

CONFORMED COPY

April 21, 2011

Ms. Nemat Shafik
Deputy Managing Director
International Monetary Fund
700 19th Street N.W.
Washington D.C. 20431
U.S.A.

Letter of Understanding between the International Monetary Fund (“IMF”) and the International Bank for Reconstruction and Development and the International Development Association (collectively, the “Bank”) concerning the Multi-Donor Trust Fund Supporting Economic Management in the Caribbean (“SEMCAR”) (TF099282)

Dear Ms. Shafik:

1. We refer to the Multi-Donor Trust Fund Supporting Economic Management in the Caribbean (the “Trust Fund”), a multi-donor trust fund established on February 2, 2011 through administration agreements between the Bank and donors (the “Administration Agreements”) contributing funds to the Trust Fund for the SEMCAR program (the “Program”).

2. Grant to IMF

2.1. We are pleased to inform you that the Bank, acting on behalf of the donors (the “Donors”) to the Trust Fund, acknowledges the intention of the Donors to make available to the IMF a grant in the sum of five million six hundred and thirty-eight thousand United States dollars (US\$ 5,638,000) (the “Grant”) to be used in accordance with the essential terms and conditions, as set forth in this Letter of Understanding (the “LOU”).

2.2. The Grant will be deposited in accordance with paragraph 4 into the World Bank Subaccount (the “Subaccount”) established by the International Monetary Fund on March 28, 2011 under the Instrument for the Framework Administered Account for Selected Fund Activities (the “SFA Framework Instrument”), which will govern the administration of resources of and the activities financed under the Subaccount.

3. Use of the Grant

3.1. The IMF will use the Grant only for the purposes set forth in this LOU and its Annex. The activities financed under the Subaccount are the activities implemented by the IMF for the benefit of those member countries described in the attached Annex (the “Activities”).

3.2. The Grant may be used to finance the Activities consistent with Article V, Section 2(b) of the IMF’s Articles and the IMFs’ policies, guidelines, and procedures.

3.3. In accordance with paragraph 5 of the SFA Framework Instrument, an amount equivalent to seven percent (7%) of the costs of the Activities will be charged to the Subaccount to help cover the expenses incurred by the IMF in the administration of the Subaccount.

4. Transfer of the Grant

The Bank will promptly transfer the Grant into such bank account designated by the IMF, provided the Donors have transferred sufficient funds into the Trust Fund, in accordance with the following schedule:

- (a) following the effectiveness of this LOU, an amount of one million nine hundred and ninety thousand United States dollars (US\$ 1,990,000);
- (b) on March 2012, an amount of two million and forty nine thousand United States dollars (US\$ 2,049,000); and
- (c) on March 2013, an amount of one million five hundred and ninety nine thousand United States dollars (US\$ 1,599,000).

5. Responsibilities of the Parties and Governance

5.1. Following the transfer of the Grant, the IMF will be responsible for the use of the funds, agrees to identify the eligible activities, and will employ the necessary personnel for the implementation of the Activities.

5.2. The Bank will not be responsible to implement, monitor, supervise, evaluate, or provide quality assurance for the Activities.

5.3. A donors committee (the “Donors Committee”) will be established and will be composed of representatives of the donors contributing to the Trust Fund. The Donors Committee will meet annually and will be responsible for: (i) providing general guidance for the implementation of the Program; (ii) making decisions about allocations of proceeds from the Trust Fund; (iii) setting priorities, including approving annual work plans of the Program, and monitoring, reviewing and

approving progress and financial reports; and (iv) seeking additional contributions to the Trust Fund, as needed. A steering committee (the “Steering Committee”) will be established and will include representatives of each country in the Caribbean Sub-region that are beneficiaries of the Program, representatives of donors contributing to the Trust Fund, the IMF, and the Bank. The Steering Committee will discuss the semi-annual financial and progress reports, and annual work plans received from the project management team, to be submitted to the Donors Committee for approval. A project management team (the “Project Management Team” or PMT) will be established at the Bank’s Latin America and Caribbean Region Vice-Presidency which will be responsible, inter alia, for, appraising, supervising, and reporting on Recipient-executed Projects; carrying out Bank-executed activities; and submitting to the Donors Committee, through the Steering Committee, annual work plans and semi-annual financial and progress reports. With respect to the work plans and reports to be submitted to the Donors Committee for activities implemented by the IMF, the Project Management Team shall be responsible solely for receiving from the IMF their work plans and reports and transferring them to the Donors Committee, through the Steering Committee. A program management team (the “Program Management Team”) comprised of the PMT and the IMF team will be established to coordinate the overall implementation of the Program, however, each team will be responsible for developing their respective activities to be included in the works plans, and implementing/executing and/or supervising their respective activities as set out in the work plans consistent with their respective policies and procedures.

6. Investment of the Grant

The IMF will invest the Grant, pending its disbursement, in accordance with the SFA Framework Instrument. The IMF will use earnings, net of any costs associated with such investment, for the purposes of this LOU.

7. Reporting

7.1. The IMF will maintain separate records in respect of the Grant in the Subaccount and the amounts disbursed from it, in accordance with the SFA Framework Instrument.

7.2. Through the PMT, (a) Donor(s) may request an ex-post evaluation of the Activities. The IMF will participate in such an evaluation. Such evaluation will be planned ahead and, understandings will be reached between the Donor(s) and the IMF in advance on procedural matters such as timing, scope of the review or evaluation, questions the review or evaluation wishes to raise, and nature of the financial information sought. The cost of any such evaluation will be borne by the Donor(s). The terms of reference and the final report of this evaluation will be shared with the IMF.

7.3. The IMF will furnish the Donors Committee, through the PMT and the Steering Committee, financial and progress reports, as set out below under (a) through (c). The IMF will notify the Bank and, through the PMT, the Donors Committee, of updates having been posted on the IMF donor gateway (the “IMF Donor Gateway”)¹. The Bank and, through the PMT, the Donors will have access to the IMF Donor Gateway:

- (a) semi-annual financial reports;
- (b) semi-annual narrative progress reports; and
- (c) a final financial and narrative report on the Activities, within six (6) months of the End Date (as defined below) or date of termination of the Activities, whichever is earlier.

7.4. All technical assistance outputs financed under the Subaccount are the intellectual property of the IMF. The IMF may share final technical assistance outputs related to the Activities with the Bank upon the Bank’s request.

8. End Date, Termination, and Refund

8.1. No payments will be made by the IMF after November 30, 2013 (the “End Date”), unless the End Date is extended in writing, as may be agreed between the Bank and the IMF. Following the End Date, the IMF will return any unused funds and any investment income earned on the Grant, for further deposit in the SEMCAR Trust Fund.

8.2. This LOU may be terminated by either party upon three (3) months prior written notice. In the event of termination of the LOU, the balances remaining at the time of termination, net of any amounts of continuing liabilities and commitments, will be retransferred to the Bank or to another IMF subaccount, at the request of the Bank.

9. Communication and Addresses

Any notice, request or other communication to be given or made under this LOU will be in writing and delivered by mail, facsimile or e-mail to the respective party’s address specified below or at such other address as such party notifies in writing to the other party from time to time:

¹ The IMF Donor Gateway is a secure web-site that the Bank and at the Bank’s request, Donors, may access through <https://extranet.imf.org/>. Such notification will constitute reporting for purposes of paragraph 11 of the SFA Framework Instrument.

For the Bank:

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10. Dispute Resolution, Amendment, and Effectiveness

10.1. The Bank and the IMF will use their best efforts to amicably resolve any disputes, controversies, or claims arising out of this LOU.

10.2. This LOU may be amended in writing only.

10.3. This LOU will become effective upon the date of countersignature.

11. Disclosure

11.1. The Bank will disclose this LOU in accordance with the World Bank Policy on Access to Information. The IMF consents to the disclosure of this LOU consistent with its disclosure policy.

11.2. The Bank will obtain the IMF's prior written consent before publicly disclosing information that the IMF has provided as a result of this LOU and has explicitly indicated as proprietary, strictly confidential and/or confidential, and will not be disclosed outside of the Bank.

11.3. Please confirm your agreement with the foregoing, on behalf of the IMF, by signing, dating, and returning to us the enclosed copy of this LOU.

Sincerely,

**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION**

/s/ Françoise Clottes
Country Director
Caribbean Country Management Unit
Latin America and the Caribbean Region

AGREED:

INTERNATIONAL MONETARY FUND

By: /s/ Nemat Shafik
Deputy Managing Director

Date: April 25, 2011

**Description of Objectives, Purpose and Activities under the
Supporting Economic Management in the Caribbean (SEMCAR) Grant**

1. Objectives

1.1. The objectives of the SEMCAR Program supported by the Trust Fund is to improve economic management, regional integration and competitiveness in the Caribbean sub-region by facilitating the emergence of efficient, effective, accountable and regionally-integrated institutions, policies, processes as well as information and communication technology (ICT) in tax, customs and public financial management systems, through the provision of policy advice, technical assistance and selected investments in information and communication technology.

1.2. For the purposes of the Grant, the Caribbean sub-region comprises: (i) the following countries: Antigua, Barbados, Belize, Commonwealth of Dominica, Grenada, Cooperative Republic of Guyana, Jamaica, Saint Kitts & Nevis, St Lucia, Suriname, Trinidad & Tobago, and Saint Vincent; and (ii) any other country as may be added to this list by writing between the IMF and the Donors Committee.

2. Grant Purpose and Activities

The purpose of the Grant is to finance the activities to be executed by the IMF, which will be further defined in the annual work plans to be approved by the Donors Committee, consistent with the components as described in section 7 of the Program Document, dated April 14, 2011, as may be amended from time to time by the Bank and the IMF with the agreement of the donors, which may include but not be limited to the following:

- (a) scoping assessments in the areas of tax, customs and public financial management;
- (b) assessment mission in the areas of tax, customs and public financial management;
- (c) technical assistance in the areas of tax, customs and public financial management; and
- (d) management of the activities executed by the IMF under the Program.