

July 22, 2010

The Honourable Zhivargo S. Laing
Minister of State for Finance
Ministry of Finance
Sir Cecil Wallace-Whitfield Centre
P. O. Box N-3017
Nassau, NP,
The Bahamas

Fax: (242) 327-1620

Ref.: Nonreimbursable Technical Cooperation
No. ATN/OC-12185-BH. Management for
Results.

Dear Minister,

This Letter of Agreement (hereinafter referred to as the “Agreement”) between the Commonwealth of The Bahamas, (hereinafter referred to as the “Beneficiary”), and the Inter-American Development Bank (hereinafter referred to as the “Bank”), is to formalize the terms of a grant of a nonreimbursable technical cooperation contribution (hereinafter referred to as the “Contribution”) to the Beneficiary, up to the amount of one million and five hundred thousand dollars of the United States of America (US\$1,500,000), which shall be chargeable to Sub-account B of the Program to Implement the External Pillar of the Medium Term Action Plan for Development Effectiveness (PRODEV). The Contribution will finance the contracting of consulting services and procurement of goods necessary for the execution of a technical cooperation program to introduce the principles of management for results in public sector management and administration in The Bahamas (hereinafter referred to as the “Project”), a description of which is set forth in the Annex of this Agreement. Unless otherwise stated in this Agreement, the term “dollars” shall hereinafter refer to the currency of legal tender in the United States of America.

The Bank and the Beneficiary agree upon the following:

First. Components of the Agreement. This Agreement consists of this part one, referred to as the “Special Conditions”; part two, referred to as the “General Conditions”, and the Annex, which are attached hereto. The prevalence between the Conditions and Annex is established in Article 1 of the General Conditions.

Second. Executing Agency. The Executing Agency of this Project shall be the Ministry of Finance, (hereinafter referred to as the “Beneficiary” or “Executing Agency”).

Third. Conditions Prior to First Disbursement. The first disbursement of the Contribution shall be subject to the fulfillment, to the satisfaction of the Bank, of the conditions set forth in Article 2 of the General Conditions, as well as the following requirement:

- (a) The selection and hiring of the Project Coordinator.

Fourth. Reimbursement of Expenditures Chargeable to the Contribution. With the consent of the Bank, resources of the Contribution may be used to reimburse expenditures incurred or to finance those that may be incurred in the Project on or after June 9th 2010, and up to the date of this Agreement, provided that requirements substantially similar to those set forth in this Agreement have been fulfilled.

Fifth. Deadlines. (a) The period for execution of the Project shall be twenty four (24) months, from the effective date of this Agreement.

(b) The period for the last disbursement of the resources of the Contribution shall be thirty (30) months from the effective date of this Agreement, which shall include the period required for the payment of independent auditors referred to in Article 11 of the General Conditions. Any part of the Contribution which has not been utilized within this period shall be canceled.

(c) The aforementioned deadlines and any others that may be stipulated in this Agreement may be extended, when duly justified, with the written consent of the Bank.

Sixth. Total Cost of the Project and Additional Resources. (a) The Executive Agency undertakes to make timely provision of the resources required, in addition to the Contribution, for the complete and uninterrupted execution of the Project, hereinafter referred to as the "Counterpart Resources." The total Counterpart Resources required is estimated to be the equivalent of one hundred and sixty five thousand dollars (US\$165,000), to make up a sum equivalent to one million and six hundred sixty five thousand dollars (US\$1,665,000), which is estimated to be the total cost of the Project. These estimates do not reduce the obligation of the Beneficiary to provide any additional resources required to complete the Project.

(b) The Counterpart Resources provided by the Beneficiary shall be used to finance the cost categories which are chargeable to it, as established in the Project's budget set forth in the attached Annex.

Seventh. Recognition of Expenses Chargeable to the Counterpart Resources. The Bank may recognize, as part of the local contribution, expenditures incurred or which may be incurred in the Project on or after June 9th, 2010 and up to the date of this Agreement, provided that requirements substantially similar to those set forth in this Agreement have been fulfilled.

Eighth. Currencies for Disbursements. The Bank shall disburse the Contribution in US dollars. The Bank may convert these convertible currencies into other currencies,

including the local currency by applying the exchange rate indicated in Article 7 of the General Conditions.

Ninth. Acquisition of goods and services. The acquisition of goods and related services (different from consulting services) will be carried out by the Executing Agency in accordance with the provisions set forth in Document GN-2349-7 (“Policies for the Procurement of Works and Goods Financed by the Inter-American Development Bank”), dated July, 2006 (hereinafter referred to as the “Procurement Policies”), which are known to the Beneficiary, and the following provision: Goods and works shall be procured pursuant to the provisions set forth in Section II of the Procurement Policies for International Competitive Bidding.

Tenth. Selection and contracting of consulting services. The selection and contracting of consulting services will be carried out by the Executing Agency in accordance with the provisions set forth in Document GN-2350-7 (“Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank”) dated July 2006. The Beneficiary confirms its familiarity with those provisions of Document GN-2350-7. The Beneficiary, through the Executing Agency, will be able to use the method of selection based on the cost and the quality set forth in Section II and in paragraphs 3.2 to 3.8 of Section III of Document GN-2350-7; and any of the methods set forth in Section V of Document GN-2350-7 for the selection and contracting of individual consultants. For purposes of paragraph 2.7 of Document GN-2350-7, the short list of consultants whose contracts are estimated to be below two hundred thousand dollars (US\$200,000) per contract may be composed in its entirety by national consultants.

Eleventh. Procurement Plan. Before starting any competitive bidding process or any request for proposals for the acquisition of goods and services (different from consulting services) and consulting services, respectively, the Executing Agency shall prepare and furnish to the Bank for its approval, a Procurement Plan acceptable to the Bank setting forth the particular contracts for consulting services required to carry out the Program, including the estimated cost of each contract, and the proposed methods for acquisition of goods and selection of consultants’ services, in accordance with paragraphs 1 of Appendixes 1 of Documents GN-2349-7 and GN-2350-7, respectively. This Procurement Plan shall be reviewed by the parties every six (6) months during the execution of the Project, and each updated version shall be submitted for the Bank’s approval. The Beneficiary, through the Executing Agency, shall implement the Procurement Plan in the manner in which it has been approved by the Bank.

Twelfth. Review by the Bank. Unless the Bank agrees otherwise in writing, each contract for the acquisition of goods and for the contracting of consulting services shall be subject to an *ex-ante* review, in accordance with the procedures established in paragraphs 2 and 3 of Appendixes 1 of Documents GN-2349-7 and GN-2350-7.

Thirteenth Auditing. (a) The Executing Agency undertakes to present, to the Bank’s satisfaction, the financial statements of the Program duly certified by a firm of independent accountants in accordance with the Bank’s policy and procedures on this matter and in accordance with Article 11(b) of the General Conditions of this Agreement.

(b) The auditing of the financial statements referred to in subsection (a) above will be financed with the Contribution.

Fourteenth. Information Disclosure. The Beneficiary undertakes to notify the Bank, in writing, within a maximum period of ten (10) working days from the date of signature of this Agreement, whether it considers any part of the Agreement to be confidential or sensitive, or information that may adversely affect relations between the Beneficiary and the Bank or between private sector clients and the Bank, in which case the Beneficiary undertakes to identify those provisions considered as such. In accordance with the Bank's Disclosure of Information Policy, the Bank will make the text of this Agreement available to the public once it has been signed and has entered into effect, with the sole exception of that information which the Beneficiary has specifically identified as confidential, sensitive or adverse to relations with the Bank in the manner indicated in this paragraph.

Fifteenth. Notice. Any notice, request, or communication from one party to another by virtue of this Agreement shall be made in writing and shall be considered to have been made when the relevant documents are delivered to the addressee, unless the parties otherwise agree in writing. If to the Beneficiary, such notice shall be addressed to the same address indicated above. If to the Bank, such notice shall be addressed to:

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

Facsimile: (202) 623-3096

IN WITNESS WHEREOF, the Beneficiary and the Bank, each acting through its authorized representative, have signed this Agreement, in two (2) equally authentic copies in Nassau, The Bahamas, on the date above written.

THE COMMONWEALTH OF THE
BAHAMAS

INTER-AMERICAN DEVELOPMENT
BANK

/s/ Zhivargo S. Laing

/s/ Dora Currea

The Honourable Zhivargo S. Laing
Minister of State for Finance

Dora Currea
General Manager
Country Department Caribbean Group

**GENERAL CONDITIONS APPLICABLE TO
NONREIMBURSABLE TECHNICAL COOPERATIONS**

Article 1. Application and Scope of General Conditions. (a) These General Conditions set forth terms and conditions generally applicable to all nonreimbursable technical cooperations made by the Bank, and their provisions form an integral part of this Agreement. Any exception to these General Conditions shall be expressly stated in the text of the Special Conditions.

(b) If any provision of the Special Conditions or of the Annex or Annexes should present any inconsistency or contradiction with these General Conditions, the provisions of the Special Conditions or the corresponding Annex shall prevail. In case of inconsistencies or contradictions between the Special Conditions and the corresponding Annex or Annexes, specific provisions shall prevail over general provisions.

Article 2. Conditions Prior to First Disbursement. (a) The first disbursement of the Contribution shall be subject to the fulfillment of the following requirements, by the Beneficiary, directly or through the Executing Agency:

- (i) designation of the person or persons authorized to represent it in all acts relating to the execution of this Agreement, and submission to the Bank of authenticated specimen signatures of such persons. If two or more officials are designated, the designation shall indicate whether they may act severally or jointly;
- (ii) submission to the Bank of a request for disbursement, justified in writing; and
- (iii) presentation to the Bank of a timetable for use of the Counterpart Resources.

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

Article 3. Disbursement Procedure. (a) The Bank shall make disbursements of the Contribution to the Beneficiary, through the Executing Agency, each time it requests such disbursements and provides justification, to the Bank's satisfaction, for the expenses to be paid with the Contribution resources.

(b) At the request of the Beneficiary, through the Executing Agency, and provided that the requirements set forth in paragraph (a) above, in Article 2 and in the Special Conditions have been satisfied, the Bank may establish a revolving fund with the Contribution resources, which the Beneficiary, through the Executing Agency, shall utilize to cover eligible Program

expenses charged against the Contribution. The Beneficiary, through the Executing Agency, shall inform the Bank about the status of the revolving fund within a period of sixty (60) days from the closing date of each semester.

(c) The Bank may replenish the revolving fund entirely or in part as the resources are used, if the Beneficiary, through the Executing Agency, so requests and presents to the Bank's satisfaction, a detailed statement of expenses charged to such fund, together with the supporting documents thereof and a justification for such request. The detailed statement of expenses shall be submitted according to the catalog of accounts indicated in the Annex of this Agreement, which describes the Program.

Article 4. Expenditures Chargeable to the Contribution. The Contribution shall exclusively finance those eligible expenses which are set forth in the Program budget contained in the Annex that describes the Program. Only direct and actual Program expenses may be charged to the Contribution. Indirect or general operating expenses, which are not included in the Program budget, cannot be charged to the Contribution.

Article 5. Request for Final Disbursement. The Executing Agency shall present the final request for disbursement of the Contribution, accompanied by the appropriate supporting documentation, to the Bank's satisfaction, at least thirty (30) days before the expiration of the disbursement period referred to in the Special Conditions of this Agreement, or of any extension thereto that the parties may have agreed upon in writing. This final request for disbursement shall include the supporting documentation required for payment of the auditing services mentioned in Article 11 of these General Conditions.

Article 6. Suspension and Cancellation of Disbursements and Other Measures. (a) The Bank may suspend the disbursements or cancel the Contribution if any of the following circumstances occurs: (i) the failure of the Beneficiary to fulfill any obligation stipulated in this Agreement; (ii) if it is determined at any stage that evidence is sufficient to support a finding that an employee, agent, or representative of the Beneficiary, Executing Agency or Contracting Agency, has engaged in an act of fraud and corruption during the bidding process, negotiation of a contract, or the execution of the contract; or (iii) any circumstance which, in the Bank's opinion, may render unlikely the attainment of the objectives of the Program. Under these circumstances, the Bank shall notify the Executing Agency in writing so that it may present its points of view, and after thirty (30) days from the date of the Bank's notice, it may suspend the disbursement or cancel the undisbursed portion of the Contribution.

(b) Pursuant to paragraph (a) above, the parties agree that upon the occurrence of institutional or organizational changes within the Executing Agency, which, in the Bank's opinion, might affect the timely execution of the Program's objectives, the Bank shall review and evaluate the likely attainment of the objectives and may at its discretion, suspend, condition or cancel the disbursements of the Contribution.

(c) The Bank may cancel the part of the Contribution pertaining to the procurement of certain goods, works or related services, or consulting services, if it determines at any time that: (i) the procurement was carried out without following the procedures set forth in this

Agreement; or (ii) representatives of the Beneficiary, Executing Agency or Contracting Agency have committed any acts of fraud and corruption, either in the process of selecting the supplier or consultant or in the negotiation or execution of the respective contract, and the Beneficiary has not taken timely and remedial measures, observing the due process guarantees of the legislation of the Beneficiary's country, which are acceptable to the Bank.

(d) For the purposes of the above paragraph, acts of fraud and corruption shall be understood to include, but not be limited to, acts of: (i) a corrupt practice is the offering, giving, receiving, or soliciting, directly or indirectly, of anything of value to influence the actions of another party; (ii) a fraudulent practice is any act or omission, including a misrepresentation, which misleads, or attempts to mislead, a party in order to obtain a financial or other benefit or to avoid an obligation; (iii) a coercive practice is impairing or harming, or threatening to impair or harm, directly or indirectly, any party or property of the party to influence the actions of a party; and (iv) a collusive practice is an arrangement between two or more parties designed to achieve an improper purpose, including to influence improperly the actions of another party.

(e) If, in accordance with the administrative procedures of the Bank, it is demonstrated that any firm, entity or individual bidding for or participating in a Bank-financed Program including, *inter alia*, Beneficiary, bidders, suppliers, contractors, sub-contractors, applicants, consultants, Executing Agency or Contracting Agency (including their respective officers, employees and agents) has engaged in an act of fraud or corruption, the Bank may:

- (i) decide not to finance any proposal to award a contract or a contract awarded for works, goods, related services and consultant services financed by the Bank;
- (ii) suspend disbursement of the Contribution as described in Article 6 (a) above of these General Conditions if it is determined at any stage that evidence is sufficient to support a finding that an employee, agent or representative of the Beneficiary, Executing Agency or Contracting Agency has engaged in an act of fraud or corruption;
- (iii) cancel, the portion of the Contribution earmarked for a contract as described in Article 6 (c) above of these General Conditions, when there is evidence that the representative of the Beneficiary has not taken the adequate remedial measures within a time period which the Bank considers reasonable, and in accordance with the due process guarantees of the Beneficiary country's legislation;
- (iv) issue a reprimand in the form of a formal letter of censure of the firm, entity or individual's behavior;
- (v) issue a declaration that an individual, entity or firm is ineligible, either permanently or for a stated period of time, to be awarded or participate in contracts under Bank-financed Programs except under such conditions as the Bank deems to be appropriate;

- (vi) refer the matter to appropriate law enforcement authorities; and/or
- (vii) impose other sanctions that it deems to be appropriate under the circumstances, including the imposition of fines representing reimbursement of the Bank for costs associated with investigations and proceedings. Such other sanctions may be imposed in addition to or in lieu of other sanctions.

(f) The imposition of any action to be taken by the Bank pursuant to the provisions referred to above may be public or private.

(g) The provisions established in the precedent paragraphs (a) and (c) shall not affect the disbursement by the Bank of any amounts which the Bank by specific written agreement with the Beneficiary, Executing Agency or Contracting Agency, as the case may be, has agreed to provide from the resources of the Contribution to make payments to a supplier of goods and related services or consultant services. The exceptions set forth in this paragraph (g) shall not apply if the Bank determines that acts of fraud and corruption occurred with respect to the procurement of, or the negotiation or execution of the contract for, such goods and related services or consultant services.

Article 7. Exchange Rate for Programs Financed with Funds Expressed in Dollars of the United States of America. (a) Disbursements:

- (i) The equivalence in dollars of the United States of America of other convertible currencies in which the disbursements of the Contribution might be made, shall be calculated applying the exchange rate in effect in the market on the date of the disbursement; and
- (ii) the equivalence in dollars of the United States of America of the local currency, or other non-convertible currencies, in the case of regional Programs, in which the disbursements of the Contribution might be made, shall be calculated applying, on the date of the disbursement, the exchange rate established pursuant to the understanding in force between the Bank and the respective country for the purpose of maintaining the value of its currency, or other non-convertible currencies, in the case of regional Programs, held by the Bank.

(b) Expenses:

- (i) The equivalence in Dollars of the United States of America of an expenditure made with convertible currencies shall be calculated applying the exchange rate in effect in the market on the date in which payment is rendered for the expenditure in question.
- (ii) The equivalence in Dollars of the United States of America of an expenditure made in local currency, or in other non-convertible currencies,

in the case of regional Programs, shall be calculated applying, on the date in which payment is rendered for the expenditure in question, the exchange rate established pursuant to the understanding in force between the Bank and the respective country for the purpose of maintaining the value of its currency held by the Bank.

- (iii) For purposes of subparagraphs (i) and (ii) above, it is understood that the date of payment for the expenditure, is the date on which the Beneficiary, the Executing Agency, or any other natural or legal person to whom the right to make expenditures has been delegated, makes the respective payments to the contractor, consultant or supplier.

Article 8. Exchange Rate for Programs Financed with Funds Constituted in Convertible Currencies Other than the US Dollar. (a) Disbursements. The Bank may convert the disbursed currency chargeable to the resources of the trust fund indicated in the Special Conditions in:

- (i) other convertible currencies applying the exchange rate in effect in the market on the date of the disbursement; or
- (ii) the local currency or other non-convertible currencies, in the case of regional Programs, applying, on the date of the disbursement, the following procedure: (A) the equivalence of the currency of the trust fund indicated in the Special Conditions shall be calculated in Dollars of the United States of America, applying the exchange rate in effect in the market; (B) next, the equivalence of these Dollars of the United States of America shall be calculated in local currency or other non-convertible currencies, in the case of regional Programs, applying the exchange rate established pursuant to the understanding in force between the Bank and the respective country for the purpose of maintaining the value of its currency held by the Bank.

(b) Expenses: (i) The equivalence in the currency of the trust fund, indicated in the Special Conditions, of an expenditure made with convertible currencies shall be calculated applying the exchange rate in effect in the market on the date in which payment is rendered for the expenditure in question.

- (ii) The equivalence in the currency of the trust fund, indicated in the Special Conditions, of an expenditure made in local currency or other non-convertible currencies, in the case of regional Programs, shall be calculated in the following manner: (A) the equivalence in Dollars of the United States of America of such expenditure, applying, on the date in which payment is rendered for the expenditure in question, the exchange rate established pursuant to the understanding in force between the Bank and the respective country for the purpose of maintaining the value of its currency held by the Bank; (B) next, the equivalence in the currency of the

trust fund indicated in the Special Conditions of the value of the expenditure in Dollars of the United States of America, shall be calculated applying the exchange rate in effect in the market on the date in which payment is rendered for the expenditure in question.

- (iii) For purposes of subparagraphs (i) and (ii) above, it is understood that the date of payment for the expenditure, is the date on which the Beneficiary, the Executing Agency, or any other natural or legal person to whom the right to make expenditures has been delegated, makes the respective payments to the contractor, consultant or supplier.

Article 9. Other Contractual Obligations of Consultants. In addition to the special requirements included in the Special Conditions, Annex or Annexes and in the respective terms of reference, the Executing Agency agrees that contracts signed with Consultants shall also specify the Consultants' obligations to:

- (a) provide any clarifications or additional information that the Executing Agency or the Bank consider necessary with respect to the Consultants' reports required under the terms of reference set forth in their respective contracts;

- (b) provide the Executing Agency and the Bank with any additional information as they may reasonably request concerning the performance on their work;

- (c) in the case of international consultants, perform their work in an integrated manner with the local professional staff assigned or contracted by the Beneficiary 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;

- (d) assign copyrights, patents and any other form of industrial property right to the Bank in cases where such rights result from the work and documents carried out by the Consultants under the consulting contracts financed with resources of the Program; and

- (e) notwithstanding paragraph (d) above, in order to obtain a timely dissemination of the results of the Program, the Bank authorizes the Beneficiary, or the Executing Agency, to make use of the products resulting from the consulting services financed with the resources of the Program, with the understanding that the Beneficiary, or the Executing Agency, shall utilize such consulting products under the terms set forth in Article 15 of these General Conditions.

Article 10. Acquisition of Goods and Services. (a) The Beneficiary may acquire, chargeable to the Contribution, the goods and services (other than consulting services) required for the execution of the Program, in an amount not to exceed the allocation specified for that purpose in the budget set forth in the Annex that describes the Program.

- (b) When the goods acquired and services (other than consulting services) contracted for the Program are entirely financed with local counterpart contribution, the Beneficiary shall,

whenever possible, follow procedures that allow the participation of several bidders, and shall take into account principles of economy, efficiency and price reasonability.

(c) When sources of financing other than resources of the Contribution or of the Counterpart Resources are used, the Beneficiary may agree with the financing entity the procedure to be followed for the acquisition of goods and services. Notwithstanding, at the Bank's request, the Beneficiary shall prove the reasonability of both the price agreed upon or paid for the acquisition of such goods and services, and of the financial conditions of such credits. The Beneficiary shall likewise demonstrate that the quality of the goods meets the technical requirements of the Program.

(d) During the execution of the Program, the goods referred to in subsection (a) above shall be used exclusively for the execution of the Program.

(e) The goods included in the Program shall be adequately maintained according to generally accepted technical standards, at a level compatible with the services that they should provide.

Article 11. Financial Statements. (a) When the period for execution of the Program exceeds one (1) year, and the amount of the Contribution exceeds one million five hundred thousand Dollars of the United States of America (US\$1,500,000), the Beneficiary, through the Executing Agency, undertakes to submit, to the Bank's satisfaction:

- (i) annual financial statements, and one final financial statement, regarding Program expenditures charged to the Contribution and to the Counterpart Resources. These financial statements shall be audited by independent public accountants acceptable to the Bank, in accordance with procedures satisfactory to the Bank;
- (ii) the annual financial statements shall be presented no later than ninety (90) days following the close of each year of execution, beginning with the year that corresponds to the fiscal year in which disbursements of the Contribution begin; and the final financial statement shall be presented no later than ninety (90) days following the date of the last disbursement of the Contribution, with the exception of the disbursement of the resources necessary to cover the cost of the auditing services referred to in this Article. These time periods shall only be extended with the written consent of the Bank; and
- (iii) the Bank may suspend disbursements of the Contribution, if it does not receive, to its satisfaction, the annual financial statements within the periods stipulated in paragraph (ii) above, or within any extension of these periods it may have authorized.

(b) When the period for execution of the Program does not exceed one (1) year, or the amount of the Contribution is equal to or less than the equivalent of one million five hundred

thousand Dollars of the United States of America (US\$1,500,000), the Beneficiary, through the Executing Agency, undertakes to submit to the Bank's satisfaction, and within ninety (90) days following the date of the last disbursement of the Contribution, with the exception of the disbursement of the resources necessary to cover the cost of the auditing services referred to in this Article, a financial statement of Program expenditures charged to the Contribution and to the Counterpart Resources, audited by independent public accountants acceptable to the Bank and in accordance with procedures satisfactory to the Bank.

Article 12. Internal Control and Records. The Beneficiary, the Executing Agency, or the Contracting 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 Program shall be maintained for a minimum of three (3) years after the date of final disbursement of the Contribution, in such a way that: (a) make it possible to identify the sums received from the various sources; (b) show, in accordance with the catalogue of accounts approved by the Bank, the investments in the Program, both with the resources of the Contribution and with the other funds to be provided for its complete execution; (c) include sufficient detail to show the works performed, the goods acquired and the services contracted, as well as the utilization of such works, goods and services; (d) such documents include documentation relating to the bidding process and the execution of the contracts financed by the Bank including, but not limited to, bid requests, bid packages, summaries, bid evaluations, contracts, correspondence, work product and drafts, and invoices, including documents relating to the payment of commissions, and payments to agents, consultants and contractors; and (e) show the cost of the investments in each category and the progress of the Program.

Article 13. Inspections. (a) The Bank may establish such inspection procedures as it deems necessary to assure the satisfactory development of the Program.

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

(c) The Beneficiary, the Executing Agency or the Contracting Agency, as the case may be, shall, upon request of an authorized representative of the Bank, provide to the Bank any documents, including procurement-related documents, that the Bank might reasonably request. In addition, the Beneficiary, the Executing Agency and the Contracting Agency shall make their personnel available, upon reasonable notice, to respond to questions from Bank personnel, which arise during the review or audit of such documents. The Beneficiary, the Executing Agency or the Contracting Agency, as the case may be, shall produce the documents in a timely manner or shall submit an affidavit to the Bank setting forth the reasons why the requested material is unavailable or is being withheld.

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

Article 14. Other Commitments. The Beneficiary, through the Executing Agency shall also:

(a) provide the Consultants and local experts with secretarial services, offices, office supplies, communication services, transport and any other logistical support required for the execution of their work;

(b) present to the Bank a copy of the Consultants reports and their comments thereof;

(c) provide the Bank with any other additional information or legal reports as it may reasonably request concerning execution of the Program and the use of the Contribution and the Counterpart Resources; and

(d) keep the Bank's Representative in the respective country or countries informed of all aspects of the Program.

Article 15. Publication of Documents. Any document issued under the Bank's name or logotype, as part of a special Program, joint program, research Program or any other event financed with the resources of the Program intended for publication, shall be previously approved by the Bank.

Article 16. Supervision in the Field. Without prejudice to the supervision of the Program activities performed by the Executing Agency, the Bank may supervise the Program in the field through its Country Office in the country or countries as it may designate for such purpose.

Article 17. Limitation of the Bank's Obligation. It is understood that the granting of the Contribution by the Bank does not constitute any obligation whatsoever to totally or partially finance any program or Program that may be undertaken directly or indirectly as a result of the execution of the Program.

Article 18. Arbitration. For the solution of any controversy which may arise hereunder and which is not resolved by agreement of the parties, said parties shall unconditionally and irrevocably submit to the following arbitration procedure and award:

(a) **Composition of the Tribunal.** The Arbitration Tribunal shall be composed of three (3) members, to be appointed in the following manner: one by the Bank, another by the Beneficiary, and a third, hereinafter called the "Referee", by direct agreement between the parties or through their respective arbitrators. If the parties fail to agree on who shall be the Referee, or if one of the parties fails to appoint the Referee, 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, he 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 perform the same functions and shall have the same powers as his predecessor.

(b) **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 sought, and the name of the arbitrator it has appointed. The party receiving such communication shall, within forty-five (45) days, notify the adverse party of the name of the person it has appointed as arbitrator. If, within thirty (30) days after delivery of such notification to the claimant, the parties have not agreed upon the person who is to act as Referee, either party may request the Secretary General of the Organization of American States to make the appointment.

In cases of Agreements with Argentina, the parties agree that prior paragraphs (a) and (b), where it reads: "Secretary General of the Organization of American States", it shall read instead: "President of the International Court of Justice."

(c) **Convening of the Tribunal.** The Arbitration Tribunal shall be convened in Washington, District of Columbia, on the date designated by the Referee and, once convened, the Tribunal itself shall decide when it shall meet.

In cases of Agreements with Argentina, the parties agree that this paragraph (c) shall read instead: "The Arbitration Tribunal shall be convened at the place and date it designates and, once convened, it shall meet on the date decided by the Tribunal."

(d) **Procedure.**

- (i) The Tribunal shall be competent only to hear the matter 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 of making oral presentations.
- (ii) The Tribunal shall proceed ex aequo et bono, basing itself on the terms of this Agreement, and shall issue an award even if either party should fail to appear or to present its case.
- (iii) The award shall be in writing and shall be adopted with the concurrent vote of at least two of the members of the Tribunal. It shall be handed down within sixty (60) days from the date on which the Referee has been appointed, unless the Tribunal determines that, due to special and unforeseen circumstances, such period should be extended. The parties shall be notified of the award by means of a communication signed by at least two members of the Tribunal. The parties agree that any award of the Tribunal shall be complied with within thirty (30) days from the date of notification and it shall be final and not be subject to any appeal.

(e) **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 any other person who by mutual agreement, they deem should participate in the arbitration proceedings. If such agreement is not reached in a timely manner, the Tribunal itself may determine the compensation reasonable for such person under the circumstances. Each party shall defray its own expenses in the arbitration proceedings but the expenses of the Tribunal shall be divided and borne equally by both parties. Any doubt regarding the division of expenses or the manner in which they are to be paid shall be determined, without appeal, by the Tribunal.

(f) **Notification.** All notifications regarding the arbitration proceeding or to the award shall be made in the manner provided in the present Agreement. The parties expressly waive any other form of notification.

In cases of Agreements with Ecuador, the parties agree that, for the purposes of notification, this paragraph (f) shall read: "All notifications regarding the arbitration proceeding or to the award, shall be made in the manner provided in the Agreement. The parties expressly waive any other form of notification. Notwithstanding the foregoing, any party delivering a notification hereunder must also notify the Attorney General (Procurador General del Estado) of Ecuador."

ANNEX

THE PROJECT

Management for Results

I. Objective

- 1.01** The general objective of this Project is to introduce the principles of management for results into the various stages of public sector management and administration in The Bahamas.
- 1.02** In particular, the Project will provide technical and financial resources to facilitate the implementation of the proposals outlined in the Action Plan presented to the Ministry of Finance. The proposed activities are consistent with the substance of the discussion paper, "Enhancing Accountability and Transparency in Public Financial Administration".

II. Description

- 2.01** In order to achieve the aforementioned objectives, the Project resources will finance the following components:

Component I. Strategic Planning

- 2.02** This component will help in the preparation of the guidelines to convert government priorities into government plans. The Project will finance the design of a multi annual plan that defines the strategic objectives of the administration, identifies the strategic units to take on responsibility to implement the plan, and creates a direct relation between the government plan, the strategic units and the budget. Once designed, the application of the methodology will be complemented by the preparation and design of a legal framework that will establish the guidelines to implement a system of performance indicators for measuring expenditure performance and promote the quality of public expenditure. The definition of the guidelines and of the legal framework will establish the base for a Government independent body to operate, in conjunction with the line ministries, a performance indicator system that will set the parameters for the allocation of budgetary funding based on the number of programs that satisfactorily meet their objectives.

Component II. Budget by Results

- 2.03** This component will complement the introduction of initiatives to link the strategic planning to budget execution with the measures proposed for the modernization of the Financial Administration and Audit Act of 1973, such as the requirement to include in the

budget preparation a medium term perspective showing how revenues and expenditures are expected to evolve during the two years after the next fiscal year, and the requirement that the Budget should state the long term fiscal policy objectives.

Component III. Public Financial Management

- 2.04** The objective of this component is to ensure the efficient allocation and management of human, financial, and physical resources in public agencies. It will finance a study to define the structure, the process and the design of an electronic system that integrates the principal areas of government financial management: budget, tax administration, public credit, cash management, and accountancy, and the purchase of related electronic equipment or custom made systems for its implementation. The system will facilitate the connection between public investment, the electronic financial management system, and the electronic procurement system. Once the central system is implemented, the Government will have the option to integrate financial information from local governments into the electronic financial management system. The Project will also support specialized technical training for select public officials in the use, maintenance and sustainability of the system.

Component IV. Project Management

- 2.05** This component will provide the means to improve the capacity to translate sector planning into policy goals and the formulation and execution of projects. It will cover the introduction of the use of annual and the adoption of multiyear targets in the planning activities of selected pilot institutions¹, identify and train strategic units within the institution responsible for producing goods and providing services, introduce the use of management contracts with the executing agencies, identify parameters for performance evaluation, and link evaluation systems to incentives for results. In addition, it will support the introduction of a comprehensive Management for Result strategy in the selected institutions, covering areas such as programming, personnel and resources, and improvement in service quality, as well as introducing mechanisms for periodic consultation with civil society organizations with the goal to improve goods and services.

Component V. Monitoring and evaluation of public administration

- 2.06** The execution of this component will cover the relation between planning, funding and achievement of development goals. Project resources will be used to strengthen the legal and institutional framework for evaluating government performance, and to establish an independent central government body responsible for evaluating performance and execution of public policies, programs and projects. This would be complemented by the definition of an evaluation methodology, based on common indicators shared by the monitoring and executing entities, and the definition of sanctions or corrective actions in case of no fulfillment of targets and objectives, and of the modalities to share the information with the legislature and the civil society.

¹ This activity complements a pilot initiative undertaken by the Government. Pilot institutions will be selected based on the volume of public funds they receive and administer.

Component VI. Public Procurement

- 2.07** Building on recent legislative reform initiatives, under this component, the Project will strengthen the current legal framework by supporting the establishment of an independent body that centralizes the procurement needs of the public administration, and defines the guidelines for procurement and contracting processes, based on competition and transparency in awarding public contracts. Strengthening the current legal framework should allow this regulatory or policy-setting body for government procurement to define and assign regulatory functions to various government units, define enforcement and implementation arrangements, and set the extent of participation by the regulatory and supervisory body in procurement processes, as well as to produce and make available procurement statistics to the public, and introduce a legally established procedure to lodge and resolve disputes in the procurement process.

Component VII. Audit

- 2.08** Funds will be used to review the current legal framework governing external and internal audit in the Bahamas, to recommend organizational and procedural improvements with the objective to perform timely and reliable audits of all central government bodies, covering an increased percentage of total government expenditures. This component will complement the ongoing initiative outlined in the proposal “Enhancing Accountability and Transparency in Public Financial Administration”, to promote transparency and accountability in the public sector.
- 2.09** To promote transparency and improve public knowledge on the process of introducing Management by Results in the Country, the Project will include funding for the promotion of outreach and communication activities related to the advance in the execution and implementation of the activities funded by the Project.

III. Total Cost of the Project

- 3.01** The total cost of the Project is estimated to be US\$1,665,000, in accordance with the following Budget:

Category	IDB	Local Counterpart	TOTAL
Component 1. Strategic Planning	\$120,000		\$120,000
Component 2. Budget	\$81,320		\$81,320
Component 3. Financial management	\$731,360	\$84,840	\$816,200
Component 4. Project management	\$308,000		\$308,000
Component 5. Monitoring and evaluation of Public Administration:	\$69,680		\$69,680
Component 6. Public procurement	\$58,960		\$58,960
Component 7. Audit	\$51,680		\$51,680
Outreach and communication	10,000		10,000
Program evaluation and audit	\$30,000		\$30,000
Contingencies	\$39,000		\$39,000
Project Administration		\$80,160	\$80,160
TOTAL	\$1,500,000	\$165,000	1,665,000

IV. Execution

- 4.01** The Ministry of Finance will be the Executing Agency (EA) of this Project. The pilot projects in selected ministries for the implementation of the project management component, and the program to support the office of the Auditor General will require the selection and appointment of a coordinating liaison officer from these institutions to be selected among senior staff, that will coordinate activities with an Executing Unit (EU) established within the Ministry of Finance. Services from individual consultants and consulting firms will be contracted to execute the components of this operation, according to the modalities described in the procurement plan of the Project.
- 4.02** Each Government entity or Agency that will benefit and participate in the execution of this Project will appoint a focal point, in order to ensure open and fluid coordination and communication among the beneficiaries. The EA will define the frequency and the subject of the focal point meetings.
- 4.03** Execution mechanism. The EU will be responsible for the financial management of the Project, the related procurement, the preparation of financial reports and other contractual obligations related to the execution of the Project and the proper channeling of financial resources from the program to all the entities involved. It will also review the progress reports and interface with other institutional actors in order to facilitate the orderly implementation of the Project. For the purpose of carrying out the responsibilities of this Project, the EA will hire a Project Coordinator to be responsible of the financial

management, procurement, and proper channeling of funds from the program to all entities involved. The EA will also hire an Administrative Assistant.

V. Evaluation and audit

- 5.01** During the execution of the Project, the Ministry of Finance will provide the Bank with reports on the execution of project activities at a frequency of 6 months intervals. Project advancement will be measured based on the indicators incorporated in the logical framework of the operation. An external technical evaluation of the Project will be performed at mid point and at the end of the disbursement period of the Project. The technical evaluation will be followed by an independent external audit after 60 days of finalizing the disbursement period of the Project. The logical framework and PMR system for non reimbursable technical cooperation should be used as tools during the periodic evaluation of the Project.