

LOAN CONTRACT No. 2479/OC-TT

between the

REPUBLIC OF TRINIDAD AND TOBAGO

and the

INTER-AMERICAN DEVELOPMENT BANK

Public Capital Expenditure Management Program I

December 10, 2010

LOAN CONTRACT

PART ONE

SPECIAL CONDITIONS

INTRODUCTION

Parties, Objective, Constituent Elements and Executing Agency

1. PARTIES AND OBJECTIVE OF THE CONTRACT

CONTRACT entered into on December 10, 2010, between the REPUBLIC OF TRINIDAD AND TOBAGO (hereinafter referred to as the “Borrower”) and the INTER-AMERICAN DEVELOPMENT BANK (hereinafter referred to as the “Bank”) to cooperate in the execution of Public Capital Expenditure Management Program I (hereinafter referred to as the “Program”). The major aspects of the Program are described in detail in the Annex (hereinafter referred to as the “Annex”).

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

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

(b) Procedural provisions relating to amortization, interest, credit fee, inspection and supervision and disbursement, as well as other conditions related to Program execution, are established in detail in the General Conditions. The General Conditions also include general definitions.

3. EXECUTING AGENCY

The parties agree that the execution of the Program and the utilization of the resources of the financing from the Bank shall be carried out in their entirety by the Borrower, through the Ministry of Finance, which for the purposes of this Contract shall be referred to as the “Executing Agency”.

CHAPTER I

Amount of Financing and Purpose

SECTION 1.01 **Amount of the Financing.** In accordance with this Contract, the Bank agrees to grant to the Borrower, and the Borrower accepts, a financing (hereinafter referred to as the “Financing”), chargeable to the resources of the Single Currency Facility of the ordinary capital of the Bank, of up to the amount of one hundred million dollars of the United States of America (US\$100,000,000), that form part of such resources. The amount disbursed from the Financing shall constitute the “Loan”. The Loan shall be a Single Currency Facility Loan with a LIBOR-Based Interest Rate. Unless otherwise stated in this Contract the term “dollars” hereinafter signifies the currency of legal tender in the United States of America.

SECTION 1.02 **Purpose.** The purpose of the Program is to support the Government’s major reform effort to enhance and modernize public capital expenditure management; and to contribute to the Government’s overall objectives of enhancing efficiency, effectiveness, transparency and accountability in the use of public resources. In addition to the requirement for a macroeconomic framework congruent with the Program’s objectives, in accordance with the provisions of the Policy Letter referred to in Section 4.01 of these Special Conditions, the Program structure is divided into three (3) reform areas: (1) policy design and public investment management; (2) public procurement; and (3) public financial management and audit. Resources of the Financing shall not be used to finance the expenses described in Sections 3.05 and 3.06 of these Special Conditions.

CHAPTER II

Amortization, Interest, Inspection and Supervision and Credit Fee

SECTION 2.01 **Amortization.** The Loan shall be completely repaid by the Borrower by means of semiannual, consecutive, and, insofar as possible, equal installments. The first installment shall be paid five (5) years and six (6) months from the date of signature of this Contract, taking into account the provisions of Article 3.01 of the General Conditions, and the last installment shall be paid no later than twenty (20) years from the same date.

SECTION 2.02 **Interest.** (a) The Borrower shall pay interest on the daily outstanding balances of the Loan, at a rate determined pursuant to the provisions of Article 3.04 of the General Conditions for a Single Currency Facility Loan with a LIBOR-Based Interest Rate. The Bank shall notify the Borrower of the rate of interest applicable during each Quarter or as soon as practicable after the determination thereof.

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

(c) The Borrower may request that all or part of the outstanding balance of the Loan with a LIBOR-Based Interest Rate be converted to a Fixed Interest Rate, or that all or part of the

outstanding balance of the Loan with a Fixed Interest Rate be reconverted to a LIBOR-Based Interest Rate, pursuant to Article 3.04 of the General Conditions of this Contract.

SECTION 2.03 Resources for General Inspection and Supervision. During the disbursement period, resources of the Financing shall not be allocated to cover the Bank's expenses for general inspection and supervision, unless otherwise established by the Bank during said period as a result of its periodic review of financial charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology in ordinary capital loans, and the Borrower is notified by the Bank in this regard. Under no circumstance shall there be a charge for this purpose in any semester which is greater than the amount which results from applying 1% to the amount of the Financing, divided by the number of semesters included in the original disbursement period.

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

CHAPTER III

Disbursements

SECTION 3.01 Currency and Use of Funds. The amount of the Financing shall be disbursed in dollars from the Single Currency Facility of the ordinary capital resources of the Bank, in one installment, provided that the Borrower has complied with all the conditions set forth in this Chapter of the Special Conditions and in Chapter IV of the General Conditions.

SECTION 3.02 Currency Availability. Notwithstanding the provisions of Sections 1.01 and 3.01 of these Special Conditions, if the Bank does not have access to the agreed Single Currency, after consulting the Borrower, the Bank shall select another Single Currency for disbursement. The Bank may continue to make disbursements in the selected Single Currency as long as it does not have access to the agreed currency. Amortization payments shall be made in the Single Currency in which the disbursements are made with the corresponding financial charges.

SECTION 3.03 Conditions Precedent to the Disbursement of the Financing. In addition to the conditions precedent set forth in Articles 4.01 and 4.03 of the General Conditions, the disbursement of the Financing shall be subject to the fulfillment, to the satisfaction of the Bank, of the following conditions:

(a) that the Borrower opens and maintains opened throughout execution of the Program the special bank account(s) referred to in Article 4.01(c) of the General Conditions, in which the Bank will disburse the resources of the Financing;

I. Macroeconomic Stability

(b) that the Borrower maintains a macroeconomic policy framework consistent with the Program's objectives and in accordance with the provisions of the Policy Letter referred to in Section 4.01 of these Special Conditions;

II. Policy Design and Public Investment Management

(c) that the Cabinet has approved the establishment of an Economic Development Board (EDB) to improve policy formulation and consultation with stakeholders;

(d) that the Cabinet has approved the Policy Note on the framework for enhancing the system for management of public investment projects;

(e) that the multi-year forecasting framework for fiscal and macroeconomic aggregates to guide the preparation of future annual budgets has been established;

(f) that an agency at the ministry level to enhance policy analysis and institutional coordination to improve efficiency of social programs has been established;¹

III. Public Procurement

(g) that the legislative proposal for the modernization of public procurement (defining a procurement system governed by the underlying operating principles of value for money, transparency and accountability) has been presented to the Parliament;

IV. Public Financial Management and Audit

(h) that the Cabinet has approved the Policy Note on the modernization of public financial management (PFM) system, setting forth the framework, principles and core management arrangements for the modernization of the PFM; and

(i) that the Cabinet has approved the Policy Note setting out the core actions to enhance the external audit function in Government.

SECTION 3.04 **Disbursement Period.** The period for the only disbursement of the resources of the Financing shall expire twelve (12) months from the date of signature of this Contract.

SECTION 3.05 **Expenditures Excluded from the Financing.** (a) No disbursement from the resources of the Financing shall be made to finance:

- (i) expenditures in goods included in the groups or sub-groups of the United Nations Standard International Trade Classification (SITC) list, as indicated in Section 3.06 of these Special Conditions;

1 The Ministry referred to is the Ministry responsible for social programs.

- (ii) expenditures in goods acquired under contracts in an amount below ten thousand dollars (US\$10,000) equivalent;
- (iii) expenditures in goods financed in foreign exchange, under medium or long terms;
- (iv) expenditures in luxury goods;
- (v) expenditures in weapons;
- (vi) expenditures in goods for the use of the armed forces;
- (vii) expenditures in goods from countries that are not members of the Bank; and
- (viii) expenditures under a contract in which the Bank has determined: (i) that there is sufficient evidence to support a finding that an employee, agent or representative of the Borrower, Executing Agency or Contracting Agency has engaged in an act of fraud or corruption during any stage of the process of bidding, negotiation or execution of such contract; and (ii) that the Borrower, Executing Agency or Contracting Agency has not taken any appropriate action, acceptable to the Bank and according with the due process warranties established under the Borrower's legislation, in order to correct such situation.

(b) If the Bank determines at any time, that resources of the Financing have been used to pay for any expenditures referred to in subsection (a) of this Section, the Borrower will have to immediately reimburse to the Bank or to the special account referred to in subsection (c) of Article 4.01 of the General Conditions and subsection (a) of Section 3.03 of the Special Conditions, as the Bank may determine, the total amount of the resources of the Financing used for the payment of expenditures excluded from the Financing.

SECTION 3.06 Negative List. The goods referred to in subsection (i) of Section 3.05 hereinabove are included in the following groups and sub-groups of the United Nations Standard International Trade Classification (SITC)^{2/}, including any amendment that may be made to these groups or sub-groups and of which the Bank shall notify the Borrower:

² See the Standard International Trade Classification, Revision 3 (SITC, Rev. 3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev. 3 (1986).

<u>GROUPS</u>	<u>SUB-GROUPS</u>	<u>DESCRIPTION OF ITEM</u>
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semi-precious stones, worked or unworked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors
897	897.3	Gold, silver or platinum jewelry (except watches, and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

CHAPTER IV

Execution of the Program

SECTION 4.01 **Policy Letter.** The Borrower and the Bank have agreed on the contents of the Policy Letter dated October 5, 2010, from the Borrower to the Bank, that describes the objectives, policies and actions toward the achievement of the objectives of the Program and in which the Borrower declares its commitment to the execution of the Program, and for the purposes established in Section 4.04 of these Special Conditions.

SECTION 4.02 **Periodic Meetings.** (a) The Borrower and the Bank shall meet at least every six (6) months at the request of either party and on the date and at the place agreed upon, to exchange views on: (i) the general progress achieved in carrying out the Program, compliance with the conditions set forth in Section 3.03 of these Special Conditions, and performance of the commitments undertaken by the Borrower in the Policy Letter referred to in Section 4.01 above; and (ii) the consistency of the Borrower's macroeconomic framework with the objectives of the Program. Prior to each such exchange of views, the Borrower shall submit to the Bank, for its review and comments, a report in such detail as the Bank shall reasonably request on the fulfillment of the obligations referred to in sub-paragraphs (i) and (ii) of this Section.

(b) If from the review of the Program's reports, the Bank determines that the implementation of the Program is not satisfactory, the Borrower shall submit to the Bank within forty-five (45) days from the date of the Bank's notification, the plans or reports necessary to correct the problems, along with a timetable for their implementation.

SECTION 4.03 **Ex-Post Evaluation.** The Borrower agrees to cooperate in the evaluation of the Program to be carried out by the Bank after the Program's execution, with the purpose of identifying, to the extent possible, whether the objectives of the Program have been reached, and to

provide to the Bank all the information, data and documentation that the Bank may request to carry out said evaluation.

SECTION 4.04 **Modification of Legal Provisions and Basic Regulations.** The parties agree that, when changes are made to the macroeconomic and sector policies indicated in the Policy Letter referred to in Section 4.01 of these Special Conditions, or in the legislation relating to the functions of the Executing Agency or the legislation of the Borrower, and the Bank considers that said changes can substantially affect the Program, the Bank shall have the right to request of the Borrower all necessary and reasonable information (subject to the provisions of the Freedom of Information Act, Chapter 22:02 of the Laws of the Republic of Trinidad and Tobago), with the purpose of determining whether said changes may have a substantial adverse effect in the execution of the Program. The Bank, after receiving and analyzing the information provided by the Borrower, and after consultation with the Borrower, may take the measures it deems necessary in accordance with the provisions of this Contract.

CHAPTER V

Records, Inspections, and Reports

SECTION 5.01 **Records, Inspections, and Reports.** The resources of the Financing will be deposited in the Special Account or in the Special Accounts exclusively designated for the Program. The Borrower agrees to maintain accounting records, and an adequate internal control system, in accordance with Article 6.01 of the General Conditions.

SECTION 5.02 **Audits.** Upon request by the Bank, the Borrower shall submit an accounting statement of the use of the resources of the Financing duly certified by a firm of public independent accountants acceptable to the Bank, which has been authorized by the Auditor General of the Republic of Trinidad and Tobago in that behalf, and hired in accordance with terms of reference agreed upon with the Bank.

CHAPTER VI

Miscellaneous Provisions

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

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

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

SECTION 6.04 **Communications.** Any notice, request, or communication from one party to another by virtue of this Contract shall be made in writing and shall be considered to have been

made when the relevant document is delivered to the addressee at the respective address given below, unless the parties agree otherwise in writing:

For the Borrower:

Mailing address:

Ministry of Finance
Eric Williams Finance Building, Eric Williams Plaza
Independence Square
Port of Spain, Trinidad and Tobago, W.I.

Facsimile: 1-868-627-6108

For the Bank:

Mailing address:

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

Facsimile: (202) 623-3096

CHAPTER VII

Arbitration

SECTION 7.01 **Commitment to Arbitrate.** For the resolution of any controversy which may arise under this Contract and which is not resolved by agreement between the parties, the Borrower and the Bank agree to unconditionally and irrevocably submit themselves to the procedures and ruling of the Arbitration Tribunal referred to in Chapter VIII of the General Conditions.

IN WITNESS WHEREOF, the Borrower and the Bank, each acting through its authorized representative, have signed this Contract in two (2) equally authentic originals in Port of Spain, Trinidad and Tobago, on the date above written.

REPUBLIC OF TRINIDAD AND
TOBAGO

INTER-AMERICAN DEVELOPMENT
BANK

/s/ Winston Dookeran

/s/ Iwan Sewberath Misser

Winston Dookeran
Minister of Finance

Iwan Sewberath Misser
Representative of the Bank in
Trinidad and Tobago

PART TWO

GENERAL CONDITIONS

CHAPTER I

Application of the General Conditions

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

CHAPTER II

Definitions

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

- (a) “Bank” means the Inter-American Development Bank.
- (b) “Board” means the Board of Executive Directors of the Bank.
- (c) “Borrower” means the party to which the Financing is made available.
- (d) “Contract” means the entirety of the Special Conditions, the General Conditions and the Annexes.
- (e) “Convertible Currency” or “Currency of a country other than that of the Borrower” means any currency which is legal tender in a country other than that of the Borrower, the Special Drawing Rights of the International Monetary Fund, and any other unit which represents the debt service obligation of a borrowing by the Bank.
- (f) “Cost of Single Currency Qualified Borrowings with a LIBOR Interest Rate” means the cost to the Bank of the Single Currency Qualified Borrowings with a LIBOR Interest Rate in the Single Currency of the Financing, expressed as a percentage per annum, as determined by the Bank.
- (g) “Executing Agency/Agencies” means the entity/entities responsible for executing all or part of the Project.
- (h) “Fixed Base Rate” means the market swap rate on the effective date of the conversion.

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

(j) “Financing” means the funds which the Bank has agreed to make available to the Borrower to assist in carrying out the Project.

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

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

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

(n) “LIBOR Interest Rate” means any of the following definitions, in accordance with the currency of the Loan:¹

(i) In the case of Single Currency Facility Loans in Dollars:

(A) The LIBOR Interest Rate on an Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be “USD-LIBOR-BBA,” which is the rate for deposits in Dollars for a period of three (3) months that appears on the Reuters page <LIBOR01> as of 11:00 a.m., London time, on the day that is two (2) London Banking Days preceding that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter. If such rate does not appear on the Reuters page <LIBOR01>, the rate for that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be determined as if the parties had specified “USD-LIBOR-Reference Banks” as the applicable LIBOR Interest Rate.

(B) “USD-LIBOR-Reference Banks” means that the rate for an Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be determined on the basis of the rates at which deposits in Dollars are offered by the Reference Banks at approximately 11:00

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

a.m., London time, on the day that is two (2) London Banking Days preceding that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter to prime banks in the London interbank market for a period of three (3) months commencing on that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter and in a Representative Amount. The Calculation Agent or Agents utilized by the Bank will request the principal London office of each of the Reference Banks to provide a quotation of its rate. If at least two (2) quotations are provided, the rate for that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be the arithmetic mean of the quotations. If fewer than two (2) quotations are provided as requested, the rate for that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be the arithmetic mean of the rates quoted by major banks in New York City, selected by the Calculation Agent or Agents utilized by the Bank, at approximately 11:00 a.m., New York City time, on that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter for loans in Dollars to leading European banks for a period of three (3) months commencing on that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter and in a Representative Amount. If more than one Calculation Agent provides an interest rate to the Bank as a result of the procedure described above, the Bank will determine, in its own discretion, the applicable LIBOR Interest Rate for each Quarter for the Interest Rate Determination Date, based on the interest rates received from the Calculation Agents. For purposes of the foregoing provision, if the Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter is not a Banking Day in New York City, the rates quoted on the first day immediately thereafter which is a Banking Day in New York City shall be utilized.

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

- (A) The LIBOR Interest Rate on an Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be “EUR-EURIBOR-Telerate,” which is the rate for deposits in Euros for a period of three (3) months that appears on the Reuters page <LIBOR01> as of 11:00 a.m., Brussels time, on the day that is two (2) TARGET Settlement Days preceding that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter. If such rate does not appear on the Reuters page <LIBOR01>, the rate for that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be determined as if the parties had specified “EUR-EURIBOR-Reference Banks” as the applicable LIBOR Interest Rate.

- (B) “EUR-EURIBOR-Reference Banks” means that the rate for an Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be determined on the basis of the rates at which deposits in euros are offered by the Reference Banks at approximately 11:00 a.m., Brussels time, on the day that is two (2) TARGET Settlement Days preceding that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter to prime banks in the Euro-zone interbank market for a period of three (3) months commencing on that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter and in a Representative Amount assuming an Actual/360 day count basis. The Calculation Agent or Agents utilized by the Bank, will request the principal Euro-zone office of each of the Reference Banks to provide a quotation of its rate. If at least two (2) quotations are provided, the rate for that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be the arithmetic mean of the quotations. If fewer than two (2) quotations are provided as requested, the rate for that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be the arithmetic mean of the rates quoted by major banks in the Euro-zone, selected by the Calculation Agent or Agents utilized by the Bank, at approximately 11:00 a.m., Brussels time, on that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter for loans in euros to leading European banks for a period of three (3) months commencing on that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter and in a Representative Amount. If more than one Calculation Agent provides an interest rate to the Bank as a result of the procedure described above, the Bank will determine, in its own discretion, the applicable LIBOR Interest Rate for each Quarter for the Interest Rate Determination Date, based on the interest rates received from the Calculation Agents. For purposes of the foregoing provision, if the Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter is not a Banking Day in Brussels and in the Euro-zone, the rates quoted on the first day immediately thereafter which is a Banking Day in Brussels and in the Euro-zone shall be utilized.

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

- (A) The LIBOR Interest Rate on an Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be “JPY-LIBOR-BBA,” which is the rate for deposits in Yen for a period of three (3) months that appears on the Reuters page <LIBOR01> as of 11:00 a.m., London time, on the day that is two (2) London Banking Days preceding that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter. If such rate does not appear on the Reuters page <LIBOR01>, the rate for that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be determined as if the parties had specified “JPY-LIBOR-Reference Banks” as the applicable LIBOR Interest Rate.
- (B) “JPY-LIBOR-Reference Banks” means that the rate for an Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be determined on the basis of the rates at which deposits in Yen are offered by the Reference Banks at approximately 11:00 a.m., London time, on the day that is two (2) London Banking Days preceding that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter to prime banks in the London interbank market for a period of three (3) months commencing on that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter and in a Representative Amount. The Calculation Agent or Agents utilized by the Bank will request the principal London office of each of the Reference Banks to provide a quotation of its rate. If at least two (2) quotations are provided, the rate for that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be the arithmetic mean of the quotations. If fewer than two (2) quotations are provided as requested, the rate for that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be the arithmetic mean of the rates quoted by major banks in Tokyo, selected by the Calculation Agent or Agents utilized by the Bank, at approximately 11:00 a.m., Tokyo time, on that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter for loans in Yen to leading European banks for a period of three (3) months commencing on that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter and in a Representative Amount. If more than one Calculation Agent provides an interest rate to the Bank as a result of the procedure described above, the Bank will determine, in its own discretion, the applicable LIBOR Interest Rate for each Quarter for the Interest Rate Determination Date, based on the interest rates received from the Calculation Agents. For purposes of the foregoing provision, if the Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter is not a Banking Day in Tokyo,

the rates quoted on the first day immediately thereafter which is a Banking Day in Tokyo shall be utilized.

- (iv) In the case of Single Currency Facility Loans in Swiss Francs:
- (A) The LIBOR Interest Rate on an Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be “CHF-LIBOR-BBA,” which is the rate for deposits in Swiss Francs for a period of three (3) months that appears on the Reuters page <LIBOR02> as of 11:00 a.m., London time, on the day that is two (2) London Banking Days preceding that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter. If such rate does not appear on the Reuters page <LIBOR02>, the rate for that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be determined as if the parties had specified “CHF-LIBOR-Reference Banks” as the applicable LIBOR Interest Rate.
 - (B) “CHF-LIBOR-Reference Banks” means that the rate for an Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be determined on the basis of the rates at which deposits in Swiss Francs are offered by the Reference Banks at approximately 11:00 a.m., London time, on the day that is two (2) London Banking Days preceding that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter to prime banks in the London interbank market for a period of three (3) months commencing on that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter and in a Representative Amount. The Calculation Agent or Agents utilized by the Bank will request the principal London office of each of the Reference Banks to provide a quotation of its rate. If at least two (2) quotations are provided, the rate for that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be the arithmetic mean of the quotations. If fewer than two (2) quotations are provided as requested, the rate for that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be the arithmetic mean of the rates quoted by major banks in Zurich, selected by the Calculation Agent or Agents utilized by the Bank, at approximately 11:00 a.m., Zurich time, on that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter for loans in Swiss Francs to leading European banks for a period of three (3) months commencing on that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter and in a Representative Amount. If more than one Calculation Agent provides an interest rate to the Bank as a result of the procedure described above, the Bank will determine, in its own discretion, the applicable LIBOR Interest Rate

for each Quarter for the Interest Rate Determination Date, based on the interest rates received from the Calculation Agents. For purposes of the foregoing provision, if the Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter is not a Banking Day in Zurich, the rates quoted on the first day immediately thereafter which is a Banking Day in Zurich shall be utilized.

(o) “Prohibited Practices” means the act(s) defined in Article 5.02(c) of these General Conditions.

(p) “Loan” means the funds disbursed from the Financing.

(q) “Project” means the Program or Project for which the Financing has been extended.

(r) “Quarter” means each of the following three-month (3-month) periods of the calendar year: the period beginning on January 1 and ending on March 31; the period beginning on April 1 and ending on June 30; the period beginning on July 1 and ending on September 30; and the period beginning on October 1 and ending on December 31.

(s) “Semester” means the first or second six months of a calendar year.

(t) “Single Currency” means any convertible currency which the Bank has selected for lending under the Single Currency Facility.

(u) “Single Currency Facility” means the facility the Bank has established to lend in certain convertible currencies which the Bank selects from time to time.

(v) “Single Currency Facility Loan with a LIBOR-Based Interest Rate” means any Loan or portion of a Loan made by the Bank to be disbursed, accounted for, and repaid in a Single Currency under the Single Currency Facility and which, in accordance with the Special Conditions of this Loan Contract, will bear a LIBOR-Based Interest Rate as determined pursuant to Article 3.04(b) of these General Conditions.

(w) “Single Currency Qualified Borrowings” for Loans denominated in any Single Currency means either: (i) from the date that the first Loan in such Single Currency is approved by the Bank's Board, resources of such Single Currency's transitional stabilization mechanism and borrowings of the Bank in such Single Currency that are assigned to fund loans in such Single Currency under the Single Currency Facility; or (ii) beginning on the first day of the seventh Semester following the above-mentioned date, borrowings of the Bank that are assigned to fund loans in such Single Currency under the Single Currency Facility.

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

CHAPTER III

Amortization, Interest and Credit Fee

ARTICLE 3.01. Dates of Payment of Amortization and Interest. The Borrower shall amortize the Loan in semiannual installments on the same dates as those determined in accordance with Section 2.02 of the Special Conditions for payment of interest. If the date of signature of the Loan Contract falls between June 15th and 30th or between December 15th and 31st, the dates for the payment of interest and for the payment of the first and subsequent amortization installments shall be June 15th and December 15th, as the case may be.

ARTICLE 3.02. Credit Fee. (a) The Borrower shall pay on the undisbursed balance of the Financing which is not in the currency of the Borrower's country a credit fee, which shall begin to accrue sixty (60) days after the date of the Contract. The amount of said fee shall be as indicated in the Special Conditions and under no circumstance may exceed 0.75% per annum.

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

(c) This fee shall cease to accrue in full or in part, as the case may be, to the extent that: (i) the respective disbursements have been made; or (ii) the Financing has been cancelled totally or partially pursuant to Articles 3.13, 3.14 and 4.02 of these General Conditions and the relevant provisions of the Special Conditions.

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

ARTICLE 3.04. Interest. (a) Interest shall be charged on the daily outstanding balances of the Loan at an annual rate for each Quarter as determined by the Bank on an Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter, calculated as follows: (i) the respective LIBOR Interest Rate as defined in Article 2.01(n) of these General Conditions; (ii) plus or minus a cost margin computed quarterly as the weighted average of all the cost margins to the Bank related to the borrowings assigned to the pool of Bank borrowings which funds the Single Currency Facility Loans with a LIBOR-Based Interest Rate; and (iii) plus the ordinary capital lending spread prevailing on the Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter, expressed as a percentage per annum.

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

Interest Rate for Single Currency Facility loans is assumed entirely by the Borrower and the Guarantor, if applicable.

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

(d) The Borrower, with the written consent of the Guarantor, if any, may request that all or part of the outstanding balance of the Loan with a LIBOR-Based Interest Rate be converted to a Fixed Interest Rate as defined in Article 2.01(i) of these General Conditions, which will be determined by the Bank and communicated by written notice to the Borrower. For purposes of the application of the Fixed Interest Rate to the outstanding balance, each conversion shall only be executed subject to a minimum amount of 25% of the net approved amount of the Financing (amount of the Financing minus cancellations) or three million dollars (US\$3,000,000), whichever is greater. The models of the letters to proceed with the conversion, as determined hereby, will be submitted to the Borrower, as soon as the Borrower manifests its interest in proceeding with such conversion.

(e) The Borrower, with the written consent of the Guarantor, if any, may request that all or part of the outstanding balance of the Loan with a Fixed Interest Rate be reconverted to a LIBOR-Based Interest Rate as determined pursuant to Article 3.04(a) of these General Conditions, through written notice to the Bank. Each reconversion of the Loan to a LIBOR-Based Interest Rate shall only be made on the remaining balance of the respective conversion or for an amount of at least three million dollars (US\$3,000,000), whichever is greater. Any gain or loss resulting from the cancellation or change of the Bank's funding associated with the reconversion, will be either credited or charged by the Bank to the Borrower, as the case may be, within thirty (30) days from the date of reconversion. In the event of any gain, it will be credited in the first place to any amounts due and payable by the Borrower to the Bank.

ARTICLE 3.05. Disbursements and Payments of Amortization and Interest in Single Currencies. For Single Currency Facility Loans, disbursements and payments of amortization and interest shall be in the Single Currency of the particular Loan.

ARTICLE 3.06. Valuation of Convertible Currencies. Whenever it shall be necessary pursuant to this Contract to determine the value of a currency of a country other than that of the Borrower in terms of another currency, such value shall be as reasonably determined by the Bank.

ARTICLE 3.07. Participations. (a) The Bank may cede to other public or private institutions, in the form of participations, the rights corresponding to the Borrower's pecuniary obligations under this Contract. The Bank shall promptly notify the Borrower of each assignment.

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

(c) With the prior consent of the Borrower, the Bank may cede all or part of the undisbursed amount of the Financing to other public or private institutions. To that end, the portion subject to participation shall be denominated in terms of a fixed number of units of one or more convertible currencies. Likewise, with the Borrower's prior consent, the Bank may set, for the portion subject to participation, an interest rate other than that established in the present Contract. Interest payments and amortization installments shall be made in the specified currency in which the participation was granted and on the dates specified in Article 3.01 of these General Conditions. After the final disbursement has been made, the Bank shall give the Borrower and the Participant a schedule of amortization.

ARTICLE 3.08. Application of Payments. All payments shall be applied first to returns of unjustified advances of funds, then to fees and interest due on the payment date, and if a balance exists, to the amortization of installments of principal due.

ARTICLE 3.09. Advance Payments. Pursuant to an irrevocable request in writing to the Bank, accompanied by the written consent of the Guarantor, if any, at least thirty (30) days in advance, the Borrower may prepay, on one of the amortization payment dates, all or part of the outstanding balance of the Loan, provided that on the payment date no sum is due and outstanding in respect of fees or interest. In the event that the prepayment does not cover the entire outstanding balance of the Loan, the prepayment will be applied proportionately to the remaining amortization installments. The Borrower may not prepay the outstanding balance of a Loan with a Fixed Interest Rate in an amount lower than three million dollars (US\$3,000,000), unless the remaining outstanding balance of the Loan is lower than that amount. Notwithstanding the foregoing, if there is any gain or loss resulting from the cancellation or change of the Bank's funding associated with the corresponding prepayment, it will be either credited or charged by the Bank to the Borrower, as the case may be. In the event of any gain, it will be credited in the first place to any amounts due and payable by the Borrower to the Bank.

ARTICLE 3.10. Receipts. At the request of the Bank, the Borrower shall sign and deliver to the Bank, upon the completion of disbursements, a receipt or receipts for the amounts disbursed.

ARTICLE 3.11. Transactions Falling Due on Public Holidays. Any payment or other transaction which, pursuant to this Contract, should be effected on a Saturday, Sunday or a day which is a banking holiday according to the law of the place where it is required to be made, shall be considered validly effected if carried out on the first business day immediately thereafter, and in such case no penalty whatsoever shall apply.

ARTICLE 3.12. Place of Payments. All payments shall be made at the principal office of the Bank in Washington, District of Columbia, United States of America, unless the Bank designates another place or places for this purpose by written notification to the Borrower.

ARTICLE 3.13. Renunciation of Part of the Financing. The Borrower, with the concurrence of the Guarantor, if any, may renounce, by written notice to the Bank, its right to utilize any part of the Financing which has not been disbursed before the receipt of the notice.

ARTICLE 3.14. Automatic Cancellation of Part of the Financing. Unless the Bank and the Borrower and the Guarantor, if any, expressly agree in writing to extend the term for making disbursements, that portion of the Financing not committed or disbursed, as the case may be, within the corresponding term, shall automatically be canceled.

CHAPTER IV

Conditions Relating to Disbursements

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

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

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

(c) The Borrower or Executing Agency shall have presented to the Bank information regarding the special banking account in which the Bank shall deposit the disbursements of the Financing; and

(d) The Borrower, or the Executing Agency, if any, shall have submitted in writing a disbursement request in accordance with the terms and conditions established in Article 4.03 hereof.

ARTICLE 4.02. Period for Fulfilling the Conditions Precedent to First Disbursement. If within one hundred sixty (60) days from the effective date of this Contract, or within such longer period as the parties may agree in writing, the conditions precedent to the first disbursement established in Article 4.01 of these General Conditions and in the Special Conditions have not been fulfilled, the Bank may terminate this Contract by giving notice to the Borrower.

ARTICLE 4.03. Requisites for All Disbursements. For the Bank to make any disbursement, it shall be necessary that: (a) the Borrower, or the Executing Agency, as the case may be, shall have submitted in writing, or by electronic means in such form and conditions as may be specified by the

Bank, a disbursement request and, in support thereof, shall have supplied to the Bank such pertinent documents and other background materials as the Bank may have required; provided, however, that for Loans in which the Borrower has opted to receive financing in a combination of Single Currencies, or in one or more Single Currencies, the request must indicate the specific amounts of the particular Single Currency(ies) requested for disbursement; (b) unless the Bank otherwise agrees, disbursement requests must be presented no later than thirty (30) calendar days in advance of the date of expiration of the term for disbursement or of any extension thereof which the Borrower and the Bank may have agreed to in writing; (c) none of the circumstances described in Article 5.01 of these General Conditions shall have occurred; and (d) the Guarantor, if any, shall not be in non-compliance for more than one hundred twenty (120) days with any obligation to make payments to the Bank on any Loan or Guarantee.

ARTICLE 4.04. Charges for the Inspection and Supervision Fee. If the Bank determines that an amount shall be charged to cover its expenses for general inspection and supervision in accordance with the Special Conditions, the Bank will notify the Borrower and the latter will indicate whether it will pay the corresponding amount directly to the Bank or whether such amount should be withdrawn and retained by the Bank from the resources of the Financing. Both the payment by the Borrower and the retention by the Bank of any fee allocated to general inspection and supervision will be carried out in the currency of the Loan.

ARTICLE 4.05. Disbursement Procedures. The Bank may make disbursements against the Financing: (a) by transferring to the order of the Borrower the sums to which it is entitled under this Contract; (b) by making payments on behalf of and in agreement with the Borrower to third parties; and (d) by utilizing such other modality as the parties may agree upon in writing. Any banking expenses that may be charged by a third party in connection with disbursements shall be borne by the Borrower. Unless the parties agree otherwise, disbursements shall be made only in amounts of not less than the equivalent of one hundred thousand dollars of the United States of America (US\$100,000) each.

CHAPTER V

Suspension of Disbursements and Accelerated Maturity

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

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

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

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

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

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

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

(g) If it is determined at any stage that evidence is sufficient to support a finding that an employee, agent, or representative of the Borrower, Executing Agency or Contracting Agency, has engaged in a Prohibited Practice during the execution of the Program or in the use of the resources of the Loan.

ARTICLE 5.02. Termination, Accelerated Maturity, or Partial Cancellation of Undisbursed Balances and other Measures. (a) The Bank may terminate this Contract with respect to the part of the Financing not yet disbursed or may declare the entire loan or a portion thereof immediately due and payable, together with interest and fees accrued up to the date of payment if: (i) any of the circumstances set forth in paragraphs (a), (b), (c) and (e) of the preceding article continues for more than sixty (60) days; or (ii) the information referred to in paragraph (d) of the preceding article, or the clarifications or additional information presented by the Borrower or the Executing Agency or the Contracting Agency, if any, are not satisfactory to the Bank.

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

(c) For the purposes of the General Conditions, "Prohibited Practice" shall be understood to include the following practices: (i) a "corrupt practice", is the offering, giving, receiving, or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party; (ii) a "fraudulent practice", is any act or omission, including a misrepresentation, that

knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation; (iii) a “coercive practice”, is impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to improperly influence the actions of a party; (iv) a “collusive practice” is an arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party; and (v) an “obstructive practice”, is (a) deliberately destroying, falsifying, altering or concealing evidence material to the investigation or making false statements to investigators in order to materially impede a Bank investigation into allegations of a corrupt, fraudulent, coercive or collusive practice; and/or threatening, harassing or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation, or (b) acts intended to materially impede the exercise of the Bank’s contractual rights of audit or access to information.

(d) If, in accordance with the administrative procedures of the Bank and/or the procedures agreed by the Bank and other international financial institutions for the mutual recognition of sanctions including debarment decisions, it is demonstrated that any firm, entity or individual bidding for or participating in a Bank-financed project including, *inter alia*, the Borrower, bidders, suppliers, contractors, sub-contractors, concessionaires, applicants, consultants, Executing Agency or Contracting Agency (including their respective officers, employees and agents) has engaged in a Prohibited Practice, the Bank may:

- (i) decide not to finance any expenditure related with the execution of the Program or the use of the resources of the Loan;
- (ii) suspend disbursement of the Financing as described in Article 5.01 (g) 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 Borrower, Executing Agency or Contracting Agency has engaged in a Prohibited Practice;
- (iii) cancel, and/or accelerate repayment of, the portion of a loan or grant allotted for a contract as described in Article 5.02 (b) above of these General Conditions, when there is evidence that the representative of the Borrower 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 Borrowing 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 projects 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 to the Bank for costs associated with investigations and proceedings. Such other sanctions may be imposed in addition to or in lieu of other sanctions.

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

ARTICLE 5.03. Non-waiver of Rights. Any delay by the Bank in the exercise of its rights pursuant to this Contract, or failure to exercise them, shall not be construed as a waiver by the Bank of any such rights nor as acquiescence in events or circumstances which, had they occurred, would have empowered it to exercise them.

ARTICLE 5.04. Provisions not Affected. The application of any of the measures provided for by this Chapter shall not affect the obligations of the Borrower established in this Contract, which shall remain in full force and effect, except that in case the entire Loan has been declared due and payable, only the pecuniary obligations of the Borrower shall continue in force.

CHAPTER VI

Records, Inspections and Reports

ARTICLE 6.01. Internal Control and Records. The Borrower or 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 and account statements and reports. The records of the Project shall be maintained for a minimum of three (3) years after the date of final disbursement of the Loan, in such a way that: (a) make it possible to identify the sums received from the Bank; and (b) allow the identification of the information related with the execution of the Program or the use of the resources of the Loan.

ARTICLE 6.02. Inspections. (a) The Bank may establish such inspection procedures as it deems necessary to ensure the satisfactory development of the Project.

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

(c) The Borrower, the Executing Agency or the Contracting Agency, as the case may be, shall, upon request of an authorized representative of the Bank, provide to the Bank any documents, including procurement-related documents that the Bank might reasonably request. In addition, the

Borrower, the Executing Agency and the Contracting Agency shall make their personnel available, upon reasonable notice, to respond to questions from Bank personnel, which arise during the review or audit of such documents. The Borrower, the Executing Agency or the Contracting Agency, as the case may be, shall produce the documents in a timely manner or shall submit an affidavit to the Bank setting forth the reasons why the requested material is unavailable or is being withheld.

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

ARTICLE 6.03. Reports and Financial Statements. (a) The Borrower or the Executing Agency, as appropriate, shall present to the Bank's satisfaction:

- (i) When the Special Conditions so require, three copies of the financial statements of the Borrower as of the close of each fiscal year, and supplementary financial information relating to such statements. The financial statements shall be submitted during the period stipulated in the Special Conditions, beginning with the fiscal year in which the Project was initiated and within one hundred twenty (120) days following the close of each fiscal year of the Borrower. This obligation shall not apply if the Borrower is the Government or the Central Bank.
- (iii) When the Special Conditions so require, three copies of the financial statements of the Executing Agency as of the close of each fiscal year, and supplementary financial information relating to such statements. The statements shall be submitted during the period stipulated in the Special Conditions, beginning with the fiscal year in which the Project was initiated and within one hundred twenty (120) days following the close of each fiscal year of the Executing Agency.

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

(c) In cases in which the audit is to be performed by an official auditing agency and such agency is unable to perform the audit in accordance with requirements satisfactory to the Bank or within the periods mentioned above, the Borrower or the Executing Agency shall contract the services of a firm of independent public accountants acceptable to the Bank. The services of a firm of independent public accountants may also be utilized if the contracting parties so agree.

CHAPTER VII

Provision on Encumbrances and Exemptions

ARTICLE 7.01. Commitment on Encumbrances. If the Borrower should agree to create any specific encumbrance on all or part of its assets or revenues to secure an external debt, it shall at the same time create an encumbrance guaranteeing to the Bank, equally and proportionally, the fulfillment of the pecuniary obligations arising from this Contract. However, the foregoing shall not apply: (a) to encumbrances on goods used as security for payment of the unpaid balance of the purchase price; and (b) to encumbrances created in banking operations to secure payment of debts with maturities of not more than one year. In the event that the Borrower is a member country, the term “assets or revenues” shall mean all types of assets or revenues which belong to the Borrower or any of its dependent agencies which are not autonomous entities with their own separate capital.

ARTICLE 7.02. Tax Exemption. The Borrower undertakes to ensure that both the principal and the interest and other charges of the Loan shall be paid without any deduction or restriction whatsoever, exempt from any tax, fee, duty or charge established or that may be established by the laws of its country, and to pay any tax, fee, or duty applicable to the signing, negotiation, and execution of this Contract.

CHAPTER VIII

Arbitration Procedure

ARTICLE 8.01. Composition of the Tribunal. (a) The Arbitration Tribunal shall be composed of three members to be appointed in the following manner: one by the Bank, another by the Borrower, and a third, hereinafter called the “Referee”, by direct agreement between the parties or through their respective arbitrators. If the parties or the arbitrators fail to agree on who the Referee shall be, or if one of the parties should not designate an arbitrator, the Referee shall be appointed, at the request of either party, by the Secretary General of the Organization of American States. If either of the parties fails to appoint an arbitrator, one shall be appointed by the Referee. If either of the appointed arbitrators or the Referee is unwilling or unable to act or to continue to act, his successor shall be appointed in the same manner as for the original appointment. The successor shall have the same functions and faculties as his predecessor.

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

ARTICLE 8.02. Initiation of the Procedure. In order to submit the controversy to arbitration, the claimant shall address to the other party a written communication setting forth the nature of the claim, the satisfaction or compensation which it seeks, and the name of the arbitrator it appoints. The party receiving such communication shall, within forty-five (45) days, notify the adverse party of the name of the person it appoints as arbitrator. If, within thirty (30) days after delivery of such notification to the claimant, the parties have not agreed upon the person who is to act as Referee,

either party may request the Secretary General of the Organization of American States to make the appointment.

ARTICLE 8.03. Convening of the Tribunal. The Arbitration Tribunal shall be convened in Washington, District of Columbia, United States of America, on the date designated by the Referee, and, once convened, shall meet on the dates which the Tribunal itself shall establish.

ARTICLE 8.04. Procedure. (a) The Tribunal shall be competent to hear only the matters in controversy. It shall adopt its own procedures and may on its own initiative designate whatever experts it considers necessary. In any case, it shall give the parties the opportunity to make oral presentations.

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

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

ARTICLE 8.05. Costs. The fees of each arbitrator shall be paid by the party which appointed him and the fees of the Referee shall be paid by both parties in equal proportion. Prior to the convening of the Tribunal, the parties shall agree on the remuneration of the other persons who, by mutual agreement, they deem should take part in the arbitration proceedings. If such agreement is not reached in a timely manner, the Tribunal itself shall determine the compensation which may be reasonable for such persons under the circumstances. Each party shall defray its own expenses in the arbitration proceedings, but the expenses of the Tribunal shall be borne equally by the parties. Any doubt regarding the division of costs or the manner in which they are to be paid shall be determined, without appeal, by the Tribunal.

ARTICLE 8.06. Notification. All notifications relative to the arbitration or to the award shall be made in the manner provided in this Contract. The parties waive any other form of notification.

THE ANNEX

THE PROGRAM

Public Capital Expenditure Management Program I

I. Objective

- 1.01** The purpose of the Program is to support the Government's major reform effort to enhance and modernize public capital expenditure management; and to contribute to the Government's overall objectives of enhancing efficiency, effectiveness, transparency and accountability in the use of public resources.
- 1.02** The reforms supported by the Program combine policy initiatives and government actions in three areas: (i) policy design and public investment management; (ii) public procurement; and (iii) public financial management and audit. The first area of intervention aims at improving the investment planning and prioritization, while the second and third areas of interventions seek to improve the tools for project implementation. For each area of intervention, the Program establishes targets related to changes in the relevant legal framework, as well as procedures and/or instruments necessary to achieve the desired objectives.

II. Description

- 2.01** In order to achieve the above-captioned objective, the overall Programme will support the implementation of the following reforms:

Component 1: Policy Design and Public Investment Management

- 2.02** The objective of this component is to improve the quality of public investment by enhancing the policy formulation process that guides the investment decisions and establishing a system to screen proposed public investment projects based on objective criteria. In this regard, the Program will support the establishment of an Economic Development Board (EDB), which will consult with stakeholders and play an advisory role in policy formulation. It is expected that the EDB will play an important role providing strategic guidance for prioritizing and optimizing government expenditures. The EDB will operate under the direction of the Ministers of Finance (MOF), and Planning, Economic and Social Restructuring and Gender Affairs (PESRGA). It will report to the Prime Minister through the Ministerial Council for Economic Development. The EDB will be guided by the seven pillars for sustainable development articulated in the Manifesto of the People's Partnership. EDB's core mandates relevant for this Program will be: (i) the design of a new framework for the economic development of the economy of the Republic of Trinidad and Tobago; (ii) promote the alignment and strategic incorporation of existing and long term plans into the new Development Framework of the Republic of Trinidad and Tobago; and (iii) formulate

recommendations for the implementation and execution of these development plans. In relation to the modernization of the public investment management system, the Program will support properly sequenced reform interventions at the levels of the regulatory framework, the organizational structure, policy and procedures and capacity development. In addition, the Program will seek to enhance the policy design and monitoring capacity for social investment projects to contribute to the objectives of poverty reduction and growth.

Component 2: Public Procurement

- 2.03** The objective of this component is to support the reforms of the Government of the Republic of Trinidad and Tobago to improve efficiency in public procurement, through the introduction of legislation and practices which are fair and transparent. The reform aims to promote enhanced competition and to generate savings in public procurement of goods, services and works. In order to achieve this objective, the Borrower will adopt a new legal and institutional framework in accordance with best international practices, aimed at enhancing transparency and accountability. The new framework will cover all entities that carry out public procurement for the Republic of Trinidad and Tobago. New legislation will be enacted to establish the legal framework and prescribe operating principles. The details of process and procedures will be developed in implementing instruments, including regulations, guidelines, and handbook. The separation of principles and implementing instruments will enable the Borrower more flexibility to accommodate market and technological changes and separate policy issues from operational issues. The legislative proposal submitted to Parliament shall propose a procurement system governed by the underlying operating principles of value for money, transparency and accountability. The legislative proposal shall include provisions to enable: (i) increasing openness and accountability; (ii) greater scrutiny by the public; (iii) flexibility to accommodate technological change; and (iv) greater monitoring of contract execution.
- 2.04** Under this component, the Program will also support critical government actions for the implementation of the new legislative framework. In this regard, the Program will focus on the establishment and operation of the institutions created under the new Act, the issuance of new regulations and guidelines, the adoption and dissemination of improved public procurement tools, methodologies and practices.

Component 3: Public Financial Management and Audit

- 2.05** The objective of this component is to modernize public financial management and strengthen the capacity of the Auditor General's Department. Under this component, the Program will support the modernization of the legal framework, processes and information system for a more transparent and effective public financial management. This component will also include the Program reforms and interventions to enhance integrity in government by strengthening the institutional capacity of the Auditor General's Department (AGD) to perform its watchdog role.

- 2.06** The Program will support the introduction of a modern Integrated Financial Management Information System (IFMIS), accompanied by the modernization of processes and tools. For this purpose, the Borrower will undertake the necessary changes in regulations and amend the legislative framework to enable its implementation. In this regard, a new legislation for electronic transactions is required to allow for government electronic payments using IFMIS.
- 2.07** In relation to the external audit system, the Program will support the implementation of critical actions to address the weaknesses identified in the area of external scrutiny and audit. These actions and directives will be reflected in a Policy Note approved by the Cabinet. The Policy Note will comprise the core actions, timeframe, expected milestones, and financing requirements to strengthen the institutional capacity of the AGD and other actions beyond the scope of the AGD to enhance the external audit function in the Government. The latter will include, among others, the establishment of a formal mechanism to follow up on audit recommendations.

III. Execution

- 3.01** The executing agency will be the Ministry of Finance (MOF), with responsibility to provide the needed evidence for compliance with the Program's conditions to the Bank. The MOF will prepare and present the disbursement request.
- 3.02** The MOF will establish a Program Steering Committee (SC) with responsibility for overall Program guidance and oversight. The SC will review the progress on the execution of the policy reforms, and will interface with other institutional actors in order to facilitate the orderly implementation of the Program. The Permanent Secretary of the MOF, or his/her designate, will chair the SC, and its membership will include the representatives of the institutions with specific responsibilities in the implementation of the reforms.
- 3.03** The MOF will appoint a Program Coordinator who will be responsible for: (i) providing support to the entities involved in the implementation of the Program's initiatives; (ii) coordinating Program execution in technical matters; (iii) revising and presenting the work plans and progress reports to the SC; (iv) monitoring the timely compliance of policy reform targets and performance benchmarks set out in the policy matrix agreed between the Borrower and the Bank; (v) collecting the evidence of compliance with Program's targets; (vi) collecting the information needed for the indicators specified in the results matrix; and (vii) assisting with the procurement and processing of the contracts required for the implementation of the agreed Program interventions.
- 3.04** The implementation of the reforms will be monitored by the Borrower through the MOF and the SC, with support from the Program Coordinator. The Borrower and the Bank will hold semiannual meetings in accordance with Section 4.02 of the Special Conditions in order to review the progress achieved in implementing the Program. For these meetings, the Borrower will furnish, prior to each meeting, information and documentation requested by the Bank regarding the advancement of the Program. The meetings will focus on: (i) verifying the degree of compliance with the indicators for the Program and

its components; (ii) taking stock of the successes and shortcomings of Program design and execution, and its effectiveness in working toward the development objectives of the Republic of Trinidad and Tobago; and (iii) recommending corrective or monitoring measures.