

LOAN CONTRACT No. 3473/OC-TT

between the

REPUBLIC OF TRINIDAD AND TOBAGO

and the

INTER-AMERICAN DEVELOPMENT BANK

Support to Strengthen Trinidad and Tobago's Public Financial Management System

December 14, 2016

LOAN CONTRACT

SPECIAL CONDITIONS

INTRODUCTION

Parties, Objective, Constituent Elements and Executing Agency

1. PARTIES AND OBJECTIVE OF THE CONTRACT

CONTRACT entered into on December 14, 2016, between the REPUBLIC OF TRINIDAD AND TOBAGO (hereinafter referred to as the “Borrower”) and the INTER-AMERICAN DEVELOPMENT BANK (hereinafter referred to as the “Bank”) to cooperate in the execution of the Support to Strengthen Trinidad and Tobago’s Public Financial Management System project (hereinafter referred to as the “Project”).

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

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

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

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

3. EXECUTING AGENCY

The parties agree that the execution of the Project and the utilization of the resources of the loan granted by the Bank shall be carried out by the Borrower, through its Ministry of Finance (“MoF”), which for purposes of this Contract shall be referred to as either the “Executing Agency” or “MoF”.

CHAPTER I

The Loan

SECTION 1.01. Amount and Approval Currency of the Loan. In accordance with this Contract, the Bank agrees to lend to the Borrower, and the Borrower accepts, a loan of up to the amount of forty million Dollars of the United States of America (US\$40,000,000), hereinafter the “Loan”, to contribute to the financing of the Project.

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

(b) All disbursements shall be denominated and made in Dollars, 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 1.03. Currency Availability. If the Bank is unable to obtain access to the currency requested by the Borrower, the Bank may, in consultation with the Borrower, disburse the Loan in another currency of its choice.

SECTION 1.04. Disbursement Period. The Original Disbursement Period will be five (5) years from the effective date of this Contract. Any extension to the Original Disbursement Period shall be subject to the provisions of Article 3.02 (f) of the General Conditions.

SECTION 1.05. Amortization Schedule. (a) The Final Amortization Date is the date twenty-five (25) years from the date of signature of this Contract. The Original WAL of the Loan is fifteen point twenty-five (15.25) years.

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

(c) The Parties may agree to modify the Loan Amortization Schedule as set forth in Article 3.02 of the General Conditions.

SECTION 1.06. Interest. (a) The Borrower shall pay interest on the daily Outstanding Loan Balances at a rate determined pursuant to the provisions of Article 3.03 of the General Conditions.

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

SECTION 1.07. Credit Fee. The Borrower shall pay a credit fee as set forth in Articles 3.04, 3.05, and 3.07 of the General Conditions.

SECTION 1.08. Resources for General Inspection and Supervision. The Borrower shall not be required to cover the Bank's expenses for general inspection and supervision, unless the Bank establishes otherwise pursuant to Article 3.06 of the General Conditions.

SECTION 1.09. Conversion. The Borrower may request Currency Conversions and/or Interest Rate Conversions at any time during the term of this Contract, as set forth in Chapter V of the General Conditions.

(a) **Currency Conversion.** The Borrower may request that a disbursement or all or part of the Outstanding Loan Balance be converted to a Non-Borrowing Country Currency, or to a Local Currency, which the Bank can efficiently source, 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 that, with respect to all or part of the Outstanding Loan Balance, 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.

CHAPTER II

Cost of the Project and Additional Resources

SECTION 2.01. Cost of the Project. The total cost of the Project is estimated to be the equivalent of forty million Dollars of the United States of America (US\$40,000,000).

SECTION 2.02. Additional Resources. The amount of the resources additional to those of the Loan, which, pursuant to Article 7.04 of the General Conditions, the Borrower shall undertake to contribute in a timely manner for the complete and uninterrupted execution of the Project, is estimated to be the equivalent of zero Dollars (US\$0), although this estimate shall not imply any limitation or reduction of the obligation of the Borrower under said Article.

CHAPTER III

Use of Loan Resources

SECTION 3.01. Utilization of resources of the Loan. (a) The Borrower, through the Executing Agency, may use resources of the Loan to pay for goods and services acquired according to the provisions established in Chapter IV of these Special Conditions and for such other purposes as are indicated in this Contract.

(b) The resources of the Loan shall only be used for payments of goods and services originating in the member countries of the Bank.

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

(a) Presentation of evidence that the MoF has hired the chief technical coordinator, who will also serve as the project manager; one procurement officer and one finance officer, all pursuant to professional profiles satisfactory to the Bank, and together will comprise the Public Financial Management Modernization Unit (PFMMU);

(b) Presentation of evidence that the MoF has approved, with prior non-objection of the Bank, an Operations Manual (OM) for the Project including, *inter alia*: (i) administrative, procurement, financial management (budgeting cash management, payment/disbursement procedures, to ensure proper operation and maintenance of Bank-financed assets), accounting and reporting policies and procedures; and (ii) other internal control requirements to define overall Project management.

SECTION 3.03. Reimbursement of Expenditures Chargeable to the Loan. With the consent of the Bank, up to the equivalent of two million Dollars of the United States of America (US\$2,000,000) of the resources of the Loan may be used to reimburse expenditures incurred in the Project for eligible goods and services expenditures associated with Component I and II and Project administration expenditures. Said expenditures shall have been incurred before May 20, 2015 but after November 25, 2014, provided that requirements substantially similar to those set forth in this Contract have been fulfilled. It is understood that, with the consent of the Bank, the resources of the Loan also may be used to reimburse expenditures incurred or to finance those that may be incurred in the Project on or after May 20, 2015 and up to the effective date of this Contract, provided that the requirements set forth above have been substantially fulfilled.

SECTION 3.04. Exchange Rate. For the purposes of the provisions set forth in Article 4.09(a) of the General Conditions of this Contract, the parties agree that the applicable exchange rate shall be that which is indicated in subsection (a) (ii) of said Article. For this purpose, the exchange rate to be applied will be that in effect on the day on which the Borrower, the Executing Agency or any natural or juridical person in whom the power to incur expenditures has been vested makes the related payments to the contractor or supplier.

CHAPTER IV

Execution of the Project

SECTION 4.01. Procurement of goods and non-consulting services. (a) For purposes of Article 2.01(57) of the General Conditions, the Parties agree that the Procurement Policies are those dated March 2011, which are contained in document GN-2349-9, approved by the Bank on April 19, 2011.

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

(c) The threshold for determining the use of international competitive bidding, will be made available to the Borrower or the Executing Agency, as the case may be, at www.iadb.org/procurement. Below that threshold, the selection method shall be determined according to the complexity and characteristics of the procurement, which should be reflected in the Procurement Plan approved by the Bank.

(d) Regarding the use of the National Competitive Bidding method, the respective national competitive bidding procedures may be used provided that, in the opinion of the Bank, these procedures ensure economy, efficiency, transparency and general consistency with the provisions of Section I of the Procurement Policies and taking into account the provisions of paragraph 3.4 of the Policy, among others. The processes subject to National Competitive Bidding (NCB) may be executed through the use of National Bidding Documents satisfactory to the Bank. Where these are not available, the Bank's Standard Bidding Documents shall be used.

SECTION 4.02. Reimbursement of Expenses as of Date of Loan Approval. The Bank may recognize as part of the local contribution expenditures incurred or which may be incurred in the Project on or after May 20, 2015 and up to the date of this Contract, provided that requirements substantially similar to those set forth in this Contract have been fulfilled.

SECTION 4.03. Maintenance of Equipment. The Borrower undertakes to: (i) ensure that equipment included in the Project shall be adequately maintained according to generally accepted technical standards; and (ii) present to the Bank: (a) an annual operations and preventive maintenance plan containing a description of the main activities to be carried out during that period, an estimate of the financing needed for operation and maintenance, and evidence that sufficient funding has been budgeted for the coming fiscal year; and (b) an annual maintenance report after the first procurement of equipment on the status of said equipment within the first quarter of each calendar year up to and including the third year after the expiration of the disbursement period of the loan contract. If from the inspections conducted by the Bank or from the reports it receives, it is determined that maintenance does not meet the levels agreed upon, the Borrower, directly or through the Executing Agency, shall undertake the necessary measures to correct these shortcomings.

SECTION 4.04. Selection and Contracting of Consultant Services. (a) For purposes of the provisions of Article 2.01(15) of the General Conditions, the Parties agree that the Consultant

Policies are those dated March 2011, which are contained in document GN-2350-9, approved by the Bank on April 19, 2011.

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

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

SECTION 4.05. Use of Country Systems. In accordance with the provisions of Article 7.02 (b) of the General Conditions, the parties agree that as of signature date of this Contract, the use of country systems is not foreseen for the procurement of goods and consulting services or non-consulting services.

SECTION 4.06. Procurement Plan update. In order to update the Procurement Plan in accordance with the provisions of Article 7.02(c) of the General Conditions, the Borrower must use or, where appropriate, cause the Executing Agency to use, the implementation and monitoring system of procurement plans as determined by the Bank.

SECTION 4.07. Operations Manual. The parties agree that the execution of the Project shall be governed by the terms and conditions set forth in this Contract and in the OM referred to in Section 3.02 (b) of these Special Conditions, on the understanding that any changes to the OM will require the prior written non-objection of the Bank. The overall need to update the OM will be assessed yearly during Project implementation. If any provision of the OM should present any inconsistency or contradiction with the terms and conditions set forth in this Contract, the provisions of this Contract shall prevail.

SECTION 4.08. Annual Operating Plans. The Project will be executed following Annual Operating Plans (AOPs), which will include the Procurement, Financial and Implementation Plans and for each programmed annual activity, its goals, terms of reference, budget, source of funding, and responsibility for its execution. If changes to the AOPs are needed during the implementation of the Project, such changes could be implemented with the prior written non-objection of the Bank. The AOPs will be prepared according to the OM. The AOP for the first year of the execution of the Project will be part of the initial report referred to in Article 4.01 (d) of the General Conditions of this Contract. The AOP for each of the subsequent years shall be submitted for the Bank's non-objection no later than November 30 of each calendar year.

SECTION 4.09. Monitoring and Reporting. (a) The Borrower, through the Executing Agency, undertakes to submit for the Bank's non-objection, technical and financial progress reports, within 60 days following the end of each semester, as well as midterm and final evaluations. The semi-annual progress reports will include, at least: (i) descriptions of the executed activities per component; (ii) description of the procurement processes carried out during the reported period; updated schedule of progress and disbursements; (iii) level of compliance with the performance indicators; (iv) identification of new risks/ events that may

potentially affect the future implementation of the project; and, (v) execution plan to be completed in the following two six-month periods.

(b) The Borrower and the Bank undertake to carry out annual monitoring meetings, starting after the first year of Project execution, on the date and place agreed upon, to discuss, *inter alia*: (i) the procurement and contracting of eligible Project expenditures; (ii) the AOPs; (iii) the compliance with the Project results framework indicators; (iv) the Project Risk Matrix; and (v) the OM.

SECTION 4.10. Evaluation. (a) The Borrower, through the Executing Agency, shall hire the services of an independent external consultant, acceptable to the Bank, to: (i) conduct a midterm reflective evaluation upon disbursement of 60% of the loan resources; and a (ii) final reflective and economic evaluation upon disbursement of 90% of loan resources, to evaluate the achievement of the Project's outputs and outcomes.

(b) The Borrower agrees to, directly or through the Executing Agency, cooperate in the evaluation of the Project to be carried out by the Bank after the Project's execution, with the purpose of identifying to the extent possible whether or not the objectives of the Project have been reached, and provide to the Bank all the information, data and documentation that the Bank may request to carry out said evaluation.

CHAPTER V

Supervision

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

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

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

SECTION 5.03. Financial Statements and other Reports. The Borrower agrees to, directly or through the Executing Agency, submit within one hundred and twenty (120) days following the closing of each fiscal year of the Executing Agency and within Original Disbursement Period or any extensions thereof, the Project's audited financial statements, duly audited by the Auditor General of the Republic of Trinidad and Tobago or a firm of independent public accountants acceptable to the Bank and the Auditor General of the Republic of Trinidad

and Tobago. The last of these reports shall be submitted within one hundred twenty (120) days following the expiration of the Original Disbursement Period or any extensions thereof.

CHAPTER VI

Miscellaneous Provisions

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

SECTION 6.02. Termination. The Loan and all the obligations that derive thereof shall be deemed terminated upon full payment of the Loan and all interest and fees, together with other expenses, premiums, and costs arising out of this Contract.

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

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

For the Borrower:

Mailing address:

Ministry of Planning and Development
Level 14, Eric Williams Finance Building, Eric Williams Plaza
Independence Square
Port of Spain
Trinidad and Tobago, W.I.

Facsimile: 1-868-623-8123

For matters related to the execution of the Project:

Mailing address:

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

Facsimile: 1-868-627-6108

For matters related to the service of the Loan:

Mailing address:

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

Facsimile: 1-868-627-6108

For the Bank:

Mailing address:

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

Facsimile: (202) 623-3096

CHAPTER VII

Arbitration

SECTION 7.01. Commitment to Arbitrate. For the solution of any controversy which may arise out of this Contract and which is not resolved by agreement between the parties, they unconditionally and irrevocably submit themselves to the procedure and ruling of the Arbitration Tribunal referred to in Chapter X 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 Port of Spain, Trinidad and Tobago on the date above written.

REPUBLIC OF TRINIDAD AND TOBAGO

INTER-AMERICAN DEVELOPMENT
BANK

/s/

/s/

Camille Robinson-Regis
Minister of Planning and Development

Tomás Bermúdez
Representative of the Bank in
Trinidad and Tobago

PART TWO

GENERAL CONDITIONS

CHAPTER I

Application of the General Conditions

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

CHAPTER II

Definitions

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

1. “Advance of Funds” means the amount of resources advanced by the Bank to the Borrower, chargeable to the resources of the Loan, to cover eligible expenditures of the Project, as provided in Article 4.07 of these General Conditions.
2. “Amortization Schedule” means the original schedule set forth in the Special Conditions for the payment of amortization installments of the Loan or any modified schedule agreed to between the Parties pursuant to the provisions of Article 3.02 of these General Conditions.
3. “Amortization Schedule Modification Request Letter” means an irrevocable communication from the Borrower to the Bank requesting a modification to the Amortization Schedule.
4. “Amortization Schedule Modification Notification Letter” means a communication by means of which the Bank responds to an Amortization Schedule Modification Request Letter.
5. “Approval Currency” means the currency in which the Bank approves the Loan, which may be Dollars or any Local Currency which the Bank can efficiently source, taking into account the Bank’s operational and risk management considerations.

6. “Bank” means the Inter-American Development Bank.
7. “Bank's Cost of Funding” means a cost margin calculated quarterly relative to a three (3)-month LIBOR Dollar Interest Rate, using the weighted average cost of funding instruments applicable to the Flexible Financing Facility, expressed in terms of an annual percentage, as determined by the Bank.
8. “Bank Group” means the Bank, the Inter-American Investment Corporation and the Multilateral Investment Fund.
9. “Base Interest Rate” means the rate determined by the Bank at the time of a Conversion execution, 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) either: (1) the three (3)-month LIBOR Dollar Interest Rate plus a margin reflecting the Bank’s estimated cost of funding in Dollars at the time of disbursement or Conversion; or (2) the Bank’s actual cost of funding used as a basis for the Conversion; or (3) with respect to Outstanding Loan Balances that have been subject to a previous 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 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 or, in case of a Conversion, in the cities listed in the Conversion Request Letter or the Conversion Notification Letter, as the case may be.
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. “Closing Period” means a ninety (90)-day period from the expiration date of the Original Disbursement Period, or any extension thereof, in order to finalize pending payments to third parties, to present the final justification of expenditures made, to reconcile the books and records, and to reimburse to the Bank the resources disbursed from the Loan but not used and/or justified, as provided in Article 4.08 of these General Conditions.

15. "Consultant Policies" means the Policies for the selection and contracting of consultants financed by the Inter-American Development Bank in force at the time of the approval of the Loan by the Bank.
16. "Contract" means this loan contract.
17. "Contracting Agency" means the entity with the legal capacity to enter into the Contract for the Procurement of Works and Goods and the Selection and Contracting of Consultants with the Contractor, Supplier, Consulting Firm or Individual Consultant, as the case may be.
18. "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; or (ii) an Interest Rate Conversion.
19. "Conversion Date" means the Currency Conversion Date or the Interest Rate Conversion Date, as the case may be.
20. "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.
21. "Conversion Period" means, with respect to any 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.
22. "Conversion Request Letter" means an irrevocable communication of the Borrower to the Bank requesting a Conversion, pursuant to Article 5.01 of these General Conditions.
23. "Converted Currency" means any Local Currency or Non-Borrowing Member Country Currency in which all or part of the Loan is denominated after a Currency Conversion has been effected.
24. "Currency Conversion" means with respect to a disbursement or to all or part of an Outstanding Loan Balance, a change in the currency of denomination to a Local Currency or a Non-Borrowing Member Country Currency which the Bank can efficiently source, taking into account the Bank's operational and risk management considerations.

25. “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.
26. “Derivative Contract” means any contract entered into between the Bank and the Borrower or the Bank and the Guarantor to document and/or confirm one or more derivative transactions agreed between the Bank and the Borrower, or the Bank and the Guarantor, and its subsequent amendments. All attachments and other supplemental agreements to a Derivative Contract shall form an integral part of such Derivative Contract.
27. “Dollar” means the legal tender of the United States of America.
28. “Execution Period” means the period in Business Days during which the Bank may effect a Conversion as determined by the Borrower in the Conversion Request Letter. The Execution Period starts from the day on which the Conversion Request Letter is received by the Bank.
29. “Executing Agency/Agencies” means the entity/entities responsible for executing all or part of the Project.
30. “Final Amortization Date” means the latest date on which the Loan may be fully repaid, in accordance with the Special Conditions.
31. “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.
32. “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.
33. “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.
34. “General Conditions” means the entirety of articles which comprise Part Two of this Contract and reflect the basic policies of the Bank uniformly applicable to its loan contracts.
35. “Guarantor” means the party which guarantees the fulfillment of the obligations contracted by the Borrower and which assumes other obligations for which it is liable under the Guarantee Contract.

36. “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.
37. “Interest Rate Cap” means the establishment of an upper limit for a variable interest rate.
38. “Interest Rate Collar” means the establishment of an upper and a lower limit for a variable interest rate.
39. “Interest Rate Conversion” means: (i) a change of interest rate type with respect to all or part of the Outstanding Loan Balance; or (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.
40. “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.
41. “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.
42. “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.
43. “LIBOR Interest Rate”¹ means the “USD-LIBOR-ICE”, which is the rate administered by ICE Benchmark Administration (or any other entity which takes over the administration of that rate) for deposits in Dollars for a period of three (3) months that appears on the relevant page of the pages Bloomberg Financial Markets Service or Reuters Service, or on the relevant pages of any other service selected by the Bank that displays such rate, as of 11:00 a.m., London time, on the day that is two (2) London Banking Days preceding the Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter. If such LIBOR Interest Rate does not appear on the relevant page, the LIBOR Interest Rate for that Interest Rate Determination Date of the LIBOR-Based Interest Rate for each Quarter will be determined as if the parties had specified “USD-LIBOR-Reference Banks” as the applicable LIBOR

¹ Any capitalized terms used in paragraph 43 of Article 2.01 and not otherwise defined herein shall have the meaning assigned to it in the 2006 ISDA Definitions as published by the *International Swaps and Derivatives Association, Inc.*, as amended and supplemented from time to time, which are hereby incorporated by reference.

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

44. “LIBOR-Based Interest Rate Loan” means any Loan granted by the Bank for disbursement, account registration and repayment in Dollars or which has been fully or partially converted into Dollars and that is subject to a LIBOR-Based Interest Rate, calculated pursuant to Article 3.03(a) of these General Conditions.
45. “Loan” shall have the meaning assigned to it in the Special Conditions.
46. “Local Currency” means a currency that is legal tender in any of the Bank’s borrowing members.
47. “Non-Borrowing Member Country Currency” means a currency that is legal tender in any of the Bank’s non-borrowing member countries.
48. “Original Disbursement Period” means the original period for disbursements of the Loan, which is set forth in the Special Conditions.

49. “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.
50. “Outstanding Loan Balance” means the amount that the Borrower owes the Bank for the portion of the Loan that has been disbursed.
51. “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.
52. “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.
53. “Parties” means the Bank and the Borrower and each of them, indistinctively, a Party.
54. “Payment Valuation Date” means a date that is determined based on a number of Business Days prior to any amortization or interest payment, as specified in a Conversion Notification Letter.
55. “Procurement Agents” means the entity with legal capacity to enter into contracts, and in agreement with the Borrower or the Executing Agency, as the case may be, assumes all or part of the responsibility of the procurement of goods or works, consultancy services or non-consulting services for the Project.
56. “Procurement Plan” means a tool for programming and monitoring the procurement related to the operation, in the terms described in the Procurement Policies and Consultant Policies.
57. “Procurement Policies” means the Policies for the Procurement of Works and Goods financed by the Inter-American Development Bank in force at the time of the approval of the Loan by the Bank.
58. “Prohibited Practices” means the act(s) defined in Article 6.03 of these General Conditions.
59. “Project” means the program or project for which the Loan has been approved by the Bank.
60. “Quarter” means each of the following three-month (3-month) periods of the calendar year: the period beginning on January 1st and ending on March 31st; the period beginning on April 1st and ending on June 30th; the period beginning on July 1st and ending on September 30th and the period beginning on October 1st and ending on December 31st.

61. “Semester” means the first or second six months of a calendar year.
62. “Settlement Currency” means the currency used to settle principal and interest payments. For fully deliverable currencies, the Settlement Currency is the Converted Currency. For non-deliverable currencies, the Settlement Currency is the Dollar.
63. “Special Conditions” means the entirety of the provisions which comprise Part One of this Contract and contain the particular terms of the operation.
64. “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.
65. “WAL” means the weighted average life, whether the Original WAL or the weighted average life resulting from a modification of the Amortization Schedule, as a result of a Conversion or otherwise. The WAL is calculated in years (to two decimal places) based on the Amortization Schedule of all tranches of the Loan and is defined as the division of (i) by (ii) below, where:

(i) is the sum of the products of (A) and (B), defined as:

(A) the amount of each amortization payment;

(B) the difference in the number of days between the amortization payment date and the execution date of this Contract, divided by 365 days;

and

(ii) the sum of amortization payments.

The applicable formula is the following:

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

where:

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

m is the total number of tranches of the Loan.

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

A_{i,j} is the amortization amount referring to payment *i* of tranche *j*,

calculated in Dollar equivalent at the exchange rate determined by the Calculation Agent, for the date of modification of the Amortization Schedule.

$PD_{i,j}$ is the payment date referring to payment i of tranche j .

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

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

CHAPTER III

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

ARTICLE 3.01. Dates of Payment of Amortization and Interest. The Loan will be amortized in accordance with the Amortization Schedule. Interest and amortization installments will be paid on the fifteenth (15th) day of the respective month, as set forth in the Special Conditions of this Contract, in an Amortization Schedule Modification Notification Letter or in a Conversion Notification Letter, as the case may be. The amortization payment dates 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 up until sixty (60) days prior to the due date for the first amortization installment of the Loan or the tranche of the Loan, as the case may be, for which the modification is requested. The Borrower may also request the modification of the Amortization Schedule in the case of a Currency Conversion or an Interest Rate Conversion, as set forth in Articles 5.03 and 5.04 of these General Conditions.

(b) For any modifications to the Amortization Schedule, 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 Loan or the tranche thereof for which the modification is requested.

(c) The Bank may accept the requested modifications to the Amortization Schedule, 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 exceed neither the Final Amortization Date nor the Original WAL;

- (ii) the tranche of the Loan subject to a new Amortization Schedule shall not be less than the equivalent of three million Dollars (US\$3,000,000); and
- (iii) the tranche of the Loan 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 a Currency Conversion.

(d) The Bank will communicate to the Borrower 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 tranche thereof; (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 tranches denominated in a Non-Borrowing Member Country Currency with different Amortization Schedules. The number of tranches in Local Currency may exceed this amount, subject to the Bank's operational and risk management considerations.

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

ARTICLE 3.03. 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 a 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: (a) the occurrence of such changes; and (b) the alternate base rate applicable to determine the appropriate amount to be paid by the Borrower. The Calculation Agent shall provide no less than sixty (60) days prior notice to the Borrower and the Guarantor, if any, of the applicable alternate base rate. The alternate base rate shall become effective on the expiration of such notice period.

ARTICLE 3.04. Credit fee. (a) The Borrower shall pay a credit fee on the undisbursed balance of the Loan, at a percentage set by the Bank periodically during its review of financial charges on ordinary capital loans. The credit fee shall not exceed 0.75% per annum.

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

(c) The credit fee shall cease to accrue: (i) when all disbursements have been made; and (ii) in full or in part, as the case may be, when the Loan has been totally or partially cancelled pursuant to Articles 4.02, 4.12, 4.13 and 6.02 of these General Conditions.

ARTICLE 3.05. 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 3.06. 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 3.07. 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. Credit and inspection and supervision fees shall always be paid in the Approval Currency.

ARTICLE 3.08. Prepayments. (a) **Prepayment of Outstanding Loan Balances denominated in Dollars with LIBOR-Based Interest Rate.** The Borrower may prepay all or part of the Outstanding Loan Balances in Dollars subject to a LIBOR-Based Interest Rate on any interest payment date, provided that it delivers to the Bank a written irrevocable request, with the consent of the Guarantor, if any, at least thirty (30) days in advance. Any such prepayment shall be applied as set forth in Article 3.09 of these General Conditions. In the event that the prepayment does not cover the entire Outstanding Loan Balance, the prepayment shall be applied proportionately to the remaining amortization installments. If the Loan has tranches with different Amortization Schedules, the Borrower shall prepay individual tranches in their entirety, unless the Bank agrees otherwise.

(b) **Prepayments of amounts that have been subject to Conversion.** Provided that the Bank is able to unwind or reallocate its corresponding funding, 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; and/or (ii) all or part of the amount that has been subject to an Interest Rate Conversion. For this purpose, the Borrower shall deliver an irrevocable written request to the Bank at least thirty (30) days in advance. Said request shall specify the amount the Borrower intends to prepay and the Conversion to which such prepayment relates. In the event that the prepayment does not cover the full amount of the Outstanding Loan Balance under 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 of the respective Conversion is less than such amount and is paid in full.

(c) For purposes of paragraphs (a) and (b) 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 6.02 of these General Conditions.

(d) 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 loss incurred by the Bank as a result of unwinding or reallocating its corresponding funding, as determined by the Calculation Agent. In case of a gain, it will be credited first to any amounts due and payable by the Borrower. In case of a loss, the Borrower shall pay the corresponding amount concurrently on the prepayment date.

ARTICLE 3.09. Application of Payments. All payments shall be applied first to returns of Advances of Funds which have not been justified upon expiration of the Closing Period, then to fees and interest due on the payment date, and if a balance exists, to the amortization of installments of principal due.

ARTICLE 3.10. 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 3.11. Place of Payments. All payments shall be made at the principal office of the Bank in Washington, District of Columbia, United States of America, unless the Bank designates another place or places for this purpose by written notification to the Borrower.

ARTICLE 3.12. Participations. (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 promptly notify the Borrower of each such assignment.

(b) Participations may be granted 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.

CHAPTER IV

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

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

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

(b) The Borrower, directly or through the Executing Agency, if any, shall have designated one or more officials to represent it in all acts relating to the implementation of this Contract and shall have furnished the Bank with authentic copies of the signatures of said representatives. Should

two or more officials be designated, the designation shall indicate whether such officials may act separately or must act jointly.

(c) The Borrower, either directly or through the Executing Agency, if any, shall have demonstrated to the Bank that sufficient resources have been allocated to cover, at least during the first calendar year, the execution of the Project in accordance with the investment schedule referred to in the following paragraph. If the Loan finances a continuation of the same lending operation, the earlier stage or stages of which the Bank is financing, the obligation set forth in this paragraph shall not be applicable.

(d) The Borrower, either directly or through the Executing Agency, as the case may be, shall have presented to the Bank an initial report prepared in the form indicated by the Bank which, in addition to such other information as the Bank may reasonably request pursuant to the provisions of this Contract, shall set forth: (i) a plan for implementation of the Project including the plans and specifications deemed necessary by the Bank, except with respect to a program for the granting of credits; (ii) a calendar or schedule of work or granting of credits, as the case may be; (iii) a table of the source and use of funds setting forth a detailed schedule of investments in accordance with the categories of investment established in this Contract and an indication of the annual contributions needed from the various sources of funds from which the Project will be financed; and (iv) the content that the progress reports referred to in Article 8.03 of these General Conditions shall have. If this Contract permits the recognition of expenditures made prior to its entry into effect, the initial report shall include a statement of the investments and, in accordance with the objectives of the Project, a description of works carried out under the Project or a statement as to credits granted, as the case may be, up to a date immediately preceding the report.

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

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

ARTICLE 4.03. Requisites for All Disbursements. For the Bank to make any disbursement, it shall be necessary that: (a) the Borrower or the Executing Agency, as the case may be, shall have submitted in writing, or by electronic means in such form and conditions as may be specified by the Bank, a disbursement request and, in support thereof, shall have supplied to the Bank such pertinent documents and other background materials as the Bank may have required; (b) the Borrower or the Executing Agency, as the case may be, shall have opened and maintains one or more bank accounts in a financial institution to which the Bank shall make the disbursements; (c) unless the Bank otherwise agrees, disbursement requests must be presented no later than thirty (30) days in advance of the date of expiration of the Original Disbursement Period or any extension thereof; (d) none of the circumstances described in Article 6.01 of these General Conditions shall have occurred; and

(e) the Guarantor, if any, shall not be in non-compliance for more than one hundred twenty (120) days with any obligation to make payments to the Bank on any loan or Guarantee.

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

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

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

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

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

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

(c) The Bank may: (i) increase the maximum amount of an Advance of Funds when immediate cash flow needs that merit such increase arise, upon presentation of a request duly justified and accompanied by a statement of projected expenditures for the execution of the Project

during the corresponding Advance of Funds period in effect; or (ii) make a new Advance of Funds on the basis of the provisions contained in paragraph (b) above, provided that at least eighty percent (80%) of the total amount of resources disbursed as an Advance of Funds has been justified. The Bank may take any of the above-mentioned actions, provided that the requirements of Articles 4.01 and 4.03 of these General Conditions and those which may be established in the Special Conditions have been fulfilled.

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

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

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

- (i) The same exchange rate used in the conversion of resources disbursed in Dollars to the currency of the Borrower's country. In this case, for purposes of the reimbursement of expenditures chargeable to the Loan and the recognition of expenditures chargeable to the Local Counterpart, the applicable exchange rate shall be the prevailing exchange rate on the date on which the request is presented to the Bank; or
- (ii) The prevailing exchange rate in force in the Borrower's country on the effective date of payment of the expenditure in the currency of the Borrower's country.

- (b) The rate of exchange referred to in sections (a)(i) and (a)(ii) above, shall be the following:
- (i) The rate of exchange pursuant to the understanding in force between the Bank and the respective member country for the purposes of maintaining the value of the currency in conformity with the provisions of Article V, Section 3 of the Agreement Establishing the Bank.
 - (ii) Should there be no agreement in force, the rate of exchange to be applied shall be that which on the due date is utilized by the Central Bank of the Borrower country or by the corresponding monetary authority to sell Dollars to residents of such country, other than government agencies, for the following transactions: (a) payment of principal and interest due; (b) remittance of dividends or other income from capital investments in the respective country; and (c) remittance of investment capital. In the event that there is no uniform rate of exchange for these three types of operations, the highest rate shall be applied, i.e., the rate representing the highest number of units of the currency of such country per Dollar.
 - (iii) If, on the date of the presentation of the request to the Bank referred to in section (a)(i) above, or if on the date on which the payment of an expenditure is due as referred to in section (a)(ii) above, the foregoing rule cannot be applied because the operations referred to do not exist, payment shall be made on the basis of the most recent rate of exchange used for such operations within the thirty (30) days preceding the date of presentation of the request to the Bank referred to in section (a)(i) above, or to the effective date of the payment of the expense incurred referred to in section (a)(ii) above, as the case may be.
 - (iv) If, notwithstanding the application of the foregoing rules, the effective rate of exchange cannot be ascertained, or if discrepancies arise in the determination thereof, the determination of the Bank shall prevail, taking into consideration the realities of the foreign exchange market of the country of the Borrower.

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

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

ARTICLE 4.12. Renunciation of Part of the Loan. The Borrower, with the concurrence of the Guarantor, if any, may renounce, by written notice to the Bank, its right to utilize any part of the Loan which has not been disbursed before the receipt of the notice, provided that the amounts foreseen in Article 6.04 of these General Conditions are not involved.

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

CHAPTER V

Conversions

ARTICLE 5.01. **Exercise of Conversion Options.** (a) The Borrower may request a Currency Conversion or an Interest Rate 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 form of Conversion Request Letter.

(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 or Interest Rate Conversion); (D) account number where funds shall be deposited, if applicable; and (E) 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; (G) Execution Period; and (H) 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) Dollars at an amount equal to 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 Balance.

- (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.

(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 it. If it finds it 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 to the Borrower indicating the financial terms and conditions of the Conversion.

(e) If the Bank determines that the Conversion Request Letter does not comply with the requirements provided in this Loan 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.

(f) 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.

(g) 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, the Bank shall so inform the Borrower and agree on the actions to be taken regarding the Conversion Request Letter.

ARTICLE 5.02. Conversion Requirements. Any Conversion shall be subject to the following requirements:

(a) The feasibility of the Bank to execute any Conversion will depend on the ability of the Bank to source its funding, 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 is less.

(c) The number of Currency Conversions to Non-Borrowing Member Country 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) 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.

(f) 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.

(g) 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 due date for the first amortization installment of the Loan or the tranche of the Loan associated with such Currency Conversion, as the case may be, 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 will be automatically converted to Dollars on the expiration of the respective Partial Term Conversion, and shall be subject to the Interest Rate set forth in Article 3.03(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 loss incurred by the Bank as a result of unwinding or reallocating its corresponding funding associated with the cancelation 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 effected 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 due date for the first amortization installment of the Loan or the tranche of the Loan, as the case may be, any such Interest Rate 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 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 3.03(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 loss incurred by the Bank as a result of unwinding or reallocating its corresponding funding associated with 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 3.07 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. Transaction fees applicable to Conversions. (a) The transaction fees applicable to Conversions shall be determined by the Bank from time to time. Each Conversion Notification Letter shall indicate, if applicable, the transaction fee the Borrower shall be required to pay 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 and including the Conversion Date, and on the Outstanding Loan Balance of such Currency Conversion; and (iii) shall be paid together with the interest payments 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 and including the Conversion Date, on the Outstanding Loan Balance subject to the Interest Rate Conversion; and (iv) shall be paid together with the interest payments, 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 upfront in a lump sum amount, in the Settlement Currency, on the first interest payment date, as set forth in Article 5.05 of these General Conditions.

ARTICLE 5.07. Funding Expenses and Premiums or Discounts 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 all 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 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 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 from the Conversion Date.

ARTICLE 5.08. Premiums payable in connection with Interest Rate Caps or Interest Rate Collars. (a) In addition to the transaction fees payable pursuant to Article 5.06 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, equal 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; 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; provided however that if operationally feasible for the Bank, the Bank may agree 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 shall 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 5.09. 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 5.10. Cancellation and Reversal of the Currency Conversion. If, after the execution 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 of execution of this Contract 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 Balances subject to the Currency Conversion to Dollars at the exchange rate applicable at that time, as determined by the Calculation Agent. Such Outstanding Loan Balances shall remain subject to the Amortization Schedule agreed for such Currency Conversion and the Interest Rate set forth in Article 3.03(a) of these General Conditions. Alternatively, the Borrower may prepay all amounts that it owes in the Converted Currency, pursuant to the provisions of Article 3.08 of these General Conditions.

ARTICLE 5.11. Gains or Losses associated with the Redenomination into Dollars. If the Borrower, with the consent of the Guarantor, if any, decides to redenominate the Outstanding Loan Balances subject to a Currency Conversion into Dollars pursuant to Article 5.10 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 loss incurred by the Bank 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 5.12. 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 5.08 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 to cover for the Bank the costs incurred as a result of such delay.

ARTICLE 5.13. Costs, expenses or losses 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 the Conversion Request Letter; (c) nonfulfillment of a partial or full prepayment of the Outstanding Loan Balances 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 Bank's 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.

CHAPTER VI

Suspension of Disbursements, Accelerated Maturity and other Dispositions

ARTICLE 6.01. Suspension of Disbursements. The Bank, by written notice to the Borrower, may suspend disbursements if any of the following circumstances occurs and so long as it continues:

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

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

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

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

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

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

(g) If it is determined, in accordance with the sanctions procedures of the Bank, that an employee, agent, or representative of the Borrower, Executing Agency or Contracting Agency, has engaged in a Prohibited Practice during the procurement process or during the execution of a contract.

ARTICLE 6.02. Termination, Accelerated Maturity or Partial Cancellation of Undisbursed Balances. (a) The Bank may terminate this Contract with respect to the part of the Loan not yet disbursed or may declare the entire Outstanding Loan Balance or a portion thereof immediately due and payable, together with interest and fees accrued up to the date of payment if: (i) any of the circumstances set forth in paragraphs (a), (b), (c) and (e) of the preceding Article continues for more than sixty (60) days; or (ii) the information referred to in paragraph (d) of the preceding Article, or the clarifications or additional information presented by the Borrower or the Executing Agency, if any, are not satisfactory to the Bank.

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

adequate notice to the Bank upon learning of the Prohibited Practice) within a period of time the Bank considers reasonable.

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

ARTICLE 6.03. Prohibited Practices. (a) For the purposes of this Contract, a “Prohibited Practice” shall be understood to include the following acts: (i) a “corrupt practice”, is the offering, giving, receiving, or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party; (ii) a “fraudulent practice”, is any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation; (iii) a “coercive practice”, is impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party; (iv) a “collusive practice”, is an arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party; and (v) an “obstructive practice”, is (A) deliberately destroying, falsifying, altering or concealing evidence material to the investigation or making false statements to investigators in order to materially impede a Bank Group investigation into allegations of a corrupt, fraudulent, coercive or collusive practice; and/or threatening, harassing or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation, or (B) acts intended to materially impede the exercise of the Bank’s inspection and audit rights provided for under Articles 8.01(c), 8.02(e) and 8.04(g) of these General Conditions.

(b) In addition to the provisions established in Articles 6.01(g) and 6.02(b) of these General Conditions, if it is determined in accordance with the sanctions procedures of the Bank, that a firm, entity or individual bidding for or participating in an activity financed by the Bank, including, *inter alia*, applicants, bidders, suppliers, contractors, consulting firms and individual consultants, personnel, subcontractors, sub-consultants, service providers, concessionaires, the Borrower, the Executing Agency or the Contracting Agency (including their respective officers, employees and agents, irrespective of whether their authority has been formally or implicitly granted) has engaged in a Prohibited Practice at any stage during the procurement process or during the execution of a contract, the Bank may:

- (i) not finance any proposal to award a contract for works, goods, and related services or for consultant services;
- (ii) determine that a contract will not be eligible for Bank financing whenever there is evidence that the Borrower, the Executing Agency or the Contracting Agency has not taken adequate remedial measures (including, *inter alia*, providing adequate notice to the Bank upon learning of the commission of the Prohibited Practice) within a period of time the Bank considers reasonable;
- (iii) issue the firm, entity or individual a reprimand in the form of a formal letter of censure for its behavior;

- (iv) declare that a firm, entity or individual is ineligible, either permanently or for a stated period of time, to (A) be awarded or participate in contracts under activities financed by the Bank; and (B) be a nominated sub-consultant, sub-contractor, supplier or service provider of an otherwise eligible firm being awarded a Bank-financed contract;
- (v) refer the matter to appropriate law enforcement authorities; and/or
- (vi) impose other sanctions that it deems to be appropriate under the circumstances, including the imposition of fines representing reimbursement to the Bank for costs associated with investigations and proceedings. Such other sanctions may be imposed in addition to or in lieu of other sanctions set forth in Article 6.01(g), Article 6.02(b) and Article 6.03(b)(i) to (v).

(c) The provisions of Article 6.01(g) and Article 6.03(b)(i) will also be applicable in cases where firms, entities or individuals have been declared temporarily ineligible for the awarding of additional contracts pending the final outcome of a sanction proceeding, or other resolution.

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

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

(f) When a Borrower procures works, goods or related services directly from a specialized agency or hires a specialized agency to provide consulting services using resources of the Financing, under an agreement between the Borrower and such specialized agency, all provisions under this Contract regarding sanctions and Prohibited Practices shall apply in their entirety to applicants, bidders, suppliers, contractors, consulting firms or individual consultants, personnel, sub-contractors, sub-consultants, service providers, concessionaires (including their respective officers, employees and agents, irrespective of whether the agency is express or implied), or to any other entities that have signed contracts with such specialized agency to supply works, goods and related services, in connection with the Bank-financed activities. The Bank reserves the right to require the Borrower to invoke remedies such as suspension or termination. The Borrower agrees that contracts with specialized agencies shall include provisions requiring them to consult the Bank's list of firms and individuals debarred, either temporarily or permanently by the Bank. In the event a specialized agency signs a contract or purchase order with a firm or an individual

temporarily or permanently debarred by the Bank, the Bank will not finance the related expenditures and will apply other remedies as appropriate.

ARTICLE 6.04. Obligations not Affected. Notwithstanding the provisions of the foregoing Articles 6.01 and 6.02, none of the measures set forth in this Chapter shall affect the disbursement by the Bank of: (a) any amounts subject to the guarantee of an irrevocable letter of credit; and (b) any amounts which the Bank by specific written agreement with the Borrower or the Executing Agency, or the Contracting Agency, if any, has agreed to provide from the resources of the Loan to make payments to a contractor, or to a supplier of goods and related services or consultant services. The exceptions set forth in subparagraph (b) shall not apply if the Bank determines that Prohibited Practices occurred with respect to the procurement of, or the negotiation or execution of the contract for, the works, goods and related services, or consultant services.

ARTICLE 6.05. Non-waiver of Rights. Any delay by the Bank in the exercise of its rights pursuant to this Contract, or failure to exercise them, shall not be construed as a waiver by the Bank of any such rights nor as acquiescence in events or circumstances which, had they occurred, would have empowered it to exercise them.

ARTICLE 6.06. Provisions not Affected. The application of any of the measures provided for by this Chapter shall not affect the obligations of the Borrower established in this Contract, which shall remain in full force and effect, except that in case the entire Loan has been declared due and payable, only the pecuniary obligations of the Borrower shall continue in force.

CHAPTER VII

Execution of the Project

ARTICLE 7.01. General Provisions for Execution of the Project. (a) The Borrower agrees to execute the Project in accordance with the objectives thereof, with due diligence in an economic, financial, administrative and technically efficient manner and in accordance with the provisions of this Contract and the plans, specifications, investment schedule, budgets, regulations, and other relevant documents of the Project approved by the Bank. The Borrower further agrees that its obligations or those of the Executing Agency, shall be fulfilled to the satisfaction of the Bank.

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

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

ARTICLE 7.02. Selection and contracting of works and non-consulting services, procurement of goods and selection and contracting of consulting services. (a) Subject to the provisions of subparagraph (b) of this Article, the Borrower undertakes to carry out and, where

appropriate, cause the Executing Agency or the Contracting Agency, if any, to carry out the procurement of works and non-consulting services as well as the procurement of goods, in accordance with the Procurement Policies and the Procurement Plan approved by the Bank, and the selection and contracting of consulting services, in accordance with the Consultant Policies and the Procurement Plan approved by the Bank. The Borrower acknowledges and undertakes to inform the Executing Agency, the Contracting Agency and the specialized agency, as the case may be, of the Procurement Policies and the Consultant Policies.

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

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

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

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

ARTICLE 7.03. Use of Goods. Except with the express authorization of the Bank to the contrary, the goods acquired with the resources of the Loan shall be used exclusively for the purposes of the Project. Once the Project has been completed, any machinery or construction equipment utilized in the execution of the Project and any other goods, may be used for other purposes.

ARTICLE 7.04. Additional Resources. (a) The Borrower shall contribute in a timely manner all of the resources in addition to those of the Loan which may be necessary for the complete and uninterrupted execution of the Project, the estimated amount of which is specified in the Special Conditions. If during the process of disbursement an increase in the estimated cost of the Project

takes place, the Bank may require the modification of the investment schedule referred to in Article 4.01(d) of these General Conditions such that the Borrower shall meet such increase.

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

CHAPTER VIII

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

ARTICLE 8.01. Financial Information and Internal Control Systems. (a) The Borrower or the Executing Agency, or the Contracting Agency, as the case may be, shall maintain: (i) a financial information system acceptable to the Bank that enables accounting, budgetary and financial record-keeping, as well as the issuance of financial statements and other reports related to the resources of the Loan and other financial sources, as the case may be; and (ii) an internal control structure that enables effective Project management; provides reliability regarding the financial information and the physical, magnetic and electronic records and files; and enables the fulfillment of the provisions of this Contract.

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

(c) The Borrower agrees that all bidding documents, requests for proposals and contracts financed with a Bank loan that are entered into by the Borrower, the Executing Agency or the Contracting Agency shall include a provision that requires that providers of goods or services, suppliers and subcontractors, consultants and their agents, personnel or concessionaires, keep all

documents and records related to Bank-financed activities for a period of seven (7) years after completion of the work contemplated in the relevant contract.

ARTICLE 8.02. Inspections. (a) The Bank may establish such inspection procedures as it deems necessary to ensure the satisfactory development of the Project.

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

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

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

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

ARTICLE 8.03. Reports. The Borrower or the Executing Agency, as appropriate, shall present to the Bank's satisfaction the reports on the execution of the Project, within sixty (60) days following the end of each Semester, or within such other period as the parties may agree, prepared in accordance with the relevant rules agreed to with the Bank; and such other reports as the Bank may reasonably request regarding the investment of the sums lent, the use of goods acquired with such sums, and the progress of the Project.

ARTICLE 8.04. External Audit. (a) The Borrower shall present to the Bank, directly or through the Executing Agency, within the deadlines, for the period of duration, and with the frequency provided in the Special Conditions of this Contract, the financial statements and other reports, and any additional financial information that the Bank may request, in accordance with accounting principles and standards acceptable to the Bank.

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

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

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

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

(f) The Bank shall have the right to request the Borrower or the Executing Agency, as the case may be, to have other types of independent audits and/or services carried out relating to the auditing of projects, of the Executing Agency and related entities, of the financial information system, and of the bank accounts of the Project, among others. The nature, frequency, scope, timing,

methodology, type of applicable auditing norms, reports, selection procedures and terms of reference shall be agreed upon between the parties.

(g) All bidding documents, requests for proposals and contracts financed by the Bank that are entered into by the Borrower, the Executing Agency or the Contracting Agency with a provider of goods or services, contractor, subcontractor, consultant, sub-consultant, personnel or concessionaire shall include a provision allowing the Bank to inspect any and all accounts, records and other documents related to the submission of bids and contract performance as well as to have them audited by auditors appointed by the Bank.

CHAPTER IX

Provision on Encumbrances and Exemptions

ARTICLE 9.01. **Commitment on Encumbrances.** If the Borrower should agree to create any specific encumbrance on all or part of its assets or revenues to secure an external debt, it shall at the same time create an encumbrance guaranteeing to the Bank, equally and proportionally, the fulfillment of the pecuniary obligations arising from this Contract. However, the foregoing shall not apply: (a) to encumbrances on goods used as security for payment of the unpaid balance of the purchase price; and (b) to encumbrances created in banking operations to secure payment of debts with maturities of not more than one year. In the event that the Borrower is a member country, the term “assets or revenues” shall mean all types of assets or revenues which belong to the Borrower or any of its dependent agencies which are not autonomous entities with their own separate capital.

ARTICLE 9.02. **Tax exemption.** The Borrower undertakes to ensure that principal, interest, premiums, and any other payment for expenses or costs that may be imputed to this Contract shall be paid without any deduction or restriction whatsoever, exempt from any tax, fee, duty or charge established or that may be established by the laws of its country, and to pay any tax, fee, or duty applicable to the signing, negotiation, and execution of this Contract.

CHAPTER X

Arbitration Procedure

ARTICLE 10.01. **Composition of the Tribunal.** (a) The Arbitration Tribunal shall be composed of three members to be appointed in the following manner: one by the Bank, another by the Borrower, and a third, hereinafter called the “Referee”, by direct agreement between the parties or through their respective arbitrators. If the parties or the arbitrators fail to agree on who the Referee shall be, or if one of the parties should not designate an arbitrator, the Referee shall be appointed, at the request of either party, by the Secretary General of the Organization of American States. If either of the parties fails to appoint an arbitrator, one shall be appointed by the Referee. If either of the appointed arbitrators or the Referee is unwilling or unable to act or to continue to act, his successor shall be appointed in the same manner as for the original appointment. The successor shall have the same functions and faculties as his predecessor.

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

ARTICLE 10.02. Initiation of the Procedure. In order to submit the controversy to arbitration, the claimant shall address to the other party a written communication setting forth the nature of the claim, the satisfaction or compensation which it seeks, and the name of the arbitrator it appoints. The party receiving such communication shall, within forty-five (45) days, notify the adverse party of the name of the person it appoints as arbitrator. If, within thirty (30) days after delivery of such notification to the claimant, the parties have not agreed upon the person who is to act as Referee, either party may request the Secretary General of the Organization of American States to make the appointment.

ARTICLE 10.03. Convening of the Tribunal. The Arbitration Tribunal shall be convened in Washington, District of Columbia, United States of America, on the date designated by the Referee, and, once convened, shall meet on the dates which the Tribunal itself shall establish.

ARTICLE 10.04. Procedure. (a) The Tribunal shall be competent to hear only the matters in controversy. It shall adopt its own procedures and may on its own initiative designate whatever experts it considers necessary. In any case, it shall give the parties the opportunity to make oral presentations.

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

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

ARTICLE 10.05. Costs. The fees of each arbitrator shall be paid by the party which appointed him and the fees of the Referee shall be paid by both parties in equal proportion. Prior to the convening of the Tribunal, the parties shall agree on the remuneration of the other persons who, by mutual agreement, they deem should take part in the arbitration proceedings. If such agreement is not reached in a timely manner, the Tribunal itself shall determine the compensation which may be reasonable for such persons under the circumstances. Each party shall defray its own expenses in the arbitration proceedings, but the expenses of the Tribunal shall be borne equally by the parties. Any doubt regarding the division of costs or the manner in which they are to be paid shall be determined, without appeal, by the Tribunal.

ARTICLE 10.06. Notification. All notifications relative to the arbitration or to the award shall be made in the manner provided in this Contract. The parties waive any other form of notification.

ANNEX

THE PROJECT

Support to Strengthen Trinidad and Tobago's Public Financial Management System

I. Objective

- 1.01** The general objective of this Project is to improve the efficiency and effectiveness of the Borrower to allocate public resources. The Project's specific objectives are to improve: (a) strategic allocation of public resources; (b) the control and stewardship of public resources; and (c) information management for decision making.

II. Description

- 2.01** In order to achieve the abovementioned objectives, the Project will implement the following two components:

Component I. Support for Public Financial Management Modernization

- 2.02** This component seeks to contribute to the modernization of Public Financial Management (PFM) procedural and legal frameworks for budget preparation and execution. The component will finance the following activities:
- 2.03** **Development and implementation of a new budget classification based on a Government Finance Statistics (GFS)-compliant Chart of Accounts (CoA) and a treasury accounting framework that complies with International Public Sector Accounting Standards.** This will include the provision of support for the development and implementation of: (i) the new CoA and budget classification system, and training the staff of the Ministry of Finance (MoF) on its use; (ii) detailed book-keeping and accounting procedures; and (iii) a detailed training and capacity building plan.
- 2.04** **Development and implementation of a change management strategy.** This activity will include the development and implementation of: (i) a change management strategy and resulting change management plans; (ii) a communications plan targeting key stakeholders; and (iii) mechanisms for continuous stakeholder feedback to assess gaps and implement corrective action.
- 2.05** **Development and implementation of institutional instruments to sustain PFM modernization efforts.** This activity will include: (i) the development and implementation of a sustainability strategy for the continual improvement of PFM; (ii) train-the-trainer programs within core PFM areas including the Project Planning and Reconstruction Division

of the Ministry of Planning and Development and the MoF's Budget and Treasury Divisions, as well as establishment of an e-learning platform; and (iii) hiring of the chief technical coordinator, who will also serve as the project manager.

- 2.06 Design and implementation of an Internal Audit (IA) framework to improve PFM control, transparency, and reporting.** This activity will include support for the implementation of recommendations of the IA report, as approved by the Ministry of Finance and the corresponding training.
- 2.07 Review of the PFM legal framework and preparation of recommendations to strengthen the framework.** This activity will include the review of the Exchequer and Audit Act and its existing Financial Regulations, and the making of recommendations on legislative and regulatory amendments to strengthen: IA, budget classification, automation, and reporting standards.
- 2.08 Business process reengineering for budget preparation and execution processes.** This activity will include the revision of existing business processes in view of automation and new financial methodologies as well as preparation of procedures manuals for the Budget, Treasury and the Project Planning and Reconstruction Divisions' personnel to streamline procedures.

Component II. Support for implementation of an Integrated Financial Management Information System (IFMIS)

- 2.09** This component seeks to improve Information Management (IM) for PFM through implementation of an IFMIS. The component will finance the following activities:
- 2.10 Establishment of a centralized IT governance framework within MoF.** This activity will include: (a) the development of the documentation of IT governance practices and procedures for PFM IT management; and (b) the establishment of a training program for MoF IT staff, including training for development and implementation of an IT strategic plan.
- 2.11 Implementation of a Commercial Off-The-Shelf Integrated Financial Management (COTS- IFMIS) solution with government-wide coverage, including customization, data migration, and integration services.** This activity will include: (a) the operationalization of the COTS-IFMIS solution comprising: (i) the IFMIS software package; (ii) training for users and IT staff in the operation of the IFMIS solution including a train-the-trainers program; (iii) purchase of data center hardware; and (iv) training of personnel to analyze IFMIS aggregated data; (b) computer equipment to operate the IFMIS; and (c) implementation and roll out of a receipting system.

III. Total Cost of the Project and Financing Plan

3.01 The estimated cost of the Project is forty million Dollars of the United States of America (US\$40,000,000), which will be distributed in the following categories of expenditures:

Categories	IDB	Total	%
1. Direct Costs	36,757,803	36,757,803	91.89
1.1 Component I. Support for Public Financial Management Modernization.	8,506,000	8,506,000	21.27
1.2 Component II. Support for implementation of an Integrated Financial Management Information System	28,251,803	28,251,803	70.63
2. Project Administration	1,060,000	1,060,000	2.6
3. Evaluation	120,000	120,000	0.3
4. Contingency	2,062,197	2,062,197	5.15
Total/Percentage (%)	40,000,000	40,000,000	100

IV. Execution

4.01 The Executing Agency of the Program will be the MoF which will execute the Project, through the PFMMU, a unit established in accordance with Section 3.02(a) of the Special Conditions, which will serve as the Project Implementation Unit for the Project (“PIU”).

4.02 The PIU will comprise: a chief technical coordinator, one procurement officer and one finance officer, as referred to in Section 3.02(a)(i) of the Special Conditions. The chief technical coordinator will also serve as the project manager and will have lead responsibility for the overall administration of the Project, including planning, budgeting, accounting, procurement implementation and monitoring.

4.03 Specific PIU duties include, *inter alia*: (a) preparing and implementing the AOPs referred to in Section 4.08 of the Special Conditions; (b) carrying out the financial administration, accounting, and preparing budget and disbursement requests; (c) preparing annual procurement plans and procurement of goods and services; (d) preparing technical reports and financial statements; (e) monitoring the progress of Project activities including environmental and social safeguards compliance as well as actual and planned results variance; (f) selecting and hiring of the external audit firm and implementation of audit recommendations; (g) hiring of consultants to conduct external evaluations; and (h) serving as liaison between the Borrower and the Bank.

4.04 A Project Steering Committee (PSC) comprised of officials from the Ministry of Finance and the Ministry of Planning and Development will be established for the purposes of providing oversight of the Project's execution, monitoring the progress of activities, providing direction and support to the Project, and assisting in clearing up any bottlenecks that may arise.