

January 19, 2012

The Honourable Zhivargo Laing, M.P.  
Minister of State  
Ministry of Finance  
Sir Cecil Wallace-Whitfield Building  
Cable Beach  
P.O. Box N-3017  
Nassau, NP  
The Bahamas

Ref: Nonreimbursable Technical Cooperation  
No. ATN/JF-13061-BH Conditions for a  
Sustainable Fiscal Policy Program.

Dear Minister:

This letter of agreement (the “Agreement”) between The Commonwealth of The Bahamas and the Inter-American Development Bank acting in its capacity as Administrator of the Japan Special Fund (the “Bank”), which we are submitting for your consideration, is to formalize the terms of a grant of a nonreimbursable technical cooperation (the “Contribution”) to the Beneficiary, up to the amount of six hundred twelve thousand dollars of the United States of America (US\$612,000), which shall be chargeable to the resources of the Japan Special Fund to finance the contracting of consulting services and procurement of goods necessary for the execution of a technical cooperation program to provide policy options to support fiscal sustainability in the short and medium term (the “Program”), 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.

This Agreement is entered into pursuant to the Agreement establishing the Japan Special Fund, (“JSF Fund”) dated April 26, 1988 and amended on September 17, 1997.

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 above-mentioned Sections and Annex is established in Article 1 of the General Conditions.

**Second. Executing Agency.** (a) The Executing Agency of Component 2 of the Program, as specified in Section IV of the Annex, shall be the Ministry of Finance (the “Executing Agency”).

(b) Components 1, 3, 4, 5 and the activity of Monitoring and Evaluation, as requested by the Beneficiary, shall be executed by the Bank, in close coordination with the Executing Agency.

**Third. Execution by the Bank.** The Bank, as stated in article 2(b), shall select, contract and pay directly with resources chargeable to the Contribution for the consultancies necessary to perform Components 1, 3, 4 and 5 of the Program, as well as the amounts assigned to the Monitoring and Evaluation. To that effect, the Bank will withhold two hundred and thirty thousand (US\$230,000) Dollars from the Contribution, corresponding to the sum of the amounts allocated to the consultancies necessary to perform Components 1, 3, 4, 5 and Monitoring and Evaluation, as established in Section III of the Annex. Such resources withheld from the Contribution will be disbursed and credited to the Bank, without requirement of a disbursement request from the Execution Agency.

**Fourth. Conditions Prior to First Disbursement.** (a) The first disbursement of the Contribution assigned to Component 2 of the Program shall be subject to the fulfillment, to the satisfaction of the Bank, of the conditions set forth in Article 2 of the General Conditions.

(b) Notwithstanding the disposition set forth in paragraph (a) above, the execution of Components 1, 3, 4, 5 and the activity of Monitoring and Evaluation of the Program, where the Bank undertakes the contracting of consultancies, will not be subject to any conditions precedent.

**Fifth. Reimbursement of Expenditures Chargeable to the Contribution.** With the consent of the Bank, resources of the Contribution assigned to Component 2 of the Program may be used to reimburse expenditures incurred in the execution of Component 2 of the Program on or after November 30, 2011, and up to the date of this Agreement, provided that requirements substantially similar to those set forth in this Agreement have been fulfilled.

**Sixth. Deadlines.** (a) The period for execution of the Program 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.

**Seventh. Total Cost of the Program and Additional Resources.** (a) The Beneficiary undertakes to make timely provision of the resources required, in addition to the Contribution, for the complete and uninterrupted execution of the Program, the "Counterpart Resources." The total Counterpart Resources required is estimated to be the equivalent of one hundred and fifty three thousand (US\$153,000) Dollars, to make up a sum equivalent to seven hundred and sixty five thousand (US\$765,000) Dollars, which is estimated to be the total cost of the Program. These estimates do not reduce the obligation of the Beneficiary to provide any additional resources required to complete the Program.

(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 Program's budget set forth in the attached Annex.

**Eighth. Recognition of Expenses Chargeable to the Counterpart Resources.** The Bank may recognize, as part of the local contribution, expenditures incurred in the Program on or after November 30, 2011, and up to the date of this Agreement, provided that requirements substantially similar to those set forth in this Agreement have been fulfilled.

**Ninth. Currencies for Disbursements.** The Bank shall disburse the Contribution in 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.

**Tenth. Acquisition of goods and services and Selection and contracting of consulting services of Component 2 of the Program.** (a) The acquisition of goods and related services and the selection and contracting of consulting services of Component 2 of the Program, will be carried out by the Executing Agency in accordance with the provisions set forth in: (i) Document GN-2349-9 ("Policies For The Procurement Of Works And Goods Financed By The Inter-American Development Bank"); (ii) Document GN-2350-9 ("Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank") dated March 2011; and (iii) the Procurement Plan referred to in paragraph Tenth of these Special Conditions.

(b) The Beneficiary agrees that the goods acquired with the resources of the Contribution shall be duly identified with labels or marks which specify that these goods and equipment have been financed with resources from the Japan Special Fund.

(c) The Beneficiary undertakes to assist the consultancies contracted by the Bank pursuant to paragraph (a) above.

**Eleventh. Procurement Plan for Component 2 of the Program.** Before starting any competitive bidding process or any request for proposals for the acquisition of goods and related services and for the contracting of consulting services, 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 the acquisition of goods and contracting of consulting services required to carry out Component 2 of 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-2349-9 and GN-2350-9. This Procurement Plan shall be reviewed by the parties every six (6) months during the execution of the Program, and each updated version shall be submitted to the Bank for approval. The Executing Agency shall implement the Procurement Plan in the manner in which it has been approved by the Bank.

**Twelfth. Procurement Review by the Bank.** Unless the Bank agrees otherwise in writing, each contract for the acquisition of goods and for the hiring of consulting services for Component 2 of the Program shall be subject to an ex-post review, in accordance with the

procedures established in paragraphs 2 and 3 of Appendix 1 of Documents GN-2349-9 and GN-2350-9.

**Thirteenth. Reports.** The Executing Agency will prepare, in relation to Component 2 of the Program, progress reports which will be furnished to the Bank on July 1st and January 1st of each operational year, which will include, amongst others, the following information: (a) provision of Counterpart Resources; and (b) the status of the activities and results achieved for the different activities of Component 2, as described in the Annex.

**Fourteenth. Financial statements.** The Executing Agency undertakes to present to the Bank's satisfaction, the financial statements for Component 2 of the Program within 90 days after the last disbursement, duly certified by a firm of independent accountants selected and hired pursuant to Bank's policies and procedures in accordance with the provision set forth in Article 11(b) of the General Conditions.

**Fifteenth. Information Disclosure.** The Executing Agency 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 member countries and the Bank or between private sector clients and the Bank, in which case the Executing Agency 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 Executing Agency has specifically identified as confidential, sensitive or adverse to relations with the Bank in the manner indicated in this paragraph.

**Sixteenth. 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.

GOVERNMENT OF THE BAHAMAS

INTER-AMERICAN DEVELOPMENT BANK

/s/ Zhivargo Laing

/s/ Astrid Wynter

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The Honourable Zhivargo Laing, M.P.  
Minister of State  
Ministry of Finance

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Astrid Wynter  
Representative in The Bahamas

WITNESS OF HONOR

/s/ Hiroshi Yamaguchi

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His Excellency Hiroshi Yamaguchi  
Ambassador of Japan to The Bahamas

**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.

(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.

(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.



## **ANNEX**

### **The Program**

#### **Conditions for a Sustainable Fiscal Policy Program**

##### **I. Objective**

- 1.01** The objective of the Program is to provide policy options to the Government of The Bahamas (“GoBH”) that support fiscal sustainability in the short and medium term.
- 1.02** The objective will be achieved by strengthening the capacity of the tax administration and debt management areas. In particular, the Program will help strengthen the property tax administration system to collect such taxes in a more efficient way, and will help the government handle fiscal risks and debt portfolio management more effectively.

##### **II. Description**

- 2.01** To achieve the objective described in the previous section, the Program will finance the following outputs and activities:

##### **Component 1: Tax administration strengthening**

- 2.02** The first component, *Tax administration strengthening*, will finance: (i) training programs for strengthening the institutional capacity of the new Tax Administration Division (“TAD”); (ii) a diagnostic of the Stamp Act and the Hotels Act; and (iii) an analysis of the effectiveness of the new institutional structure in the tax administration system.

##### **Component 2: Property tax system**

- 2.03** The second component, *Property tax system*, will finance the design and implementation of a multi-year comprehensive action plan for strengthening the property tax administration system, including: (i) a redrafting proposal for the Real Property Tax Act, to modernize it and make it more flexible to accommodate reforms; (ii) a new tax administration information system, to allow for better monitoring and management of the tax registry, property valuations, tax billing, and taxpayer account management; (iii) a complete and up-to-date property tax registry mechanism to improve the accuracy of taxpayer identification and property ownership; (iv) a comprehensive valuation of all registered property, and improved procedures and mechanisms for property revaluation; (iv) improved procedures for tax collection, enforcement and management of arrears; and (v) enhancement of taxpayer service, awareness and education.

### **Component 3: Quality of expenditure**

- 2.04** The third component, *Quality of expenditure*, will finance an in-depth analysis of the costs to the government of providing services in the Family Islands. For that purpose, the analysis will review the expenditure structure by sector and geographic distribution.

### **Component 4: Fiscal risks**

- 2.05** The fourth component, *Fiscal risks*, will finance an assessment of fiscal risks in health and pensions and capacity building in better handling contingent liabilities on pension funds and public enterprises.

### **Component 5: Debt strategy and management**

- 2.06** The fifth component, *Debt strategy and management*, will finance the design and implementation of a multi-year debt strategy program. It aims at strengthening the institutional capacity of the Debt Management Committee (comprised of representatives of the Central Bank, the Treasury and the Ministry of Finance), to generate an effective portfolio strategy to better handle the debt stock, profile and flow.

## **III. Total Cost of the Program**

- 3.01** The estimated cost of the Program is seven hundred sixty-five thousand dollars (US\$765,000), in accordance with the following budget:

<b>Components</b>	<b>IDB Fund</b>	<b>Local Counterpart</b>	<b>Total</b>
Component 1: Tax administration strengthening	55,000	28,000	83,000
Component 2: Property tax system	382,000	50,000	432,000
Component 3: Quality of expenditure	40,000	17,000	57,000
Component 4: Fiscal risks	50,000	10,000	60,000
Component 5: Debt strategy and management	55,000	45,000	100,000
Monitoring and Evaluation	30,000	3,000	33,000
<b>Total</b>	<b>612,000</b>	<b>153,000</b>	<b>765,000</b>

## **IV. Execution**

- 4.01** The Ministry of Finance (“MoF”) will be in charge of the execution of Component 2, with assistance of the Bank. The execution scheme has been designed in coordination with the MoF, through the Office of Economic Planning. As specified in the Special Conditions, the MoF will apply Bank policies for such procurement. Terms of Reference will require Bank approval.

- 4.02** The Bank, through the Fiscal and Municipal Management Division (FMM) will be in charge of the execution of Components 1, 3, 4, and 5 and the activities related to Monitoring and Evaluation.
- 4.03** The GoBH will submit to the Bank a copy of the annual operating plans for the Property Tax Division, TAD and the debt management area as well as the execution plan for the duration of the Program. The monitoring and evaluation, especially of capacity building the following activities includes: (i) Property tax administration system strengthened through the follow up of the implementation of the action plan to be established at the beginning of the TC; i.e., the number of courses offered (and participants) in valuation, sanctions and penalties to deal with noncompliance and the new operating platform of the property tax administration system; (ii) TAD strengthened, this will be followed up and evaluated through the capacity building programs in the new TAD; (iii) Debt management, This will be monitored through the Medium Term Debt Strategy reports that will be generated to strengthen the MoF and the Central Bank's ability to conduct debt portfolio strategies and medium term scenarios on debt profile.