

LOAN CONTRACT No. 3390/CH-BA

between the

THE GOVERNMENT OF BARBADOS

and the

INTER-AMERICAN DEVELOPMENT BANK

Acting as Administrator of the China Co-financing Fund for Latin America and the Caribbean

for the

Enhanced Access to Credit for Productivity Project

June 19, 2015

LOAN CONTRACT

SPECIAL CONDITIONS

INTRODUCTION

Parties, Objective, Constituent Elements and Executing Agency

1. PARTIES AND OBJECTIVE OF THE CONTRACT

CONTRACT entered into on June 19, 2015 between THE GOVERNMENT OF BARBADOS (hereinafter referred to as the “Borrower”) and the INTER-AMERICAN DEVELOPMENT BANK, acting in its capacity as Administrator of the China Co-financing Fund for Latin America and the Caribbean, (hereinafter referred to as the “Bank”) to cooperate in the execution of the enhanced access to credit for productivity project (hereinafter referred to as the “Project”).

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

This Contract is entered into pursuant to the Trust Fund Agreement signed between the Bank and The People’s Bank of China for the establishment of the China Co-financing Fund for Latin America and the Caribbean, on January 14, 2013.

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

(a) This Contract consists of these Special Conditions, the General Conditions dated April 2014, and the Annex, which is attached hereto. If any provision of the Special Conditions or the Annex should present any inconsistency or contradiction with the General Conditions, the provisions of the Special Conditions or the Annex shall prevail. In the case of inconsistencies or contradictions between 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, conversions and disbursements, as well as other conditions related to project 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 Project and the utilization of the resources of the loan granted by the Bank shall be carried out in their entirety by the Borrower through the Central Bank of Barbados hereinafter referred to as the “Executing Agency”, or “CBB”, whose legal and financial capacity to act as such is certified by the Borrower.

CHAPTER I

The Loan

SECTION 1.01. Amount and Approval Currency of the Loan. In accordance with this Contract, the Bank agrees to lend to the Borrower, and the Borrower accepts, a loan of up to the amount of seventeen million five hundred thousand Dollars (US\$17,500,000), hereinafter the “Loan”, to contribute to the financing of the Project.

SECTION 1.02. Disbursement requests, Disbursement currency, and limitations on disbursements. (a) The Borrower may request from the Bank Loan disbursements pursuant to Article 4.03 of the General Conditions.

(b) All disbursements shall be denominated and made in Dollars.

(c) Notwithstanding the provisions of this Contract related to disbursements, the disbursement by the Bank of the resources of the Loan will be subject to the following maximum limits: (i) up to fifteen percent (15%) of the total amount of the Loan during the first twelve (12) months following December 15, 2014; (ii) up to thirty percent (30%) of the total amount of the Loan during the first twenty-four (24) months from the date set forth in Section 1.02(c)(i); and (iii) up to fifty percent (50%) of the total amount of the Loan during the first thirty-six (36) months from the date set forth in Section 1.02(c)(i).

(d) The limitations set forth in Section 1.02(c) may be rendered inapplicable to the extent that the requirements set forth in the Bank’s policy regarding said limitations have been fulfilled, provided that the same has been notified in writing to the Borrower.

SECTION 1.03. Disbursement Period. (a) The Original Disbursement Period will be five (5) years from the effective date of this Contract.

(b) To ensure that the cumulative WAL continues to be equal to or less than the Original WAL, in those cases in which an extension to the Original Disbursement Period is granted (i) resulting in an extension of such period beyond a date that is sixty (60) days prior to the due date for the first amortization installment of the Loan or the tranche of the Loan, as the case may be, and (ii) when disbursements occur during such extension period, the Amortization Schedule shall be modified. Such modification will consist of moving forward the Final Amortization Date or, if the Loan has different tranches, moving forward the final amortization date of the tranche or tranches of the Loan from which funds are disbursed during the extension period of the Original Disbursement Period, unless the Borrower expressly requests, in lieu of the foregoing, an increase in the amount of the amortization installment following each disbursement of the Loan or the tranche of the Loan, as the case may be, that results in a longer WAL than the Original WAL. With respect to this second option, the Bank will determine the corresponding amount for such amortization installment.

SECTION 1.04. Amortization Schedule. (a) The Final Amortization Date is the date twenty-five (25) years from the date of signature of this Contract. The Original WAL of the Loan is fifteen point twenty-five (15.25) years.

(b) The Loan shall be repaid by the Borrower in semiannual, consecutive and as far as possible, equal installments. The first installment shall be due on the expiration date of the sixty-six (66) month period after the date of entry into effect of this Contract, and the last installment shall be paid no later than the Final Amortization Date. If the expiration date of the period for the payment of the first amortization installment does not fall on the 15th day of the month, the payment of the first amortization installment shall be made on that date which is the 15th day of the month, which date most immediately precedes the expiration date of such period (in the same month or the prior month, as the case may be). If the Final Amortization Date does not fall on an interest payment date, the payment of the last amortization installment shall be made on the interest payment date immediately preceding the Final Amortization Date.

(c) The Parties may agree to modify the Loan Amortization Schedule so as to reflect the same terms agreed upon for the amortization schedule of the loan No. 3389/OC-BA.

SECTION 1.05. Interest. (a) The Borrower shall pay interest on the daily Outstanding Loan Balances at a rate determined pursuant to the provisions of Article 3.02 of the General Conditions.

(b) Interest shall be payable to the Bank semiannually. The first interest payment shall be due on the expiration date of the six-month (6-month) period after the date of entry into effect of this Contract. If the expiration date of the period for the payment of the first interest payment does not fall on the fifteenth (15th) day of the month, the first interest payment shall be made on that date which is the fifteenth (15th) day of the month, which date most immediately precedes the expiration date of such period (in the same month or the prior month, as the case may be).

(c) In order to reflect the same interest rate of the loan No. 3389/OC-BA, the Borrower may request that all or part of the Outstanding Loan Balance with 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 3.02 of the General Conditions of this Contract

SECTION 1.06. Credit Fee. The Borrower shall pay a credit fee as set forth in Articles 3.03, 3.04, and 3.06 of the General Conditions.

SECTION 1.07. Resources for General Inspection and Supervision. The Borrower shall not be required to cover the Bank's expenses for general inspection and supervision, unless the Bank establishes otherwise pursuant to Article 3.05 of the General Conditions.

CHAPTER II

Cost of the Project and Additional Resources

SECTION 2.01. Cost of the Project. The total cost of the Project is estimated to be the equivalent of thirty-five million Dollars (US\$35,000,000), which includes the amount of the financing referred to in Section 1.01 of these Special Conditions and up to seventeen million five hundred thousand Dollars (US\$17,500,000) from the resources of the loan No. 3389/OC-BA chargeable to the resources of the Ordinary Capital of the Bank.

SECTION 2.02. Additional Resources. Pursuant to the provisions set forth in Article 6.04 of the General Conditions, the Borrower undertakes to contribute in a timely manner all of the resources in addition to those of the Loan which may be necessary for the complete and uninterrupted execution of the Project.

CHAPTER III

Use of Loan Resources

SECTION 3.01. Utilization of resources of the Loan. With the resources of the Loan, the Executing Agency may grant guarantees to intermediary financial institutions (“IFIs”) for individual investment loans to small and medium enterprises (“SMEs”), eligible under the Project.

SECTION 3.02. Special Conditions Precedent to First Disbursement. In addition to the conditions precedent stipulated in Article 4.01 of the General Conditions, the first disbursement of the Loan shall be subject to the fulfillment, to the satisfaction of the Bank, of the following requirements:

- (a) Presentation of evidence of the formal designation of a Project coordinator;
- (b) Presentation of evidence that the Borrower and the Executing Agency have entered into a Trust Deed for the transfer of Loan resources and the execution of the Project activities; and
- (c) Presentation of evidence of the approval and effectiveness of Operating Regulations (OR) of the Project, in accordance with terms agreed upon with the Bank.

SECTION 3.03. Reimbursement of Expenditures Chargeable to the Loan. (a) With the consent of the Bank, resources of the Loan may be used to reimburse expenditures incurred or to finance those that may be incurred in the Project, through eligible guarantees granted by the Executing Agency to IFIs, on or after December 15, 2014 and up to the date of this Contract, provided that requirements substantially similar to those set forth in this Contract have been fulfilled.

SECTION 3.04. Exchange Rate. For the purposes of the provisions set forth in Article 4.09(a) of the General Conditions of this Contract, the parties agree that the applicable exchange rate shall be that which is indicated in subsection (a) (ii) of said Article. For this purpose, the exchange rate to be applied will be that in effect on the day on which the Borrower, the Executing Agency or any natural

or juridical person in whom the power to incur expenditures has been vested makes the related payments to the contractor or supplier.

SECTION 3.05. Advance of Funds. (a) Notwithstanding the provision set forth in Article 4.08 of the General Conditions, the parties agree that the Borrower may request, upon fulfillment of all conditions precedent stipulated in Article 4.01 of the General Conditions and in Section 3.02 of these Special Conditions, a disbursement of up to one million two hundred and fifty thousand Dollars (US\$1,250,000) to ensure initial funding for the Guarantee Fund referred to in paragraph 2.02 of the Annex.

(b) The parties agree that for the purpose of the justification of expenditures for the second and subsequent Advances of Funds, the object of the expenditure will be the guarantee issued by the Executing Agency that fulfill eligibility criteria provided for in the OR.

CHAPTER IV

Execution of the Project

SECTION 4.01. Conditions of the Guarantees. The parties agree that the Guarantee Fund, referred to in Section II of the Annex, will be subject to the following conditions:

(a) For each guarantee, the respective IFI shall be charged on account of fees or any other financial charge stipulated in the OR of the Project, in accordance with the legislation and policies of Barbados.

(b) The Executing Agency shall not grant with the resources of the Loan guarantees exceeding the equivalent of one million Dollars (US\$1,000,000) per individual loan, unless, on the basis of special circumstances, it obtains the prior written approval of the Bank.

(c) Each guarantee under the Project shall provide coverage of up to eighty percent (80%) of the amount of individual loans for up to ten (10) years.

(d) The participating IFIs shall be any incorporated commercial bank, finance company, trust, finance, or merchant bank licensed to operate in Barbados.

(e) The participating IFI shall be obliged to maintain non-performing loans to total loans below fifteen percent (15%), not have more than ten (10) claims filed, provide periodic reports, and have a signed agreement to participate in the fund. The IFI will determine interest rate pricing on the guaranteed loans considering its own pricing model.

(f) No IFI shall have more than ten million Dollars (US\$10,000,000) in aggregated outstanding guarantees, unless, on the basis of special circumstances, the Executing Agency obtains the prior written approval of the Bank.

(g) Eligible SMEs shall be incorporated entities registered to operate in Barbados and compliant with the necessary licenses and permits, and with up to ten million Dollars (US\$10,000,000) in assets or yearly revenues or up to two hundred (200) employees; these SMEs will have undergone an appropriate credit risk assessment by a participating IFI to obtain a loan.

(h) No SME shall have more than three million Dollars (US\$3,000,000) in aggregated outstanding guarantees, unless, on the basis of special circumstances, the Executing Agency obtains the prior written approval of the Bank.

(i) The individual loans eligible for guarantees shall be for the agriculture, commerce, industry and services sectors, to finance investments related to the purchase of land and buildings, the purchase of equipment and machinery, the expansion and improvement of infrastructure, the implementation of new technology, techniques and processes, the increase in permanent working capital (when working capital is tied to an investment loan), all directly related to the SME's activity.

(j) The specific procedures, conditions and requirements of the operation of the Guarantee Fund, as well as the eligibility criteria for the participating IFIs, and criteria for eligible projects of SMEs, among others, will be detailed in the OR.

(k) In addition, the parties agree that all guarantees granted by the Executing Agency with the resources of the Loan shall include the following conditions:

- (i) the commitment of the IFI that the proceeds obtained from the guaranteed loan will exclusively be used for the execution of the sub-project and will comply with the terms and conditions described in this Contract and in the OR;
- (ii) the right of the Executing Agency and of the Bank to inspect the records, goods, installations, works and constructions related to the sub-project financed by the guaranteed loan, including all related to the fulfillment of social and environmental conditions;
- (iii) the right of the Executing Agency and of the Bank to request from the SME all information with respect to the sub-project and its performance, financial situation, and social and environmental situation;
- (iv) the right of the Executing Agency to suspend disbursements of the guarantee if the IFI does not fulfill its obligations under the guarantee agreement.

SECTION 4.02. Assignment of guarantees. With respect to guarantees granted from the resources of the Loan, the Executing Agency agrees to: (a) maintain them in the portfolio of the guarantee fund free of all encumbrances; and (b) request and obtain the prior approval of the Bank in cases in which it proposes to sell, assign or transfer them to third parties.

SECTION 4.03. Operating Regulations (OR). The parties agree that the execution of the Project shall be governed by the terms and conditions set forth in this Contract and in the OR of the Project, referred to in Section 3.02(c) of these Special Conditions. The OR will have to be approved by the Executing Agency, with the prior non-objection of the Bank, on the understanding that changes can be introduced into the OR with the prior written non-objection of the Bank. If any provision of the OR should present any inconsistency or contradiction with the terms and conditions set forth in this Contract, the provisions of this Contract shall prevail.

SECTION 4.04. Reimbursement of Expenses as of Date of Loan Approval. The Bank may recognize as part of the local contribution expenditures incurred or which may be incurred in the Project, through eligible guarantees granted by the Executing Agency to IFIs, on or after December 15, 2014 and up to the date of this Contract, provided that requirements substantially similar to those set forth in this Contract have been fulfilled.

SECTION 4.05. Annual Operating Plans. The Project will be executed following Annual Operating Plans (AOPs), which will include pipeline of guarantee requests expected, support activities to be undertaken by the CBB, time and responsibility for execution and a copy of audited financial statement corresponding to the previous year. If changes to the AOPs are needed during the implementation of the Project, such changes could be implemented with the prior written non-objection of the Bank. The AOP for the first year of the execution of the Project will be part of the initial report needed for disbursements. The AOPs for each of the subsequent years will be submitted for the Bank's non-objection by November 30 of each calendar year, and will cover the activities to be carried out in for the following year.

SECTION 4.06 Evaluations. (a) The Borrower, through the Executing Agency, will hire independent consultants to carry out the following evaluation: (i) a mid-term evaluation at the end of thirty (30) months from the date of the signature of this Contract or after fifty percent (50%) of the resources of the Loan and the loan No. 3389/OC-BA have been committed, whichever occurs first.

(b) The Borrower will provide the information necessary for the Bank to conduct a Project Completion Report (PCR), to be prepared nine (9) months after ninety-five percent (95%) of the resources of the Loan and the loan No. 3389/OC-BA have been disbursed.

(c) The Borrower, directly or through the Executing Agency shall present to the Bank, at the end of two (2) years after the date of the expiration of the Original Disbursement Period or any extensions thereof, an ex post cost benefit evaluation report, based on the methodology and guidelines agreed upon with the Bank.

SECTION 4.07. Selection and Contracting of Consultant Services. (a) For purposes of the provisions of Article 2.01(11) of the General Conditions, the Parties agree that the Consultant Policies are those dated March 2011, which are contained in document GN-2350-9, approved by the Bank on April 19, 2011.

(b) For the selection and contracting of consulting services, any of the methods described in the Consultant Policies may be used, provided that such method for the respective procurement has been identified in the Procurement Plan approved by Bank.

(c) The threshold for determining the short list of international consultants will be made available to the Borrower or the Executing Agency, as the case may be, at www.iadb.org/procurement. Below that threshold, the short list may be composed entirely of national consultants of the Borrower's country.

CHAPTER V

Supervision

SECTION 5.01. Records, Inspections and Reports. The Borrower agrees to directly or through the Executing Agency: maintain records; permit inspections; submit reports; maintain a management, accounting and financial administration system acceptable to the Bank; and submit financial statements and financial reports to the Bank in accordance with the provisions established in this Chapter and in Chapter VII of the General Conditions.

SECTION 5.02. Supervision of Project Execution. (a) The Bank shall use the Project implementation plan referred to in Article 4.01(d)(i) of the General Conditions as an instrument to supervise Project execution. The Project implementation plan shall include a complete planning of the Project, with the critical path of actions to be implemented in order to disburse the resources of the Loan in the Original Disbursement Period.

(b) The Project implementation plan shall be updated as needed, particularly upon the occurrence of a significant change that causes or may cause a delay in Project execution. The Borrower shall inform the Bank of any change in the Project implementation plan no later than upon presentation of the respective semiannual Project execution report.

SECTION 5.03. Financial Statements and other Reports. (a) The Borrower agrees to directly or through the Executing Agency submit the following reports:

- (i) within one hundred twenty (120) days following the closing of each fiscal year of the Executing Agency and within Original Disbursement Period or any extensions thereof, the Project's audited financial statements, duly audited by a firm of independent public accountants acceptable to the Bank. The last of these reports shall be submitted within one hundred twenty (120) days following the expiration of the Original Disbursement Period or any extensions thereof.
- (ii) during the Original Disbursement Period or any extensions thereof, within sixty (60) days after the end of each Semester, progress reports regarding activities financed during the previous Semester for the activities of the

Project including, among others, a status update on: (i) the guarantee fund, including the balance of the fund, list of guarantees issued and guarantee default events (ideally generated from CBB's financial reporting system), and; (ii) the Project financing (broken down according to source of funds).

(b) The audited financial statements referred in subparagraph (a)(i) of this Section shall include a report on the eligibility of costs associated to the guarantee fund, verify the existence of the issued guarantees and supporting documents, and that the guaranteed sub-loans have been disbursed in accordance with the terms and conditions of the OR.

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.** The Loan and all the obligations that derive thereof shall be deemed terminated upon full payment of the Loan and all interest and fees, together with other expenses, premiums, and costs arising out of this Contract.

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

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

For the Borrower:

Mailing address:

Permanent Secretary, Finance
Ministry of Finance and Economic Affairs
Government Headquarters
Bay Street
St. Michael,
Barbados

Facsimile: (246) 228-1641

For matters related to execution of the Project

Mailing address:

Director, Foreign Exchange and Export Credits Department
Central Bank of Barbados
Tom Adams Financial Centre
Spry Street
Bridgetown
Barbados

Facsimile: 246 436 7240

For the Bank:

Mailing address:

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

Facsimile: (202) 623-3096

CHAPTER VII

Arbitration

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

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

GOVERNMENT OF BARBADOS

INTER-AMERICAN DEVELOPMENT
BANK

(s)

(s)

The Hon. Christopher Sinckler, M.P.
Minister of Finance and Economic Affairs

Joel Branski
Representative of the Bank in Barbados

PART TWO

GENERAL CONDITIONS

April 2014

CHAPTER I

Application of the General Conditions

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

CHAPTER II

Definitions

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

1. “Advance of Funds” means the amount of resources advanced by the Bank to the Borrower, chargeable to the resources of the Loan, to cover eligible expenditures of the Project, as provided in Article 4.07 of these General Conditions.
2. “Amortization Schedule” means the original schedule set forth in the Special Conditions for the payment of amortization installments of the Loan or any modified schedule agreed to between the Parties pursuant to the provisions of Article 3.01 of these General Conditions.
3. “Bank” means the Inter-American Development Bank.
4. “Bank's Cost of Funding” means a cost margin calculated quarterly relative to a three (3)-month LIBOR Dollar Interest Rate, using the weighted average cost of funding instruments applicable to the Flexible Financing Facility, expressed in terms of an annual percentage, as determined by the Bank.
5. “Bank Group” means the Bank, the Inter-American Investment Corporation and the Multilateral Investment Fund.
6. “Board” means the Board of Executive Directors of the Bank.

7. “Borrower” shall have the meaning assigned to it in the Special Conditions.
8. “Business Day” means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in New York.
9. “Calculation Agent” means the Bank, except for the use of such term in the definition of LIBOR Interest Rate, in which case it will have the meaning assigned to it in the 2006 ISDA Definitions, in accordance with the publication of the *International Swaps and Derivatives Association, Inc.*, as amended and supplemented. Any determination made by the Calculation Agent shall be final, conclusive and binding on the parties (except in the case of manifest error), and, if made by the Bank as Calculation Agent, shall be duly documented and made in good faith and in a commercially reasonable manner.
10. “Closing Period” means a ninety (90)-day period from the expiration date of the Original Disbursement Period, or any extension thereof, in order to finalize pending payments to third parties, to present the final justification of expenditures made, to reconcile the books and records, and to reimburse to the Bank the resources disbursed from the Loan but not used and/or justified, as provided in Article 4.08 of these General Conditions.
11. “Consultant Policies” means the Policies for the selection and contracting of consultants financed by the Inter-American Development Bank in force at the time of the approval of the Loan by the Bank.
12. “Contract” means this loan contract.
13. “Contracting Agency” means the entity with the legal capacity to enter into the Contract for the Procurement of Works and Goods and the Selection and Contracting of Consultants with the Contractor, Supplier, Consulting Firm or Individual Consultant, as the case may be.
14. “Derivative Contract” means any contract entered into between the Bank and the Borrower or the Bank and the Guarantor to document and/or confirm one or more derivative transactions agreed between the Bank and the Borrower, or the Bank and the Guarantor, and its subsequent amendments. All attachments and other supplemental agreements to a Derivative Contract shall form an integral part of such Derivative Contract.
15. “Dollar” means the legal tender of the United States of America.
16. “Executing Agency/Agencies” means the entity/entities responsible for executing all or part of the Project.

17. “Final Amortization Date” means the latest date on which the Loan may be fully repaid, in accordance with the Special Conditions.
18. “Flexible Financing Facility” means the financial platform the Bank uses to provide sovereign-guaranteed Loans chargeable to the resources of the Bank’s ordinary capital.
19. “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.
20. “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 under the Guarantee Contract.
21. “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.
22. “Fixed Interest Rate” means the fixed interest rate applicable to the portion of the Project financed with the resources of the Bank’s ordinary capital.
23. “LIBOR-Based Interest Rate” means the sum of the LIBOR Interest Rate and the Bank's Cost of Funding, determined on an Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter.
24. “LIBOR Interest Rate”¹ means the “USD-LIBOR-ICE”, which is the rate administered by ICE Benchmark Administration (or any other entity which takes over the administration of that rate) for deposits in Dollars for a period of three (3) months that appears on the relevant page of the pages Bloomberg Financial Markets Service or Reuters Service, or on the relevant pages of any other service selected by the Bank that displays such rate, as of 11:00 a.m., London time, on the day that is two (2) London Banking Days preceding the Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter. If such LIBOR Interest Rate does not appear on the relevant page, the LIBOR Interest 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. For these purposes, “USD-LIBOR-Reference Banks” means that the LIBOR Interest Rate for an Interest Rate Determination Date of the LIBOR-Based

¹ Any capitalized terms used in paragraph 24 of Article 2.01 and not otherwise defined herein shall have the meaning assigned to it in the 2006 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.

Interest Rate for each Quarter will be determined on the basis of the rates at which deposits in Dollars are offered by the Reference Banks at approximately 11:00 a.m., London time, on the day that is two (2) London Banking Days preceding that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter to prime banks in the London interbank market for a period of three (3) months commencing on that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter and in a Representative Amount. The Calculation Agent or Agents utilized by the Bank will request the principal London office of each of the Reference Banks to provide a quotation of the LIBOR Interest Rate. If at least two (2) quotations are provided, the LIBOR Interest 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 LIBOR Interest 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 the 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, for loans in Dollars to the 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 a LIBOR Interest Rate to the Bank as a result of the procedure described above, the Bank will determine, at 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 LIBOR Interest Rates quoted on the first day immediately thereafter which is a Banking Day in New York City shall be utilized.

- 25. "LIBOR-Based Interest Rate Loan" means any Loan granted by the Bank for disbursement, account registration and repayment in Dollars and that is subject to a LIBOR-Based Interest Rate, calculated pursuant to Article 3.02(a) of these General Conditions.
- 26. "Loan" shall have the meaning assigned to it in the Special Conditions.
- 27. "Original Disbursement Period" means the original period for disbursements of the Loan, which is set forth in the Special Conditions.
- 28. "Original WAL" means the WAL of the Loan in effect as of the date of signature of this Contract and set forth in the Special Conditions.
- 29. "Outstanding Loan Balance" means the amount that the Borrower owes the Bank for the portion of the Loan that has been disbursed.
- 30. "Parties" means the Bank and the Borrower and each of them, indistinctively, a Party.

31. "Procurement Agents" means the entity with legal capacity to enter into contracts, and in agreement with the Borrower or the Executing Agency, as the case may be, assumes all or part of the responsibility of the procurement of goods or works, consultancy services or non-consulting services for the Project.
32. "Procurement Plan" means a tool for programming and monitoring the procurement related to the operation, in the terms described in the Procurement Policies and Consultant Policies.
33. "Procurement Policies" means the Policies for the Procurement of Works and Goods financed by the Inter-American Development Bank in force at the time of the approval of the Loan by the Bank.
34. "Prohibited Practices" means the act(s) defined in Article 5.03 of these General Conditions.
35. "Project" means the program or project for which the Loan has been approved by the Bank.
36. "Quarter" means each of the following three-month (3-month) periods of the calendar year: the period beginning on January 1st and ending on March 31st; the period beginning on April 1st and ending on June 30th; the period beginning on July 1st and ending on September 30th and the period beginning on October 1st and ending on December 31st.
37. "Semester" means the first or second six months of a calendar year.
38. "Special Conditions" means the entirety of the provisions which comprise Part One of this Contract and contain the particular terms of the operation.
39. "WAL" means the weighted average life, whether the Original WAL or the weighted average life resulting from a modification of the Amortization Schedule, as a result of a conversion or otherwise. The WAL is calculated in years (to two decimal places) based on the Amortization Schedule of all tranches of the Loan and is defined as the division of (i) by (ii) below, where:
 - (i) is the sum of the products of (A) and (B), defined as:
 - (A) the amount of each amortization payment;
 - (B) the difference in the number of days between the amortization payment date and the execution date of this Contract, divided by 365 days;

and

- (ii) the sum of amortization payments.

The applicable formula is the following:

$$WAL = \frac{\sum_{j=1}^m \sum_{i=1}^n A_{i,j} \times \left(\frac{PD_{i,j} - ED}{365} \right)}{TA}$$

where:

WAL is the weighted average life of all amortizations, expressed in years.

m is the total number of tranches of the Loan.

n is the total number of amortization payments for each tranche of the Loan.

A_{ij} is the amortization amount referring to payment *i* of tranche *j*, calculated in Dollar equivalent at the exchange rate determined by the Calculation Agent, for the date of modification of the Amortization Schedule.

PD_{ij} is the payment date referring to payment *i* of tranche *j*.

ED is the execution date (date of signature) of this Contract.

TA is the sum of all *A_{ij}*, calculated in Dollar equivalent as of the date of the calculation at the exchange rate determined by the Calculation Agent.

CHAPTER III

Amortization, Interest, Credit Fee, Inspection and Supervision, and Prepayments

ARTICLE 3.01. Dates of Payment of Amortization and Interest. The Loan will be amortized in accordance with the Amortization Schedule. Interest and amortization installments will be paid on the fifteenth (15th) day of the respective month, as set forth in the Special Conditions of this Contract. The amortization payment dates shall always coincide with an interest payment date.

ARTICLE 3.02. Interest. (a) The Borrower shall pay interest on daily Outstanding Loan Balances at a LIBOR-Based Interest Rate plus the applicable lending spread for the Bank's ordinary capital loans. In this case, interest shall accrue 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.

(b) The Parties agree that, notwithstanding any change in market practice that may, at any moment, affect the determination of the LIBOR Interest Rate, the Borrower's payments shall remain linked to the Bank's funding. For purposes of obtaining and maintaining such link under such circumstances, the Parties expressly agree that the Calculation Agent, seeking to reflect the Bank's corresponding funding, shall determine: (a) the occurrence of such changes; and (b) the alternate base rate applicable to determine the appropriate amount to be paid by the Borrower. The Calculation Agent shall provide no less than sixty (60) days prior notice to the Borrower and the Guarantor, if any, of the applicable alternate base rate. The alternate base rate shall become effective on the expiration of such notice period.

(c) The Borrower, with the written consent of The People's Bank of China and 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, 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 Loan Balance, each conversion shall only be executed subject to a minimum amount of three million dollars (US\$3,000,000), unless the conversion is for the Outstanding Loan Balance with a LIBOR-Based Interest Rate, in which case, with the approval of the Bank, the amount of the conversion may be less than said limit. The number of conversions may not exceed four (4) during the term of this Contract.

(d) The Borrower, with the written consent of The People's Bank of China and the Guarantor, if any, may request that all or part of the Outstanding Loan Balance with a Fixed Interest Rate be reconverted to a LIBOR-Based Interest Rate as determined pursuant to this Article, through written notice to the Bank. Each reversion 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.

ARTICLE 3.03. Credit fee. (a) The Borrower shall pay a credit fee on the undisbursed balance of the Loan, at a percentage set by the Bank periodically during its review of financial charges on ordinary capital loans. The credit fee shall not exceed 0.75% per annum.

(b) The credit fee will begin to accrue sixty (60) days from the date of signature of the Contract.

(c) The credit fee shall cease to accrue: (i) when all disbursements have been made; and (ii) in full or in part, as the case may be, when the Loan has been totally or partially cancelled pursuant to Articles 4.02, 4.12, 4.13 and 5.02 of these General Conditions.

ARTICLE 3.04. Computation of Interest and Credit Fee. The interest and credit fee shall be calculated according to the exact number of days in the respective interest period.

ARTICLE 3.05. Resources for Inspection and Supervision. The Borrower shall not be required to cover the Bank's expenses for general inspection and supervision, unless the Bank establishes otherwise during the Original Disbursement Period as a consequence of its periodic review of financial charges for ordinary capital loans, and notifies the Borrower accordingly. In this

case, the Borrower shall indicate whether it will pay the corresponding amount directly to the Bank or whether such amount should be withdrawn and withheld by the Bank from the resources of the Loan. In no case may the Bank charge for a specific Semester more than the result of applying one percent (1%) of the Loan amount divided by the number of Semesters comprising the Original Disbursement Period.

ARTICLE 3.06. Currency of payment for amortization, interest, credit fee and inspection and supervision expenses. Interest and principal payments, and credit and inspection and supervision fees shall be made in Dollars.

ARTICLE 3.07. Prepayments. (a) The Borrower may prepay all or part of the Outstanding Loan Balances in Dollars subject to a LIBOR-Based Interest Rate on any interest payment date, provided that it delivers to the Bank a written irrevocable request, with the consent of the Guarantor, if any, at least thirty (30) days in advance. Any such prepayment shall be applied as set forth in Article 3.08 of these General Conditions. In the event that the prepayment does not cover the entire Outstanding Loan Balance, the prepayment shall be applied proportionately to the remaining amortization installments. If the Loan has tranches with different Amortization Schedules, the Borrower shall prepay individual tranches in their entirety, unless the Bank agrees otherwise.

(b) For purposes of paragraph (a), the following payments shall be considered as prepayments: (i) the return of unjustified Advances of Funds; and (ii) payments resulting from all or a part of the Loan being declared immediately due and payable, pursuant to Article 5.02 of these General Conditions.

ARTICLE 3.08. Application of Payments. All payments shall be applied first to returns of Advances of Funds which have not been justified upon expiration of the Closing Period, 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. Transactions Falling Due on Non-Business Days. Any payment or other transaction which, pursuant to this Contract, should be effected on a day other than a Business Day, shall be considered validly effected if made on the first Business Day immediately thereafter, and in such case no penalty whatsoever shall apply.

ARTICLE 3.10. 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 3.11. Participations. In the event that the Borrower fails to fulfill any of its payment obligations under this Contract, upon request from The People's Bank of China and without the consent of the Borrower, the Bank may assign its rights and obligations under this Contract to the People's Bank of China. The Bank will promptly notify the Borrower of such assignment. The Borrower accepts that, in the event of such assignment, any and all obligations of the Bank under this Contract will become obligations solely owed by the People's Bank of China and, therefore, thereafter the Bank will be released from any liability to the Borrower..

CHAPTER IV

Conditions Relating to Disbursements, Renunciation and Automatic Cancellation of the Loan

ARTICLE 4.01. Conditions Precedent to First Disbursement. The first disbursement of the resources of the Loan 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, either directly or through the Executing Agency, if any, shall have demonstrated to the Bank that sufficient resources have been allocated to cover, at least during the first calendar year, the execution of the Project in accordance with the investment schedule referred to in the following paragraph. If the Loan finances a continuation of the same lending operation, the earlier stage or stages of which the Bank is financing, the obligation set forth in this paragraph shall not be applicable.
- (d) The Borrower, either directly or through the Executing Agency, as the case may be, shall have presented to the Bank an initial report prepared in the form indicated by the Bank which, in addition to such other information as the Bank may reasonably request pursuant to the provisions of this Contract, shall set forth: (i) a plan for implementation of the Project including the plans and specifications deemed necessary by the Bank, except with respect to a program for the granting of credits; (ii) a calendar or schedule of work or granting of credits, as the case may be; (iii) a table of the source and use of funds setting forth a detailed schedule of investments in accordance with the categories of investment established in this Contract and an indication of the annual contributions needed from the various sources of funds from which the Project will be financed; and (iv) the content that the progress reports referred to in Article 7.03 of these General Conditions shall have. If this Contract permits the recognition of expenditures made prior to its entry into effect, the initial report shall include a statement of the investments and, in accordance with the objectives of the Project, a description of works carried out under the Project or a

statement as to credits granted, as the case may be, up to a date immediately preceding the report.

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

ARTICLE 4.02. Period for Fulfilling the Conditions Precedent to First Disbursement. If within one hundred eighty (180) days from the effective date of this Contract, or within such longer period as the parties may agree in writing, the conditions precedent to the first disbursement established in Article 4.01 of these General Conditions and in the Special Conditions have not been fulfilled, the Bank may terminate this Contract by giving notice to the Borrower.

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

ARTICLE 4.04. Disbursements for Technical Cooperation. If the Special Conditions contemplate the financing of expenses for technical cooperation, the disbursements therefore may be made once the conditions established in Article 4.01(a) and (b) and in Article 4.03 of these General Conditions have been fulfilled.

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

ARTICLE 4.06. Reimbursement of Expenditures. (a) Upon fulfillment of the requirements set forth in Articles 4.01 and 4.03 of these General Conditions and the pertinent requirements established in the Special Conditions, the Bank may disburse to reimburse the Borrower and/or the Executing Agency, as the case may be, for expenditures related to the execution of the Project that are eligible to be financed with resources of the Loan, pursuant to the provisions of this Contract.

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

ARTICLE 4.07. Advance of Funds. (a) Provided that the requirements of Articles 4.01 and 4.03 of these General Conditions and those which may be established in the Special Conditions have been fulfilled, the Bank may disburse resources as an Advance of Funds to the Borrower or the Executing Agency, as the case may be, to cover eligible expenditures with resources of the Loan, in accordance with the provisions of this Contract.

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

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

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

ARTICLE 4.08. Closing Period. The Borrower or the Executing Agency, as the case may be, shall: (a) present to the Bank's satisfaction, within the Closing Period, the supporting documentation relating to expenditures made for the execution of the Project, and any other information that the Bank may have requested; and (b) return to the Bank, at the latest on the day of expiration of the Closing Period, the balance of disbursed resources that has not been duly justified. If audit services are to be financed with resources of the Loan, and such services will not be concluded or billed prior to the expiration of the Closing Period referred to in section (a) above, the Borrower or the Executing Agency, as the case may be, shall inform and reach agreement with the Bank as to the way in which payment for such services will take place, and shall return to the Bank the resources of the Loan

allotted for such purpose, should the Bank not receive the audited financial statements and/or audited financial reports within the periods stipulated in this Contract.

ARTICLE 4.09. Exchange Rate. (a) To determine the equivalency in Dollars of an expenditure incurred in the currency of the Borrower, one of the following rates of exchange shall be used, in accordance with the provisions set forth in the Special Conditions of this Contract:

- (i) The same exchange rate used in the conversion of resources disbursed in Dollars to the currency of the Borrower's country. In this case, for purposes of the reimbursement of expenditures chargeable to the Loan and the recognition of expenditures chargeable to the local contribution, the applicable exchange rate shall be the prevailing exchange rate on the date on which the request is presented to the Bank; or
 - (ii) The prevailing exchange rate in force in the Borrower's country on the effective date of payment of the expenditure in the currency of the Borrower's country.
- (b) The rate of exchange referred to in sections (a)(i) and (a)(ii) above, shall be the following:
- (i) The rate of exchange pursuant to the understanding in force between the Bank and the respective member country for the purposes of maintaining the value of the currency in conformity with the provisions of Article V, Section 3 of the Agreement Establishing the Bank.
 - (ii) Should there be no agreement in force, the rate of exchange to be applied shall be that which on the due date is utilized by the Central Bank of the Borrower country or by the corresponding monetary authority to sell Dollars to residents of such country, other than government agencies, for the following transactions: (a) payment of principal and interest due; (b) remittance of dividends or other income from capital investments in the respective country; and (c) remittance of investment capital. In the event that there is no uniform rate of exchange for these three types of operations, the highest rate shall be applied, i.e., the rate representing the highest number of units of the currency of such country per Dollar.
 - (iii) If, on the date of the presentation of the request to the Bank referred to in section (a)(i) above, or if on the date on which the payment of an expenditure is due as referred to in section (a)(ii) above, the foregoing rule cannot be applied because the operations referred to do not exist, payment shall be made on the basis of the most recent rate of exchange used for such operations within the thirty (30) days preceding the date of presentation of the request to the Bank referred to in section (a)(i) above, or to the effective date

of the payment of the expense incurred referred to in section (a)(ii) above, as the case may be.

- (iv) If, notwithstanding the application of the foregoing rules, the effective rate of exchange cannot be ascertained, or if discrepancies arise in the determination thereof, the determination of the Bank shall prevail, taking into consideration the realities of the foreign exchange market of the country of the Borrower.

ARTICLE 4.10. Valuation of Convertible Currencies. Whenever it shall be necessary, during the execution of this Contract, to determine the value of a currency in terms of another currency, such value shall be as reasonably determined by the Bank, unless Article 4.09 or the provisions of Chapters III and V of these General Conditions explicitly express otherwise.

ARTICLE 4.11. Receipts. At the request of the Bank, the Borrower shall sign and deliver to the Bank, upon the completion of disbursements, a receipt or receipts for the amounts disbursed.

ARTICLE 4.12. Renunciation of Part of the Loan. 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 Loan which has not been disbursed before the receipt of the notice, provided that the amounts foreseen in Article 6.04 of these General Conditions are not involved.

ARTICLE 4.13 Automatic Cancellation of Part of the Loan. Unless the Bank and the Borrower and the Guarantor, if any, expressly agree in writing to extend the term of the Original Disbursement Period, that portion of the Loan not committed or disbursed, as the case may be at the expiration of said period or extensions thereof, shall automatically be canceled.

CHAPTER V

Suspension of Disbursements, Accelerated Maturity and other Dispositions

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

- (a) Delay in the payment of any sums owed by the Borrower to the Bank for principal, fees, interest, repayment of advances or for any other reason, under this Contract or any other Contract between the Bank, acting as Administrator of the China Co-financing Fund for Latin America and the Caribbean, and the Borrower.
- (b) 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 contract entered into between the Bank and the Borrower, including another Loan Contract or Derivatives Contract.

- (c) 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 or in any Derivative Contract signed with the Bank.
- (d) Withdrawal or suspension from membership in the Bank of the country in which the Project is to be executed.
- (e) The Project or the purposes of the Loan 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 Loan 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.
- (f) The non-compliance on the part of the Guarantor, if any, of any obligation set forth in the Guarantee Contract or in any Derivatives Contract signed with the Bank.
- (g) 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.
- (h) If it is determined, in accordance with the sanctions procedures of the Bank, that an employee, agent, or representative of the Borrower, Executing Agency or Contracting Agency, has engaged in a Prohibited Practice during the procurement process or during the execution of a contract.
- (i) Delay or non-compliance by The People's Bank of China of its obligations under the Trust Fund Agreement entered into between said institution and the Bank, for the establishment of the China Co-financing Fund for Latin America and the Caribbean

ARTICLE 5.02. Termination, Accelerated Maturity or Partial Cancellation of Undisbursed Balances. (a) The Bank may terminate this Contract with respect to the part of the Loan not yet disbursed or may declare the entire Outstanding Loan Balance 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), (d) and (f) of the preceding Article continues for more than sixty (60) days; or (ii) the information referred to in paragraph (e) of the preceding Article, or the clarifications or additional information presented by the Borrower or the Executing Agency, if any, are not satisfactory to the Bank.

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

(c) The Bank may also cancel the undisbursed portion of the Loan or accelerate the maturity of that part of the Loan pertaining to the procurement of certain goods, works or related services, or consulting services, if it determines at any time that the procurement was carried out without following the procedures set forth in this Contract.

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

(b) In addition to the provisions established in Articles 5.01(h) and 5.02(b) of these General Conditions, if it is determined in accordance with the sanctions procedures of the Bank, that a firm, entity or individual bidding for or participating in an activity financed by the Bank, including, *inter alia*, applicants, bidders, suppliers, contractors, consulting firms and individual consultants, personnel, subcontractors, sub-consultants, service providers, concessionaires, the Borrower, the Executing Agency or the Contracting Agency (including their respective officers, employees and agents, irrespective of whether their authority has been formally or implicitly granted) has engaged in a Prohibited Practice at any stage during the procurement process or during the execution of a contract, the Bank may:

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

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

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

(e) Any firm, entity or individual bidding for or participating in an activity financed by the Bank, including, *inter alia*, applicants, bidders, suppliers, contractors, consulting firms and individual consultants, personnel, subcontractors, sub-consultants, service providers, concessionaires, the Borrower, the Executing Agency or the Contracting Agency (including their respective officers, employees and agents, (irrespective of whether the agency is express or implied) may be subject to sanctions pursuant to agreements the Bank may have with other international financial institutions regarding the mutual enforcement of debarment decisions. For purposes of this paragraph (e) the term “sanction” shall mean any permanent debarment, conditions on future contracting or any publicly-disclosed action taken in response to a violation of an international financial institution’s applicable framework for addressing allegations of Prohibited Practices.

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

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

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

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

CHAPTER VI

Execution of the Project

ARTICLE 6.01. General Provisions for Execution of the Project. (a) The Borrower agrees to execute the Project in accordance with the objectives thereof, with due diligence in an economic, financial, administrative and technically efficient manner and in accordance with the provisions of this Contract and the plans, specifications, investment schedule, budgets, regulations, and other relevant documents of the Project approved by the Bank. The Borrower further agrees that its obligations or those of the Executing Agency, shall be fulfilled to the satisfaction of the Bank.

(b) Any important modification in the plans, specifications, investment schedule, budgets, regulations or other documents which the Bank approves, as well as any substantial change in contracts financed with resources of the Loan shall require the written consent of the Bank.

(c) In case of contradiction or inconsistency between the provisions of this Contract and any plan, specification, investment schedule, budget, regulations, or other relevant document of the Project approved by the Bank, the provisions of this Contract shall prevail over those documents.

ARTICLE 6.02. Selection and contracting of works and non-consulting services, procurement of goods and selection and contracting of consulting services. (a) Subject to the provisions of subparagraph (b) of this Article, the Borrower undertakes to carry out and, where appropriate, cause the Executing Agency or the Contracting Agency, if any, to carry out the procurement of works and non-consulting services as well as the procurement of goods, in accordance with the Procurement Policies and the Procurement Plan approved by the Bank, and the selection and contracting of consulting services, in accordance with the Consultant Policies and the Procurement Plan approved by the Bank. The Borrower acknowledges and undertakes to inform the Executing Agency, the Contracting Agency and the specialized agency, as the case may be, of the Procurement Policies and the Consultant Policies.

(b) When the Bank has validated the systems of the member country of the Bank where the Project will be executed, the Borrower or the Executing Agency, as the case may be, may carry out the procurement and contracting financed wholly or partially with resources of the Loan using such systems, in accordance with the terms of the validation of the Bank and applicable validated legislation, which are identified in the Special Conditions. The Borrower, directly or via the Executing Agency as the case may be, undertakes to notify the Bank of any change in legislation or change affecting it, in which case the Bank may cancel, suspend or change the terms of its validation. The use of country systems does not constitute a waiver of the application of the provisions set forth in Section I of the Procurement Policies and Consultant Policies, including the requirement that the respective procurements and contracting of services be contained in the Procurement Plan, and said use of country systems is subject to the remaining provisions of this Contract.

(c) The Borrower, directly or via the Executing Agency as the case may be, undertakes to update the Procurement Plan at least annually or more frequently, depending on the Project needs. Each updated version of the Procurement Plan shall be submitted for review and approval of the Bank.

(d) The Bank will conduct a review of the selection process, contracting and procurement, ex-ante or ex-post, as set forth in the Procurement Plan. At any time during the execution of the Project, the Bank may change the method of review of these processes, with prior notice to the Borrower or the Executing Agency. The changes approved by the Bank shall be reflected in the Procurement Plan.

(e) The Borrower, directly or via the Executing Agency, as the case may be, agrees to obtain, prior to awarding the contract for each of the works of the Project, if any, legal possession of the property where the construction of the respective work is to take place, easements or other rights required for its construction and use, as well as water rights required for the work in question.

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

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

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

CHAPTER VII

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

ARTICLE 7.01. Financial Information and Internal Control Systems. (a) The Borrower or the Executing Agency, or the Contracting Agency, as the case may be, shall maintain: (i) a financial information system acceptable to the Bank that enables accounting, budgetary and financial record-keeping, as well as the issuance of financial statements and other reports related to the resources of the Loan and other financial sources, as the case may be; and (ii) an internal control structure that enables effective Project management; provides reliability regarding the financial information and the physical, magnetic and electronic records and files; and enables the fulfillment of the provisions of this Contract.

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

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

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

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

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

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

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

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

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

(b) The Borrower agrees to have the financial statements and other reports, as indicated in the Special Conditions of this Contract, audited by independent auditors acceptable to the Bank, in accordance with auditing principles and standards acceptable to the Bank, and to present to the Bank's satisfaction such information as may be requested by the Bank related to the independent auditors whose services have been engaged.

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

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

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

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

(g) All bidding documents, requests for proposals and contracts financed by the Bank that are entered into by the Borrower, the Executing Agency or the Contracting Agency with a provider

of goods or services, contractor, subcontractor, consultant, sub-consultant, personnel or concessionaire shall include a provision allowing the Bank to inspect any and all accounts, records and other documents related to the submission of bids and contract performance as well as to have them audited by auditors appointed by the Bank.

CHAPTER VIII

Provision on Encumbrances and Exemptions

ARTICLE 8.01. Commitment on Encumbrances. If the Borrower should agree to create any specific encumbrance on all or part of its assets or revenues to secure an external debt, it shall at the same time create an encumbrance guaranteeing to the Bank, equally and proportionally, the fulfillment of the pecuniary obligations arising from this Contract. However, the foregoing shall not apply: (a) to encumbrances on goods used as security for payment of the unpaid balance of the purchase price; and (b) to encumbrances created in banking operations to secure payment of debts with maturities of not more than one year. In the event that the Borrower is a member country, the term “assets or revenues” shall mean all types of assets or revenues which belong to the Borrower or any of its dependent agencies which are not autonomous entities with their own separate capital.

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

CHAPTER IX

Arbitration Procedure

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

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

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

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

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

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

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

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

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

ANNEX

THE PROJECT

Enhanced Access to Credit for Productivity Project

I. Objective

- 1.01** The objective of the Project is to contribute to increase productivity of Small and Medium Enterprises (SMEs) by facilitating access to medium- and long-term credit for investment projects.
- 1.02** In particular, the Project will assist SMEs in accessing credit, through the provision of partial credit guarantees to Intermediary Financial Institutions (IFIs), for medium and long term capital investments that allow SMEs to modernize and remodel their businesses.

II. Description

- 2.01** To achieve the objective described in section I above, the Project includes the execution of the following component.

Single Component: Guarantee Fund

- 2.02** This component will provide the financing to support the establishment and funding of a partial credit Guarantee Fund, hereinafter the “Guarantee Fund”, to be managed by the Central Bank of Barbados (CBB), to facilitate access to medium- and long-term financing for SME through eligible IFIs. The Loan resources allocated to this component will be directed to a segregated account at the CBB for the Guarantee Fund to guarantee individual loans from IFIs to SMEs for eligible sub-projects.

III. Total Cost of the Program and Financing Plan

- 3.01** The total cost of the Project is estimated in the amount of thirty-five million Dollars (US\$35,000,000). From the resources of this Loan, referred to in Section 1.02 of the Special Conditions of this Contract, and the resources of the loan No. 3389/OC-BA, referred to in Section 2.01 of the Special Conditions of this Contract, an amount equivalent of thirty-four million eight hundred thousand Dollars (US\$34,800,000) will be used to finance the single component described in Section II of this Annex.
- 3.02** For the financing of administrative, monitoring and evaluation, and external audit costs of the Project, the parties agree that the Borrower, through the Executing Agency, may use an amount equivalent to two hundred thousand Dollars (US\$200,000) of Project resources. In the event said costs exceed this amount, the CBB will cover the excess

through the fees generated by the guarantees in the Guarantee Fund, as stipulated in more detail in the OR.

IV. Execution

- 4.01** The Borrower will through the Ministry of Finance and Economic Affairs, supervise and oversee the execution of the Guarantee Fund. The CBB will be the Executing Agency (EA) of the Project.
- 4.02** The Guarantee Fund will be overseen by an Advisory Committee and managed by the Foreign Exchange and Export Credits Department (FEECD) of the CBB. The FEECD will be responsible for: (i) preparing, implementing and coordinating the Annual Operating Plans (AOP); (ii) preparing budgets, Project accounting, financial management and reports, and disbursement requests; (iii) preparing the Project's procurement plan, the procurement of works, goods and related services, and consulting services for the Project; (iv) coordinating the preparation of technical, progress and financial reports; (v) monitoring the progress of Project activities and the analysis of variances of actual results against plans; (vi) hiring the external audit and ensuring that the approved recommendations are implemented; (vii) facilitation of external evaluations of the Project and ensuring, in collaboration with the participating entities, that the approved recommendations are implemented; (viii) serving as a liaison for the Project with the Bank; and (ix) preparing and managing the guarantee contracts under the Guarantee Fund.
- 4.03** The detailed provisions governing Project execution, participation of financial intermediaries, and eligibility of loan proceeds for guarantees will be established in the OR of the Project. The OR will: (i) reflect Project characteristics; and (ii) stipulate the conditions for eligibility of SME sub-projects. IFI subject to oversight and monitoring by the CBB will be eligible to participate in the program in accordance with requirements stipulated in the OR. They will be responsible for: (i) evaluating SME sub-project risk and presenting requests for guarantees for loans in accordance with the Guarantee Fund terms and conditions reflected in the OR; (ii) assuming responsibility vis-à-vis CBB for the collection of IFI sub-loan proceeds guaranteed by the Guarantee Fund; and (iii) in case of a claim, assuming responsibility for pursuing the collection of the loan to the full extent of the law and reimbursing to the CBB any collected amount in proportion to the CBB's exposure in the loan.
- 4.04** The CBB will use a segregated account to identify and monitor the Guarantee Fund and the guarantees issued under such fund in accordance with the OR. Undisbursed resources accounted for in the segregated account will necessarily be invested in accordance with the OR requirements and proceeds from these investments reinvested in the Guarantee Fund and used to provide guarantees to eligible IFI loans. Should a guarantee for an IFI's loan be of a shorter term or cancelled within the 10 years, the funds should be reinvested into the Guarantee Fund and used to provide guarantees to eligible loans under the Project. The Bank will have the right at all times to inspect the state of Guarantee Fund execution.