

CREDIT NUMBER 3940-HO

Development Credit Agreement

(Forests and Rural Productivity Project)

between

REPUBLIC OF HONDURAS

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated

, 2004

CREDIT NUMBER 3940-HO

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated _____, 2004, between
REPUBLIC OF HONDURAS (the Borrower) and INTERNATIONAL
DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement (the Project), has requested the Association to assist in the financing of the Project; and

WHEREAS (B) the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through October 6, 1999) (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “AFE-COHDEFOR” means *Corporación Hondureña de Desarrollo Forestal*, the Borrower’s Corporation for Forestry Development, established pursuant to the Borrower’s Decree Law No. 103 dated January 10, 1974 (as such Decree Law has been amended to the date of this Agreement), or any successor thereto, acceptable to the Association;

(b) “AMHON” means *Asociación de Municipios de Honduras*, the Honduran Association of Municipalities, a legal entity established pursuant to the Borrower’s Ministerial Resolution No. 16-1962 of April 11, 1962;

(c) “Buffer Zone” means the zone, at least two kilometers wide, which forms the perimeter around, and is contiguous to, the Core Zone in a Protected Area, where multiple productive activities may be carried out in accordance with the decree establishing the respective Protected Area;

(d) “CIEF” means *Centro de Información y Estadísticas Forestales*, the Borrower’s Forest Information and Statistics Center;

(e) “Collaborating Entities” means DINADERS, SERNA and AMHON;

(f) “Core Zone” means the part of the Protected Area which is set aside for restricted use, and which serves to protect, conserve and maintain in perpetuity critical habitat and species;

(g) “DICTA” means *Dirección de Ciencia y Tecnología Agropecuaria*, the Borrower’s Directorate for Agricultural Science and Technology;

(h) “DINADERS” means *Dirección Nacional de Desarrollo Rural Sostenible*, the Borrower’s National Directorate for Sustainable Rural Development;

(i) “Eligible Beneficiary” means a local group, rural community, Municipality, private entity or NGO which has met the criteria set forth in the Operational Manual to benefit from the carrying out of a Subproject;

(j) “Ethnic Lands” means those lands that have been ancestrally and historically settled by Amerindian groups and/or Afro-Honduran communities for their use and that constitute their habitat on which they undertake their traditional productive and cultural practices;

(k) “Executing Agencies” means AFE-COHDEFOR, DICTA, SGJ and INA;

(l) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(m) “Implementation Letter” means the letter of even date herewith, from the Borrower to the Bank, containing the performance indicators for Project monitoring and evaluation;

(n) “INA” means *Instituto Nacional Agrario*, the Borrower’s National Agrarian Institute;

(o) “IPDP” means the Indigenous Peoples Development Plan referred to in Section 3.08 (b) of this Agreement;

(p) "MOU" means each memorandum of understanding with a Collaborating Entity referred to in Section 3.01 (c) of this Agreement;

(q) "Municipality" means an autonomous entity established pursuant to the Borrower's Decree 134-90 dated October 29, 1990;

(r) "Municipality Agreement" means any of the agreements mentioned in Section 3.01 (d) of this Agreement;

(s) "Operational Manual" means the manual referred to in Section 3.04 of this Agreement;

(t) "Participation Agreement" means each agreement with an Executing Agency referred to in Section 3.01 (b) of this Agreement;

(u) "PCU" means the unit referred to in Section 3.05 (a) of this Agreement;

(v) "Procurement Agent" means an entity, satisfactory to the Association, that may provide assistance to the Borrower as a procurement agent and advisor under a Procurement Agreement;

(w) "Procurement Agreement" means the agreement referred to in Section 3.02 (a) of this Agreement;

(x) "Project Area" means the area consisting of the Borrower's thirty-six Municipalities set forth in Schedule 5 to this Agreement (including approximately eleven Protected Areas and thirteen forest management units) and any other Municipalities which may be acceptable to the Association in addition to, or in substitution of, those set forth in said Schedule 5;

(y) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on September 29, 2003 and on behalf of the Borrower on November 4, 2003;

(z) "Protected Area" means an area officially designated by the Borrower to be under a special management regime for the primary purpose of ensuring its biodiversity and ecological integrity;

(aa) "Protected Areas Fund" means the fund referred to in Section 3.10 of this Agreement;

(ab) "SAG" means *Secretaría de Estado en los Despachos de Agricultura y Ganadería*, the Borrower's Ministry of Agriculture and Livestock;

(ac) “SEFIN” means *Secretaría de Estado en el Despacho de Finanzas*, the Borrower’s Ministry of Finance;

(ad) “SERNA” means *Secretaría de Estado en el Despacho de Recursos Naturales y Ambiente*, the Borrower’s Ministry of Natural Resources and the Environment;

(ae) “SGJ” means *Secretaría de Estado en el Despacho de Gobernación y Justicia*, the Borrower’s Ministry of Interior and Justice;

(af) “SINAPH” means *Sistema Nacional de Áreas Protegidas de Honduras*, the Borrower’s National Protected Areas System;

(ag) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;

(ah) “Subproject” means a specific set of activities: (i) which meet the criteria set forth in the Operational Manual; (ii) to be financed out of the proceeds of the Credit; (iii) carried out by Eligible Beneficiaries with the assistance of Technical Service Providers; (iv) for the transfer of technology and the carrying out of local institutional capacity building and applied research in the areas of agriculture, livestock, forestry and micro-watershed management; and (v) involving the use of technical assistance, utilization of goods, carrying out of works and expenditure for operating costs;

(ai) “Subproject Agreement” means any of the agreements referred to in Section 3.01 (e) of this Agreement to carry out a Subproject; and

(aj) “Technical Service Provider” means an entity which has met the criteria set forth in the Operational Manual to assist the Eligible Beneficiaries in the carrying out of Subprojects.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to thirteen million four hundred thousand Special Drawing Rights (SDR 13,400,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of

payments and the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in United States Dollars a special deposit account in its Central Bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be January 31, 2010 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 15 and September 15 commencing September 15, 2014 and ending March 15, 2044. Each installment to and including the installment payable on March 15, 2024 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through SAG and with the assistance of the Executing Agencies, the Collaborating Entities and applicable Municipalities with due diligence and efficiency and in conformity with appropriate engineering, social, economic, financial, administrative and environmental practices, and in accordance with the Operational Manual, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) (i) Without limitation to the provisions of paragraph (a) above, the Borrower, through SAG, shall enter into an agreement (a Participation Agreement) with each Executing Agency under terms and conditions satisfactory to the Association, including those set forth in the Operational Manual; and (ii) except as the Association shall otherwise agree, the Borrower shall not amend, assign, abrogate, suspend, terminate, waive or fail to enforce any Participation Agreement or any provision thereof.

(c) (i) Without limitation to the provisions of paragraphs (a) and (b) above, the Borrower, through SAG, shall enter into a Memorandum of Understanding (an MOU) with each Collaborating Entity under terms and conditions satisfactory to the Association, including those set forth in the Operational Manual; and (ii) except as the Association shall otherwise agree, the Borrower shall not amend, assign, abrogate, suspend, terminate, waive or fail to enforce any MOU or any provision thereof.

(d) (i) Without limitation to the provisions of paragraphs (a), (b) and (c) above, the Borrower, through SAG, shall, prior to carrying out any Project activity which falls within the territorial jurisdiction of one or more Municipalities, enter into an agreement (a Municipality Agreement) with the pertinent Municipalities under terms and conditions satisfactory to the Association, including those set forth in the Operational Manual; and (ii) except as the Association shall otherwise agree, the Borrower shall not amend, assign, abrogate, suspend, terminate, waive or fail to enforce any Municipality Agreement or any provision thereof.

(e) (i) Without limitation to the provisions of paragraphs (a), (b), (c) and (d) above, the Borrower, through SAG, shall, for purposes of financing Subprojects (under Part A.1 of the Project), enter into an agreement (a Subproject Agreement) with each Eligible Beneficiary and Technical Service Provider pairing under terms and conditions satisfactory to the Association, including those set forth in the Operational Manual; and (ii) except as the Association shall otherwise agree, the Borrower shall not amend, assign, abrogate, suspend, terminate, waive or fail to enforce any Subproject Agreement or any provision thereof.

Section 3.02. (a) For the purposes of providing procurement agency and advisory assistance to the Borrower, the Borrower shall enter into an agreement with a Procurement Agent, under terms and conditions satisfactory to the Association (the Procurement Agreement).

- (b) (i) The Borrower shall exercise its rights and carry out its obligations under the Procurement Agreement in such a manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit; and
- (ii) except as the Association may otherwise agree, the Borrower shall not assign, amend, abrogate, suspend, waive, terminate or fail to enforce the Procurement Agreement or any provision thereof.

Section 3.03. Except as the Association shall otherwise agree, procurement of the goods, works, and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.04. (a) The Borrower, through SAG, shall issue an operational manual (the Operational Manual), satisfactory to the Association, setting forth rules and procedures for the carrying out of the Project, such manual to include, *inter alia*:

- (i) an environmental management plan;
- (ii) the IPDP;
- (iii) a resettlement process framework;
- (iv) the model form of Participation Agreement, MOU, Municipality Agreement and Subproject Agreement;
- (v) the standard bidding documents for procurement of non-consultant technical services;
- (vi) the specific land regularization procedures applicable under Part B.2 of the Project, which shall be consistent with the procedures set forth in the operational manual for the Borrower's Land Administration Project approved by the Association on February 26, 2004 (Credit 3858 - HO);
- (vii) the process and the forestry policy requirements referred to in Section 3.08 (g) and (h) of this Agreement, respectively; and

(viii) the functions, staffing and responsibilities of the PCU.

(b) The Operational Manual may be amended by SAG from time to time with the prior approval of the Association. In the case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.05. The Borrower shall:

(a) maintain, during Project implementation, a Project coordination unit (the PCU) in accordance with the functions, staffing and responsibilities set forth in the Operational Manual, including, but not limited to, a technical unit responsible for overseeing the day-to-day implementation of Project activities and a private certification unit to evaluate, supervise and certify the results of the Subprojects financed under Part A.1 of the Project; and

(b) establish and maintain, during Project implementation, a high-level Council of Governors, in accordance with the functions and responsibilities set forth in the Operational Manual, which shall be chaired by SAG, and include representatives of each of the Executing Agencies and of civil society.

Section 3.06. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in the Implementation Letter, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, two months after the end of each semester during Project implementation (beginning for the semester commencing on the Effective Date), progress reports integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;

(c) review with the Association not later than three months after the end of each year (beginning for the year commencing on the Effective Date), the reports referred to in paragraph (b) above, for such year's semesters and, as a consequence of such annual review, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said reports and the Association's views on the matter; and

(d) in preparation for the annual review to be held in 2006 and referred to in paragraph (c) above, the Borrower, through SAG, shall have independent consultants, acceptable to the Association and working under terms of reference satisfactory to the Association, carry out an evaluation of Project performance and shall, no later than one month prior to such annual review, present the results of that evaluation to the Association, in the form of said consultants' final report, which shall include recommendations, as warranted, for adjustments to Project design, implementation schedule, institutional and implementation arrangements, rules and procedures, based on the outcome of said evaluation.

Section 3.07. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the continued achievement of the Project's objectives; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.08. Without limitation to the Borrower's obligations in Section 3.01 of this Agreement, the Borrower shall:

(a) carry out an environmental management plan, acceptable to the Association, in accordance with its terms;

(b) carry out an indigenous peoples development plan (the IPDP), acceptable to the Association, in accordance with its terms;

(c) in the event that an activity in the Project Area requires resettlement of population, prior to the initiation of any such activity: (i) prepare (in accordance with the principles and guidelines set forth in the Operational Manual) and furnish to the Association a resettlement plan for such population, satisfactory to the Association; and (ii) promptly thereafter, carry out the corresponding resettlement plan in accordance with its terms;

(d) in the event that any activity under the Project in a Protected Area results in the loss of access to resources by people living in the Protected Area or in its Buffer Zone, the Borrower shall apply a resettlement process framework, acceptable to the Association, in accordance with its terms;

(e) ensure that: (i) no harvesting of forest products is permitted or supported inside Core Zones of Protected Areas; (ii) no investments with potential for inducing migration into Protected Areas are supported; (iii) appropriate deed and usufruct

restrictions are applied in the regularization of the traditional rights of populations living in the Borrower's national forests; and (iv) the appropriate Buffer Zone management standards, as detailed in the Operational Manual, are implemented;

(f) ensure that: (i) the transfer of cultural practices and biological control are used for pest management; and (ii) no pesticides are procured under the Project, with the exception of pesticides which may be required for use under controlled conditions such as in forest tree nurseries, provided, however, that in no case may the following be used: (A) pesticides that are formulated products within classes IA and IB of the World Health Organization's Recommended Classification of Pesticides by Hazard and Guidelines to Classification (Geneva: WHO, 1994-95; hereinafter WHO Guidelines), or formulations of products in Class II of the WHO Guidelines; or (B) substances included in the "Persistent Organic Pollutants", "Prior Informed Consent" and "Dirty Dozen" lists, as set forth in the Operational Manual;

(g) ensure that, prior to the Borrower entering into any forest management contracts or agreements affecting national lands (located within the Project Area) with individuals, groups, communities, municipalities, or private firms and investors during Project implementation a process satisfactory to the Association of consultation, diagnostics and analysis of the existing tenure and natural resource use, as set forth in the Operational Manual, shall have been completed; and

(h) prior to the Borrower entering into any forest management contracts or agreements affecting national lands (located within the Project Area) with the stakeholders mentioned in paragraph (g) above, adopt, and/or cause said stakeholders to adopt, the forest policy requirements and comply and/or cause compliance with the environmental and social safeguards set forth in the Operational Manual, as appropriate.

Section 3.09. The Borrower shall ensure that at least fifty percent co-financing is available from non-Project sources and that recurrent maintenance and operating costs can be reasonably assured prior to commencing the rehabilitation and/or equipping of any visitors' and/or research center under Part B.3 (b) (i) of the Project.

Section 3.10. No later than April 30, 2005, the Borrower shall establish a Protected Areas endowment fund (the Protected Areas Fund), satisfactory to the Association, to finance protection and management expenditures in priority SINAPH Protected Areas under Part B.3 (a) (ii) of the Project.

Section 3.11. The Borrower shall ensure that no titling of lands with cultural value in the Project Area, according to the criteria set forth in the Operational Manual, under Part B.2 of the Project, will take place unless the Borrower has issued a decree establishing those lands as cultural heritage sites. Such titles shall not allow the owners to act in contravention of the cultural heritage status of the affected sites.

Section 3.12. The Borrower shall ensure that no private land titles are issued in areas within or adjacent to: (a) Protected Areas unless the boundaries of said Protected Areas, have been delineated in a manner satisfactory to the Association; and/or (b) other critical natural habitats (areas of known high conservation value), unless the Borrower has issued a decree converting such habitats into Protected Areas. Such titles shall not allow the owners to act in contravention of the protected status of the affected areas.

Section 3.13. The Borrower shall ensure that no titling or physical demarcation of lands adjacent to Ethnic Lands will take place unless procedures that adequately protect the rights of indigenous and Afro-Honduran peoples, duly consulted with affected parties in a manner satisfactory to the Association, and set forth in the Operational Manual have been followed.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project (including those related to the Protected Areas Fund).

- (b) The Borrower shall:
 - (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made, audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
 - (ii) furnish to the Association as soon as available, but in any case not later than four months after the end of each such year (or such other period agreed to by the Association): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
 - (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial

statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.06 of this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project (including those related to the Protected Areas Fund), both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) Any Executing Agency shall have failed to perform any of its obligations under its respective Participation Agreement.

(b) Any Collaborating Entity shall have failed to perform any of its obligations under its respective MOU.

(c) Any Municipality shall have failed to comply with any of its obligations under its respective Municipality Agreement.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely, that any of the events specified in Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) that the Operational Manual, including an operating plan for the first year of Project implementation and a detailed procurement plan satisfactory to the Association, has been issued and put into effect;

(b) that the PCU has been properly staffed (including the selection of a procurement officer and a financial officer) as referred to in Section 3.05 (a) of this Agreement;

(c) that the financial management system referred to in Section 4.01 (a) of this Agreement and a time-bound action plan therefor has been established and become operational; and

(d) that the Procurement Agreement has been signed by the Procurement Agent and the Borrower and entered into effect.

Section 6.02. The date _____ hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Secretary of SEFIN of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Secretaría de Estado en el Despacho de Finanzas
Tegucigalpa, M.D.C
Honduras

Cable address:

HACIENDA
Tegucigalpa

Facsimile:

(504) 237-4142

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in _____, as of the day and year first above written.

REPUBLIC OF HONDURAS

By

Authorized Representative

INTERNATIONAL DEVELOPMENT
ASSOCIATION

By

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	400,000	88%
(2) Goods	300,000	100% of foreign expenditures and 88% of local expenditures
(3) Consultants' services (excluding Procurement Agent's fees)	5,600,000	98%
(4) Non-consultant technical services	750,000	100% of foreign expenditures and 88% of local expenditures
(5) Payments made to Eligible Beneficiaries and Technical Services Providers by SAG for Subprojects	3,750,000	100%
(6) Training/Workshops	750,000	100%
(7) Refunding of Project Preparation Advance	1,300,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(8) Unallocated	550,000	
TOTAL	<u>13,400,000</u>	

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term “Non-consultant technical services” means: (i) cadastral surveys and inquiries; and (ii) legal and social activities for land demarcation and regularization; and

(d) the term “Training/Workshops” means expenditures (other than for consultants’ services) incurred for: (i) reasonable travel, room, board and *per diem* expenditures incurred by trainers and trainees in connection with their training and by non-consultant training facilitators; (ii) course fees; (iii) Training/Workshop facility and equipment rentals; (iv) training material preparation, acquisition, reproduction and distribution expenses not otherwise covered under this paragraph; (v) scholarships and fellowships for training courses to be provided in the Borrower’s territory or abroad; and (vi) study tours and internships in the Borrower’s territory or abroad.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$150,000 equivalent per contract; (b) works costing less than \$1,500,000 equivalent per contract; (c) non-consultant technical services costing less than \$1,500,000 equivalent per contract; (d) services of individual consultants costing less than \$50,000 equivalent per contract; (e) services of consulting firms under contracts costing less than \$100,000 equivalent per contract; (f) training/workshops; and (g) payments for Subprojects, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to increase the economic benefits and environmental services derived from forest ecosystems in selected low income Municipalities within the Project Area with high agro-forestry potential.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Community Forestry: Forestry and Agricultural Extension, Applied Research and Training

1. Carrying out of Subprojects.
2. Carrying out of training in the technological, methodological and organizational/administrative areas to strengthen the capacity of key local actors in the preparation and implementation of Subprojects, including Municipalities, Technical Service Providers and community and farmer leaders (men and women).

Part B: Forest Management, Tenure and Conservation

1. Forest Management

Supporting forest management planning and forest protection in national, municipal, communal and private lands, and forest management in national lands, through:

- (a) forest protection interventions (forest fire planning, prevention and control, watershed management planning and implementation, and forest pest management and control);
- (b) the carrying out of an environmental impact assessment and development of forest protection plans for forest management units or Municipalities, as necessary;
- (c) the provision of institutional assistance to AFE-COHDEFOR to transfer the knowledge and capacity required to adopt, sustain and replicate on other national lands forest management methodologies and practices and to modernize the CIEF;
- (d) the development of management plans in forest management units that lack them and to update existing management plans in other forest management units;

(e) the carrying out of community and municipal consultations, informal training and dissemination of materials to ensure local participation and inputs into the forest management planning and implementation processes and to enhance transparency;

(f) the carrying out of silvicultural and other forest management activities identified in forest management plans in national forest lands, including site preparation, forest regeneration, thinning, controlled burning, nurserying of forest trees and forest road rehabilitation; and

(g) the carrying out of a rural youth pilot project to educate rural youth and involve them in forest conservation activities.

2. Regularization of Forest Land Tenure

Strengthening and expanding the process of regularization of rights of populations living in national lands, through:

(a) the provision of support to develop policies, norms and instruments for the regularization of the traditional rights of populations living in national forest lands, including the development of appropriate deed and usufruct restrictions to ensure the maintenance of the forests and the environmental services they provide, in accordance with the criteria and procedures set forth in the Operational Manual;

(b) the provision of support to the implementation of a registry system for national forest lands that includes a registry of national forest lands and their occupants (*Catálogo de Patrimonio Forestal Inalienable*);

(c) the carrying out of cadastral work to legally delimit and demarcate boundaries of national forest lands and Protected Areas;

(d) the carrying out of social promotion strategies and application of conflict resolution mechanisms;

(e) legalization, titling and registration of properties within the Project Area by INA and the Municipalities; and

(f) (i) carrying out of a census of occupants on forestry management units (*unidades de gestión forestal*) within the Project Area and provision of certificates of occupation to such inhabitants, subject to the acquiescence of said inhabitants, as provided in the Management Plans; (ii) legalization, titling and registration of selected forestry management units (*unidades de gestión forestal*) within the Project Area to the Borrower for administration by AFE-COHDEFOR under a parcel-based system (*folio real*); and (iii) the transfer of data referred to in (i) and (ii) above into CIEF.

3. Protected Areas Management

Strengthening SINAPH and supporting actions to consolidate management in approximately eleven priority Protected Areas within the Project Area, through:

(a) at the national level: (i) the decentralization and deconcentration of the management of Protected Areas; (ii) the implementation of the Protected Areas Fund as a mechanism to finance protection and management expenditures in priority SINAPH Protected Areas; (iii) the development of policies and norms for payment of the environmental services provided by SINAPH; (iv) the participatory co-management of protected areas through community-based structures, and for conservation of critical biodiversity habitat, including conservation easements; (v) the provision of technical assistance to facilitate changes in SINAPH's institutional and legal framework; (vi) the development of economic activities in support of the use and conservation of biodiversity within SINAPH; (vii) the updating and dissemination of the ecosystems map of Honduras; and (viii) the strengthening of AFE-COHDEFOR's supervision capacity of Protected Areas under community-based co-management structures; and

(b) at the Protected Area's level: (i) the rehabilitation and equipping of visitors' and research centers; (ii) the construction of interpretive trails and maintenance of park access roads; (iii) the participatory elaboration of park management plans to involve local communities and stakeholders in buffer zone and core area conservation and protection; (iv) the maintenance of the demarcation of Protected Area boundaries; (v) the financing of operational costs associated with the implementation of management plans through community-based co-management structures; (vi) the provision of training and technical assistance to park staff and local stakeholders; and (vii) the strengthening of indigenous communities on critical issues of indigenous land rights in and around Protected Areas.

Part C: Local Government and Disaster Preparedness

1. Strengthening of Local Institutions

Strengthening local institutions (i.e., municipal associations, municipal government, formal community organizations and owners of forest lands) to manage and administer natural resources and to prevent and/or mitigate risks to local populations, through:

(a) the strengthening of: (i) municipal organization and management for strategic and land use planning/zoning; (ii) local and municipal organization and management of environmental and natural risk prevention and vulnerability reduction; and (iii) national and local capacity to generate and apply information developed through municipal land use planning and zoning exercises;

(b) the provision of assistance to create local fora for civil society participation and to increase the coverage of the land use/zoning planning through the training of community leaders (men and women); and

(c) the provision of technical assistance and in-service training to municipal-level institutions to design and implement local plans, including assistance to develop and channel funding proposals to the appropriate governmental institutions and programs of the Borrower.

2. Disaster Preparedness

(a) Developing joint watershed management plans, primarily for potable water and disaster mitigation purposes, among the five municipal associations within the Project Area;

(b) developing municipal land use and zoning plans;

(c) formulating risk and vulnerability management plans; and

(d) providing seed capital for works to demarcate vulnerable zones and reduce vulnerability.

Part D: Project Coordination and Management

Provision of technical assistance, equipment, training and workshops and funding of incremental operating costs, as necessary, to operate and strengthen the PCU and to monitor and evaluate Project implementation, including, but not limited to: (a) the effective coordination with other forest, biodiversity, agricultural and land-related projects in the Borrower's territory; (b) the carrying out of beneficiary assessments; (c) the carrying out of technical, administrative and financial audits; and (d) the preparation of new investment proposals.

* * *

The Project is expected to be completed by July 31, 2009.

SCHEDULE 3

Procurement

Section I. Procurement of Goods, Works and Non-Consultant Technical Services

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.
2. To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$150,000 equivalent or more each, and contracts for works shall be grouped in bid packages estimated to cost \$1,500,000 equivalent or more each.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Works estimated to cost less than \$1,500,000 equivalent per contract, up to an aggregate amount not to exceed \$682,000 equivalent; (b) goods estimated to cost less than \$150,000 equivalent per contract, up to an aggregate amount not to exceed \$108,200 equivalent; and (c) non-consultant technical services estimated to cost less than \$1,500,000 equivalent per contract, up to an aggregate amount not to exceed \$1,183,000 equivalent, shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

(a) Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$186,700 equivalent; and (b) non-consultant technical services estimated to cost less than \$150,000 per contract, up to an aggregate amount not to exceed \$286,752 equivalent, may be procured under contracts awarded on the basis of international/national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Goods and works which should be procured as an extension of an existing contract, must be purchased from the original supplier to be compatible with existing equipment, or are of a proprietary nature and costing \$253,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost less than \$150,000 equivalent per contract, up to an aggregate amount not to exceed \$871,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

5. Community Participation

Goods and works required for Part A.1 of the Project shall be procured in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods, works and non-consultant technical services shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) each contract for goods and works procured in accordance with the procedures referred to in Part B.1 of this Section; and (ii) the first two contracts for goods, the first two contracts for works and the first two contracts for non-consultant technical services procured in accordance with the procedures referred to in Part C.1 of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first two contracts for goods and the first two contracts for non-consultant technical services procured in accordance with the procedures referred to in Part C.2 of this Section; (ii) each contract procured in accordance with the procedures referred to in Part C.3 of this Section; and (iii) the first two contracts for works procured in accordance with the procedures referred to in Part C.4 of this Section, the following procedures shall apply:

- (A) prior to the selection of any supplier/execution of any contract under shopping or small works procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (B) prior to the execution of any contract procured under direct contracting, small works or shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (C) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Part E: Special Provisions

In addition and without limitation to any other provisions set forth in this Schedule or in the Guidelines, the following principles and rules of procurement shall expressly govern all procurement of goods, works and non-consultant technical services referred to in Part C.1 of this Section:

- (a) Contracts shall be awarded to the lowest evaluated bid in accordance with criteria set forth in the bidding documents, and without taking into account, in the evaluation, the financial cost of foreign exchange components.
- (b) Foreign bidders shall not, as a condition for submitting bids, be required to:
 - (i) be registered in Honduras;
 - (ii) have a representative in Honduras;
 - (iii) be associated with Honduran suppliers or contractors; and

- (iv) certify that, in their country of origin, Honduran suppliers or contractors are allowed to participate in competitive bidding procedures under equal conditions with other bidders.
- (c) Contracts shall not be divided for the sole purpose of reducing contract amounts.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.
2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services for technical assistance and services in forest management planning and execution and for municipal planning and vulnerability studies under Parts B and C of the Project, estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for small and simple assignments that can be precisely defined and are of a standard or routine nature (such as auditing) and estimated to cost the equivalent of \$200,000 or less per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services for small assignments for which the need to prepare and evaluate competitive proposals is not justified, estimated to cost the equivalent of \$100,000 or less per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services of individual consultants for: (a) tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines; and (b) tasks that meet the requirements set forth in paragraph 5.4 of the Consultant Guidelines may be selected on a sole-source basis in accordance with the provisions of paragraphs 5.3 and 5.4 of the Consultant Guidelines, subject to prior approval of the Association.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every six months during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants to be selected on a sole source basis, or estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

(c) With respect to each contract for the employment of individual consultants estimated to cost more than the equivalent of \$30,000 but less than the equivalent of \$50,000, the terms of reference shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

Part E: Special Provisions

In addition and without limitation to any other provisions set forth in this Schedule or the Consultant Guidelines, the following principles of procurement shall expressly govern all procurement of consultants' services referred to in Section II of this Schedule:

(a) Foreign consultants shall be permitted to participate in the selection process even if there is availability of Honduran consultants for the services being procured; and

(b) Foreign consultants shall not be required to be registered with Honduran associations or to be associated with Honduran consulting firms as a condition for participating in any selection process.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term “Authorized Allocation” means an amount equivalent to \$1,200,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$800,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 4 million.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is

requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 5

Municipalities Comprising the Project Area

<p>Department of Yoro</p> <ol style="list-style-type: none">1. El Progreso2. Santa Rita3. El Negrito4. Morazán5. Yoro6. Yorito7. Victoria8. Sulaco9. Jocón10. Olanchito11. Arenal <p>Department of Olancho:</p> <ol style="list-style-type: none">12. Dulce Nombre de Culmí13. Catacamas14. Santa Maria del Real15. San Esteban16. Patuca17. Gualaco18. Mangulile19. Yocón20. Guata21. Jano22. Esquipulas del Norte23. La Unión24. Salamá25. El Rosario	<p>Department of Francisco Morazán</p> <ol style="list-style-type: none">26. El Porvenir27. San Ignacio28. Cedros29. Marale30. Talanga31. Guaimaca32. Orica33. Vallecillo <p>Department of El Paraíso</p> <ol style="list-style-type: none">34. Teupasenti35. Morocelí36. Trojes
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