

**LOAN CONTRACT No. 5414/OC-RG**

between the

**CARIBBEAN DEVELOPMENT BANK**

and the

**INTER-AMERICAN DEVELOPMENT BANK**

**Program for Building Disaster and Climate Change Resilience in the OECS Countries**

FEBRUARY 3, 2022

## **LOAN CONTRACT**

### **SPECIAL CONDITIONS**

This loan contract, hereinafter the “Contract,” is entered into between the CARIBBEAN DEVELOPMENT BANK, hereinafter referred to as the “Borrower” and the INTER-AMERICAN DEVELOPMENT BANK, hereinafter referred to as the “Bank” and together with the Borrower, as the “Parties”.

## **CHAPTER I**

### **Purpose and Constituent Elements of the Contract, and Special Definitions**

**SECTION 1.01. Purpose of the Contract.** The purpose of this Contract is to establish the terms and conditions under which the Bank makes a loan to the Borrower to contribute to the financing and execution of the Program for Building Disaster and Climate Change Resilience in the OECS Countries, hereinafter referred to as the “Program”, the main aspects of which are set forth in the Annex.

**SECTION 1.02. Constituent Elements of the Contract.** This Contract is composed of these Special Conditions, the General Conditions, and the Annex.

**SECTION 1.03. Special Definitions.** In addition to the terms defined in the General Conditions, whenever the following terms are capitalized in this Contract, they shall have the meaning assigned to them below. Any reference to the singular includes the plural and vice versa.

- a. Component 1 means the component of the Program entitled “Enhancing the disaster resilience of infrastructure” described in paragraph 2.02 of the Annex.
- b. Component 2 means the component of the Program entitled “Fostering disaster-resilient growth of MSMEs” described in paragraph 2.03 of the Annex.
- c. “DFI” means development financial institutions. When referring to a DFI as an executing agency of activities financed under Component 2 of the Program, this term will include as well alternative executing agencies acceptable to the Bank.
- d. “Eligible OECS Member Country” or “Eligible OECS Member Countries” means individually or collectively, as the case may be, Antigua and Barbuda, the Commonwealth of Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.
- e. “Eligible Sub-borrower” means an Eligible OECS Member Country or an entity within an Eligible OECS Member Country, which meets the eligibility criteria for the Program, as established in the Annex of this Contract and in the Operating Regulations (OR), that receives a Sub-loan from the Borrower to finance certain activities contemplated by the Program, in accordance with the terms and conditions set forth in this Contract and the OR.

- f. "MSMEs" means micro, small, and medium-sized enterprises.
- g. "OECS" means the Organisation of Eastern Caribbean States.
- h. "Operating Regulations" or "OR" means the operating manual of the Program, as amended from time to time, which contains, among other things, the provisions related to the execution of the Program, the participation of the Borrower and Eligible Sub-borrowers, the eligibility criteria and procedures for the use of the resources of the Program.
- i. "Sub-loan" means a loan made by the Borrower to an Eligible Sub-borrower to finance certain activities contemplated by the Program, in accordance with the terms and conditions set forth in this Contract and the OR.

## CHAPTER II

### The Loan

**SECTION 2.01. 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 fifty million Dollars (US\$50,000,000), hereinafter the "Loan."

**SECTION 2.02. Disbursement Requests and Disbursement Currency.** (a) The Borrower may request Loan disbursements from the Bank pursuant to Chapter IV of the General Conditions.

(b) All disbursements shall be denominated and made in Dollars, unless the Borrower requests that a disbursement be denominated in a currency other than the Dollar, pursuant to the provisions of Chapter V of the General Conditions.

**SECTION 2.03. Currency Availability.** If the Bank is unable to obtain access to the currency requested by the Borrower, the Bank, in consultation with the Borrower, may disburse the Loan in another currency of its choice.

**SECTION 2.04. Disbursement Period.** The Original Disbursement Period will be six (6) years from the effective date of this Contract. Any extension of the Original Disbursement Period shall be subject to the provisions of Article 3.02(g) of the General Conditions.

**SECTION 2.05. Amortization Schedule.** (a) The Final Amortization Date shall be twenty-three point five (23.5) years from the date of signature of this Contract. The Original WAL of the Loan is 15.25 years.

(b) The Loan shall be repaid by the Borrower in semiannual, consecutive, and insofar as possible, equal installments. The first installment shall be due from the Borrower on the expiration date of the eighty-four (84) month period following the effective date 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 an interest

payment date, the payment of the first amortization installment shall be made on the interest payment date immediately preceding the expiration date of such period. 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 Amortization Schedule of the Loan as set forth in Article 3.02 of the General Conditions.

**SECTION 2.06. Interest.** (a) The Borrower shall pay interest on the daily Outstanding Loan Balances at a rate determined pursuant to the provisions of Article 3.07 of the General Conditions.

(b) Interest shall be payable by the Borrower to the Bank semiannually. The first interest payment shall be due on the expiration date of the six-month (6-month) period following the effective date of this Contract. If the expiration date of the period for the first interest payment does not fall on the fifteenth (15th) day of the month, the first interest payment shall be made on the fifteenth (15th) day of the month immediately preceding the expiration date of such period.

(c) Notwithstanding any notice referred to in Article 3.07(e) of the General Conditions, the Borrower, with the consent of the Guarantor, if any, may request to the Bank, and the Bank may accept, that this Loan be subject to the Secured Overnight Financing Rate (SOFR) based interest rate, subject to the Bank's operational and risk management considerations. Such a request shall be presented in writing prior to or at the time of the first disbursement request of the resources of the Loan. Upon acceptance of the request by the Bank, the SOFR based interest rate will apply to the total amount of the Loan as set forth in Section 2.01 of these Special Conditions, unless a Conversion is requested and accepted by Bank, in accordance with the provisions of this Contract.

**SECTION 2.07. Credit Fee.** The Borrower shall pay a credit fee on the dates set forth in Section 2.06(b) for the payment of interest, pursuant to Articles 3.01, 3.08, 3.09, and 3.11 of the General Conditions.

**SECTION 2.08. 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 pursuant to Article 3.10 of the General Conditions.

**SECTION 2.09. Conversion.** The Borrower may request Currency Conversions, Interest Rate Conversions, Commodity Conversions, and/or Catastrophe Protection Conversions from the Bank at any time during the term of the Contract, as set forth in Chapter V of the General Conditions.

(a) **Currency Conversion.** The Borrower may request that a disbursement of all or part of the Outstanding Loan Balance be converted to a Principal Currency or a Local Currency, which the Bank can efficiently obtain, subject to the Bank's operational and risk management considerations. It is understood that any disbursement denominated in Local Currency shall constitute a Currency Conversion, even when the Approval Currency is the same Local Currency.

(b) **Interest Rate Conversion.** The Borrower may request, with respect to all or part of the Outstanding Loan Balance, that the LIBOR-Based Interest Rate be converted to a fixed

interest rate or any other Interest Rate Conversion option requested by the Borrower and accepted by the Bank.

(c) **Commodity Conversion.** The Borrower may request the entering into Commodity Put Options and Commodity Call Options.

(d) **Catastrophe Protection Conversion.** The Borrower may request the entering into a Catastrophe Protection Conversion that will be agreed and structured on a case-by-case basis subject to the Bank's operational and risk management considerations and in accordance with the terms and conditions established in the corresponding Catastrophe Protection Engagement Letter.

### CHAPTER III

#### **Disbursements and Utilization of the Resources of the Loan**

**SECTION 3.01. 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 requirement: the approval and entry into effect of the Operating Regulations, including, among others, the Sub-loan standard terms and conditions for Component 1, in accordance with the terms and conditions previously agreed upon between the Borrower and the Bank.

**SECTION 3.02. Utilization of the Resources of the Loan.** (a) The resources of the Loan may only be used to pay expenses that: (i) are necessary for the Program and are in accordance with its objectives; (ii) are incurred in accordance with the provisions of this Contract and applicable Bank policies; (iii) are adequately recorded and documented in the Borrower's or Executing Agency's system; and (iv) are incurred after November 24, 2021, and before the expiration of the Original Disbursement Period or any extensions thereof; such expenses are hereinafter referred to as "Eligible Expenditures."

(b) Notwithstanding the provisions of paragraph (a) of this Section, expenditures that meet the requirements of its subsection (i) and (iii), up to the equivalent of ten million Dollars (US\$10,000,000), may be recognized by the Bank as Eligible Expenditures, provided that they have been incurred between July 1, 2021, and November 24, 2021, in accordance with substantially analogous conditions to those established in this Contract; and the contracting procedures must be in conformity with the Core Procurement Principles.

**SECTION 3.03. Applicable Exchange Rate for Expenditures Incurred in Local Currency of the Borrower's Country.** For the purposes of Article 4.10 of the General Conditions, the Parties agree that the applicable exchange rate shall be that indicated in paragraph (b)(ii) of said Article. Accordingly, the agreed exchange rate shall be the exchange rate on the effective date on/in which the Borrower, the Executing Agency, or any other person or legal entity in whom the power to incur expenditures has been vested makes the related payments to the contractor, the supplier, the consultant or beneficiary.

**SECTION 3.04. Commitment Period.** The Borrower agrees to commit the resources of the Loan within a period of four (4) years from the date of signature of this Contract. The Loan

resources shall be considered to have been committed for a given Sub-loan as of the date on which the Borrower and the Eligible Sub-borrower have signed the respective loan contract.

**SECTION 3.05. Other Requirements for Utilizing Resources of the Loan.** (a) In addition to the provisions of Article 4.01 of the General Conditions and Section 3.01 above, the Borrower shall submit to the Bank: (i) prior to the approval of each Sub-loan, the draft Sub-loan proposal for the Bank's non-objection; (ii) prior to the first disbursement of each Sub-loan, a copy of the signed Sub-loan agreement between the Borrower and the respective Eligible Sub-borrower; and (iii) prior to the first disbursement of the Sub-loan resources to MSMEs under Component 2 of the Program, the disaster risk assessment of each MSME which shall be carried out by the corresponding DFI.

(b) Loan resources will not be used for disaster relief, and any resources used for reconstruction purposes will strictly be guided by the principle of "building back better"<sup>1</sup> to avoid rebuilding or increasing vulnerability, thus safeguarding against future disasters. Other expenses that may not be financed by the Loan will be described in the OR.

**SECTION 3.06. Conditions of the Sub-loans.** (a) Loan resources shall be allocated to the Eligible OECS Member Countries by prorating the proportions received by each country under the Borrower's current Performance-Based Allocation formula, except for any reallocation carried out in accordance with paragraph 4.06 of the Annex, provided that the amount of the Sub-loan benefiting any Eligible OECS Member Country does not exceed the equivalent of thirty percent (30%) of the total Loan resources, unless, on the basis of special circumstances, the Borrower obtains the prior approval of the Bank. The maximum Sub-loan size will be up to US\$11 million, while the minimum will be at least of US\$1 million. Should an Eligible OECS Member Country seek and obtain additional funding by virtue of another Eligible OECS Member Country not using their allocation in full/part, in such a situation there would be no upper limit on a Sub-loan amount.

(b) Each Sub-loan will finance activities based on only one of the two Components of the Program as described in the Annex.

**SECTION 3.07. Other Conditions of the Sub-loans.** All Sub-loans granted by the Borrower to the Eligible Sub-borrowers with the resources of the Loan shall reflect the obligations agreed between the Bank and the Borrower under this Contract and in the OR, including the following:

- (a) The commitment of the Eligible Sub-borrower to use the proceeds of the Sub-loans exclusively to finance the activities described in the Annex and in the OR;
- (b) The right of the Borrower and the Bank to inspect the goods, sites, works, and structures of the respective Sub-loans and their proceeds;
- (c) The obligation of the Eligible Sub-borrower to furnish all information that the Borrower and the Bank may reasonably request of the Eligible Sub-borrower with

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<sup>1</sup> Disaster-resilient, climate-smart and future-proof following the guiding principles of the Build Forward Initiative.

respect to the use of the proceeds of the Sub-loans and the financial situation of the Eligible Sub-borrower;

- (d) The right of the Borrower to suspend disbursements of the Sub-loan if the Eligible Sub-borrower does not fulfill its obligations;
- (e) The commitment of the Eligible Sub-borrower to comply and to ensure that proceeds of the Sub-loans are used in accordance with the procurement policies and the environmental and social requirements as detailed in this Contract and in the OR;
- (f) The obligation of the Eligible Sub-borrower not to engage, and to ensure that proceeds of the Sub-loans are not engaged, in any of the activities listed in either the Borrower or the Bank's exclusions lists, as defined by each institution, with respect to the Program; and
- (g) The commitment of the Eligible Sub-borrower to incorporate all the integrity-related provisions set forth in the policies and procedures of the Borrower and the Bank through an integrity covenant or similar as detailed in the OR.

**SECTION 3.08. Assignment of Sub-loans.** With respect to Sub-loans financed with resources of the Loan, the Borrower agrees to: (a) maintain them in its portfolio 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. The Borrower shall reflect the same obligation in the Sub-loan agreements with the Eligible Sub-borrowers.

#### **CHAPTER IV** **Execution of the Program**

**SECTION 4.01. Executing Agency.** The Borrower shall be the Executing Agency of the Program.

**SECTION 4.02. Conditions concerning Procurement.** Notwithstanding Article 6.04 of the General Conditions, the procurement of goods, works, and services with resources of the Loan will be carried out in accordance with applicable policies and procedures of the Borrower. If during the execution of the Program the Parties identify inconsistencies between such policies and procedures and those of the Bank, the Parties agree to address them in a way to ensure consistency. The Borrower will ensure that unrestricted participation of firms and individuals from member countries of the Bank is permitted. Consequently, no conditions shall be established in such procurement procedures or specific requirements that would prevent or restrict the offer of goods, works, or services or the participation of contractors, suppliers, and consultants from such countries.

**SECTION 4.03. Other Documents Governing Program Execution.** (a) The Parties agree the Program execution shall be governed by the provisions of this Contract and those established in the OR. If any provision of this Contract should present any inconsistency or contradiction with

the OR, the relevant provision of this Contract shall prevail. Moreover, the Parties agree it shall be necessary to obtain the Bank's written consent prior to making any change to the OR.

(b) The OR shall define in detail the use of the Program's resources, and include, at a minimum, the following: a description of the institutional, operating, financial management, procurement, reporting and oversight arrangements.

**SECTION 4.04. Environmental and Social Management.** (a) Pursuant to Article 6.06 of the General Conditions, the Parties agree that the Borrower will carry out the execution of the activities included in the Program in accordance with the Borrower's Environmental and Social Review Procedures (ESRP) and the OR which contain requirements that are consistent with the Borrower and the Bank's policies and procedures. If any of those requirements cease to be consistent with those policies and procedures, or any impacts or risks arise during implementation which were not foreseen in the OR, the Parties agree to address them in a way to ensure consistency with both policies and procedures, and therefore the OR should be modified accordingly.

(b) In addition to the provisions of paragraph (a) of this Section, the Parties agree that the execution of the activities included in the Program will be governed by the requirements included in paragraph 4.07 of the Annex, which are identified as necessary to comply with the environmental and social management of the Program.

## **CHAPTER V**

### **Supervision and Evaluation of the Program**

**SECTION 5.01. Supervision of Program Execution.** For the purposes of Article 7.02 of the General Conditions, the documents that, as of the date of signature of this Contract, have been identified as necessary to supervise progress in the execution of the Program are: semi-annual monitoring reports to be submitted to the Bank sixty (60) days after the end of each semester and must include: (i) the status of execution (consistent with the Monitoring and Evaluation Plan (MEP)) of the Program activities, their outcomes and direct effects as they are carried out, any problems and/or risks identified in Program execution, and the actions proposed to mitigate them; (ii) achievement of results and goals exactly as established in the Results Matrix which is an annex to the OR; (iii) planned and actual financial progress including planned disbursements for the following twelve (12) months; and (iv) reports evaluating compliance with environmental and social policies which must reflect the degree of compliance with the social and environmental requirements for the Program as laid out in Section 4.04 of this Special Conditions, including reporting on the compliance with the Environmental and Social Assessments/Environmental and Social Impact Assessments and consultation requirements as established in paragraph 4.07 of the Annex.

**SECTION 5.02. Supervision of the Financial Management of the Program.** (a) For the purposes of Article 7.03 of the General Conditions, as of the date of signature of this Contract, the following external audit financial reports and other reports have been identified as necessary to supervise the financial management of the Program:

- (i) Annual Audited Financial Statements of the Borrower, which shall be submitted to the Bank within one hundred and eighty (180) days following the end of the fiscal year during the Disbursement Period and any extensions thereof and should be audited by an independent audit firm;
- (ii) Semi-annual unaudited financial reports of the Program including financial status reports on Sub-loans, which shall be submitted to the Bank within ninety (90) days following the closing of each semester during the Disbursement Period and any extensions thereof; and
- (iii) An assurance report on the process of preparation and submission of disbursement requests which shall be conducted by an independent audit firm that is eligible to the Bank and submitted to the Bank within one hundred and eighty (180) days following the end of the fiscal year during the Disbursement Period and any extensions thereof.

(b) For the purposes of Article 7.03(a) of the General Conditions, the fiscal year of the Program is the period between January 1 and December 31 of each year.

**SECTION 5.03. Evaluation of Results.** In order to determine the degree of compliance with the Program's objective and its results, the Borrower or the Executing Agency, as the case may be, consistent with and following the guidance outlined in the MEP, shall submit to the Bank an end-of-project report, six (6) months after the last disbursement of the resources of the Loan, and must include all the information contained in the semi-annual monitoring reports, as well as a final analysis of achievements regarding the product and results indicators and any problems detected during Program execution, and the final effect of the mitigation actions implemented. It must include and document to the fullest extent possible any unforeseen effects of the Program. Furthermore, it must contain any qualitative information that is considered relevant to understand the progress of Program execution in terms of coordination, exogenous effects, and implementation.

## **CHAPTER VI**

### **Miscellaneous Provisions**

**SECTION 6.01. Entry into Effect of the Contract.** This Contract shall enter into effect on the signature date.

**SECTION 6.02. Communications and Notices.** (a) Any notice, request, communication, or report from one Party to another by virtue of this Contract related to the execution of the Program, with the exception of the notices indicated in paragraph (b) hereof, 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, or by electronic means and shall be considered to have been delivered when such electronic mail is sent to the email addresses indicated below and is received in readable form, unless the Parties agree otherwise.

For the Borrower:

Mailing address:

Caribbean Development Bank  
Wilkey  
St. Michael  
Barbados, W.I.

Email address: [bestd@caribank.org](mailto:bestd@caribank.org) with a copy to: [corbini@caribank.org](mailto:corbini@caribank.org)

For the Bank:

Mailing address:

Inter-American Development Bank  
Country Office in Barbados  
P.O. Box 402  
Bridgetown BB11000  
Barbados

Facsimile: (1-246) 429-8869

Email address: [IDBBarbados@iadb.org](mailto:IDBBarbados@iadb.org)

(b) Any notice from one Party to another by virtue of this Contract regarding matters other than those related to the execution of the Program, including disbursement requests, shall be made in writing and sent by certified mail, electronic mail, or facsimile addressed to its addressee at any of the respective addresses given below and shall be considered to have been made when the relevant document is delivered to the addressee at the respective address given below, or by electronic means and shall be considered to have been delivered when such electronic mail is sent to the email addresses indicated below and is received in readable form, unless the Parties agree otherwise.

For the Borrower:

Mailing address:

Caribbean Development Bank  
Wilkey  
St. Michael  
Barbados, W.I.

Email address: [treasury@caribank.org](mailto:treasury@caribank.org) with a copy to [legal@caribank.org](mailto:legal@caribank.org)

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

Email address: IDBBarbados@iadb.org

**SECTION 6.03.** **Commitment to Arbitrate.** For the resolution of any conflict arising out of or connected with 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 XII 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 St Michael, Barbados, on the date indicated on the cover of this Contract.

CARIBBEAN DEVELOPMENT  
BANK



Isaac Solomon  
Vice-President of Operations

INTER-AMERICAN DEVELOPMENT  
BANK



Viviana del Carmen Alva Hart  
Country Representative in Barbados

**LOAN CONTRACT  
GENERAL CONDITIONS  
October 2021**

**CHAPTER I  
Application and Interpretation**

**ARTICLE 1.01. Application of the General Conditions.** These General Conditions are uniformly applicable to loan contracts for the financing of investment projects using the ordinary capital resources of the Bank, which the Bank enters into with its member countries or with other borrowers that, for purposes of the respective loan contract, have the guarantee of a Bank member country.

**ARTICLE 1.02. Interpretation.** (a) **Inconsistency.** In the event of contradiction or inconsistency between the provisions of the Special Conditions, any annex of the Contract, and the Guarantee Contract or Contracts, if any, and these General Conditions, those provisions shall prevail over the provisions of these General Conditions. In the event of contradiction or inconsistency between provisions of a single element of this Contract, or between the provisions of the Special Conditions, any annex of the Contract, and the Guarantee Contract or Contracts, if any, the specific provision shall prevail over the general.

(b) **Headings and Subheadings.** Any heading or subheading of the chapters, articles, clauses, or other sections of this Contract are included solely for reference and should not be taken into account in the interpretation of this Contract.

(c) **Periods.** Unless this Contract provides otherwise, periods expressed in days, months, or years shall be understood as calendar days, months, or years.

**CHAPTER II  
Definitions**

**ARTICLE 2.01. Definitions.** Whenever the following terms are capitalized in this Contract or in the Guarantee Contract(s), if any, they shall have the meaning set forth below. Any reference to the singular includes the plural and vice versa. Any capitalized term used in paragraph 73 of this Article 2.01 and not otherwise defined herein shall 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, which is hereby incorporated into this Contract by reference.

1. "Additional Resources" means resources that are additional to those financed by the Bank, which are necessary for the complete and uninterrupted execution of the Project.
2. "Advance of Funds" means the amount of resources advanced by the Bank to the Borrower, chargeable to the Loan, to cover eligible expenditures of the Project, as provided in Article 4.07 of these General Conditions.
3. "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 3.02 and/or Article 3.06 of these General Conditions.
4. "Amortization Schedule Modification Notification Letter" means a communication by means of which the Bank responds to an Amortization Schedule Modification Request Letter.
5. "Amortization Schedule Modification Request Letter" means the irrevocable communication from the Borrower to the Bank requesting a modification to the Amortization Schedule.
6. "Approval Currency" means the currency in which the Bank approves the Loan, which may be Dollars or any Local Currency.
7. "Bank" shall have the meaning assigned to it in the Special Conditions.
8. "Bank's Cost of Funding" means a cost margin calculated quarterly relative to a three-month (3-month) LIBOR Interest Rate in Dollars, 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.
9. "Base Interest Rate" means the rate determined by the Bank at the time of a Conversion execution (other than a Commodity Conversion or a Catastrophe Protection Conversion), based on: (i) the currency requested by the Borrower; (ii) the type of interest rate requested by the Borrower; (iii) the Amortization Schedule; (iv) the existing market conditions; and (v) one of the following, among others: (1) the three-month (3-month) LIBOR Interest Rate in Dollars plus a margin reflecting the Bank's estimated cost of funding in Dollars at the time of disbursement or Conversion; (2) the Bank's actual cost of funding used as a basis for the Conversion; (3) the relevant interest rate index plus a margin reflecting the Bank's estimated cost of funding in the requested currency at the time of disbursement or Conversion; or (4) with respect to Outstanding Loan Balances that have been subject to a previous Conversion (other than a Commodity Conversion or a Catastrophe Protection Conversion), the interest rate in effect for such Outstanding Loan Balances.

10. “Board” means the Board of Executive Directors of the Bank.
11. “Borrower” shall have the meaning assigned to it in the recitals of the Special Conditions.
12. “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 City or, in the case of a Conversion, in the cities listed in the Conversion Notification Letter.
13. “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.
14. “Cash Settlement Amount”, with respect to Commodity Conversions, has the meaning assigned to it in Articles 5.12(b), (c), and (d) of these General Conditions, and with respect to Catastrophe Protection Conversions, means an amount in Dollars owed by the Bank to the Borrower upon the determination of the occurrence of a Cash Settlement Event, to be calculated by the Event Calculation Agent in accordance with the Cash Settlement Event Determination Instructions.
15. “Cash Settlement Event” means an Event that, upon occurrence, causes a Cash Settlement Amount to be due by the Bank to the Borrower under a Catastrophe Protection Conversion, as determined by the Event Calculation Agent in accordance with the Cash Settlement Event Determination Instructions.
16. “Cash Settlement Event Determination Instructions” means a detailed, reproducible, and transparent set of conditions and instructions included in a Catastrophe Conversion Notification Letter that: (i) specifies how the Event Calculation Agent will determine whether the occurrence of an Event constitutes a Cash Settlement Event and, in that case, how the Cash Settlement Amount will be calculated; (ii) provides the Bank with the necessary parameters to secure the protection in the market via a transaction in the financial markets (such as the probability of attachment, expected loss, and exhaustion probability); and (iii) specifies other information in relation to the procedures and roles of each of the parties in the determination of the occurrence of a Cash Settlement Event and the calculation of a Cash Settlement Amount, if any.
17. “Catastrophe” means a serious disruption of the functioning of a society, a community, or a project that occurs as a result of a hazard and causes widespread or serious human, material, economic or environmental losses.

18. "Catastrophe Conversion Notification Letter" means a communication by which the Bank informs the Borrower of the terms and conditions of the Catastrophe Protection Conversion, including, among others, the identification of one or more Events protected against and the Cash Settlement Event Determination Instructions.
19. "Catastrophe Protection Conversion" means any agreement entered into between the Bank and the Borrower, formalized on the Catastrophe Protection Conversion Date by means of a Catastrophe Conversion Notification Letter, where the Bank undertakes to pay to the Borrower a Cash Settlement Amount upon the occurrence of a Cash Settlement Event, subject to the fulfillment of the conditions specified in the Catastrophe Conversion Notification Letter and the Cash Settlement Event Determination Instructions.
20. "Catastrophe Protection Conversion Date" means the effective date of a Catastrophe Protection Conversion set forth in the applicable Catastrophe Conversion Notification Letter.
21. "Catastrophe Protection Engagement Letter" means an agreement entered into between the Borrower and the Bank, with the consent of the Guarantor, if any, in the initial stages of the structuring of a Catastrophe Protection Conversion whereby, the parties agree, among others to: (i) the main terms and conditions of the structuring of a potential Catastrophe Protection Conversion; and (ii) the pass-through to the Borrower of all costs incurred by the Bank (including fees charged by any third party, such as the Modeling Agent, external legal counsel, and distributors, among others) in relation to such potential Catastrophe Protection Conversion and its corresponding transaction in the financial markets.
22. "Closing Period" means a period of up to ninety (90) days from the expiration date of the Original Disbursement Period, or any extension thereof.
23. "Commodity Call Option" means, with respect to all or part of a Required Outstanding Loan Balance, a cash-settled call option exercisable by the Borrower as contemplated in Article 5.12 of these General Conditions.
24. "Commodity Conversion" means, with respect to all or part of a Required Outstanding Loan Balance, the entry into a Commodity Put Option or a Commodity Call Option pursuant to Article 5.01 of these General Conditions.
25. "Commodity Conversion Date" means the date of entry into a Commodity Conversion. This date shall be set forth in the Conversion Notification Letter.
26. "Commodity Conversion Maturity Date" means the Business Day on which the Commodity Option matures. This date shall be set forth in the Conversion Notification Letter.

27. “Commodity Conversion Settlement Date” means, with respect to a Commodity Conversion, the date on which the Cash Settlement Amount thereof is required to be paid, which shall be that date occurring five (5) Business Days following a Commodity Conversion Maturity Date unless otherwise agreed to by the Parties and specified in the Conversion Notification Letter.
28. “Commodity Option” shall have the meaning assigned to it in Article 5.12(a) of these General Conditions.
29. “Commodity Put Option” means, with respect to all or part of a Required Outstanding Loan Balance, a cash-settled put option exercisable by the Borrower as contemplated in Article 5.12 of these General Conditions.
30. “Consultant Policies” mean 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.
31. “Contingent Credit Facility” means the Contingent Credit Facility for Natural Disaster Emergencies or the Contingent Credit Facility for Natural Disaster and Public Health Emergencies, as the case may be, approved by the Bank, and as may be amended from time to time.
32. “Contract” means this loan contract.
33. “Contracting Agency” means the entity specialized in managing procurement which, upon agreement with the Borrower or the Executing Agency, as the case may be, may be employed to carry out, partially or in full, the procurement of goods or works, consulting services or non-consulting services for the Project.
34. “Contracting Entity” means the entity with legal capacity to enter into a contract for the procurement of goods, works, consulting services, and non-consulting services with a contractor, supplier, consulting firm, or individual consultant, as the case may be.
35. “Conversion” means a modification of the terms of all or any portion of the Loan as requested by the Borrower and accepted by the Bank, under the terms of this Contract, which may be: (i) a Currency Conversion; (ii) an Interest Rate Conversion; (iii) a Commodity Conversion; or (iv) a Catastrophe Protection Conversion.
36. “Conversion Date” means the Currency Conversion Date, the Interest Rate Conversion Date, the Commodity Conversion Date, or the Catastrophe Protection Conversion Date, as the case may be.
37. “Conversion Notification Letter” means the communication by which the Bank informs the Borrower of the financial terms and conditions upon which a

Conversion has been effected, in accordance with the Conversion Request Letter sent by the Borrower; provided that, for a Catastrophe Protection Conversion, "Conversion Notification Letter" means a Catastrophe Conversion Notification Letter.

38. "Conversion Period" means, (i) with respect to any Conversion (other than a Commodity Conversion or Catastrophe Protection Conversion), the period between the Conversion Date and the last day of the interest period in which the Conversion ends, pursuant to its terms. Notwithstanding the foregoing, for purposes of the last payment of principal and interest, the Conversion Period shall end on the day on which interest corresponding to such interest period is paid; and (ii) with respect to any Commodity Conversion or Catastrophe Protection Conversion, the period from the date on which a Conversion enters into effect through the date set forth in the applicable Conversion Notification Letter or the Catastrophe Conversion Notification Letter.
39. "Conversion Request Letter" means the irrevocable communication of the Borrower to the Bank requesting a Conversion, pursuant to Article 5.01 of these General Conditions.
40. "Converted Currency" means any Local Currency or Principal Currency in which all or part of the Loan is denominated after a Currency Conversion has been effected.
41. "Core Procurement Principles" means the principles that guide the procurement activities and the selection processes pursuant to the Procurement Policies and the Consultant Policies, being the following: value for money, economy, efficiency, equality, transparency, and integrity.
42. "Currency Conversion" means, with respect to a disbursement or with respect to all or part of an Outstanding Loan Balance, a change in the currency of denomination to a Local Currency or a Principal Currency.
43. "Currency Conversion Date" means, in relation to Currency Conversions for new disbursements, the effective date on which the Bank makes the disbursement and, in the case of Currency Conversions of Outstanding Loan Balances, the date on which the debt is redenominated. These dates shall be set forth in the Conversion Notification Letter.
44. "Derivative Contract" means any contract entered into between the Bank and the Borrower or the Bank and the Guarantor, if any, to document and/or confirm one or more derivative transactions agreed to between the Bank and the Borrower, or the Bank and the Guarantor, if any, including any subsequent amendments thereto. All attachments and other supplemental agreements to a Derivative Contract shall form an integral part thereof.

45. “Dollar” means the legal tender of the United States of America.
46. “Eligible Expenditure” shall have the meaning assigned to it in the Special Conditions.
47. “Eligible Natural Disaster” means (i) an earthquake; (ii) a tropical cyclone; and/or (iii) another natural disaster for which the Bank can offer the Principal Payment Option, subject to the Bank’s operational and risk management considerations, in either of the three cases of catastrophic proportions, that meets the parametric and non-parametric conditions established by the Bank in the Principal Payment Option Parametric and Non-Parametric Terms and Conditions.
48. “Environmental and Social Policy Framework” means the Environmental and Social Policy Framework approved by the Bank and into effect at the time of the Project’s approval.
49. “Environmental and Social Performance Standards” means the ten (10) Performance Standards that are part of the Environmental and Social Policy Framework.
50. “Event” means a phenomenon or occurrence identified in the Catastrophe Conversion Notification Letter that has the potential to cause a Catastrophe, the risk of which the Borrower is requesting the protection against, and for which the Bank can execute a Catastrophe Protection Conversion subject to market availability and to the Bank’s operational and risk management considerations.
51. “Event Calculation Agent” means a third party engaged by the Bank who, based on the Reporting Agent’s data concerning an Event, and in accordance with the Cash Settlement Event Determination Instructions, determines whether the occurrence of an Event constitutes a Cash Settlement Event and, in that case, calculates the related Cash Settlement Amount.
52. “Event Calculation Notice” means a communication submitted by the Borrower to the Event Calculation Agent, with a copy to the Bank, requesting (i) the determination of whether a Cash Settlement Event has occurred, and (ii) if a Cash Settlement Event is determined to have occurred, the calculation of the corresponding Cash Settlement Amount.
53. “Event Report” means a report released by the Event Calculation Agent after receipt of an Event Calculation Notice, determining whether the occurrence of an Event constitutes a Cash Settlement Event and specifying the corresponding Cash Settlement Amount due, if any.
54. “Executing Agency” means the entity with legal capacity responsible for executing the Project and for using the proceeds of the Loan. Whenever there is more than

one Executing Agency, these will be co-executing agencies and shall be referred to indistinctly as “Executing Agencies” or “Co-executing Agencies.”

- 55. “Execution Period” means the period during which the Bank may effect a Conversion as determined by the Borrower in the Conversion Request Letter. The Execution Period starts on the day the Bank receives the Conversion Request Letter.
- 56. “Final Amortization Date” means the last date of amortization of the Loan, in accordance with the Special Conditions.
- 57. “Financial Plan” means a tool for planning and monitoring the cash flows of the Project, which is used in coordination with other project planning tools, including the Procurement Plan.
- 58. “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.
- 59. “Full-Term Catastrophe Protection Conversion” means a Catastrophe Protection Conversion for which the Conversion Period ends on the Final Amortization Date.
- 60. “Full-Term Commodity Conversion” means a Commodity Conversion whose Commodity Conversion Maturity Date coincides with the Final Amortization Date.
- 61. “Full-Term Currency Conversion” means a Currency Conversion for a Conversion Period equal to the period set forth in the Amortization Schedule requested for such Currency Conversion, pursuant to Article 5.03 of these General Conditions.
- 62. “Full-Term Interest Rate Conversion” means an Interest Rate Conversion for a Conversion Period equal to the period set forth in the Amortization Schedule requested for such Interest Rate Conversion, pursuant to Article 5.04 of these General Conditions.
- 63. “General Conditions” mean the entirety of articles which comprise the second part of this Contract.
- 64. “Guarantee Contract,” means the contract, if any, that guarantees the fulfillment of all or part of the obligations contracted by the Borrower under this Contract and under which the Guarantor assumes other obligations for which it is liable.
- 65. “Guarantor” means the member country of the Bank or subnational entity thereof, as the case may be, that enters into the Guarantee Contract with the Bank.
- 66. “Interest Rate Calculation Convention” means the convention regarding the number of days used to calculate interest payments, as set forth in the Conversion Notification Letter.

- 67. "Interest Rate Cap" means the establishment of an upper limit for a variable interest rate.
- 68. "Interest Rate Collar" means the establishment of an upper and a lower limit for a variable interest rate.
- 69. "Interest Rate Conversion" means: (i) a change of interest rate type with respect to all or part of the Outstanding Loan Balance; (ii) the establishment of an Interest Rate Cap or an Interest Rate Collar with respect to all or part of the Outstanding Loan Balance; or (iii) any other hedging option that affects the interest rate applicable to all or part of the Outstanding Loan Balance.
- 70. "Interest Rate Conversion Date" means the effective date of the Interest Rate Conversion upon which the new interest rate applies. This date shall be set forth in the Conversion Notification Letter.
- 71. "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.
- 72. "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.
- 73. "LIBOR Interest Rate" means the "USD-LIBOR-ICE," which is the rate administered by the 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, if unavailable, on the relevant page 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 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 a 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 on 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 on an Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter, 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.

- 74. "Loan" shall have the meaning assigned to it in the Special Conditions.
- 75. "Local Currency" means any currency other than the Dollar that is legal tender in the countries of Latin America and the Caribbean.
- 76. "Modeling Agent" means an independent third party engaged by the Bank to calculate the relevant pricing metrics in a Catastrophe Protection Conversion, including but not limited to the probability of attachment, expected loss, and exhaustion probability as defined in the Cash Settlement Event Determination Instructions.
- 77. "Notional Quantity" means, with respect to a Commodity Conversion, the number of units of the underlying commodity.
- 78. "Option Type" means the type of Commodity Option for which the Bank could, subject to market availability and to the Bank's operational and risk management considerations, execute a Commodity Conversion, including but not limited to, European, fixed-strike arithmetic Asian and binary options.

79. "Original Disbursement Period" means the original period for disbursements of the Loan, which is set forth in the Special Conditions.
80. "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.
81. "Outstanding Loan Balance" means the amount that the Borrower owes the Bank for the portion of the Loan that has been disbursed.
82. "Partial-Term Catastrophe Protection Conversion" means a Catastrophe Protection Conversion for which the Conversion Period ends prior to the Final Amortization Date.
83. "Partial-Term Commodity Conversion" means a Commodity Conversion whose Commodity Conversion Maturity Date occurs prior to the Final Amortization Date.
84. "Partial-Term Currency Conversion" means a Currency Conversion for a shorter Conversion Period than the period set forth in the Amortization Schedule requested for such Currency Conversion, pursuant to Article 5.03 of these General Conditions.
85. "Partial-Term Interest Rate Conversion" means an Interest Rate Conversion for a shorter Conversion Period than the period set forth in the Amortization Schedule requested for such Interest Rate Conversion, pursuant to Article 5.04 of these General Conditions.
86. "Parties" shall have the meaning assigned to it in the introduction to the Special Conditions.
87. "Payment Valuation Date" means a date that is determined based on a number of Business Days prior to any amortization or interest payment date, as specified in a Conversion Notification Letter.
88. "Principal Currency" means any currency other than the Dollar or Local Currency that is legal tender in the member countries of the Bank.
89. "Principal Payment Option" means the one-time principal payment option with respect to the Amortization Schedule, which may be offered to a Borrower which is a member country of the Bank pursuant to Articles 3.03 to 3.06 of these General Conditions.
90. "Principal Payment Option Activation Notification Letter" means the communication by which the Bank responds to a Principal Payment Option Activation Request Letter.

91. "Principal Payment Option Activation Request Letter" means the communication from the Borrower to the Bank requesting that the Loan be eligible for the Principal Payment Option subject to the terms and conditions set forth in this Contract.
92. "Principal Payment Option Exercise Notification Letter" means the communication by which the Bank responds to a Principal Payment Option Exercise Request Letter and informs the Borrower of the adjusted Amortization Schedule resulting from the exercise of the Principal Payment Option.
93. "Principal Payment Option Exercise Request Letter" means the communication from the Borrower to the Bank requesting a modification to the Amortization Schedule under the Principal Payment Option pursuant to Article 3.06 of these General Conditions.
94. "Principal Payment Option Parametric and Non-Parametric Terms and Conditions" means the terms and conditions of the parametric and non-parametric conditions established by the Bank and applicable for the verification of the occurrence of an Eligible Natural Disaster.
95. "Procurement Plan" means a tool for programming and monitoring the procurement related to the Project, in the terms described in the Special Conditions, Procurement Policies, and Consultant Policies.
96. "Procurement Policies" mean 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.
97. "Prohibited Practices" mean the practices prohibited by the Bank in connection with the activities it finances, as defined by the Board or that are defined in the future and communicated to the Borrower, including among others: corrupt practice, fraudulent practice, coercive practice, collusive practice, obstructive practice, and misappropriation.
98. "Project" or "Program" means the project or program identified in the Special Conditions comprising a set of activities with a development objective that are financed by proceeds of the Loan.
99. "Protection Amount" means the maximum amount of the aggregate Cash Settlement Amounts under a Catastrophe Protection Conversion, in Dollars, that would be due by the Bank upon the determination of the occurrence of one or more Cash Settlement Events.
100. "Quarter" means each of the following three-month (3-month) periods of the calendar year: the period beginning on January 1 and ending on March 31; the period beginning on April 1 and ending on June 30; the period beginning on July 1

and ending on September 30; and the period beginning on October 1 and ending on December 31.

101. "Reporting Agent" means an independent third-party that provides the relevant data and information for a Cash Settlement Event calculation under a Catastrophe Protection Conversion in accordance with the Cash Settlement Event Determination Instructions.
102. "Required Outstanding Loan Balance" has the meaning assigned to it in Article 5.02(f) of these General Conditions.
103. "Semester" means the first or second six (6) months of a calendar year.
104. "Settlement Currency" means the currency used to settle the Loan's principal and interest payments. For fully deliverable currencies, the Settlement Currency shall be the Converted Currency. For non-deliverable currencies, the Settlement Currency shall be the Dollar.
105. "Special Conditions" mean the entirety of provisions which comprise the first part of this Contract.
106. "Specified Price" means the price of the underlying commodity according to the Underlying Commodity Index on the Commodity Conversion Maturity Date except that, for certain Option Types, such price will be calculated on the basis of a formula to be determined in the Conversion Notification Letter.
107. "Strike Price" means, with respect to a Commodity Conversion, the fixed price at which (i) the owner of a Commodity Call Option is entitled to purchase, or (ii) the owner of a Commodity Put Option is entitled to sell, the underlying commodity (on a cash-settled basis).
108. "Underlying Commodity Index" means a published index that is a measure of the price of the underlying commodity that is the subject of a Commodity Option. The source and calculation of the Underlying Commodity Index will be set forth in the Conversion Notification Letter. If the Underlying Commodity Index relating to a commodity is (i) not calculated and announced by the sponsor thereof in effect on the Commodity Conversion Date but is calculated and announced by a successor sponsor acceptable to the Calculation Agent; or (ii) replaced by a successor index using, in the determination of the Calculation Agent, the same or a substantially similar formula for and method of calculation as used in the calculation of the Underlying Commodity Index, then in each case that index will be the Underlying Commodity Index.
109. "Valuation Exchange Rate" is equal to the number of units of the Converted Currency per Dollar, applicable on each Payment Valuation Date, pursuant to the source established in the Conversion Notification Letter.

110. "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 tranches of the Loan, 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<sub>ij</sub>* is the amortization amount referring to payment *i* of tranche *j*, calculated in Dollars, or in the case of a Conversion, in Dollar equivalent, at the exchange rate determined by the Calculation Agent, for the date of modification of the Amortization Schedule.

*PD<sub>ij</sub>* is the payment date referring to payment *i* of tranche *j*.

*ED* is the date of signature of this Contract.

*TA* is the sum of all *A<sub>ij</sub>*, calculated in Dollars, or in the case of a Conversion, 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, Interest, Credit Fee, and Other Costs.**

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 month, as set forth in the Special Conditions, in an Amortization Schedule Modification Notification Letter, in a Conversion Notification Letter, or in a Principal Payment Option Exercise Notification Letter, as the case may be. The dates for payment of an amortization payment, credit fee, and other costs shall always coincide with an interest payment date.

**ARTICLE 3.02. Modification of the Amortization Schedule.** (a) The Borrower, with the prior consent of the Guarantor, if any, may request the modification of the Amortization Schedule at any time from the entry into effect of the Contract and up to sixty (60) days prior to the expiration of the Original Disbursement Period as set forth in this Article. The Borrower may also request the modification of the Amortization Schedule in the case of a Principal Payment Option, a Currency Conversion, or an Interest Rate Conversion, as set forth respectively in Articles 3.06, 5.03, and 5.04 of these General Conditions.

(b) For any modifications to the Amortization Schedule, except pursuant to the Principal Payment Option, a Currency Conversion, or an Interest Rate Conversion, the Borrower shall deliver to the Bank an Amortization Schedule Modification Request Letter, which shall: (i) state whether the proposed modification to the Amortization Schedule is applicable to all or part of the Loan; and (ii) indicate the new amortization schedule, including the first and last amortization dates, the frequency of payments, and the percentage that these payments represent of the total of the Loan or the Loan tranche for which the modification is requested.

(c) The Bank's acceptance of any requested modifications to the Amortization Schedule will be subject to the Bank's operational and risk management considerations and the satisfaction of the following conditions:

- (i) the last amortization date and the cumulative WAL of all the Amortization Schedules do not exceed the Final Amortization Date or the Original WAL, as the case may be;
- (ii) the Loan tranche subject to a new Amortization Schedule is not less than the equivalent of three million Dollars (US\$3,000,000); and
- (iii) the Loan tranche subject to the modification of the Amortization Schedule has not been subject to a prior modification, unless the new Amortization Schedule modification is the result of the exercise of the Principal Payment Option, a Currency Conversion, or an Interest Rate Conversion.

(d) The Bank will notify the Borrower of its decision in an Amortization Schedule Modification Notification Letter. If the Bank accepts the Borrower's request, the Amortization Schedule Modification Notification Letter will include: (i) the new Amortization Schedule for the Loan or Loan tranche; (ii) the cumulative WAL of the Loan; and (iii) the effective date of the new Amortization Schedule.

(e) The Loan may not have more than four (4) Loan tranches denominated in a Principal Currency with different Amortization Schedules. The number of Loan tranches in Local Currency may exceed this amount, subject to the Bank's operational and risk management considerations.

(f) To ensure that the WAL continues to be equal to or less than the Original WAL of the Loan at all times, whenever the WAL of the Loan exceeds the Original WAL, the Amortization Schedule shall be modified. Accordingly, the Bank shall notify the Borrower of any such event, and request that it establish a new amortization schedule, pursuant to the provisions of this Article. Unless the Borrower expressly requests otherwise, such modification will consist of moving forward the Final Amortization Date, with a corresponding adjustment to the amortization installments.

(g) Notwithstanding paragraph (f) above, the Amortization Schedule shall be modified in such cases in which an extension to the Original Disbursement Period is granted, which: (i) results 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 Loan tranche, as the case may be, and (ii) when disbursements occur during such extension period. Such modification will consist of (i) moving forward the Final Amortization Date or, if the Loan has different tranches, moving forward the Final Amortization Date of the Loan tranche or tranches from which funds are disbursed during the extension period of the Original Disbursement Period, unless the Borrower expressly requests, in lieu of the foregoing, (ii) an increase in the amount of the amortization installment following each disbursement of the Loan or the Loan tranche, 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 each amortization installment.

**ARTICLE 3.03. Principal Payment Option.** (a) The Principal Payment Option may only be offered by the Bank to a borrower which is a member country of the Bank. For the purposes of the Principal Payment Option described in this Contract, the term "Borrower" should be understood as the member country of the Bank. The Borrower may request to the Bank, and the Bank may accept, that this Loan be eligible for the Principal Payment Option in accordance with the provisions set forth in this Contract. Upon acceptance by the Bank of the Borrower's request, the Borrower may be allowed to exercise the Principal Payment Option during the amortization period of the Loan by requesting the modification of the Amortization Schedule following the occurrence of an Eligible Natural Disaster in accordance with Article 3.06 of these General Conditions.

(b) **Principal Payment Option Activation Request after the entry into effect of this Contract.** The Borrower may request to the Bank, and the Bank may accept, that this Loan be eligible for the Principal Payment Option after it has entered into effect and up to sixty (60) days

prior to the expiration of the Original Disbursement Period. To this end, the Borrower shall deliver to the Bank a Principal Payment Option Activation Request Letter in form and substance satisfactory to the Bank, signed by a duly authorized representative of the Borrower. Once the Bank has received a Principal Payment Option Activation Request Letter, the Bank may accept the request by delivering to the Borrower a Principal Payment Option Activation Notification Letter.

(c) **Condition to Request the Activation of the Principal Payment Option.** A request from the Borrower to activate the Principal Payment Option will be eligible provided that, at the time of the request, there is a Contingent Credit Facility entered into between the Borrower and the Bank with a corresponding active natural disaster coverage for at least one Eligible Natural Disaster.

(d) **Expansion of Contingent Credit Facility Natural Disaster Coverage.** If the Borrower expands the natural disaster coverage of its Contingent Credit Facility with the Bank to include one or more natural disasters that said Contingent Credit Facility did not provide coverage for at the time of activation of the Principal Payment Option as set forth in paragraph (c) above, the Borrower may request that the Bank update the Principal Payment Option Parametric and Non-Parametric Terms and Conditions accordingly. If the Bank approves said request, the parametric and non-parametric terms and conditions applicable for the verification of the respective natural disaster will be established by the Bank, at its own discretion, in the updated Principal Payment Option Parametric and Non-Parametric Terms and Conditions, which shall be communicated by the Bank to the Borrower. Once the Bank has communicated the updated Principal Option Parametric and Non-Parametric Terms and Conditions as set forth in this paragraph, the natural disaster will be considered an Eligible Natural Disaster for the purposes of the Principal Payment Option.

(e) **Cancellation.** The Principal Payment Option may be cancelled upon written request by the Borrower to the Bank, in which case the Principal Payment Option transaction fee shall continue to accrue until thirty (30) days after the receipt by the Bank of the Borrower's request for cancellation. The Parties agree that any amount paid by the Borrower in connection with the transaction fee of the Principal Payment Option between the date of receipt of the notice of cancellation by the Bank and the effective date of the cancellation will not be reimbursed by the Bank to the Borrower.

(f) **Ineligibility.** This Loan will not be eligible for the Principal Payment Option if the Amortization Schedule of the Loan contemplates either a bullet payment or principal payments in the last five (5) years of the amortization period of the Loan.

**ARTICLE 3.04. Principal Payment Option Parametric and Non-Parametric Terms and Conditions.** (a) The parametric and non-parametric conditions applicable for the verification of the Eligible Natural Disaster will be established by the Bank, at its own discretion, in the Principal Payment Option Parametric and Non-Parametric Terms and Conditions, which shall be communicated by the Bank to the Borrower following the activation of the Principal Payment Option as set forth in Article 3.03 of these General Conditions. The Principal Payment Option

Parametric and Non-Parametric Terms and Conditions shall be binding on the Borrower and may be amended by the Bank by written notification to the Borrower.

(b) The fulfillment of the parametric conditions established for the verification of an Eligible Natural Disaster as set forth in the Principal Payment Option Parametric and Non-Parametric Terms and Conditions will be verified by the Bank using data provided by independent third-party entities determined by the Bank.

(c) The fulfillment of the non-parametric conditions established for the verification of an Eligible Natural Disaster as set forth in the Principal Payment Option Parametric and Non-Parametric Terms and Conditions will be verified by the Bank and, to that end, the Bank may, at its own discretion, consult with any third parties.

**ARTICLE 3.05. Transaction Fee Applicable to the Principal Payment Option.** (a) The Borrower shall pay the Bank a transaction fee applicable to the Principal Payment Option, which will be determined by the Bank periodically. The Bank will notify the Borrower of the transaction fee to be paid for the Principal Payment Option. Such fee shall remain in effect until it ceases to accrue as established in paragraph (c) of this Article.

(b) The transaction fee applicable to the Principal Payment Option: (i) shall be expressed in the form of basis points per annum; (ii) shall begin to accrue from the expiration date of the Original Disbursement Period on the Outstanding Loan Balance; and (iii) shall be paid on each interest payment date as provided for in Article 3.01 of these General Conditions.

(c) The transaction fee applicable to the Principal Payment Option shall cease to accrue: (i) on the date the Borrower exercises the Principal Payment Option pursuant to Article 3.06 of these General Conditions; or (ii) five (5) years prior to the last amortization date as provided in the Amortization Schedule as set forth in paragraph (g) of Article 3.06 of these General Conditions, whichever occurs first.

**ARTICLE 3.06. Exercise of the Principal Payment Option.** (a) Following the occurrence of an Eligible Natural Disaster during the amortization period of the Loan, the Borrower may request to exercise the Principal Payment Option by delivering to the Bank a Principal Payment Option Exercise Request Letter, in form and substance satisfactory to the Bank, by which the Borrower shall:

- (i) notify the Bank of the occurrence of an Eligible Natural Disaster;
- (ii) submit to the Bank the supporting documentation related to the fulfillment of the parametric and non-parametric conditions applicable to the Eligible Natural Disaster;
- (iii) indicate the Loan number; and
- (iv) include the new amortization schedule, which shall reflect the redistribution of Loan amortization payments that would be due during the two-year

period following the occurrence of an Eligible Natural Disaster in accordance with the provisions of paragraph (b) and (d) of this Article.

(b) The Bank may accept the request referred to in paragraph (a) of this Article subject to the Bank's operational and risk management considerations and to the satisfaction of the following requirements:

- (i) the new amortization schedule of the Loan corresponds to an amortization schedule with semiannual principal payments;
- (ii) the last amortization date and the cumulative WAL of the modified Amortization Schedule does not exceed the Final Amortization Date nor the Original WAL; and
- (iii) there has been no delay in the payment of any sums owed by the Borrower to the Bank for principal, fees, interest, return of resources of the Loan used for ineligible expenditures, or for any other reason, under this Contract or any other contract entered into between the Bank and the Borrower, including any loan contract or Derivative Contract.

(c) The Bank will notify the Borrower of its decision in a Principal Payment Option Exercise Notification Letter. If the Bank accepts the Borrower's request, the Principal Payment Option Exercise Notification Letter will include: (i) the new Amortization Schedule for the Loan; and (ii) the effective date of the new Amortization Schedule.

(d) If the Principal Payment Option is exercised less than sixty (60) days in advance of the next principal payment due to the Bank as set forth in the Amortization Schedule, the modified Amortization Schedule shall not affect such next principal payment and, therefore, the two-year period of the Principal Payment Option would commence immediately after said principal payment.

(e) All interest, fees, premiums, and any other Loan charge, as well as any other payment for expenses or costs that may be imputed to this Contract, will continue to be due by the Borrower during the two-year period following the occurrence of an Eligible Natural Disaster in accordance with the provisions of this Contract.

(f) The Principal Payment Option may only be exercised by the Borrower regarding an Eligible Natural Disaster for which the Borrower had, at the time of activation of the Principal Payment Option, a corresponding active natural disaster coverage under a Contingent Credit Facility. If, following the activation of the Principal Payment Option, the Bank approves that the Borrower be eligible to exercise the Principal Payment Option for additional natural disasters pursuant to paragraph (d) of Article 3.03 of these General Conditions, the Borrower may also exercise the Principal Payment Option regarding said Eligible Natural Disaster.

(g) The Principal Payment Option may be exercised by the Borrower, subject to the Bank's operational and risk management considerations, up to five (5) years prior to the date of

the last scheduled amortization payment to the Bank, as set forth in the Amortization Schedule. If the Principal Payment Option is not exercised within such period, it shall be deemed automatically cancelled, and the respective transaction fee shall cease to accrue upon the expiration of the said period.

(h) Once the Principal Payment Option has been exercised pursuant to this Article, the Borrower shall not be eligible to exercise such option again with respect to the Loan.

**ARTICLE 3.07. Interest.** (a) **Interest on Outstanding Loan Balances that have not been subject to Conversion.** To the extent that the Loan has not been subject to any Conversion, 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) **Interest on Outstanding Loan Balances that have been Subject to Conversion.** If the Outstanding Loan Balances have been subject to a Conversion, the Borrower shall pay interest on the Outstanding Loan Balances converted under such Conversion at: (i) the Base Interest Rate determined by the Bank; plus (ii) the applicable lending spread for the Bank's ordinary capital loans.

(c) **Interest on Outstanding Loan Balances subject to an Interest Rate Cap.** If an Interest Rate Conversion has been effected to establish an Interest Rate Cap, and the interest rate payable by the Borrower pursuant to this Article exceeds the Interest Rate Cap at any time during the Conversion Period, the maximum interest rate applicable during such Conversion Period shall be equal to the Interest Rate Cap.

(d) **Interest on Outstanding Loan Balances Subject to an Interest Rate Collar.** If an Interest Rate Conversion has been effected to establish an Interest Rate Collar, and the interest rate payable by the Borrower pursuant to this Article exceeds the upper limit or falls below the lower limit of the Interest Rate Collar at any time during the Conversion Period, the maximum interest rate applicable during such Conversion Period shall be equal to the upper limit of the Interest Rate Collar, and the minimum interest rate applicable during such Conversion Period shall be equal to the lower limit of the Interest Rate Collar.

(e) **Changes to the Interest Rate Calculation Basis.** 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: (i) the occurrence of such changes; and (ii) the alternate base rate applicable to determine the appropriate amount to be paid by the Borrower. The Calculation Agent shall notify the Borrower and the Guarantor, if any, of the applicable alternate base rate, if any, with no less than sixty (60) days prior notice. The alternate base rate shall become effective on the expiration of such notice period.

**ARTICLE 3.08. 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 or 8.02 of these General Conditions.

**ARTICLE 3.09. 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 3.10. 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 3.11. Currency of Payment for Amortization, Interest, Credit Fee, and Inspection and Supervision Expenses.** Interest and principal payments shall be made in Dollars, unless a Currency Conversion has been effected, in which case the provisions of Article 5.05 of these General Conditions shall apply. The credit fee and the inspection and supervision fee shall always be paid in the Approval Currency.

**ARTICLE 3.12. Prepayments.** (a) **Prepayment of Outstanding Loan Balances denominated in Dollars with LIBOR-Based Interest Rate.** The Borrower may prepay all or part of any Outstanding Loan Balance denominated in Dollars subject to a LIBOR-Based Interest Rate on any interest payment date, provided that it delivers to the Bank a written irrevocable notice, 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 3.13 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 Loan tranches with different Amortization Schedules, the Borrower shall prepay individual tranches in their entirety, unless the Bank agrees otherwise.

(b) **Prepayments of Amounts that have been Subject to Conversion.** Except for the case of Catastrophe Protection Conversions as set forth in paragraph (c) of this Article, and provided that the Bank is able to unwind or reallocate its corresponding funding (or any related hedge), the Borrower, with the consent of the Guarantor, if any, may prepay on any interest payment date set forth in the Amortization Schedule attached to the Conversion Notification

Letter: (i) all or part of the amount that has been subject to a Currency Conversion; (ii) all or part of the amount that has been subject to an Interest Rate Conversion; and/or (iii) all or part of an amount equivalent to the Required Outstanding Balance under a Commodity Conversion. For this purpose, the Borrower shall deliver an irrevocable written notice to the Bank at least thirty (30) days in advance. Said notice shall specify the amount the Borrower intends to prepay and the Conversions to which such prepayment relates. In the event that the prepayment does not cover the full amount of the Outstanding Loan Balance related to such Conversion, the prepayment shall be applied proportionately to the remaining amortization installments of such Conversion. The Borrower may not prepay converted amounts in an amount less than the equivalent of three million Dollars (US\$3,000,000), unless the remaining Outstanding Loan Balance related to the respective Conversion is less than such amount and is paid in full.

(c) **Prepayments of Amounts that have been Subject to Catastrophe Protection Conversion.** The prepayment of any amount subject to a Catastrophe Protection Conversion will be evaluated on a case-by-case basis, subject to the Bank's operational and risk management considerations.

(d) For purposes of paragraphs (a), (b), and (c) above, 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 8.02 of these General Conditions.

(e) Notwithstanding paragraph (b) above, in the event of a prepayment, the Borrower shall receive from the Bank, or alternatively, shall pay the Bank, as applicable, any gain or cost incurred by the Bank as a result of unwinding or reallocating its corresponding funding (or any related hedge), as determined by the Calculation Agent. In the case of a gain, it will be credited first to any amounts due and payable by the Borrower. In the case of a cost, the Borrower shall pay the corresponding amount concurrently on the prepayment date.

**ARTICLE 3.13. Application of Payments.** All payments shall be applied first to any return of unjustified Advances of Funds after the 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 3.14. 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 3.15. 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.

## CHAPTER IV

### **Disbursements, Renunciation, and Automatic Cancellation**

#### **ARTICLE 4.01. Conditions Precedent to First Disbursement of Resources of the Loan.**

Without prejudice to the other requirements set forth in the Special Conditions, 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 in the Guarantee Contracts, if any, are valid and enforceable. Such opinions shall also refer to any other legal question that the Bank may deem relevant.
- (b) The Borrower or the Executing Agency, as the case may be, shall have designated one or more officials to represent it for purposes of requesting disbursements of the Loan and for other acts relating to the financial management of the Project, and shall have furnished the Bank with authentic copies of the signatures of said representatives. Should two or more officials be designated, the designation shall indicate whether such officials may act separately or must act jointly.
- (c) The Borrower or the Executing Agency, as the case may be, shall have provided to the Bank information in writing, through its representative authorized to request disbursements of the Loan, regarding the bank account into which disbursements of the Loan are to be deposited. Separate accounts shall be required for disbursements in Local Currency, Dollars, and Principal Currency. This information will not be necessary in the event the Bank agrees that the resources of the Loan are to be posted in the Borrower's general treasury account.
- (d) The Borrower or Executing Agency, as the case may be, 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 other conditions precedent to the first disbursement agreed upon in the Special Conditions have not been fulfilled, the Bank may terminate this Contract in advance by giving notice to the Borrower.

**ARTICLE 4.03. Conditions for All Disbursements.** (a) As a condition for all disbursements of the resources of the Loan, and without prejudice to the conditions precedent to the first disbursement of the resources of the Loan established in Article 4.01 of these General Conditions and in the Special Conditions, if any, the Borrower or the Executing Agency, as the case may be, undertakes to present to the Bank in writing, whether physically or by electronic means, in such

form and conditions as may be specified by the Bank, a disbursement request together with the pertinent documents and other background materials required by the Bank. Unless the Bank agrees otherwise, the last disbursement request shall be presented to the Bank no later than thirty (30) days in advance of the expiration date of the Original Disbursement Period or any extension thereof.

(b) Unless the Parties agree otherwise, disbursements of the resources of the Loan shall be made only in amounts of not less than the equivalent of fifty thousand Dollars (US\$50,000) each.

(c) Any charge, fee, or expense assessed to the bank account into which disbursements of the resources of the Loan are deposited shall be borne by, and are the responsibility of, the Borrower or the Executing Agency, as the case may be.

(d) In addition, the Guarantor, if any, shall not be more than one hundred twenty (120) days late on the payment of sums owed to the Bank on any loan or guarantee.

**ARTICLE 4.04. Income Generated in the Bank Account for Disbursements.** Income generated from the resources of the Loan deposited in the bank account designated to receive disbursements shall be used to finance Eligible Expenditures.

**ARTICLE 4.05. Disbursement Methods.** At the request of the Borrower or the Executing Agency, as the case may be, the Bank may make disbursements of the resources of the Loan through: (a) reimbursement of expenditures; (b) Advance of Funds; (c) direct payments to third parties; and (d) reimbursement under a letter of credit guarantee.

**ARTICLE 4.06. Reimbursement of Expenditures.** (a) The Borrower or the Executing Agency, as the case may be, may request disbursements under the reimbursement of expenditures method when the Borrower or the Executing Agency, as the case may be, has paid for Eligible Expenditures with its own resources.

(b) Unless the Parties agree otherwise, disbursement requests for reimbursing expenditures shall be made promptly to the extent that the Borrower or the Executing Agency, as the case may be, has incurred such expenditures, and not later than sixty (60) days following the conclusion of each calendar semester.

**ARTICLE 4.07. Advance of Funds.** (a) The Borrower or the Executing Agency, as the case may be, may request disbursements under the Advance of Funds method. The amount of the Advance of Funds shall be set by the Bank on the basis of (i) the liquidity needs of the Project in order to cover periodic projections of Eligible Expenditures during a period of up to six (6) months, unless the Financial Plan provides for a longer period, which in no case may exceed twelve (12) months, and (ii) the risks associated with the capacity demonstrated by the Borrower or the Executing Agency, as the case may be, to manage and use the resources of the Loan.

(b) Each Advance of Funds shall be subject to: (i) the request for Advance of Funds being presented in a manner acceptable to the Bank; and (ii) with the exception of the first Advance

of Funds, the Borrower or the Executing Agency, as the case may be, having presented a justification for the use of at least eighty percent (80%) of the total cumulative balances pending justification for this purpose, and the Bank having accepted such justification, unless the Financial Plan specifies a lower percentage, which in no case may be less than fifty percent (50%).

(c) The Bank may, during the term of the Financial Plan, provide for a one-time increase in the amount of the last Advance of Funds granted to the Borrower or the Executing Agency, as the case may be, to the extent that additional resources are needed to pay Eligible Expenditures that were unforeseen in said plan.

(d) The Borrower or the Executing Agency, as the case may be, shall present the last Advance of Funds request no later than thirty (30) days prior to the date of the expiration of the Original Disbursement Period or any extension thereof, in the understanding that the justification for such Advance of Funds shall be presented to the Bank during the Closing Period. The Bank shall not disburse resources subsequent to the expiration of the Original Disbursement Period or any extension thereof.

(e) The value of each Advance of Funds to the Borrower or the Executing Agency, as the case may be, must be maintained in the equivalent value expressed in the respective disbursement currency or in the Approval Currency. Eligible Expenditures incurred with resources of an Advance of Funds must be justified in the equivalent of the total amount of the Advance of Funds expressed in the respective disbursement currency or in the Approval Currency, using the exchange rate established in this Contract. The Bank may accept adjustments in the justification of the Advance of Funds due to exchange rate fluctuations, provided that they do not impact the execution of the Project.

**ARTICLE 4.08. Direct payments to third parties.** (a) The Borrower or the Executing Agency, as the case may be, may request disbursements under the method of direct payments to third parties, by means of which the Bank directly pays Eligible Expenditures to providers or contractors on behalf of the Borrower or the Executing Agency, as the case may be.

(b) In case of direct payments to third parties, the Borrower or the Executing Agency shall be responsible for payment of the amount equivalent to the difference between the amount of the disbursement requested by the Borrower or the Executing Agency and the amount received by the third party as the result of exchange rate fluctuations, commissions, and other financial costs.

(c) Notwithstanding paragraph (a) above and Article 8.04(b) of these General Conditions, whenever the Bank so determines, it may, by written notice to the Borrower or the Executing Agency, as appropriate, render void the request for direct payment submitted by the Borrower or the Executing Agency, as the case may be.

**ARTICLE 4.09. Reimbursement under a Letter of Credit Guarantee.** The Borrower or the Executing Agency, as the case may be, may request disbursements through reimbursement under a letter of credit, in order to reimburse commercial banks for payments made to contractors or providers of goods and services by virtue of a letter of credit issued and/or confirmed by a

commercial bank and guaranteed by the Bank. The letter of credit must be issued and/or confirmed in a manner satisfactory to the Bank. The resources committed under the letter of credit and guaranteed by the Bank shall be used exclusively for the purposes established in the letter of credit for as long as the guarantee remains in effect.

**ARTICLE 4.10. Exchange rate.** (a) The Borrower undertakes to justify, or to cause the Executing Agency to justify, as the case may be, expenditures chargeable to the Loan or the Additional Resources, expressing such expenditures in either the currency of denomination or the Approval Currency of the respective disbursement.

(b) To determine the equivalence of an Eligible Expenditure incurred in the Local Currency of the Borrower's country to the currency in which the disbursements are made, or alternatively to the Approval Currency, for purposes of accounting and justification of expenses, regardless of the source of financing of the Eligible Expenditure, one of the following exchange rates shall be used, pursuant to the Special Conditions:

- (i) the exchange rate in force on the date on which the Approval Currency or disbursement currency is converted into the Local Currency of the Borrower's country; or
- (ii) the exchange rate in force on the date of payment of the expenditure in the Local Currency of the Borrower's country.

(c) In those cases in which the exchange rate established in paragraph (b)(i) of this Article is selected, to determine the equivalent of expenditures incurred in the Local Currency chargeable to the Additional Resources or the reimbursement of expenditures chargeable to the Loan, the rate used shall be the exchange rate agreed upon with the Bank in the Special Conditions.

**ARTICLE 4.11. Receipts.** At the request of the Bank, the Borrower shall sign and deliver to the Bank, upon 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 notice to the Bank, its right to utilize any part of the Loan which has not been disbursed before the receipt of such notice, provided that the resources of the Loan are not subject to the guarantee of an irrevocable letter of credit, pursuant to Article 8.04 of these General Conditions.

**ARTICLE 4.13 Automatic Cancellation of Portion of the Loan.** Upon expiration of the Original Disbursement Period and any extension thereof, any portion of the Loan not committed or disbursed shall automatically be cancelled.

**ARTICLE 4.14. Closing Period.** (a) The Borrower undertakes to carry out, or to cause the Executing Agency to carry out, as the case may be, the following actions during the Closing Period: (i) finalize pending payments to third parties, if any; (ii) reconcile its records and present to the Bank's satisfaction the supporting documentation relating to expenditures charged to the Project

and other information that the Bank may request; and (iii) return to the Bank the unjustified balance of disbursed resources of the Loan.

(b) Notwithstanding the foregoing, if this Contract provides for external financial audit reports financed with resources of the Loan, the Borrower or the Executing Agency, as the case may be, agrees to reserve, in the manner agreed with the Bank, sufficient resources to cover the payment of the corresponding auditing services. In this case, the Borrower or the Executing Agency, as the case may be, also undertakes to agree with the Bank as to how the corresponding payments for such audits will be made. In the event the Bank does not receive the above-mentioned external financial audit reports within the periods stipulated in this Contract, the Borrower or the Executing Agency, as the case may be, agrees to return to the Bank the resources reserved for such purpose, which shall not be construed as a waiver by the Bank to exercise the rights set forth in Chapter VIII of this Contract.

## **CHAPTER V**

### **Conversions**

**ARTICLE 5.01. Exercise of Conversion Options.** (a) The Borrower may request a Currency Conversion, an Interest Rate Conversion, a Commodity Conversion, or a Catastrophe Protection Conversion by delivering to the Bank an irrevocable Conversion Request Letter in form and substance satisfactory to the Bank, indicating the financial terms and conditions requested by the Borrower for the respective Conversion. The Bank may provide the Borrower with a model Conversion Request Letter. For Catastrophe Protection Conversion, the Borrower will be able to submit the Conversion Request Letter to the Bank at any time after (i) entering into a Catastrophe Protection Engagement Letter; and (ii) signing-off on the final form of the transaction documents of the transaction in the financial markets that, in the determination of the Bank, are relevant to the Catastrophe Protection Conversion.

(b) The Conversion Request Letter shall be signed by a duly authorized representative of the Borrower, with the consent of the Guarantor, if any, and shall contain at least the following information:

- (i) **For all Conversions.** (A) Loan number; (B) amount subject to Conversion; (C) Conversion type (Currency Conversion, Interest Rate Conversion, Commodity Conversion, or Catastrophe Protection Conversion); (D) Execution Period; (E) account number where funds shall be deposited, if applicable; and (F) Interest Rate Calculation Convention.
- (ii) **For Currency Conversions.** (A) currency into which the Borrower requests to convert the Loan; (B) Amortization Schedule associated with such Currency Conversion, which may have an amortization period equal to or less than the Final Amortization Date; (C) the portion of the disbursement or Outstanding Loan Balance to which the Conversion shall apply; (D) the type of interest rate applicable to the amounts subject to the Currency Conversion; (E) whether the Currency Conversion is a Partial-

term Conversion or a Full-term Conversion; (F) Settlement Currency; and (G) any other instructions regarding the Currency Conversion request. If the Conversion Request Letter relates to a disbursement, the request shall indicate the amount of the disbursement in units of the Approval Currency, in Dollar units, or in units of the desired currency for the Conversion, except in the case of the last disbursement, in which case the request shall be made in units of the Approval Currency. In such cases, if the Bank effects the Conversion, the disbursements shall be denominated in the Converted Currency and the disbursements shall be made in: (i) the Converted Currency; or (ii) an equivalent amount in Dollars at the exchange rate set forth in the Conversion Notification Letter, to be determined by the Bank when sourcing its financing. If the Conversion Request Letter relates to Outstanding Loan Balances, the request shall indicate the amount in units of the currency of denomination of the Outstanding Loan Balances.

- (iii) **For Interest Rate Conversions.** (A) type of interest rate requested; (B) the portion of the Outstanding Loan Balance to which the Interest Rate Conversion shall apply; (C) whether the Interest Rate Conversion is a Partial-term Interest Rate Conversion or a Full-term Interest Rate Conversion; (D) the Amortization Schedule associated with the Interest Rate Conversion, which may have an amortization period equal to or less than the Final Amortization Date; (E) for Interest Rate Conversions establishing an Interest Rate Cap or an Interest Rate Collar, the applicable upper and/or lower limits, as the case may be; and (F) any other instructions regarding the Interest Rate Conversion request.
- (iv) **For Commodity Conversions.** (A) whether a Commodity Put Option or Commodity Call Option is requested; (B) the Option Type; (C) the identity of the commodity that is the subject of such Commodity Conversion (including the physical properties thereof); (D) the Notional Quantity; (E) the Underlying Commodity Index; (F) the Strike Price; (G) the Commodity Conversion Maturity Date; (H) whether the Conversion is a Full-Term Commodity Conversion or a Partial-Term Commodity Conversion; (I) the formula for the determination of the Cash Settlement Amount, if applicable; (J) the Required Outstanding Loan Balance; (K) a specification of the bank account information where the Cash Settlement Amount, if any, will be paid by the Bank to the Borrower on the Commodity Conversion Settlement Date; (L) at the option of the Borrower, the maximum amount of premium it is willing to pay to enter into a Commodity Conversion given a certain Notional Quantity and Strike Price, as contemplated in paragraph (e) below; and (M) any other instructions regarding the Commodity Conversion request.
- (v) **For Catastrophe Protection Conversions.** (A) the Catastrophe type for which the Borrower is requesting protection; (B) the Cash Settlement Event Determination Instructions; (C) the Protection Amount being sought; (D) the

term of the Catastrophe Protection Conversion; (E) whether the Conversion is a Full-Term Catastrophe Protection Conversion or a Partial-Term Catastrophe Protection Conversion; (F) the Outstanding Loan Balance; (G) the Catastrophe Protection Engagement Letter; (H) a specification of the bank account information where the Bank would transfer the Cash Settlement Amount, if any; (I) at the option of the Borrower, the maximum amount of premium it is willing to pay to enter into a Catastrophe Protection Conversion given a certain Protection Amount, as contemplated in paragraph (f) below; (J) the Borrower's sign-off to the final form of the transaction documents of the transaction in the financial markets that are relevant to the Catastrophe Protection Conversion, which must be attached to the Conversion Request Letter; and (K) other terms, conditions, or special instructions, if any, regarding the Catastrophe Protection Conversion request.

(c) Any principal amount payable during the period of fifteen (15) days prior to the beginning of the Execution Period until and including the Conversion Date may not be subject to a Conversion and shall be paid pursuant to the terms applicable prior to the execution of the Conversion.

(d) Once the Bank has received a Conversion Request Letter, it will proceed to review the same. If the Bank finds such letter acceptable, it will effect the Conversion during the Execution Period pursuant to the terms of this Chapter V. Once the Conversion has been effected, the Bank will deliver a Conversion Notification Letter or Catastrophe Conversion Notification Letter, as applicable, to the Borrower indicating the financial terms and conditions of the Conversion.

(e) With respect to Commodity Conversions, the Borrower may indicate in the Conversion Request Letter the maximum amount of premium it is willing to pay to enter into a Commodity Conversion given a certain Notional Quantity and Strike Price. If no limit is specified, the Bank may execute the related commodity hedge at the prevailing premium market price. Alternatively, at a given Dollar premium amount and a defined Strike Price, the Borrower may instruct the Bank to execute the related commodity hedge. The resulting Notional Quantity will reflect market conditions at the time of execution.

(f) With respect to Catastrophe Protection Conversions, the Borrower may indicate in the Conversion Request Letter the maximum amount of premium it is willing to pay to enter into a Catastrophe Protection Conversion given a certain Protection Amount and risk metrics (such as the probability of attachment, expected loss, and exhaustion probability). If no limit is specified, the Bank may execute the related transaction in the financial markets at the prevailing premium market price. Alternatively, at a given Dollar premium amount and defined risk metrics (such as the probability of attachment, expected loss, and exhaustion probability), the Borrower may instruct the Bank to execute the related transaction in the financial markets. The resulting Protection Amount will reflect market conditions at the time of execution.

(g) If the Bank determines that the Conversion Request Letter does not comply with the requirements provided in this Contract, it shall so notify the Borrower during the Execution Period. The Borrower may deliver a new Conversion Request Letter, in which case the Execution

Period for this Conversion will start from the time the Bank receives the new Conversion Request Letter.

(h) If the Bank cannot effect the Conversion pursuant to the terms requested by the Borrower in the Conversion Request Letter within the Execution Period, such Conversion Request Letter shall be considered null and void, without prejudice to the Borrower's right to deliver a new Conversion Request Letter.

(i) If a national or international catastrophe, a financial or economic crisis, a change in the capital markets, or any other extraordinary circumstance occurs during the Execution Period that, in the opinion of the Bank, may have a material negative impact on its ability to effect a Conversion or enter into a related funding or hedge, the Bank shall so notify the Borrower and agree on the actions to be taken regarding the Conversion Request Letter.

(j) Considering that the Execution Period of a Catastrophe Protection Conversion is longer than those for other Conversions, the Bank reserves the right to seek the Borrower's written confirmation of the terms of the transaction in the financial markets regarding such Catastrophe Protection Conversion prior to its execution.

**ARTICLE 5.02. Conversion Requirements.** Any Conversion shall be subject to the following requirements, as applicable:

- (a) The feasibility of the Bank to execute any Conversion will depend on the ability of the Bank to source its funding or, if applicable, on the ability of the Bank to enter into any hedge on terms and conditions acceptable to the Bank in its sole discretion, in accordance with its policies, and will be subject to legal, operational, and risk management considerations and prevailing market conditions.
- (b) The Bank will not execute Conversions on amounts that are less than the equivalent of three million Dollars (US\$3,000,000), unless: (i) in the case of the last disbursement, the undisbursed amount is less; or (ii) in the case of a fully disbursed Loan, the Outstanding Loan Balance under any tranche of the Loan is less.
- (c) The number of Currency Conversions to Principal Currencies may not exceed four (4) during the term of this Contract. This limit shall not apply to Currency Conversions to Local Currency.
- (d) The number of Interest Rate Conversions may not exceed four (4) during the term of this Contract.
- (e) There will be no limit to the number of Commodity Conversions or Catastrophe Protection Conversions that can be executed during the term of this Contract.
- (f) Each Commodity Conversion will only be executed by the Bank in relation to Outstanding Loan Balances in accordance with the following formula (hereinafter, the "Required Outstanding Loan Balance"):

- (i) For Commodity Call Options, the Required Outstanding Loan Balance will be the Notional Quantity \* (Z – Strike Price), where Z is the highest expected forward commodity price at the Commodity Conversion Maturity Date, for the relevant Option Type, as calculated by the Bank; and
- (ii) For Commodity Put Options, the Required Outstanding Loan Balance will be the Notional Quantity \* (Strike Price – Y), where Y is the lowest expected forward commodity price at the Commodity Conversion Maturity Date, for the relevant Option Type, as calculated by the Bank.
- (g) Any modification to the Amortization Schedule requested by the Borrower at the time of requesting a Currency Conversion shall be subject to the provisions of Articles 3.02(c) and 5.03(b) of these General Conditions. Any modification to the Amortization Schedule requested by the Borrower at the time of requesting an Interest Rate Conversion shall be subject to the provisions of Articles 3.02(c) and 5.04(b) of these General Conditions.
- (h) The Amortization Schedule defined in the Conversion Notification Letter, resulting from a Currency Conversion or Interest Rate Conversion may not be subsequently modified during the Conversion Period, unless the Bank agrees otherwise.
- (i) Unless the Bank agrees otherwise, an Interest Rate Conversion with respect to amounts that have been subject to a previous Currency Conversion may only be effected: (i) on the entire Outstanding Loan Balance associated with such Currency Conversion; and (ii) for a term equal to the remaining term of such Currency Conversion.

**ARTICLE 5.03. Partial or Full-Term Currency Conversion.** (a) The Borrower may request a Full-Term Currency Conversion or a Partial-Term Currency Conversion.

(b) A Full-Term Currency Conversion and a Partial-Term Currency Conversion may be requested and executed at any time until the Final Amortization Date. Notwithstanding the foregoing, if the Borrower makes a request within less than sixty (60) days prior to the expiration of the Original Disbursement Period, such Currency Conversion will have the limitation that the Outstanding Loan Balance under the new Amortization Schedule requested for the Conversion shall at no time exceed the Outstanding Loan Balance under the original Amortization Schedule, taking into account the exchange rates set forth in the Conversion Notification Letter.

(c) In the case of a Partial-Term Currency Conversion, the Borrower shall include in the Conversion Request Letter: (i) the Amortization Schedule for the period up to expiration of the Conversion Period; and (ii) the Amortization Schedule for the Outstanding Loan Balance payable from the expiration of the Conversion Period to the Final Amortization Date, which shall correspond to the terms and conditions applicable prior to effecting the Currency Conversion.

(d) Prior to the expiration of a Partial-Term Currency Conversion, the Borrower, with the consent of the Guarantor, if any, may request from the Bank one of the following options:

- (i) Effecting a new Currency Conversion, upon delivery of a new Conversion Request Letter not less than fifteen (15) Business Days prior to the expiration date of the Partial-Term Currency Conversion. Such new Currency Conversion will have the additional limitation that the Outstanding Loan Balance under the new Amortization Schedule shall at no time exceed the Outstanding Loan Balance under the Amortization Schedule requested in the original Partial-Term Currency Conversion. If, subject to market conditions, it is feasible to effect a new Conversion, the Outstanding Loan Balance of the amount originally converted will continue to be denominated in the Converted Currency, applying the new Base Interest Rate that reflects prevailing market conditions at the time of effecting the new Conversion.
- (ii) The prepayment of the Outstanding Loan Balance of the converted amount, by providing the Bank written notice at least thirty (30) days prior to the expiration date of the Partial-Term Currency Conversion. This prepayment shall be made on the expiration date of the Partial-Term Currency Conversion in the Settlement Currency pursuant to Article 5.05 of these General Conditions.

(e) For purposes of paragraph (d) of this Article 5.03, the Outstanding Loan Balance originally subject to a Currency Conversion shall be automatically converted to Dollars on the expiration of the respective Partial-Term Currency Conversion, and shall be subject to the Interest Rate set forth in Article 3.07(a) of these General Conditions if: (i) the Bank is unable to effect a new Conversion; or (ii) fifteen (15) days before the expiration date of the Partial-Term Currency Conversion, the Bank has not received a request from the Borrower pursuant to paragraph (d) of this Article 5.03; or (iii) on the expiration date of the Partial-Term Currency Conversion, the Borrower fails to make the requested prepayment.

(f) If the Outstanding Loan Balance originally subject to a Currency Conversion is converted to Dollars as provided in paragraph (e) above, the Bank, at the expiration of the Partial-Term Currency Conversion, shall inform the Borrower, and the Guarantor, if any, of the amounts converted to Dollars and the applicable exchange rate determined by the Calculation Agent, based on prevailing market conditions.

(g) The Outstanding Loan Balance converted to Dollars may be subject to a new Currency Conversion, subject to the provisions of this Chapter V.

(h) At the expiration of a Full-Term Currency Conversion, the Borrower shall pay in full the Outstanding Loan Balance of the converted amount in the Settlement Currency, pursuant to Article 5.05 of these General Conditions, and cannot request a new Currency Conversion.

(i) Within thirty (30) days from the date of cancellation or modification of a Currency Conversion, the Borrower shall receive from the Bank, or alternatively, shall pay to the Bank, as applicable, the amounts corresponding to any gain or cost incurred by the Bank as a result of unwinding or reallocating its corresponding funding (or any related hedge) associated with the cancellation or modification of such Currency Conversion. In case of a gain, the amount will be credited first to any amounts due and payable by the Borrower to the Bank.

**ARTICLE 5.04. Partial or Full-Term Interest Rate Conversion.** (a) The Borrower may request a Full-Term Interest Rate Conversion or a Partial-Term Interest Rate Conversion.

(b) A Full-Term Interest Rate Conversion and a Partial-Term Interest Rate Conversion may be requested and executed at any time until the Final Amortization Date. Notwithstanding the foregoing, if the Borrower makes a request within less than sixty (60) days prior to the expiration of the Original Disbursement Period, such Conversion will be subject to the limitation that the Outstanding Loan Balance under the new Amortization Schedule requested for the Conversion shall at no time exceed the Outstanding Loan Balance under the original Amortization Schedule.

(c) In the case of a Partial-Term Interest Rate Conversion of amounts denominated in Dollars, the Borrower shall include in the Conversion Request Letter: (i) the Amortization Schedule for the period up to expiration of the Conversion Period; and (ii) the Amortization Schedule for the Outstanding Loan Balance payable from the expiration of the Conversion Period to the Final Amortization Date, which shall correspond to the terms and conditions applicable prior to effecting the Interest Rate Conversion.

(d) In the case of a Partial-Term Interest Rate Conversion on amounts denominated in Dollars, the interest rate applicable to the Outstanding Loan Balances upon the expiration of the Partial-Term Interest Rate Conversion shall be the interest rate set forth in Article 3.07(a) of these General Conditions. Partial-Term Interest Rate Conversions of Outstanding Loan Balances denominated in currencies other than the Dollar shall be subject to the requirements of Article 5.02(g) and shall therefore be subject to the same treatment relative to the expiration of the Conversion Period of the Partial-Term Currency Conversion, as set forth in Article 5.03(d) of these General Conditions.

(e) Within thirty (30) days from the date of cancellation or modification of an Interest Rate Conversion, the Borrower shall receive from the Bank, or alternatively, shall pay to the Bank, as applicable, the amounts corresponding to any gain or cost incurred by the Bank as a result of unwinding or reallocating its corresponding funding (or any related hedge) associated with the cancellation or modification of such Interest Rate Conversion. In case of a gain, the amount will be credited first to any amounts due and payable by the Borrower to the Bank.

**ARTICLE 5.05. Payment of Interest and Amortization Installments in the Event of a Currency Conversion.** Pursuant to Article 3.11 of these General Conditions, following a Currency Conversion, interest and amortization installments of converted amounts shall be paid in the Settlement Currency. If the Settlement Currency is the Dollar, the Valuation Exchange Rate in effect on the Payment Valuation Date for the respective expiration date shall be applied, as set forth in the Conversion Notification Letter.

**ARTICLE 5.06. Early Termination of a Conversion.** (a) The Borrower can request in writing an early termination of a Conversion which will be subject to the Bank's ability to terminate its corresponding funding, related hedge, or related transaction in the financial markets, as applicable.

(b) In the case of early termination of Conversions other than Catastrophe Protection Conversions, the Borrower shall receive from the Bank, or alternatively, shall pay to the Bank, as applicable, any gain (including any payoff resulting from the early termination of a commodity hedge) or cost incurred by the Bank as a result of unwinding or reallocating its corresponding funding (or any related hedge), as determined by the Calculation Agent. In case of a cost, the Borrower shall promptly pay the corresponding amount to the Bank. In case of a gain it will be credited first to any amount due and payable by the Borrower to the Bank, such as any fees or premium payments.

(c) In the case of early termination of a Catastrophe Protection Conversion, the Borrower shall pay to the Bank any costs incurred by the Bank as a result of such termination, as determined by the Bank. The Borrower shall pay these early termination costs to the Bank in Dollars, as a lump-sum amount, promptly upon termination.

**ARTICLE 5.07. Transaction Fees Applicable to Conversions.** (a) The transaction fees applicable to Conversions, as well as other fees, as the case may be, undertaken under this Contract shall be those determined by the Bank periodically. Each Conversion Notification Letter shall indicate, if applicable, the fee the Borrower shall be required to pay to the Bank for the execution of the respective Conversion, which fee shall remain in effect throughout the Conversion Period of such Conversion.

(b) The transaction fee applicable to a Currency Conversion: (i) shall be expressed in the form of basis points per annum; (ii) shall accrue in the Converted Currency from the Conversion Date (inclusive) on the Outstanding Loan Balance of such Currency Conversion; and (iii) shall be paid together with each interest payment as set forth in Article 5.05 of these General Conditions.

(c) The transaction fee applicable to an Interest Rate Conversion: (i) shall be expressed in the form of basis points per annum; (ii) shall accrue in the currency of denomination of the Outstanding Loan Balance subject to such Interest Rate Conversion; (iii) shall accrue, from the Conversion Date (inclusive) on the Outstanding Loan Balance subject to the Interest Rate Conversion; and (iv) shall be paid together with each interest payment as set forth in Article 5.05 of these General Conditions.

(d) Notwithstanding the transaction fees provided for in paragraphs (b) and (c) above, in the case of Currency Conversions or Interest Rate Conversions involving an Interest Rate Cap or an Interest Rate Collar, a transaction fee associated with such Interest Rate Cap or Interest Collar shall apply. Such transaction fee: (i) shall be denominated in the same currency as the Outstanding Loan Balance subject to the Interest Rate Cap or Interest Rate Collar; and (ii) shall be paid in a

lump-sum, in the Settlement Currency, on the first interest payment date, as set forth in Article 5.05 of these General Conditions.

(e) The transaction fee applicable to a Commodity Conversion: (i) shall be expressed in the form of basis points; (ii) shall be calculated on the basis of the Notional Quantity times the commodity closing price on the Commodity Conversion Date according to the Underlying Commodity Index; and (iii) shall be paid in Dollars, in a lump-sum upfront or in installments, as agreed upon between the Bank and the Borrower and specified in the Conversion Notification Letter. In no event shall the Borrower pay such fee to the Bank later than the Commodity Conversion Maturity Date, or, if the case may be, the date in which a Commodity Conversion is terminated early pursuant to Article 5.06 of these General Conditions.

(f) In case of an early termination of a Commodity Conversion, an additional fee will apply, which: (i) shall be expressed in the form of basis points; (ii) shall be calculated on the basis of the Notional Quantity times the commodity closing price on the date of the early termination according to the Underlying Commodity Index; and (iii) shall be paid in Dollars, as a lump-sum amount, promptly upon termination.

(g) For Catastrophe Protection Conversion, the Bank will charge the Borrower the applicable transaction fees and, as the case may be, other fees that may be due in connection with a Cash Settlement Event. These fees: (i) shall be expressed in the form of basis points; (ii) shall be calculated on the basis of the Catastrophe and Protection Amount; (iii) shall be paid in Dollars, in a lump-sum upfront or in installments, as agreed upon between the Bank and the Borrower and specified in the Conversion Notification Letter; and (iii) may be deducted from the Cash Settlement Amount as provided in Article 5.13 of these General Conditions. In no event shall the Borrower pay such fees to the Bank later than the last day of the Conversion Period for a Catastrophe Protection Conversion or, if the case may be, the date on which a Catastrophe Protection Conversion is terminated early pursuant to Article 5.06 of these General Conditions.

(h) In case of early termination of a Catastrophe Protection Conversion, an additional fee will apply, which: (i) shall be expressed in the form of basis points; (ii) shall be calculated on the basis of the Catastrophe and Protection Amount; and (iii) shall be paid in Dollars, as a lump-sum amount, promptly upon termination.

**ARTICLE 5.08. Funding Expenses, Premiums or Discounts, and Other Costs Associated with a Conversion.** (a) In the event that the Bank uses its actual cost of funding to determine the Base Interest Rate, the Borrower shall pay the fees and expenses incurred by the Bank in sourcing its funding. In addition, any premiums or discounts related to the Bank's funding shall be paid by or credited to the Borrower, as the case may be. These expenses and premiums or discounts will be specified in the Conversion Notification Letter.

(b) Accordingly, when a Conversion (other than Catastrophe Protection Conversion) is effected in connection with a disbursement, the amount to be disbursed to the Borrower shall be adjusted to deduct or to add any amounts owed by or due to the Borrower as described in paragraph (a) above.

(c) Alternatively, when a Conversion (other than Catastrophe Protection Conversion) is effected on Outstanding Loan Balances, the amounts owed by or due to the Borrower as described in paragraph (a) above, shall be paid by the Borrower or the Bank, as the case may be, within thirty (30) days following the Conversion Date.

(d) In the case of a Catastrophe Protection Conversion, the Borrower shall pay to the Bank all costs that the Bank may incur associated with the structuring of a Catastrophe Protection Conversion and the corresponding market transaction and costs related to the occurrence of a Cash Settlement Event and the Cash Settlement Event calculation. Such costs: (i) shall be paid in Dollars, (ii) shall be paid in a lump-sum amount upfront or in installments, as agreed upon between the Bank and the Borrower and specified in the Catastrophe Conversion Notification Letter; and (iii) may be deducted from the Cash Settlement Amount as provided in Article 5.13 of these General Conditions. These costs include administration cost and the costs of all third parties the Bank may need to retain. The Bank may agree to alternative payment mechanisms, such as expressing these costs in the form of basis points per annum, in which case they will be paid together with interest on each interest payment date, as long as it is operationally possible for the Bank. In no event shall the Borrower pay such costs to the Bank later than the last day of the Conversion Period for a Catastrophe Protection Conversion or, if the case may be, the date on which a Catastrophe Protection Conversion is terminated early pursuant to Article 5.06 of these General Conditions.

(e) In the case of a Catastrophe Protection Conversion, the provisions of Article 5.13 may apply to any deduction of any premium, cost, or fees associated with a Catastrophe Protection Conversion.

**ARTICLE 5.09. Premiums Payable in Connection with Interest Rate Caps or Interest Rate Collars.** (a) In addition to the transaction fees payable pursuant to Article 5.07 of these General Conditions, the Borrower shall pay the Bank a premium on the Outstanding Loan Balance subject to the Interest Rate Cap or Interest Rate Collar requested by the Borrower, equivalent to the premium paid by the Bank to a counterparty, if any, as a result of the purchase of the Interest Rate Cap or Interest Rate Collar. Such premium shall be paid: (i) in the currency of denomination of the Outstanding Loan Balance subject to the Interest Rate Cap or Interest Rate Collar, or its equivalent in Dollars, at the exchange rate set forth in the Conversion Notification Letter, which shall be the exchange rate determined at the time the Bank sourced the funding or entered into the related hedge; and (ii) in a lump-sum amount, on a date agreed by the Parties, but in no event later than thirty (30) days after the Conversion Date; unless, if operationally feasible for the Bank, the Bank agrees to a different payment mechanism.

(b) If the Borrower requests an Interest Rate Collar, it may request the Bank to establish the lower limit of the Interest Rate Collar to ensure that the premium corresponding to the lower limit be equal to the premium corresponding to the upper limit, thereby establishing an Interest Rate Collar at no cost (zero-cost collar). If the Borrower selects the upper and lower limits, the premium payable to the Bank by the Borrower with respect to the upper limit of the Interest Rate Collar will be offset by the premium payable by the Bank with respect to the lower limit of the Interest Rate Collar. Nevertheless, the premium payable to the Borrower by the Bank in respect of the lower limit of the Interest Rate Collar may in no case exceed the premium payable by the

Borrower to the Bank with respect to the upper limit of the Interest Rate Collar. Accordingly, during the Execution Period, the Bank may reduce the lower limit of the Interest Rate Collar such that the corresponding premium does not exceed the premium on the upper limit of the Interest Rate Collar.

**ARTICLE 5.10. Premiums Payable in Connection with a Commodity Conversion.** In addition to the transaction fees payable pursuant to Article 5.07 of these General Conditions, but subject to Article 5.01(e) of these General Conditions, the Borrower shall pay to the Bank a premium equivalent to the premium paid by the Bank to a counterparty for entering into a related commodity hedge. Such premium shall be paid in Dollars, in a lump-sum amount upfront or in installments, as agreed upon between the Bank and the Borrower and specified in the Conversion Notification Letter. The Bank may agree to alternative payment mechanisms, such as expressing the premium in the form of basis points per annum, in which case it will be paid together with interest on each interest payment date. In no event shall the Borrower pay such premium to the Bank later than the Commodity Conversion Maturity Date, or, if the case may be, the date in which a Commodity Conversion is terminated early pursuant to Article 5.06.

**ARTICLE 5.11. Premiums Payable in Connection with a Catastrophe Protection Conversion.** In addition to the fees payable pursuant to Article 5.07 of these General Conditions, but subject to Article 5.01(f) of these General Conditions, the Borrower shall pay to the Bank a premium equivalent to the premium paid by the Bank in the financial markets for entering into a related Catastrophe Protection Conversion hedge. Such premium: (i) shall be paid in Dollars, (ii) shall be paid in a lump-sum amount upfront or in installments, as agreed upon between the Bank and the Borrower and specified in the Catastrophe Conversion Notification Letter; and (iii) may be deducted from the Cash Settlement Amount as provided in Article 5.13 of these General Conditions. The Bank may agree to alternative payment mechanisms, such as expressing the premium in the form of basis points per annum, over a timeline agreed between the Bank and the Borrower, in which case it will be paid together with interest on each interest payment date, as long as it is operationally possible for the Bank. The Borrower shall pay the premium to the Bank over a timeline agreed between the Bank and the Borrower or, as the case may be, no later than the date on which a Catastrophe Protection Conversion is terminated early pursuant to Article 5.06 of these General Conditions.

**ARTICLE 5.12. Commodity Conversions.** Each Commodity Conversion shall be entered into on the following terms and conditions:

- (a) Each Commodity Conversion shall relate to either a Commodity Put Option or a Commodity Call Option (each, a “Commodity Option”). A Commodity Option shall constitute the grant by the Bank to the Borrower of the right (exercisable as provided in this Article 5.12) to cause the Bank to pay the Cash Settlement Amount, if any, on the Commodity Conversion Settlement Date.
- (b) If, at the Commodity Conversion Maturity Date under a Commodity Call Option, the Specified Price exceeds the Strike Price, the “Cash Settlement Amount” shall equal the product of (i) the excess of the Specified Price over the Strike Price

multiplied by (ii) the Notional Quantity of such Commodity Option. Otherwise, the "Cash Settlement Amount" for such Commodity Call Option shall be zero.

- (c) If, at the Commodity Conversion Maturity Date under a Commodity Put Option, the Strike Price exceeds the Specified Price, the "Cash Settlement Amount" shall equal the product of (i) the excess of the Strike Price over the Specified Price multiplied by (ii) the Notional Quantity of such Commodity Option. Otherwise, the "Cash Settlement Amount" for such Commodity Put Option shall be zero.
- (d) In case the Commodity Conversion refers to a binary Option Type, the "Cash Settlement Amount" will be determined on the basis of a formula to be specified in the Conversion Notification Letter (Article 5.01(b)(iv)(I) of these General Conditions).
- (e) On the Commodity Conversion Maturity Date, the Bank will determine and give notice to the Borrower of the Cash Settlement Amount. If the Cash Settlement Amount is greater than zero, the Bank will pay such amount to the Borrower on the Commodity Conversion Settlement Date. If a loan made to the Borrower, or guaranteed by the Borrower, is in arrears for over thirty (30) days, then the Bank may deduct from the Cash Settlement Amount due to the Borrower in connection with a Commodity Conversion all amounts due and payable by the Borrower to the Bank under any loan made to or guaranteed by the Borrower that is in arrears for any length of time (either for more, or for less, than thirty (30) days).
- (f) If the Borrower shall fail to make a payment when due of any premium payable under the Commodity Conversion, and such failure is not cured within a reasonable time, the Bank may by written notice to the Borrower terminate the related Commodity Option, whereupon the Borrower shall pay to the Bank an amount determined by the Bank to be the amount that would be incurred by the Bank as a result of its unwinding or reallocating any related commodity hedge. Alternatively, the Bank may choose not to terminate the Commodity Option, in which case any Cash Settlement Amount resulting upon a Commodity Conversion Maturity Date will be applied as provided for in Article 5.06 of these General Conditions.

**ARTICLE 5.13. Catastrophe Protection Conversions.** Each Catastrophe Protection Conversion shall be entered into on the following terms and conditions:

- (a) If at the time of occurrence of a Cash Settlement Event, as determined in an Event Report by the Event Calculation Agent, there is a Cash Settlement Amount to be paid to the Borrower by the Bank, the Bank will pay such Cash Settlement Amount to the Borrower within five (5) business days, unless otherwise agreed between the Bank and the Borrower.
- (b) If a loan made to the Borrower, or guaranteed by the Borrower, is in arrears for over thirty (30) days, then the Bank may deduct from the Cash Settlement Amount due to the Borrower in connection with a Catastrophe Protection Conversion all

amounts due and payable by the Borrower to the Bank under any loan made to or guaranteed by the Borrower that is in arrears for any length of time (either for more, or for less, than thirty (30) days).

- (c) In addition to the deductions set forth in paragraph (b) above, the Bank, at its own discretion, may deduct from the Cash Settlement Amount due to the Borrower in connection with a Catastrophe Protection Conversion all amounts due and payable by the Borrower to the Bank related to fees, premiums and costs as set forth, respectively, in Articles 5.07(g), 5.11, and 5.08(d) of these General Conditions, in accordance with the following:
- (i) **Costs.** The Bank may deduct from the corresponding Cash Settlement Amount any outstanding unpaid costs associated with the Catastrophe Protection Conversion.
  - (ii) **Outstanding Installments.** If the Bank and the Borrower have agreed that the fees, premium, and/or costs will be paid by the Borrower in installments or annualized, then:
    - (A) **Fees.** The Bank may deduct from any Cash Settlement Amount the entirety of the outstanding fees, including amounts owed but not yet due under the relevant installments schedule agreed to between the Borrower and the Bank.
    - (B) **Costs.** The Bank may deduct from any Cash Settlement Amount the entirety of the outstanding costs, including amounts owed but not yet due under the relevant installments schedule agreed to between the Borrower and the Bank.
    - (C) **Premiums – Protection Amount Not Exhausted.** The Bank may deduct from any Cash Settlement Amount the outstanding premium, including amounts owed but not yet due under the relevant installments schedule agreed to between the Borrower and the Bank, up to a maximum of fifty percent (50%) of the Cash Settlement Amount, if the Cash Settlement Amount does not exhaust the Protection Amount under the Catastrophe Protection Conversion.
    - (D) **Premiums – Protection Amount Exhausted.** The Bank may deduct from the Cash Settlement Amount the entirety of the outstanding premium, including amounts owed but not yet due under the relevant installments schedule agreed to between the Borrower and the Bank, if the Cash Settlement Amount is such that it exhausts the Protection Amount under the Catastrophe Protection Conversion.

- (iii) **Remaining Balance.** If the Cash Settlement Event exhausts the Protection Amount and, after deducting from the Cash Settlement Amount the applicable fees, costs, and premium described above, the Borrower still owes the Bank any of amounts for fees, costs, or premiums; then the Borrower shall promptly make those payments to the Bank in accordance with the terms and in the manner indicated by the Bank.
- (d) All determinations and calculations made by the Event Calculation Agent in an Event Report shall be final and binding on the Borrower.

**ARTICLE 5.14. Market Quotes Disruption Events.** The Parties acknowledge that the amortization and interest payments made by the Borrower in connection with amounts subject to a Conversion, shall at all times be linked to the corresponding funding of the Bank in relation to payments under such Conversion. Therefore, the Parties agree that, notwithstanding the occurrence of any disruption event that may materially affect the currency exchange rates, interest rates, and inflation adjustment index used in this Contract, if any, or in any Conversion Notification Letter, 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, acting in good faith and in a commercially reasonable manner, seeking to reflect the Bank's corresponding funding, shall determine the applicability of: (a) such disruption events; and (b) the replacement rate or index applicable to determine the appropriate amount to be paid by the Borrower.

**ARTICLE 5.15. Cancellation and Reversal of the Currency Conversion.** If, after the signature date of this Contract, a change in a law, decree, or other applicable rule or regulation is enacted or issued, or if there is a change in the interpretation of a law, decree, or other applicable rule or regulation in force at the time this Contract is signed that, as reasonably determined by the Bank, prevents the Bank from continuing to maintain, in whole or in part, its funding in the Converted Currency, for the remainder of the period and under the same terms as the corresponding Currency Conversion, the Borrower, upon being notified by the Bank, shall have the option to redenominate the Outstanding Loan Balance subject to the Currency Conversion to Dollars at the exchange rate applicable at that time, as determined by the Calculation Agent. Such Outstanding Loan Balance shall remain subject to the Amortization Schedule agreed for such Currency Conversion and the Interest Rate set forth in Article 3.07(a) of these General Conditions. Alternatively, the Borrower may prepay to the Bank all amounts that it owes in the Converted Currency, pursuant to the provisions of Article 3.12 of these General Conditions.

**ARTICLE 5.16. Gains or Costs Associated with the Redenomination into Dollars.** If the Borrower, with the consent of the Guarantor, if any, decides to redenominate the Outstanding Loan Balance subject to a Currency Conversion into Dollars pursuant to Article 5.15 above, within thirty (30) days after the redenomination date, the Borrower shall receive from the Bank, or alternatively, shall pay to the Bank, as applicable, the amounts corresponding to any gain or cost as determined by the Calculation Agent, up until the Dollar redenomination date, in connection with variations in the interest rates. In case of a gain, the amount will be credited first to any amounts due and payable by the Borrower to the Bank.

**ARTICLE 5.17. Delay in Payment in Case of Currency Conversion.** In the event of any payment delay in respect of amounts of principal or financial charges that the Borrower owes the Bank as a result of a Conversion and any premiums payable to the Bank pursuant to Article 5.09 in a currency other than the Dollar, the Bank may charge interest at a floating rate in the Converted Currency determined by the Calculation Agent, plus a spread of 100 basis points (1%) over the total amount in arrears, irrespective of the applicability of additional charges to ensure a full transfer of costs in the event such spread is not sufficient for the Bank to recover the costs incurred as a result of such delay.

**ARTICLE 5.18. Additional Costs in Case of Conversions.** If an action or omission by the Borrower, or the Guarantor, if any, including: (a) nonpayment of principal, interest, and fees relating to a Conversion on the due dates; (b) revoking or changing the terms set forth in a Conversion Request Letter; (c) nonfulfillment of a partial or full prepayment of the Outstanding Loan Balance in the Converted Currency, if such prepayment had been previously requested by the Borrower in writing; (d) a change in laws or regulations that have an impact on the maintenance of all or part of the Loan on the agreed Conversion terms; or (e) other actions not described above, results in the Bank incurring additional costs to those described in this Contract, the Borrower shall pay the Bank such amounts, as determined by the Calculation Agent, to ensure a full transfer of the costs incurred by the Bank. In the case of Catastrophe Protection Conversion, the Borrower shall pay the Bank such additional costs according to Article 5.08(d) of these General Conditions.

## **CHAPTER VI**

### **Execution of the Project**

**ARTICLE 6.01. Financial Management Systems and Internal Control.** (a) The Borrower shall maintain, or cause the Executing Agency and Contracting Agency, if any, to maintain, as the case may be, internal controls so as to reasonably ensure: (i) that Project resources are used for the purposes of this Contract, devoting special attention to the principles of economy and efficiency; (ii) that Project assets are adequately safeguarded; (iii) that Project transactions, decisions, and activities are duly authorized and executed in accordance with the provisions of this Contract and any other contract related to the Project; and (iv) that transactions are properly documented and recorded in a way that facilitates the production of timely and reliable reports.

(b) The Borrower shall maintain, and shall cause the Executing Agency and the Contracting Agency, if any, to maintain, an acceptable and reliable financial management system for the timely management of Project resources that provides for: (i) financial planning; (ii) accounting, budgetary, and financial record-keeping; (iii) contract administration; (iv) payment processing; (v) the issuance of financial audit reports and other reports associated with the resources of the Loan, the Additional Resources, and other financing sources of the Project, if any.

(c) The Borrower shall preserve, and shall cause the Executing Agency or the Contracting Agency, as the case may be, to 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. Such documents and records shall be maintained adequately in order to:

(i) substantiate Project-related activities, decisions, and transactions, including all expenditures incurred; and (ii) show the correlation of the expenditures incurred under the Loan to the respective disbursement made by the Bank.

(d) The Borrower shall include, or cause the Executing Agency and the Contracting Agency, if any, to include in all bidding documents, requests for proposals, and contracts financed with the resources of the Loan that they enter into, respectively, a provision requiring that providers of goods or services, contractors, subcontractors, consultants and their agents, personnel, subconsultants, subcontractors, or concessionaires contracted by them, keep all documents and records related to activities financed with resources of the Loan for a period of seven (7) years after completion of the work contemplated in the relevant contract.

**ARTICLE 6.02. Additional Resources.** The Borrower, directly or through the Executing Agency, as the case may be, commits to contribute Additional Resources in a timely manner. If, as of the approval date of the Loan by the Bank, it has been determined that Additional Resources are needed, the estimated amount of such Additional Resources shall be that specified in the Special Conditions. Whether or not an estimate of the amount of the Additional Resources has been determined shall neither limit nor diminish the obligation of the Borrower, directly or through the Executing Agency, to contribute in a timely manner all additional resources which may be necessary for the complete and uninterrupted execution of the Project.

**ARTICLE 6.03. General Provisions for Execution of the Project.** (a) The Borrower shall execute, or cause the Executing Agency, as the case may be, to execute the Project in accordance with the objectives thereof, with due diligence in an economically, financially, administratively, 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 or the Executing Agency, as the case may be, further agrees that all of its obligations shall be fulfilled to the satisfaction of the Bank.

(b) Any significant modification of 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 6.04. 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 paragraph (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 represents that it is aware of the Procurement Policies and Consultant Policies and undertakes to inform the Executing Agency, and the Contracting Agency, as the case may be, of these Policies.

(b) When the Bank has satisfactorily assessed and deemed acceptable the procurement rules, procedures and systems of the Borrower or an entity of the Borrower, 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 procurement rules, procedures and systems, in accordance with the terms of the acceptance of the Bank and applicable accepted legislation and processes. The terms of such acceptance shall be notified in writing by the Bank to the Borrower and the Executing Agency. Use of the procurement rules, procedures and systems of the Borrower or an entity of the Borrower may be suspended by the Bank when, in its opinion, changes have occurred in the parameters or practices the Bank used as the basis for its acceptance, until such time as the Bank determines whether such changes are compatible with international best practices. During such suspension, the Procurement Policies and Consultant Policies of the Bank will apply. The Borrower, directly or through the Executing Agency, as the case may be, undertakes to notify the Bank of any change in the applicable legislation or processes that have been so accepted. The use of procurement rules, procedures and systems of the Borrower or an entity of the Borrower 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 procurement and contracting of services be contained in the Procurement Plan and is subject to the remaining provisions of this Contract. The provisions of Section I of the Procurement Policies and Consultant Policies shall apply to all contracts, regardless of amount or contracting method. The Borrower agrees to include, or to cause the Executing Agency, as the case may be, to include in the model bidding documents, contracts, and instruments used in electronic or information systems (in physical or electronic media) measures to ensure the application of the provisions set forth in Section I of the Procurement Policies and Consultant Policies, including the provisions on Prohibited Practices.

(c) The Borrower agrees to update, or to cause the Executing Agency, as the case may be, to maintain an updated Procurement Plan, and 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, contracting, and procurement processes, 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.

**ARTICLE 6.05. Use of Goods.** Except as otherwise expressly authorized by the Bank, any goods procured with the resources of the Loan shall be used exclusively for the purposes of the Project.

**ARTICLE 6.06. Environmental and Social Management.** (a) The Borrower, directly or through the Executing Agency, agrees to carry out the execution (preparation, construction, and

operation) of the activities included in the Project in accordance with the Environmental and Social Policy Framework of the Bank, its Environmental and Social Performance Standards, as well as with their respective Guidelines, pursuant to the specific provisions on environmental and social considerations included in the Special Conditions.

(b) The Borrower, directly or through the Executing Agency, as the case may be, agrees to immediately inform the Bank of any noncompliance with the environmental and social obligations set forth in the Special Conditions.

(c) The Borrower, directly or through the Executing Agency, as the case may be, agrees to implement a corrective action plan, agreed upon with the Bank, to mitigate, correct, and compensate any adverse consequences that may result from the failure to comply with the implementation of the environmental and social obligations set forth in the Special Conditions.

(d) The Borrower agrees to allow the Bank, whether directly or through the contracting of consulting services, to carry out supervision activities, including environmental and social audits of the Project, in order to confirm compliance with the environmental and social obligations set forth in the Special Conditions.

**ARTICLE 6.07. Ineligible Expenditures for the Project.** In the event that the Bank determines that an expenditure incurred does not meet the requirements to be considered an Eligible Expenditure or Additional Resources, the Borrower or the Executing Agency, as the case may be, shall take such actions as are necessary to remedy the situation, as required by the Bank, without prejudice to any other measures the Bank may exercise under this Contract.

## **CHAPTER VII**

### **Supervision and Evaluation of the Project**

**ARTICLE 7.01. Inspections.** (a) The Bank may establish such procedures as it deems necessary to ensure the satisfactory development of the Project.

(b) The Borrower shall permit, or cause the Executing Agency, as the case may be, and the Contracting Agency, if any, to permit the Bank, its investigators, agents, auditors, and experts it engages, to inspect, at any time, the Project and the facilities, equipment, and materials involved therein, and to examine such systems, records, and documents as the Bank may deem pertinent. In addition, the Borrower or the Executing Agency, as the case may be, and the Contracting Agency, if any, shall ensure that their agents fully cooperate with the personnel which the Bank sends or designates for this purpose. All the costs relating to transportation, salaries, and other expenses of such personnel shall be borne by the Bank.

(c) The Borrower shall provide, or cause the Executing Agency, as the case may be, and the Contracting Agency, if any, to provide to the Bank any documents relating to the Project that the Bank may request, in a form and within a time frame acceptable to the Bank. Without prejudice to any measures the Bank may take under this Contract in the event such documentation is not available, the Borrower or the Executing Agency, as the case may be, and the Contracting

Agency, if any, shall submit an affidavit to the Bank setting forth the reasons why the requested material is unavailable or is being withheld.

(d) The Borrower shall include, or cause the Executing Agency, as the case may be, and the Contracting Agency, if any, to include a provision in bidding documents, requests for proposals, and contracts entered into by them relating to the execution of the Loan in order to: (i) allow the Bank, its investigators, agents, auditors, or experts, to inspect accounts, records, and other documents relating to the submission of bids and to the performance of the corresponding contract or agreement; and (ii) provide that such accounts, records, and documents may be submitted to the auditors designated by the Bank for an opinion.

**ARTICLE 7.02. Plans and Reports.** To enable the Bank to supervise progress in the execution of the Project and the scope of its results, the Borrower, directly or through the Executing Agency, as the case may be shall:

- (a) Present to the Bank the information, plans, reports, and other documents in such form and substance as the Bank may reasonably request, based on the progress of the Project and its level of risk;
- (b) Comply with the actions and obligations established in such plans, reports, and other documents agreed upon with the Bank;
- (c) Inform the Bank upon identifying any risks or significant changes that cause or may cause delays or difficulties in Project execution; and
- (d) Inform the Bank within no more than thirty (30) days of the initiation of any proceedings, claim, suit, or legal, arbitral, or administrative action relating to the Project and keep the Bank informed on the status thereof.

**ARTICLE 7.03. External Financial Audit Reports and other Financial Reports.** (a) Unless the Special Conditions establish otherwise, the Borrower, directly or through the Executing Agency, as the case may be, shall present the Bank with the external financial audit reports and other reports identified in the Special Conditions within one hundred twenty (120) days following the closing of each fiscal year of the Project and within the Original Disbursement Period or any extension thereof, and within one hundred twenty (120) days following the date of the last disbursement.

(b) In addition, the Borrower, directly or through the Executing Agency, as the case may be, shall present to the Bank other financial reports in such form and with such content and frequency as the Bank may reasonably request during the Project's execution when, in the opinion of the Bank, the analysis of the level of the Project's fiduciary risk, complexity, or nature so warrant.

(c) Any external audit that may be required under the provisions of this Article and the corresponding provisions of the Special Conditions shall be performed by independent auditors who have been previously accepted by the Bank or by a supreme audit institution previously

accepted by the Bank, in accordance with auditing principles and standards acceptable to the Bank. The Borrower, directly or through the Executing Agency, as the case may be, shall authorize the supreme audit institution or the independent auditors to provide the Bank with such additional information it may reasonably request with respect to the external financial audit reports.

(d) The Borrower, directly or through the Executing Agency, as the case may be, shall select and contract the independent auditors indicated in paragraph (c) above, in accordance with the procedures and terms of reference agreed upon with the Bank. In addition, the Borrower or the Executing Agency, as the case may be, shall provide to the Bank any information it requests relating to the independent auditors under contract.

(e) In the event an external audit required under the provisions of this Article and the corresponding provisions of the Special Conditions is to be performed by a supreme audit institution and such agency is unable to perform the audit in accordance with requirements satisfactory to the Bank or within the deadlines, for the period, or with the frequency stipulated 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 paragraphs (c) and (d) of this Article.

(f) Notwithstanding the provisions above, the Bank may, on an exceptional basis, select and contract the services of independent auditors to audit the financial audit reports provided for in this Contract when: (i) pursuant to the findings of a Bank-conducted cost-benefit analysis, it is determined that the benefits associated with the hiring of such services by the Bank outweigh the costs; (ii) there is limited access to auditing services in the country; or (iii) special circumstances warrant the selecting and hiring of such services by the Bank.

(g) The Bank reserves the right to request the Borrower or the Executing Agency, as the case may be, to have external audits other than financial audits or to have 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, auditor selection procedures, and terms of reference for the audits shall be agreed upon between the Parties.

## **CHAPTER VIII**

### **Suspension of Disbursements, Accelerated Maturity, and Partial Cancellations**

**ARTICLE 8.01. Suspension of Disbursements.** The Bank, by written notice to the Borrower, may suspend disbursements if any of the following circumstances occurs and so long as it continues:

- (a) Delay in the payment of any sums owed by the Borrower to the Bank for principal, fees, interest, return of resources of the Loan used for ineligible expenditures, 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 Derivative Contract.

- (b) Nonfulfillment by the Guarantor, if any, of any payment obligation set forth in the Guarantee Contract; any other contract entered into between the Guarantor, as Guarantor, and the Bank; or any Derivative Contract entered into with the Bank.
- (c) Noncompliance by the Borrower, the Guarantor, if any, or the Executing Agency, as the case may be, of any other obligation set forth in any contract entered into with the Bank for the financing of the Project, including this Contract, the Guarantee Contract, or any Derivative Contract entered into with the Bank, as well as noncompliance by the Borrower or the Executing Agency, as the case may be, with any contract they enter into for the execution of the Project.
- (d) Withdrawal or suspension from membership in the Bank of the country in which the Project is to be executed.
- (e) When, in the opinion of the Bank, the objective of the Project or the Loan may be adversely affected or the execution of the Project may be improbable owing to: (i) any restriction, modification, or alteration of the legal capacity, functions, or assets of the Borrower or the Executing Agency, as the case may be; or (ii) any modification or change made without the written concurrence of the Bank of any condition fulfilled before the approval of the Loan by the Bank.
- (f) Any extraordinary circumstance which, in the opinion of the Bank: (i) makes it unlikely that the Borrower, the Executing Agency, or the Guarantor, if any, as the case may be, will be able to fulfill the obligations established in this Contract or the Guarantee Contract, respectively; or (ii) prevents the fulfillment of the Project's development objectives.
- (g) Whenever the Bank determines that an employee, agent, or representative of the Borrower, the Executing Agency, or the Contracting Agency, as the case may be, has engaged in a Prohibited Practice in connection with the Project.

**ARTICLE 8.02. Early Termination and Cancellation of Undisbursed Balances.** The Bank, by means of a written notification, may declare the entire Loan or a portion thereof immediately due and payable, together with interest, fees, and other charges accrued up to the date of payment, and may cancel the undisbursed portion of the Loan, if:

- (a) any of the circumstances set forth in paragraphs (a), (b), (c), and (d) of the preceding Article continues for more than sixty (60) days;
- (b) any of the circumstances set forth in paragraphs (e) and (f) of the previous Article occurs and so long as it continues, and the Borrower or the Executing Agency, as the case may be, fails to provide to the Bank the clarifications or additional information that the Bank considers necessary;
- (c) the Bank determines that any firm, entity, or individual bidding for or participating in a Bank-financed activity, including applicants, bidders, contractors, consulting

firms and individual consultants, personnel, subcontractors, subconsultants, providers of goods or services, concessionaires, financial intermediaries, or a Contracting Entity (including their respective officers, employees, and agents, irrespective of whether their authority has been expressly or implicitly granted), has engaged in a Prohibited Practice in connection with the Project; and that the Borrower, the Executing Agency, or the Contracting Agency, as the case may be, has not taken adequate remedial measures (including providing adequate notice to the Bank upon learning of the Prohibited Practice) within a period of time the Bank considers reasonable; and

- (d) the Bank determines at any time that a procurement of goods or the contracting of works or non-consulting services was carried out without following the procedures set forth in this Contract. In this case, the cancellation or early termination will apply to the portion of the Loan used for such procurement or contracting.

**ARTICLE 8.03. Provisions Not Affected.** The application of the measures provided in 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.

**ARTICLE 8.04. Disbursements Not Affected.** Notwithstanding the provisions of Articles 8.01 and 8.02 above, none of the measures set forth in this Chapter shall affect the disbursement by the Bank of any amounts of the resources of the Loan: (a) subject to the guarantee of an irrevocable letter of credit; (b) which, by specific written agreement with the Borrower, the Executing Agency, or the Contracting Agency, as the case may be, the Bank has agreed to provide to pay Eligible Expenditures directly to the respective supplier, unless the Bank has provided a notification to the Borrower or the Executing Agency in accordance with Article 4.08(c) of these General Conditions; and (c) payable to Bank, pursuant to the Borrower's instructions.

## **CHAPTER IX**

### **Prohibited Practices**

**ARTICLE 9.01. Prohibited Practices.** (a) In addition to the provisions established in Articles 8.01(g) and 8.02(c) of these General Conditions, if the Bank determines, that a firm, entity, or individual bidding for or participating in a Bank-financed activity, including, among others, applicants, bidders, contractors, consulting firms and individual consultants, personnel, subcontractors, subconsultants, providers of goods or services, concessionaires, financial intermediaries, or a Contracting Entity (including their respective officers, employees, and agents, irrespective of whether their authority has been expressly or implicitly granted) has engaged in a Prohibited Practice in connection with the execution of the Project, the Bank may take the following actions, including:

- (i) Denying financing of contracts for the procurement of goods or the contracting of works or consulting or non-consulting services.

- (ii) Declaring a contract ineligible for Bank financing whenever there is evidence that the agent of the Borrower, the Executing Agency, or the Contracting Entity, as the case may be, has not taken adequate remedial measures (including 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) Issuing the firm, entity, or individual determined to be responsible a reprimand in the form of a formal letter of censure for its behavior.
- (iv) Declaring a firm, entity, or individual determined to be responsible for engaging in the Prohibited Practice ineligible, either permanently or temporarily, to participate in Bank-financed activities, whether directly as a contractor or supplier, or indirectly as a subconsultant, subcontractor, or a supplier of goods, consulting services, or non-consulting services.
- (v) Referring the matter to appropriate law enforcement authorities.
- (vi) Imposing fines representing reimbursement to the Bank of costs associated with investigations and proceedings.

(b) The provisions of Article 8.01(g) and Article 9.01(a)(i) shall also apply in cases in which the Contracting Agency or any firm, entity, or individual bidding for or participating in a Bank-financed activity, including applicants, bidders, contractors, consulting firms and individual consultants, personnel, subcontractors, subconsultants, providers of goods or services, concessionaires (including their respective officers, employees, and agents, irrespective of whether their authority has been expressly or implicitly granted) has been temporarily suspended from eligibility to take part in a bidding or other selection process for the awarding of new contracts pending the final outcome of an investigation into a Prohibited Practice.

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

(d) Any firm, entity, or individual bidding for or participating in a Bank-financed activity, including applicants, bidders, contractors, consulting firms and individual consultants, personnel, subcontractors, subconsultants, providers of goods or services, concessionaires, or a Contracting Entity (including their respective officers, employees, and agents, irrespective of whether their authority has been expressly or implicitly granted) may be sanctioned by the Bank pursuant to agreements the Bank may have with other international financial institutions regarding the mutual enforcement of debarment decisions. For purposes of this paragraph (d), the term "sanction" shall mean any permanent or temporary 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.

(e) When the Borrower procures goods or contracts works or non-consulting services directly from a specialized agency 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, providers of goods and their agents, contractors, consultants, personnel, subcontractors, subconsultants, service providers, concessionaires (including their respective officers, employees, and agents, irrespective of whether their authority has been expressly or implicitly granted), or to any other entities that have signed contracts with such specialized agency, to supply goods, works, or non-consulting services in connection with Bank-financed activities. The Borrower or the Executing Agency, as the case may be, agrees to adopt, as may be required by the Bank, remedies such as suspension or termination of the corresponding contract. The Borrower agrees that the contracts it enters into 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 from participating in a procurement or contracting operation financed wholly or partially with resources of the Loan. 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 as indicated in this Article, the Bank will not finance such contracts or expenditures and will apply such other remedies as it deems appropriate.

## **CHAPTER X**

### **Provision on Encumbrances and Exemptions**

**ARTICLE 10.01. Commitment on Encumbrances.** The Borrower shall not create any specific encumbrance on all or part of its assets or revenues to secure an external debt without, at the same time, creating an encumbrance guaranteeing to the Bank, equally and proportionally, the fulfillment of the pecuniary obligations arising from this Contract. 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 10.02. Tax exemption.** The Borrower undertakes to ensure that principal, interest, fees, premiums, and any other Loan charge, as well as 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, recording, and execution of this Contract.

## **CHAPTER XI**

### **Miscellaneous Provisions**

**ARTICLE 11.01. Assignment of Rights.** (a) The Bank may assign to other public or private institutions, in the form of participations, the rights corresponding to the Borrower's pecuniary obligations under this Contract. The Bank shall immediately notify the Borrower of each assignment.

(b) The Bank may grant participations in respect of either outstanding loan balances or amounts of the Loan which are still undisbursed at the time of entering into the participation agreement.

(c) With the prior consent of the Borrower and of the Guarantor, if any, the Bank may assign all or part of the undisbursed amount of the Loan to other public or private institutions. To that end, the portion subject to assignment shall be denominated in terms of a fixed number of units of either the Approval Currency or Dollars. Likewise, with the prior consent of the Borrower and of the Guarantor, if any, the Bank may set, for the portion subject to assignment, an interest rate other than that established in this Contract.

**ARTICLE 11.02. Modifications and Contractual Waivers.** Any modification or waiver of the provisions of this Contract shall be agreed upon in writing by the Parties, with the consent of the Guarantor, if any, and to the extent that such consent may be applicable.

**ARTICLE 11.03. Non-waiver of Rights.** Any delay or failure by the Bank to exercise its rights pursuant to this Contract may not be construed as a waiver of such rights or as implied acceptance of events, actions, or circumstances that would have empowered it to exercise them.

**ARTICLE 11.04. Termination.** (a) The Contract and all obligations arising from it shall be deemed terminated upon full payment of the principal, interest, fees, premiums, and all other expenses related to the Loan, as well as all other expenses, costs and payments arising from this Contract, with the exception of those referred to in paragraph (b) of this Article.

(b) The obligations acquired by the Borrower under this Contract with respect to Prohibited Practices and other obligations relating to the operational policies of the Bank, shall remain in effect until such obligations are deemed fulfilled to the satisfaction of the Bank.

**ARTICLE 11.05. Validity.** The rights and obligations established in this Contract are valid and enforceable in accordance with the terms agreed upon herein, regardless of the laws of any given country.

**ARTICLE 11.06. Disclosure of Information.** The Bank may disclose this Contract and any information related thereto, in accordance with its access to information policy in effect at the time of such disclosure.

## **CHAPTER XII**

### **Arbitration Procedure**

**ARTICLE 12.01. 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 the "President," by direct agreement between the Parties or through their respective arbitrators. In all decisions, the President of the tribunal shall have the right to cast a double vote in the case of deadlock. If the Parties or the arbitrators fail to agree on who the President shall be, or if one of the Parties is unable to designate an arbitrator, the President

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 President. If either of the appointed arbitrators or the President is unwilling or unable to act or to continue to act, his or her successor shall be appointed in the same manner as for the original appointment. The successor shall have the same functions as his or her predecessor.

(b) In any conflict, both the Borrower and the Guarantor, if any, 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 12.02. Initiation of the Procedure.** In order to submit the conflict to arbitration, the claimant shall address to the other party a written notification setting forth the nature of the claim, the satisfaction or compensation it seeks, and the name of the arbitrator it appoints. The party receiving such notification shall, within forty-five (45) days, notify the adverse party of the name of the person it appoints as arbitrator. If, within seventy-five (75) days as of the notification of the initiation of the arbitral proceeding, the Parties have not agreed upon the person who is to act as President, either party may request the Secretary General of the Organization of American States to make the appointment.

**ARTICLE 12.03. 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 President, and, once convened, shall meet on the dates which the tribunal itself shall establish.

**ARTICLE 12.04. Procedure.** (a) The tribunal is specifically empowered to decide any matter under its jurisdiction and shall adopt its own procedures. In any case, it shall give the Parties the opportunity to make oral presentations. All decisions of the tribunal shall be made by majority vote.

(b) The Tribunal shall base its rulings on the terms of the Contract, and shall render its award even if one of the Parties fails to appear.

(c) The award shall be in writing and shall be adopted with the concurrent vote of at least two (2) members of the tribunal. It shall be handed down within approximately sixty (60) days from the date on which the President 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 notification signed by at least two (2) 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 12.05. Costs.** The fees of each arbitrator and the costs of arbitration (with the exception of attorneys' fees and the fees of other experts, which shall be covered by the Parties that appointed them) shall be covered by both Parties in equal proportion. 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 12.06. 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 PROGRAM**

#### **Program for Building Disaster and Climate Change Resilience in the OECS Countries**

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

- 1.01** The general objective of the Program is enhancing the resilience of Eligible OECS Member Countries to disasters and climate change. The specific objectives of the operation are to enhance infrastructure for disaster resilience and to foster MSMEs' disaster-resilient growth.

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

- 2.01** To achieve the objective indicated in paragraph 1.01 above, the Program comprises the following components:

##### **Component 1. Enhancing the disaster resilience of infrastructure**

- 2.02** The Program will conduct disaster and climate change risk studies which include social and gender considerations to identify critical disaster and climate change risks to roads and water and sanitation systems, and design and implement a combination of structural and non-structural measures to reduce the vulnerability of these systems, and to address social and gender responsiveness in the continuity and provision of these basic services during emergencies. Examples of structural measures include, but are not limited to, the construction of sea defenses along coastal roads, floodwalls, and nature-based solutions for flood management, retrofitting infrastructure to withstand earthquakes and, generally, any works aimed at reducing the physical vulnerability of existing infrastructure to natural hazards. A multi-hazard approach including climate change considerations will be followed. Building new infrastructure is also eligible when justified to ensure the continuity in the provision of the transport or water and sanitation services. Examples of non-structural measures include, but are not limited to, activities related to contingency planning aimed at ensuring the continuity or swift resumption of the service provided by the infrastructure, that complement the level of disaster protection offered by the structural measures. This component will finance consulting services, infrastructure works, and the provision of goods and equipment required to enhance the disaster and climate change resilience of infrastructure in the road and water and sanitation sectors. Infrastructure works to be financed are expected to be mainly upgrades, improvements, and re-fits to pre-existing, in situ, built footprints in locations already anthropized<sup>1</sup>. This component will

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<sup>1</sup> New infrastructure could, however, be financed, especially when it could produce the necessary redundancy for resilience in the context of disaster risk.

also finance the disaster and climate change risk assessments and other feasibility studies that are required to generate the information needed to justify from both a risk reduction and economic viability perspectives the structural and/or non-structural measures. It could also finance other technical assistance required to prepare designs, costings, to identify and compare disaster risk reduction and adaptation solutions, to undertake environmental and social assessments before the commencement of activities, and to manage and supervise the project implementation, including environmental and social aspects.

## **Component 2. Fostering disaster-resilient growth of MSMEs**

- 2.03** This component will finance productive and disaster and climate change risk reduction investments in MSMEs, channeling resources from the Borrower to the Eligible OECS Member Countries or to eligible Development Financial Institutions (DFI) so that they may on-lend to MSMEs. The Sub-loans will require the DFI (or designated executing agencies acceptable to the Bank<sup>2</sup>) to implement a disaster and climate change risk screening/assessment of potentially eligible MSME projects, so that resilience is duly considered in their design<sup>3</sup>. Based on the results of these assessments, the financial resources of the individual Sub-loans will be used to finance productive investments, and, when applicable, may enhance the resilience of MSMEs to natural disasters and climate change. Measures for enhancing resilience may include, but are not limited to, capital investments<sup>4</sup>, disaster risk assessments, business continuity plans, feasibility studies, and other technical assistance required to formulate each Sub-loan. To be eligible, DFIs must meet the Program's eligibility criteria.

## **III. Financing Plan**

- 3.01** The distribution of the resources of the Loan is set forth in the following table:

**Cost and Financing**  
(in millions of US\$)

<b>Description</b>	<b>Bank</b>	<b>%</b>
Component 1. Enhancing the disaster resilience of infrastructure	40,000,000	80
Component 2. Fostering disaster-resilient growth of MSMEs	10,000,000	20
<b>TOTAL</b>	<b>50,000,000</b>	<b>100</b>

<sup>2</sup> Applicable to those countries that may not have a DFI or that may propose more efficient execution mechanisms.

<sup>3</sup> MSME projects will be appraised from a disaster risk perspective, and resilience requirements based on the results of such disaster risk analysis will be incorporated or "stapled" to the contracts with MSMEs that are found to be vulnerable to natural disasters. DFIs that already have procedures, protocols, or tools to assess disaster risks, will be encouraged to use them if they are satisfied with their performance. For those DFIs that do not have such protocols, the operation will finance the development or adoption of similar protocols and train their staff.

<sup>4</sup> Capital investments include the purchase of plants, equipment and machinery, the expansion and improvement of infrastructure and retrofitting to make businesses disaster resilient and the implementation of new technology, techniques, and processes for the operation of the firms in the medium and long term. Up to 10% of the Sub-loan may be considered for working capital needs if they are associated with capital investments.

#### **IV. Execution**

- 4.01** The Caribbean Development Bank is the Borrower and Executing Agency for the Program. The Borrower will have fiduciary responsibility for the Program resources and perform the following functions: (i) administration, including making disbursements to Eligible OECS Member Countries and executing to meet the Program objectives in accordance with the Operating Regulations; (ii) preparing implementation and financial progress reports for the Program; (iii) monitoring the use of resources and compliance with applicable procurement policies and procedures, and environmental and social safeguards; and (iv) Sub-loan monitoring, evaluation, and auditing; among others.
- 4.02** Sub-loans under Component 1 will be made available to the governments of the Eligible OECS Member Countries. Executing agencies will be determined for each Sub-loan which will need to have the capabilities to manage the project cycle efficiently, including identification, registration, and undertaking the financial management and disbursements, as well as providing fiduciary assurance of the processes to allow for traceability of the funds, among others. In addition, they should also interface with other relevant stakeholders such as the Ministry of Finance, and ministries or entities responsible for environmental and social matters, tender boards/units, among others.
- 4.03** Sub-loans under Component 2 will be made available to Eligible OECS Member Countries or directly to an eligible DFI with a sovereign guarantee. The executing agencies will be eligible DFI (or alternative executing agencies acceptable to the Bank). There will be a team or focal point responsible for oversight and implementation of the Sub-loan at the DFI. To be eligible, DFIs must have: (i) Non-performing Loan (NPL) portfolio adequately covered by loan loss provisions; (ii) cash collection ratio on loans should be sufficiently high that liquidity is not adversely affected; (iii) debt-service coverage should not normally be less than 1.25 times; (iv) the ratio of total debt-to-equity should not normally exceed 4:1; and (v) normally a minimum Return of Assessments of 1%. In addition, to be eligible, MSMEs must: (i) be incorporated under the laws of the Eligible OECS Member Country; (ii) have between 1-50 employees; and (iii) have annual sales of up to US\$750,000 or its equivalent in local currency. The Borrower will determine whether all financial intermediaries and MSME satisfy the above requirements, according to their procedures and the criteria established in the OR. No credit loan to an MSME may exceed US\$250,000 or its equivalent in local currency<sup>5</sup>, on the basis of the expected demand with a potential average between US\$30,000 to US\$50,000.
- 4.04** A Project Steering Committee for Component 1 will be responsible for oversight of the executing agencies and will be made up of relevant stakeholders. For Component 2, while a DFI team will execute the Sub-loans, the Borrower will supervise progress and arrange regular review meetings with the responsible DFI and Ministry of Finance staff.

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<sup>5</sup> In the case of strategic value chain programs, the loan to the anchor company may exceed this amount, provided that the limit of US\$1 million or equivalent in local currency is not exceeded for Sub-loans to the beneficiary MSMEs.

- 4.05** In order for Sub-loans to be considered eligible for financing under Component 1 of the Program, and to expedite those viable for execution, the Sub-loans must: (i) have detailed designs informed by disaster and climate change risk assessments, economic and other relevant feasibility studies required to justify them from risk reduction and economic viability perspectives (as detailed in Section V of the Operating Regulations); and with a sufficient degree of detail to be tendered; (ii) have an Economic Internal Rate of Return (EIRR) of 12% or more<sup>6</sup>; (iii) be identified and/or prioritized under National Adaptation Plans (NAP), National Resilience and Recovery Plans, National Physical Development Plans; and/or relevant Sectoral Development Strategies/Resilience Plans; and/or the Borrower's Country Engagement Strategies and Sector Policies; and (iv) have detailed socio-environmental studies consistent with the works to be executed and in conformity to Borrower's Policies and Environmental and Social Safeguards, including an environmental and social management plan and environmental licenses as required under national legislation, including for Category B projects, which should be subjected to public consultation and disclosure prior to Board approval.
- 4.06** Loan resources shall be allocated to the Eligible OECS Member Countries by prorating the proportions received by each country under the Borrower's current Performance-Based Allocation (PBA) formula, as set forth in Section 3.06 of the Special Conditions. However, in order to manage the demand by the Eligible OECS Member Countries, if an Eligible OECS Member Country does not use its allocated resources as per this mechanism for the approval of new projects after six (6) months from the date of signature of this Loan Contract, the Borrower will inform the Bank of such a situation and may request the authorization of a reallocation of the unused resources among the other Eligible OECS Member Countries that have additional demand for resources of the Loan. The reallocation will be made on the basis of demand on a first-come first serve-basis and according to the Borrower's programming process.
- 4.07** Pursuant to Section 4.04(b) of the Special Conditions, the Parties agree that the execution of the activities included in the Program will be governed by the following additional requirements:
- (a) The Borrower agrees to design, build, operate, maintain, and monitor the Program, and manage the Environmental, Social, Health and Safety risks of the Program Sub-loans and their associated facilities, directly or through every other contractor, operator or any other person performing Program-related activities in accordance with the environmental, social, occupational health provisions provided for in the Operating Regulations, Environmental and Social Management System/Environmental and Social Review Procedures and other environmental, social and occupational health plans, and requirements included in the Corrective Action Plan.

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<sup>6</sup> Exceptions, on a case-specific basis will be considered for Sub-loans which present a clear rationale under joint review, for the application of a lower discount rate e.g. where there may significant unquantifiable benefits from a poverty reduction/social sector, disaster prevention and environmental protection/conservation perspectives.

- (b) The Borrower shall submit to the Bank: (i) prior to the initiation of the execution of the Program, evidence that the Borrower has assigned an E&S Officer/specialist as a liaison for the Program; and (ii) prior to the approval of each of the first three (3) Sub-loans that have interventions that require Environmental and Social Impact Assessments, and of any Sub-loan which will cause resettlement, the Environmental and Social Impact Assessment, Environmental and Social Management Plan, the Resettlement Plan where relevant, the Consultation Summary, and any other necessary environmental and social documentation related to the Sub-loan.
- (c) The Borrower agrees not to finance Category A Sub-loans.
- (d) The Borrower must for Category B Sub-loans: (i) ensure that the Eligible Sub-borrower carry out Environmental and Social Assessments/Environmental and Social Impact Assessments and prepare the accompanying Environmental and Social Management Plans; (ii) implement participation processes with the interested parties in the works foreseen in the Sub-loans in the Program to guarantee that the affected communities are informed and consulted about the progress of the work and the socio-environmental management of the Program, and have access to conflict resolution/grievance redress mechanisms; (iii) disclose any evaluation and socio-environmental management plan related to the Sub-loans; and (iv) include the appropriate environmental and social requirements into the legal documentation of the Sub-loan. Specifically, in order to ensure that the requirements of the Program's Environmental and Social Management System are aligned with both Borrower and Bank's policies, Category B Sub-loans will be submitted to public consultation.

