

CONFORMED COPY

CREDIT NUMBER 4752-LC

Financing Agreement

(Economic and Social Development Policy Operation)

between

SAINT LUCIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 24, 2010

FINANCING AGREEMENT

Agreement dated June 24, 2010, entered into between SAINT LUCIA (“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 (“Bank”), to provide additional financing in support of the Program, and by an agreement of even date herewith between the Borrower and the Bank (“Loan Agreement”), the Bank is agreeing to lend the amount of four million Dollars (\$4,000,000).

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 five million three hundred thousand Special Drawing Rights (SDR 5,300,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 January 15 and July 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 Events of Suspension consist of the following:
- (a) A situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.
 - (b) The Recipient's macroeconomic policy framework has become inconsistent with the objectives of the Program.
 - (c) An action has been taken or a policy has been adopted to reverse any action or policy under the Program in a manner that would, in the opinion of the Association, adversely affect the achievement of the objectives of the Program.
 - (d) An action has been taken or a policy has been adopted to reverse any action listed in Section I of Schedule 1 to this Agreement.
- 4.02. The Additional Event of Acceleration consists of the following, namely, that any event specified in paragraphs (a), (b), (c) or (d) of Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Association to the Recipient.

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
3rd Floor Financial Center
Bridge Street
Castries, Saint Lucia

Telephone:	Facsimile:
1-758-468-5502	1-758-452-6700

- 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	248423(MCI)	1-202-477-6391
Washington, D.C.		

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

SAINT LUCIA

By /s/ Michael Louis

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 Recipient under the Program include the following:

Improving Business Environment, Competitiveness, and Strengthening the Financial Sector

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

Improving Public Sector Governance and Economic Management

3. The Recipient has established a cap on public service employment to hold the size of funded positions at the FY 2008/2009 levels (6884 funded positions), and stopped the funding of vacant approved positions as outlined in the FY 2009/2010 budget (7603 approved positions) in said sector.
4. The Recipient has merged its Ministry of Finance and the Ministry of Economic Planning and National Development to create the Ministry of Finance, Economic Affairs and National Development under the administration of a single Permanent Secretary, pursuant to its Cabinet Decision No. 989 of 2009.
5. The Recipient has: (a) submitted to its Parliament a Value Added Tax Bill; and (b) has established a VAT Implementation Unit and made said unit functional with adequate staffing and resources.
6. The Recipient has commenced the implementation of ASYCUDA World program in its customs department as follows: (a) allocated an amount of approximately EC\$1.5 million for the implementation of said program in the FY 2009/2010 budget; (b) launched a training program for its customs administration personnel; (c) completed a prototype software for ASYCUDA World program; and (d) developed a corporate strategic and business plan outlining a sequential implementation of said ASYCUDA World program for the next three years.

Improving Effectiveness and Efficiency of Social Safety Nets

7. The Recipient has: (a) completed a Social Safety Net Assessment; and (b) conducted subsequent stakeholder consultations on the results of said assessment.
8. The Recipient has established a Social Safety Net Steering Committee to spearhead reform efforts of its Social Safety Net System.

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	5,300,000
TOTAL AMOUNT	5,300,000

- C. Deposits of Financing Amounts.** Except as the Association may otherwise agree:
- 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
 - 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. Audit.** Upon the Bank's request, the Recipient shall:
- have the account referred to in Section C.1 of this Section II audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;
 - furnish to the Association as soon as available, but in any case not later than four months of the date of the Association's request for such audit, or such later date as the Association may agree, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request; and
 - furnish to the Association such other information concerning the account, and audit in such detail as the Association shall reasonably request.
- E. 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.

F. 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 January 15 and July 15:	
commencing July 15, 2020 to and including January 15, 2030	1.25%
commencing July 15, 2030 to and including January 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. “ASYCUDA World” means the Automated System for Customs Data provided by UNCTAD (as hereinafter defined).
2. “BAICO” means the British American Insurance Company, which operates across the Caribbean region (including the territory of the Recipient’s), and currently under judicial management in the Recipient’s territory.
3. “Eastern Caribbean Dollar” and “EC” mean the currency of the Recipient.
4. “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.
5. "Fiscal Year" and "FY" mean the Recipient's fiscal year commencing on April 1 of each year and ending on March 31 of the following year.
 6. "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.
 7. "High Court" means "the court established pursuant to the Recipient's Eastern Caribbean Supreme Court (Saint Lucia) Act, Supreme Court Order Cap2.01 of the 2006 Revised laws of the Recipient.
 8. "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.
 9. "Insurance Bill" means the Recipient's proposed Insurance Bill which is intended to be enacted into law to govern, *inter alia*, the regulation of the insurance business in the Borrower's territory.
 10. "Parliament" means the legislative assembly of the Recipient.

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 April 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. “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.
13. “Social Safety Net Assessment” means the Recipient’s social safety net assessment dated August 2009.
14. “Social Safety Net Steering Committee” means the Recipient’s inter-ministerial committee established pursuant to the Recipient’s Cabinet Conclusion No. 248 of 2010.
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. “UNCTAD” means The United Nations Conference on Trade and Development.
17. “Value Added Tax” and “VAT” mean the Recipient’s levy or charge on goods and services to be established pursuant to the enactment of the proposed Value Added Tax Bill (as hereinafter defined).
18. “Value Added Tax Bill” means the Recipient’s proposed Value Added Tax Bill, which is intended to be enacted into law to govern the application and collection of the Value Added Tax.
19. “VAT Unit” means the unit to be established within the Recipient’s Ministry of Finance, with the responsibility 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.”