

CONFORMED COPY

CREDIT NUMBER 4715-GD

Financing Agreement

(Economic and Social Development Policy Operation)

between

GRENADA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 24, 2010

FINANCING AGREEMENT

Agreement dated June 24, 2010, entered into between GRENADA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of (a) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement, and (b) the Recipient’s maintenance of an appropriate macroeconomic policy framework.

The Recipient has also requested the International Bank for Reconstruction and Development (the Bank), to provide additional financing in support of the Program, and by an agreement of even date herewith between the Borrower and the Bank (the IBRD Loan Agreement), the Bank is agreeing to provide such assistance in an amount of four million five hundred thousand Dollars (\$4,500,000).

The Recipient and the Association therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to two million three hundred thousand Special Drawing Rights (SDR 2,300,000) (variously, “Credit” and “Financing”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are May 15 and November 15 in each year.

- 2.06 The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 2 to this Agreement.
- 2.07. The Payment Currency is Dollar.

ARTICLE III — PROGRAM

- 3.01 The Recipient declares its commitment to the Program and its implementation. To this end:
- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient's macroeconomic policy framework and the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.
- 4.02. The Additional Event of Acceleration consists of the following, namely, that the event specified in Section 4.01 of this Agreement occurs.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consists of the following:
- (a) The Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient's macroeconomic policy framework.
 - (b) The IBRD Loan Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals thereunder (other than the effectiveness of this Agreement) have been fulfilled.

- 5.02. Without prejudice upon the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than eighteen (18) months after the Association's approval of the Credit.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is its Minister responsible for finance

- 6.02. The Borrower's Address is:

Ministry of Finance, Planning, Economy,
Energy, Cooperatives
Financial Complex
The Carenage
St. Georges
GRENADA

Facsimile:

1-473-440-4115

- 6.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423(MCI)

1-202-477-6391

AGREED at the District of Columbia, United States of America, as of the day and year first above written.

GRENADA

By /s/ Gillian Bristol

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Yvonne Tsikata

Authorized Representative

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

The actions taken by the Borrower under the Program include the following:

Improving Public Sector Governance and Economic Management

1. The Recipient: (a) through its Parliament, has enacted the Value Added Tax Act, and said Act is in full force and effect; (b) has made the VAT Implementation Unit functional with adequate staffing and resources; and (c) has issued the regulations to the Value Added Tax Act to implement the VAT.

2. The Recipient, through its Ministry of Finance, has: (a) restructured said Ministry's Department of Economic Affairs and created, as a result of said restructuring the Economic Management and Planning Division, which structure includes: (i) a budget unit; (ii) a macro policy unit; and (iii) a debt management unit, to sharpen analytical underpinnings of policy framework and to improve economic management as part of the institutional reform of said Ministry; and (b) allocated in the Recipient's annual budgets for FY 2009 and FY 2010 adequate financial resources to support the function of said Division.

3. The Recipient, through its Ministry of Finance, has: (a) established a waste reduction unit to improve efficiency and introduce cost cutting measures with respect to regular monitoring of use of fuel consumption, and government vehicles and other potential sources of waste; and (b) allocated in the Recipient's annual budget FY 2010 adequate financial resources to support the function of the said unit.

Improving Effectiveness and Efficiency of Social Safety Nets

4. The Recipient has: (a) completed a Social Safety Net Assessment; and (b) conducted subsequent stakeholder consultations on the results of said assessment.

5. The Recipient through its Ministry of Finance has established a social safety net committee to spearhead reform efforts of its Social Safety Net System.

Promoting Financial Sector Stability and Improving Business Environment

6. The Recipient, through its High Court, has appointed a judicial manager to perform a review of BAICO within the Borrower's territory, with a view to recommending an orderly resolution in connection with the insolvency of BAICO.

7. The Recipient, through its Parliament, has enacted the Insurance Act, and said Act is in full force and effect.

8. The Recipient, through its Parliament, has enacted the Investment Promotion Act, and the said Act is in full force and effect.

9. The Recipient has: (i) amended the Deeds and Land Registry Act (CAP 79) through the enactment of the Deeds and Land Registry (Amendment) Act No. 21 of 2009, and (ii) enacted the Corporate Affairs and Intellectual Property Act No. 21 of 2009, to establish a separate deeds and land registry, and a separate corporate affairs and intellectual property office, respectively from the office of the Registrar of the High Court.

Section II. Availability of Financing Proceeds

- A. General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.
- B. Allocation of Financing Amounts.** The Financing is allocated in a single tranche, from which the Recipient may make withdrawals of the Financing. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Financing Allocated (expressed in SDR)
(1) Single Withdrawal Tranche	2,300,000
TOTAL AMOUNT	2,300,000

- C. Deposits of Financing Amounts.** Except as the Association may otherwise agree:
1. all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and
 2. the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.
- D. Excluded Expenditures.** The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.
- E. Closing Date.** The Closing Date is June 30, 2011.

SCHEDULE 2

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each May 15 and November 15:	
commencing November 15, 2020 to and including May 15, 2030	1.25%
commencing November 15, 2030 to and including May 15, 2045	2.5%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX

Section I. Definitions

1. “BAICO” means the British American Insurance Company, which operates across the Caribbean region (including the territory of the Recipient), and currently under judicial management in the Recipient’s territory.
2. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.
3. “Fiscal Year” and “FY” mean the Recipient’s fiscal year which commences on January 1 and ends on December 31 of each year.
 4. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006) with the modifications set forth in Section II of this Appendix.
 5. “High Court” means “the court established pursuant to the Recipient’s West Indies Associated States Supreme Court (Grenada) Act (CAP 336).
 6. “IBRD Loan Agreement” means the agreement between the Recipient and the Bank in support of the Program, of the same date as this Agreement, as such agreement may be amended from time to time. “IBRD Loan Agreement” includes all appendices, schedules and agreements supplemental to the Loan Agreement.
 7. “Insurance Act” means the Recipient’s Insurance Act No. 5 of 2009, which governs, *inter alia*, the regulation of the insurance business in the Recipient’s territory.
 8. “Investment Promotion Act” means the Recipient’s Investment Act No. 22 of 2009, which governs, *inter alia*, the promotion and facilitation of investment in the territory of the Recipient.
 9. “Ministry of Finance” means the Recipient’s Ministry of Finance, Planning, Economy, Energy and Cooperatives, the Ministry responsible for finances of the Recipient.
 10. “Parliament” means the legislative assembly of the Borrower.
 11. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated March 29, 2010, from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.

12. “Registrar of the High Court” means the registrar of the High Court of the Recipient appointed pursuant to Section 88 of the Recipient’s Constitution.
13. “Single Withdrawal Tranche” means the amount of the Financing allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
14. “Social Safety Net Assessment” means the social safety net assessment set forth in the Recipient’s report titled “Grenada Social Safety Net Assessment” dated August 2009.
15. “Social Safety Net System” means the Recipient’s social protection system consisting of noncontributory transfer programs designed to provide support to the poor or the vulnerable groups.
16. “Value Added Tax Act” means the Recipient’s Value Added Tax Act No. 23 of 2009, which governs the application and collection of the value added tax.
17. “VAT Unit” means the unit within the Recipient’s Ministry of Finance, and responsible for administration of the Value Added Tax.

Section II. Modifications to the General Conditions

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Section 2.05 (renumbered as such pursuant to paragraph 2 above) is modified to read as follows:

“Section 2.05. Refinancing Preparation Advance

If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank (“Preparation Advance”), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

4. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
5. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
6. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. *Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

7. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.07. *Program Monitoring and Evaluation*

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.”

8. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

- (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.

- (a) The term “Program Preparation Advance” (renamed as such pursuant to subparagraph 8 (c) above) is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.05.”