, a Special Projects Unit will be established within MOE to develop the operational guidelines and legal framework of NWDC. This unit will also engage stakeholders in the process of: (i) developing a national qualifications framework (aligned with Caribbean regional and international models); (ii) defining the agency’s accreditation and certification functions; (iii) developing standards to guide training programs at all levels; (iv) facilitating stakeholder consultations to build national consensus around the mission of NWDC; and (v) creating a labor-market information system to inform the sector and facilitate the flow of data from the schools, The Bahamas Technical and Vocational Institute (“BTVI”), Government and employers. Initial labor market studies will include the construction and information technology (“IT”) sectors. Program resources will also finance learning missions to pertinent regional agencies to inform the setting-up of the NWDC.

(a) Secondary Education:

- 2.05** MOE’s adoption of an updated, standards-driven model for secondary education and TVET delivery will lay the foundation for a well-educated and productive workforce. In Phase I, this subcomponent will finance technical assistance, goods, and other services required to: (i) review and benchmark the content and delivery of the high-school mathematics, science, and language arts curriculum, including the revision of prioritized TVET programs in the hospitality and tourism, construction, and IT sectors; (ii) update core academic and TVET standards to reflect integrated learning and the achievement of competencies required for higher education and employment; (iii) introduce technology into all secondary schools, teach students IT skills adherent to international standards and train teachers to infuse technology into subject areas throughout the curriculum; (iv) model the revised TVET programs in up to eight (8) demonstration schools including the training of teachers and provision of needed equipment; (v) expand the “career exploration” program to include a wider array of disciplines and schools, with teacher training; (vi) provide professional development opportunities for teachers through industry-based training, learning missions and shadow assignments to enhance the delivery of the updated curriculum; and (vii) design and implement tracer studies to follow graduates. In accordance with MOE’s E-Education Plan, loan resources will also be used to upgrade IT hardware, develop and acquire digital educational resources and software, create a technical support system throughout the country, and provide IT training for teachers and administrators.

(b) Bahamas Technical Vocational Institute:

- 2.06** BTVI is the focal point for improved TVET delivery. This requires a reorganization of the Institute into a semi-autonomous agency and the creation of a genuine partnership with the private sector and labor. A more flexible modus operandi will enable BTVI to initiate its accreditation process and to respond in a timely manner to any requirements associated with this process.
- 2.07** As a first step an interim governing board will supervise the development of a comprehensive business plan, to be financed by the Program, which will help BTVI to: (i) reorganize the department of student services, including the contracting of additional staff and acquisition of equipment for this department as well as equipping a library at BTVI; (ii) the purchase of equipment required to offer more site-based training in New Providence and the Family Islands; and (iii) develop a strategy for future expansion. Once the business plan is developed the Program will also finance items (i) through (iii).
- 2.08** Phase I will also finance the technical assistance, goods and services that are required to: (i) update and develop certificate and diploma programs within BTVI in response to immediate and future needs in the trades, hospitality/tourism and IT; (ii) strengthen BTVI's capacity to broker and deliver fee-based customized training to employers throughout the islands; and (iii) develop and implement a "bridge program" to expand opportunities for disfranchised youth to improve their general academic skills while acquiring basic technical skills¹. The Program will finance the hiring of an adjunct faculty as well as equipment purchased to support BTVI's new responsibilities; technical assistance will be provided to ensure the effective implementation of training and staff development, including financing of training courses abroad for BTVI faculty.

(c) Public-private partnership ("PPP"):

- 2.09** The private sector has expressed its commitment to become a permanent stakeholder in program-financed activities. To this end, Phase I will support the establishment of a small secretariat in the Bahamas Chamber of Commerce that will: (i) mobilize business and industry to become active contributors to Program activities; (ii) design a structure to capture private-sector investment confidence, including the distribution, management, and auditing of contributions (including cash and in-kind contributions of hardware, software, facilities, equipment, and technical services); (iii) strategically recruit experienced staff to serve as adjunct trainers during the initial expansion of BTVI programs; and (iv) coordinate field-based internships and mentored practicums for students and for professional upgrading of BTVI and secondary TVET faculty. The continuous involvement of the productive sectors should help to ensure that new initiatives prove relevant to employers.

¹ BTVI's Bridge program will be modeled on successful outreach programs in community colleges and polytechnic institutes throughout the region.

Component 2: Investing in the future

- 2.10** This component will invest in the early development of one of the most enduring resources in The Bahamas – its children. The early education subcomponent will contribute to the long-term efficiency of the education system through improved quality and equity in early learning. The inclusive education subcomponent will enhance programs and support services that assist students with diverse learning needs to achieve their academic and human potential.

(a) Early Education:

- 2.11** This subcomponent will support: (i) promotion and implementation of national standards of practice; (ii) institutional strengthening of MOE's Early Education Unit to allow for more effective programming, planning, and monitoring; (iii) capacity building for teachers and administrators in preschool centers; and (iv) development of innovative programs targeting children and their families in the Family Islands. In order to facilitate the implementation of national standards for quality early education, Phase I will support a process of public consultation to sensitize parents, community activists, the private business sector and private preschool providers to quality standards in education and ensure full "buy-in" of all stakeholders. A model Laboratory Early Education Center will be developed as a national training and research site and a multi-sector National Council will be established to advise on matters relating to educational policies, national and social development, regulations and the overseeing of the management of early childhood centers. A longitudinal study on early child development will be dimensioned to provide quantitative and qualitative data and to inform future policy-making and practices. Finally, in order to ensure their effective role in the implementation of new standards, the Early Education Unit of the Ministry will be strengthened through professional development and technical assistance.

- 2.12** Training in the new standards will also be extended to providers and scholarships will be awarded to stimulate professional upgrading, particularly among private providers. In order to encourage early education personnel in the private sector to meet the qualifications as stipulated in the new standards, the program will establish and finance a government assisted plan to subsidize approximately fifty per cent (50%) of the cost of the Auxiliary Teacher Certificate in Preschool Education for at least three hundred (300) in-service teachers. Lastly, an informal community based program will be established on the more remote and less developed Family Islands, targeting parents and young children who at present have little or no access to early childhood education.

(b) Inclusive education:

- 2.13** The strategies and actions proposed in this area are oriented towards strengthening the capacity of schools to accommodate students with a wide range of learning needs. While the main priority is placed on regular schools and classrooms, there is some focus on strengthening existing special education programs and services. The central thrust of this subcomponent is to demonstrate the potential capacity of regular schools to successfully

educate students with various special needs, including the gifted and talented. To achieve this objective, Phase I will: (i) establish a legislative and policy basis for national standards of practice and outcomes that can be used to assist schools achieve success with all students, including those with special needs; (ii) enhance the knowledge, skills, and capacity of classroom teachers, special education teachers, support services personnel and administrators to meet the learning needs of all students; (iii) establish a pilot project to model inclusive education practice in regular schools and classrooms, and to provide a knowledge base for best practices to meet diverse student needs; (iv) support the development of a strategy to institutionalize the universal screening of all students at an early age; and (v) create a basis for systemic change in special educational practice by promoting public awareness of the challenge of inclusion and diversity in today's schools, by engaging the public, parents and the private sector in partnerships efforts, and by gathering and sharing information on successful practice.

Component 3: Strengthening sector management

- 2.14** This component will support development of the institutional policies, internal systems and management capacity.

(a) E-Education Plan:

- 2.15** Phase I will finance the provision of technical assistance to the Planning Unit of MOE for the development of its E-Education Plan, in tandem with the national E-Government policy. The plan will emerge from stakeholder consensus, and include policies for data management and classroom IT applications. A limited amount of hardware and software will also be financed

(b) Strategic planning and leadership:

- 2.16** With major interventions in TVET, Information and Communication Technology ("ICT"), early education and inclusive education, strategic planning within MOE and BTVI assumes great importance. Hence, Phase I will enhance MOE and BTVI leadership capacity with respect to program management and decision making. Activities include: (i) development of MOE's 2008-2012 Strategic Plan; (ii) strengthening MOE and BTVI middle-management capacity through targeted short courses; and (iii) modular training in project management for executing unit staff and MOE/BTVI officers with line responsibility. MOE's Planning Department, assisted by specialized consultants, will lead the planning process.

(c) Monitoring and evaluation:

- 2.17** Phase I will strengthen the capacity of the Inspectorate to analyze data, conduct research and provide oversight to the sector. In addition, all evaluative work and impact analysis conducted by the Program will be coordinated with the Inspectorate to enhance sector-wide coordination and quality assurance. The proposed Educational Management Information System ("EMIS") architecture will facilitate the Inspectorate's access to current data and a

monitoring and evaluation manual will be developed to guide its research. At the end of Phase I, the capacity of the Inspectorate to perform its monitoring and oversight functions will be assessed. This subcomponent will also finance the collection and analysis of baseline data for the entire program as well as the external evaluation at the end of Phase I.

III. Total Cost of the Program and Financing Plan

3.01 The estimated cost of the Program is the equivalent of twenty two million five hundred thousand dollars (US\$22,500,000), in accordance with the following investment categories and sources of financing:

Cost and Financing (in thousands of US\$ equiv.)

Category		IDB	Local	Total	%
1	Secondary and Post Secondary Education and Training	9,425	1,664	11,089	49%
1.1	Information Communication Technology in Curriculum	2,641	467	3,108	
	a. hardware upgrade and digital educational resources	1,442	255	1,697	
	b. training	1,199	212	1,411	
1.2	Bahamas Technical and Vocational Institute	3,191	563	3,754	
	a. organizational restructuring	1,402	247	1,649	
	b. development, certification and licensing of new programs	1,789	316	2,105	
1.3	Secondary Curriculum	2,612	461	3,073	
	a. curriculum revision and development of new courses	1,468	259	1,727	
	b. professional development and support	1,144	202	1,346	
1.4	National Workforce Council and Public Private Partnership	981	173	1,154	
2	Investing in the Future	3,628	907	4,535	20%
2.1	Early Education	1,668	417	2,085	
	a. implementation of national standards	862	216	1,078	
	b. community based programs and capacity building	806	201	1,007	
2.2	Inclusive Education	1,960	490	2,450	
	a. demonstration model school	274	68	342	
	b. social communication and capacity building	1,686	422	2,108	
3	Sector Management	1,844	205	2,049	9%
3.1	Design and Implementation: EMIS	1,002	111	1,113	
3.2	Leadership Capacity Building	349	39	388	
3.3	Monitoring and Evaluation	493	55	548	
4	Administration	1,215	1,523	2,738	12%
4.1	Project Coordination Unit	1,015	1,523	2,538	
4.2	Audit	200	-	200	
5	Contingencies	1,043	156	1,199	5%
6	Financial Costs	845	45	890	4%
6.1	Interest	845	-	845	
6.2	Credit Commission	-	45	45	
	Total	18,000	4,500	22,500	100%
	% by funding source	80%	20%	22,500	

IV. Execution

- 4.01** The Borrower is the Commonwealth of The Bahamas. The Executing Agency will be the MOE.
- 4.02** MOE will use an integrated implementation model, whereby it maintains overall control and responsibility for Program execution, technical interventions, and financial oversight, but core Program management functions are outsourced to highly specialized consultants. In this model, Program activities will be executed within MOE and BTVI line units using work plans to support implementation. At the same time, technical assistance will be mainstreamed into line units to enhance technical capacity and the transfer of technology in core areas of MOE's portfolio. Training for senior and middle management will also strengthen implementation capacity. This arrangement will enhance the timely execution of Phase I, as the management team will bring to the job the level of specialized skills that are required to fast-track services.
- 4.03** Program Management Unit ("PMU"):. A PMU will be established with a team of highly specialized individual consultants responsible for core management functions. The functions to be outsourced on a competitive basis include: (i) Program Management – facilitation of programming, execution and resource management, including program monitoring, scheduling, planning, reporting, loan compliance and obtaining no-objections; (ii) Operational Management – management of communications medium, assets, space rental, warehousing, delivery of goods, maintenance and troubleshooting; (iii) Procurement Management – procurement planning, preparation of bid documents and contracts, and contract management, including the negotiation of technical services and goods; and (iv) Monitoring and Evaluation – collection, consolidation and analysis of data related to logframe indicators and triggers, coordination of external evaluation of Phase I, and execution of site observations to ensure quality and consistency with Program objectives.
- 4.04** A dedicated senior financial officer from the Treasury, Ministry of Finance ("MOF") will be seconded to the PMU on a permanent basis for the duration of the Program with responsibility for all financial and accounting arrangements; consolidation of Program component budgets; preparation of expenditure statements for management information, payments, disbursements and financial audits; and management of the imprest account. The officer will work as a full time member of the PMU, reporting to the Program Manager and the Permanent Secretary of MOE. Hence, MOE maintains ultimate control and responsibility for financial management of the operation.
- 4.05** Support staff such as secretaries, documentation clerks and drivers will be responsible for providing general administrative and operative assistance to the unit specialists.
- 4.06** The PMU will perform the following duties, which are specified in the Program's Operating Manual: (i) coordinate and supervise all Program activities; (ii) prepare annual work plans in coordination with MOE and BTVI line units; (iii) monitor and evaluate operational performance and outputs; (iv) prepare semester reports for the Bank and MOE leadership,

informing on progress toward agreed upon Phase II triggers as well as other logframe indicators; (v) prepare all tender documents, notices and reports for procurement of works, goods and services, and notify firms and consultants in a timely manner; (vi) assist line units with the finalization of terms of reference for specialized consulting, technical assistance and training services as provided for in the program; (vii) prepare an annual budget and perform accounting and financial record keeping related to the use of loan proceeds; and (viii) prepare all documentation concerning fulfillment of contractual conditions, including disbursement requests. The PMU will report directly to the MOE Permanent Secretary.

- 4.07** In addition to the PMU, a small secretariat will be attached to the office of the MOE Permanent Secretary to: (i) liaise with the PPP and the Workforce Development Secretariat; and (ii) conduct public outreach and oversee social communication campaigns. In particular, marketing efforts will create support for the successful implementation of national standards and regulations for early education; the inclusion of children with disabilities, learning difficulties and disadvantages in the regular school system; and changes introduced at BTVI, among others.
- 4.08** The execution scheme gives MOE control of actual interventions. These activities will be coordinated by three (3) Quality Assurance Coordinators, one to coordinate MOE interventions in the areas of early education and inclusive education; one to coordinate MOE interventions with secondary, TVET and EMIS; and one to oversee activities related to the transformation of BTVI. The Quality Coordinator MOE will report to the Director of Education and the Quality Coordinator BTVI will report to the Director of Higher Education; however, all will maintain a fluid, functional relationship with the PMU Program Manager in order to facilitate Program execution. Their role will be to identify implementation issues, help to resolve bottlenecks and report program advances.
- 4.09** A Program Management Steering Committee (“PMSC”) will meet at least on a quarterly basis to ensure the integrated planning and programming of activities, as well as to enable strategic decision-making. Its functions will include: (i) review and sanction of annual work plans and semester reports prepared by the PMU; (ii) monitoring Program performance against established benchmarks and providing guidance to the PMU and MOE technical teams as necessary; (iii) endorsement of any changes in Program activities; and (iv) review and approval of the Phase I evaluation report. The PMSC will be chaired by the MOE Permanent Secretary and will consist of MOE leadership, private-sector representatives, the PMU Manager (as Secretary to the Committee), and the Bank’s Sector Specialist (*ex-officio*). Ultimately, the PMSC will ensure MOE oversight of the quality of interventions, their consistency with policy, and the dissemination of information to the public.

Execution of Component 1: National Framework for Technical and Vocational Education

- 4.10** The Special Projects Unit of MOE will undertake all preparatory and consultative work required for the development of the National Qualification Framework. The unit will constitute external program advisory committees on an *ad hoc* basis to elaborate national

standards based on regional and international norms. In addition, the unit will also be responsible for the setting up of a labor market information system and the commissioning of initial labor market studies.

- 4.11** Both the general academic upper secondary and TVET sub-components will be carried out by MOE line units. Curriculum officers will oversee the review and revision of math, science and language arts for grades 10-12, with the participation of subject teachers. TVET curriculum officers will oversee the diagnostic studies, the revision and implementation of selected TVET programs in eight (8) demonstration schools, the provision of training and equipment, and the evaluation and subsequent revision and implementation of the career exploration program. Both the secondary and TVET units will work closely together in order to ensure integration of academic and vocational subjects. Selection criteria for modeling the revised TVET programs in up to eight (8) demonstration schools will consider: (i) inclusion of Family Islands; (ii) existing infrastructure; (iii) interest of school leadership and teachers to participate; and (iv) a school culture that supports new initiatives and approaches.
- 4.12** Regarding BTVI activities, the Government of The Bahamas is in the process of appointing a governing board with multi-sector representation, to oversee the development of the business plan for BTVI and the institution's transformation. To ensure articulation between the secondary TVET education and BTVI efforts, curriculum committees will be formed which will include representatives from MOE and BTVI. These curriculum committees will be in charge of developing new training programs consistent with the new standards. To facilitate execution, whenever possible, MOE will purchase existing packages of assessment instruments and curricula materials that meet required standards. The programs can then be adjusted to the Bahamian context.

Execution of Component 2: Investing in the Future

- 4.13** The early education subcomponent will be executed by the Preschool Unit of MOE, who will oversee the implementation of the new standards, the establishment of the laboratory preschool, the development of community based programs on the Family Islands, and professional development initiatives. Selection criteria for the distribution of government grants for the Auxiliary Teacher Certificate training, along with application procedures, will be detailed in the Operating Manual of the program.
- 4.14** A community based early education program will be set up on nine (9) of the Family Islands, which at present do not have access to such services. The program will consist of a parent outreach initiative targeting children under three (3) years, and parent work groups aimed at reaching three (3) to five (5) year olds. As part of the outreach initiative, a home visiting facilitator will train parents in the importance of high quality early childhood practices and child developing issues. For older children, parents will form themselves into working groups to assist their children with their developmental needs. These neighborhood work groups will be facilitated once a month by the education officer/facilitator but will be led by parents who have been trained to manage the groups. In addition, MOE will finance radio spots on a regular basis to inform parents and encourage their participation.

- 4.15** A multi-sectoral National Council, including both public and private representatives, will support the establishment of a genuinely collaborative model, which will bring stakeholders together to drive policies and regulate the management and standards of practice in the field of Early Education in The Bahamas. Members will meet regularly to address national problems, such as those of inequality and quality of early education, and will also act as an advisory council to the Minister of Education. The constitution and mandate of the Council is detailed in recently passed legislation for early childhood care.
- 4.16** The inclusive education subcomponent will be executed by the Special Education Unit, with support from the Special Services Unit. As a first step, the unit will establish a working group to produce standards of practice for inclusive education. This will be followed by orientation and training on the standards of practice, and development of methods of reporting both school and student performance. Sensitization and training initiatives will include at least one (1) teacher per grade level in all primary and all-age schools, as well as the principals of these schools. Resource and support teachers, school psychologists and language/speech therapists will also be targeted for professional development opportunities.
- 4.17** Eight (8) schools will be selected to participate in the demonstration experience for the inclusion of children with special needs. Five (5) primary schools will be designated: two (2) in New Providence, one (1) in Grand Bahama, and two (2) others, one on each of two (2) different Family Islands. To provide some experience with older students, and as a preparation for the next phase of the initiative, one junior high school in New Providence will also be selected. Two (2) additional schools will be selected to complete the “pilot” schools: one all-age school on a Family Island and one central secondary school on a remote island. The criteria for the selection of schools should include evidence of the following characteristics: demonstrated interest in participation; effective leadership; committed teachers; some positive experience, even if limited, in accommodating students with diverse learning needs; a school culture supportive of innovation and improvement in instructional practices to increase student learning; and a positive relationship with parents and community stakeholders.

Execution of Component 3: Strengthening Sector Management

- 4.18** To implement the E-Education Plan, an IT section will be established within MOE. The section’s responsibilities will include: (i) coordinate all IT-related projects; (ii) improve MOE’s current intranet system to enhance the flow of information among units, and within the Government’s wide-area-network; and (iii) design and implement a central statistical database.
- 4.19** Strategic leadership and management training activities for MOE and BTVI’s middle and upper level management personnel will be coordinated by the Director of Education and the Director of Higher Education respectively. Consultants will be hired to provide short-term courses and seminars, with emphasis on the first eighteen (18) months of the Program.

- 4.20** While the PMU will contract all necessary technical assistance to support the efforts of the Inspectorate for Monitoring and Evaluation, the Office of the Permanent Secretary with the support of the Director of Education, will have general oversight of the activities carried out and the evaluation reports generated.
- 4.21** Operations Manual: The Operations Manual will guide and govern the execution of the Program and will include: (i) a description of the institutional framework, including the organization and operative structure of the program, and identifying the key entities involved in its execution; (ii) a description of coordination mechanisms between components—when appropriate—and between various entities participating in the program; (iii) procedures for the administrative and financial management of the Program; (iv) procedures for the contracting of goods and services; (v) procedures for coordination between the Program, MOE Departments including BTVI, the Workforce Development Council (special unit), and the Bank; (vi) mechanisms and procedures for monitoring and evaluation; (vii) terms of reference for all key PMU positions that will support execution; and (viii) terms of reference for all key consultancies to be financed under the various components of the Program.

V. Monitoring, Evaluation, Reports and Audits

- 5.01** Evaluation: When at least forty percent (40%) of Program resources have been disbursed and/or after thirty (30) months of Program execution, an external evaluation will be conducted using loan resources to evaluate Phase I activities and assess readiness for Phase II. The evaluation report will highlight the degree to which the goals and indicators agreed between the borrower and the Bank were achieved. It will also contain relevant recommendations for changes or adjustments to Phase II, related to both institutional aspects and education processes.
- 5.02** In accordance with multiphase loan operational requirements, advancement from the first to the second phase will be subject to the level of disbursed resources (at least fifty percent (50%) of resources disbursed and seventy percent (70%) committed) and the reaching of milestones defined by specific output and/or results indicators (see Table “Phase II Triggers”). For the purpose of this Program, eight (8) out of the ten (10) indicators should be achieved:

Table: Phase II Triggers	
a)	Legislation establishing The National Workforce Development Council and regulations describing its functions are sent to Cabinet and under consideration.
b)	A model for secondary TVET updating and delivery is approved by MOE.
c)	E-literacy core is operational in 50% of all public high schools.
d)	Legislation for a semi-autonomous BTVI sent to Cabinet and under consideration.
e)	The PPP is operational and funded exclusively by the private sector.
f)	Regulations to preschool legislation have been implemented and distributed to stakeholders
g)	The Laboratory Early Childhood Center is established and operational.
h)	The demonstration school experience for inclusive education has been evaluated
i)	MOE approval of the E-Education plan.
j)	MOE Strategic Plan for 2008 – 2012 approved by Minister.

- 5.03** Monitoring: The PMU will operate a permanent monitoring system to evaluate the progress of all Program activities. As part of this system, PMU will collect and retain updated information on performance indicators, annual implementation plans, and all evaluations. Throughout the program execution period, MOE though PMU will submit semiannual progress reports to the Bank within sixty (60) days after the end of each six (6) month period. The reports will include information on: (a) the progress achieved in terms of the targets established in the Program’s logical framework, previously agreed upon by the executing agency and the Bank; and (b) a summary of the problems encountered during the respective period and how they were resolved.
- 5.04** Financial Management: Management of the Program’s financial resources will be the daily responsibility of the MOF Senior Financial Officer of the PMU and in accordance with international accounting norms. As specified in Section 3.06 of the Special Conditions, the revolving fund will amount to five percent (5%) of the value of the loan. The PMU will present every semester to the Bank a statement of the flow of resources of this fund. The Borrower, through the MOF, will establish and maintain a separate and specific bank account in the Central Bank of The Bahamas for the purposes of managing the Bank loan funds. The local counterpart resources will be allocated in the National Budget, funds will be drawn down by the MOE as they are required for eligible Program expenses.
- 5.05** Supervision: The Bank, though its Country Office in The Bahamas shall take primary responsibility for the Bank’s supervision of the Program and will conduct ex ante reviews of disbursements. The executing agency will remit requests for disbursement to the Bank with payment breakdown information. The original supporting documents will be available for inspection by the Bank and/or external auditors. Semi-annual supervision reviews will be conducted by the Bank to track loan execution.
- 5.06** Audits: In accordance with Bank policies and procedures (AF-100, AF-200, AF-300, AF-400 and AF-500), the Executing Agency will hire an independent firm of public

accountants acceptable to the Bank to conduct an external audit of Program operation, financing and compliance. Since the costs of the audit will be covered using proceeds from the Bank loan, the firm will be hired on the basis of the selection and contracting procedures for audit firms approved by the Bank.

- 5.07** Throughout the Program execution period, the Executing Agency will submit annual financial statements to the Bank, audited by the audit firm. The financial statements must be submitted within one hundred and twenty (120) days after the end of each fiscal year, and within one hundred and twenty (120) days after the last disbursement.
- 5.08** An Operations and Financial Audit Report will be submitted to the Bank annually. The report will contain: (i) a review of compliance with contractual conditions; (ii) a review of procurement procedures and disbursement requests presented to the Bank; (iii) an evaluation report on the internal control system for the Program; and (iv) a review of supplementary financial information, including reconciliation of accounting and financial records for the program with information from the Bank, and reconciliation of the imprest account.
- 5.09** Beginning with the calendar year following the initiation of the Project and during the period of its execution, the Borrower shall demonstrate to the Bank in the first sixty (60) days of each fiscal year that it will have available when needed the resources necessary to make the local contribution to the Project during that year.