

CONFORMED COPY

CREDIT NUMBER 2212-HO

(Social Investment Fund Project)

between

REPUBLIC OF HONDURAS

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 14, 1991

CREDIT NUMBER 2212-HO

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated March 14, 1991, 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, has requested the Association to assist in the financing of the Project;

(B) the Borrower intends to obtain from bilateral and multilateral aid and development organizations (hereinafter "Additional Financiers") loans and grants to assist in expanding the activities of the Social Investment Fund (as hereinafter defined) on the terms and conditions set forth in agreements to be entered into between the Borrower and each of the Additional Financiers (hereinafter "Additional Funding Agreements");

(C) among the loans and grants referred to above, the

Borrower intends to contract from Kreditanstalt for Wiederaufbau (hereinafter "KfW") a loan or a grant (hereinafter the "KfW Financing") in an amount equivalent to \$12,000,000 (twelve million dollars), for the purposes above described, on the terms and conditions set forth in an agreement (hereinafter the "KfW Financing Agreement") to be entered into between the Borrower and KfW;

WHEREAS 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, with the last sentence of Section 3.02 deleted (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) "Decree No. 12-90" means the Decree No. 12-90 of the Borrower, dated February 22, 1990, published in the Official Gazette (La Gaceta) on March 2, 1990;

(b) "FAP" means the Family Assistance Program (Programa de Asignacion Familiar) of the Borrower, established pursuant to Presidential Decree No. 1208-A (as hereinafter defined);

(c) "MHS" means the multiple purpose permanent household survey of the Borrower;

(d) "MOE" means the Ministry of Education (Ministerio de Educacion) of the Borrower;

(e) "MOH" means the Ministry of Health (Ministerio de Salud) of the Borrower;

(f) "NPO" means the National Planning Office (Secretaria de Planificacion) of the Borrower;

(g) "Operational Manual" means the manual containing the administrative, promotion, appraisal and supervision criteria to be followed by SIF and to be approved pursuant to the provisions of Section 7.01 (c) of this Agreement;

(h) "Presidential Decree No. 1208-A" means the Acuerdo Presidencial No. 1208-A of the Borrower, dated August 7, 1990, published in the Official Gazette (La Gaceta) on August 22, 1990, as amended to the date of this Agreement;

(i) "Requesting Entities" means the governmental or non-governmental entities which meet the eligibility criteria under the Operational Manual and which propose to carry out or are carrying out Subprojects; and "Requesting Entity" means any one of the such Requesting Entities;

(j) "SIF" or "Social Investment Fund" means the Social Investment Fund (Fondo Hondureno de Inversion Social) of the Borrower, established as a public entity with juridical personality pursuant to Decree No. 12-90;

(k) "SIF Subsidiary Agreement" means the Agreement to be entered into between the Borrower and SIF, pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to such agreement;

(l) "Subproject" means a project carried out, or to be carried out, under Part A of the Project financed in part by the proceeds of the Credit; and

(m) "Subproject Agreement" means the Agreement to be entered into between SIF and a Requesting Entity and, where applicable, a contractor or supplier, for the purposes of carrying out a Subproject, under terms and conditions satisfactory to the Association, as the same may be amended from time to time, and such term includes all schedules to the Subproject Agreements.

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 fourteen million three hundred thousand Special Drawing Rights (SDR 14,300,000).

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 the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in its Central Bank (Banco Central de Honduras) 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.

Section 2.03. The Closing Date shall be December 31, 1993 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 cancelled; 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 April 1 and October 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each April 1 and October 1 commencing April 1, 2001 and ending October 1, 2025. Each installment to and including the installment payable on October 1, 2010 shall be one and one fourth of one percent (1 1/4%) of such principal amount, and each installment thereafter shall be two and one-half of one percent (2 1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years; 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 terms of repayment of installments under paragraph (a) above by 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. If so requested by the Borrower, the Association may revise such modification 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.

(c) 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.

Section 2.09. The Executive Director of SIF or such other person or persons as such Executive Director or the Secretario de Estado en el Despacho de Hacienda y Credito Publico of the Borrower shall appoint in writing are designated as representatives of the Borrower for the purpose of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions in respect of Parts A and B of the Project.

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: (i) cause SIF to carry out Parts A and B of the Project; and (ii) carry out Part C of the Project through FAP and Parts D and E of the Project through NPO, all with due diligence and efficiency and in conformity with appropriate financial, administrative, health, education and managerial practices, and also in accordance with the Operational Manual in the case of SIF, and shall provide or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall enter into a subsidiary agreement with SIF, satisfactory to the Association, providing, inter alia, for:

- (i) the transfer of part of the proceeds of the Credit to SIF, on a grant basis, for the purposes of carrying out Parts A and B of the Project; and

- (ii) the obligation of SIF to carry out Parts A and B of the Project in accordance with the terms and conditions set forth in this Agreement and in the Operational Manual.

(c) The Borrower shall exercise its rights under the SIF Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Association, and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not change, assign, amend, abrogate or waive the SIF Subsidiary Agreement or any provision thereof.

Section 3.02. 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 3.03. The Borrower shall cause SIF, until the Project completion, to maintain an executive director whose experience and qualifications shall be at all times acceptable to the Association and to consult with the Association with respect to the replacement of the executive director of SIF prior to any such replacement.

Section 3.04. Without limitation to or restriction upon its reporting requirements under the General Conditions and this Agreement, the Borrower shall, and shall cause SIF, in respect of Parts A and B of the Project, to, promptly inform the Association of any condition which interferes, or threatens to interfere, with the progress of the Project or the Subprojects, the accomplishment of the purposes of the Credit, or the performance of SIF of its obligations under the SIF Subsidiary Agreement, or the performance of SIF and the Requesting Entities under Subproject Agreements.

Section 3.05. The Borrower undertakes that, unless the Association shall otherwise agree, Subprojects shall be promoted, identified, appraised, carried out and monitored in accordance with the procedures set forth or referred to in the Operational Manual.

Section 3.06. (a) The Borrower shall, without limitation to its obligations under Article IX of the General Conditions, by not later than December 31, 1991, review with SIF and the Association the progress in the carrying out of the Project, such review to include, inter alia, the determination of the appropriateness of the amounts established in Part C of Schedule 3 of this Agreement for the achievement of the purposes of the Project.

(b) Pursuant to such review and if so required by the Association, the Borrower shall take or shall cause SIF to take, by not later than January 31, 1992, all actions deemed appropriate by the Association, in form satisfactory to the Association, in order to allow the Borrower and SIF to achieve the purposes of the Project.

Section 3.07. Without limitation to its obligations under the General Conditions and under Section 3.01 (a) of this Agreement, the Borrower shall provide SIF, as and when requested, with the funds necessary to cover the investment and operating costs of Subprojects as well as the operating expenses of SIF, in form satisfactory to the Association.

Section 3.08. The Borrower shall cause SIF to prepare and present to the Association, by not later than June 30 and December 31 of each year, a report, in form satisfactory to the Association, containing, inter alia, a list of Subprojects approved by SIF.

Section 3.09. The Borrower shall carry out the surveys and studies included in Part E of the Project under terms of reference satisfactory to the Association.

Section 3.10. In order to carry out Part A, III (i) of the

Project, the Borrower shall cause SIF to:

(a) include in the Operational Manual the terms and conditions of the financing to be provided under such Part of the Project; and

(b) enter into arrangements with non-governmental organizations, satisfactory to the Association, such arrangements to include, inter alia, the conditions under which such non-governmental organizations shall assist SIF in the carrying out of such Part of the Project.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained and shall cause SIF to maintain (in respect of Parts A and B of the Project) records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall, and shall cause SIF to:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall 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, and shall cause SIF to:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit for 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;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. Without limitation to the provisions of Section 4.01 of this Agreement, the Borrower shall cause: (i) SIF's operations to be audited by independent auditors acceptable to the Association, every quarter during the execution of the Project, such audits to include a financial review of Subprojects and a physical inspection of works in the field; and (ii) SIF to furnish to the Association, as soon as available, but in any case not later than two months after the end of each such quarter, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall cause SIF:

(a) to take out and maintain with responsible insurers, or to make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice; and

(b) to carry on its operations and conduct its affairs in accordance with sound administrative, financial and managerial practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

ARTICLE VI

Remedies of the Association

Section 6.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified, provided, however, that if the event specified in paragraph (d) below shall have occurred and be continuing, the suspension of the Borrower's right to make withdrawals from the Credit Account may be limited by the Association to withdrawals in respect of Parts C, D and E of the Project:

(a) Decree No. 12-90 or any provision thereof shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Association, the ability of SIF to perform any of its obligations under the SIF Subsidiary Agreement or under any Subproject Agreement;

(b) as a result of events which have occurred after the date of this Agreement, a situation shall have arisen which shall make it improbable that SIF will be able to perform its obligations under the SIF Subsidiary Agreement or under any Subproject Agreement;

(c) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of SIF, or for the suspension of its operations;

(d) Presidential Decree No. 1208-A or any provision thereof shall have been amended, suspended, abrogated, repealed or waived;

(e) the KfW Financing Agreement or any Additional Funding Agreement shall have failed to become effective by June 30, 1991, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes, to the satisfaction of the Association, that adequate funds for the Project are available to the Borrower from other sources, on terms and conditions consistent with the obligations of the Borrower under this Agreement;

(f) (i) Subject to subparagraph (ii) of this paragraph:

(A) The right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project

shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(g) The Operational Manual shall have been amended, suspended, abrogated, repealed or waived, or other legal provisions shall have been enacted, so as to affect materially and adversely, in the opinion of the Association, the carrying out of Parts A and B of the Project.

Section 6.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

- (i) the events specified in paragraphs (e) or (g) of Section 6.01 of this Agreement shall occur and shall continue for a period of thirty days after notice thereof shall have been given by the Association to the Borrower;
- (ii) any event specified in paragraphs (a), (c) and (d) of Section 6.01 of this Agreement shall occur; and
- (iii) any event specified in paragraph (f) (i) (B) of Section 6.01 of this Agreement shall occur, subject to the proviso of paragraph (f) (ii) of that Section.

ARTICLE VII

Effective Date; Termination

Section 7.01. 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 SIF Subsidiary Agreement has been entered into between the Borrower and SIF;

(b) that arrangements, satisfactory to the Association, have been made, in order to make available to FAP and NPO the funds necessary to carry out Parts C, D and E of the Project, respectively;

(c) that the Operational Manual has been approved by SIF in form and substance satisfactory to the Association;

(d) that the KfW Financing Agreement has been entered into between the Borrower and KfW, satisfactory to the Association, in an amount equivalent to \$12,000,000, or that alternative arrangements, satisfactory to the Association, have been made by the Borrower and/or SIF to cover such funding needs; and

(e) that at least \$10,700,000 equivalent have been formally committed by Additional Financiers for the financing of the carrying

INDEVAS
Washington, D.C.

197688 (TRT)
248423 (RCA)
64145 (WUI) or
82987 (FTCC)

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

REPUBLIC OF HONDURAS

By /s/ Rafael Leonardo Callejas
President of the Republic of Honduras

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ S. Shahid Husain
Regional Vice President
Latin America and the Caribbean

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) (i) Subprojects under Part A, III of the Project; and	1,000,000	90% of amounts disbursed by SIF for each Subproject for which a Subproject Agreement has been signed before December 31, 1992
(ii) other Subprojects under Part A of the Project	12,430,000	
(2) Consultants' services under Part B of the Project and training for SIF staff	130,000	100%
(3) Auditors' services	230,000	100%

for SIF

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(4) Goods:		100% of foreign expenditures and 80% of local ex- penditures
(i) under Part B of the Project; and	150,000	
(ii) under Part C of the Project	75,000	
(5) Consultants' services:		100%
(i) under Part C of the Project; and	115,000	
(ii) under Part E of the Project	170,000	
 TOTAL	<hr/> 14,300,000 =====	

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; and

(c) the term "Training for SIF Staff" means training expenses for SIF managers and fixed-term technical staff, in amounts and type of expenditures satisfactory to the Association.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 1,430,000, may be made on account of payments made for expenditures before that date but after November 1, 1990; and

(b) payments made in respect of a Subproject, unless the Subproject is in accordance with the provisions set forth in the Operational Manual, provided, however, that no new commitments shall be made by SIF after March 31, 1992, unless the Borrower and SIF shall have taken the actions referred to in Section 3.06 (b) of this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are to support the Borrower's social program designed to: (i) mitigate the social costs of the adjustment of the Borrower's economy; (ii) lay the basis for a program of direct support for the poor and malnourished population of the Borrower; and (iii) support the improvement of the capabilities of the ministries of the Borrower responsible for the

social sectors.

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: Subprojects

Carrying out of the following Subprojects:

I. Social Infrastructure Subprojects

Subprojects by Requesting Entities for: (i) construction, maintenance and rehabilitation of primary and pre-primary education centers (including schools), health centers and posts, water and sewerage systems, public wholesale and retail markets, public service facilities, collection centers, community laundry facilities, bridges, drainage and irrigation canals and retention walls; (ii) rehabilitation of ruins aiming at protecting cultural heritage and ethnic minorities; (iii) improvement, maintenance and cleaning of streets and roads; and (iv) forestation and reforestation.

II. Basic Needs Subprojects

Subprojects by Requesting Entities for supporting: (i) nutrition, through the provision of breakfast in primary and pre-primary school and breakfast centers (lactarios) and expansion and diversification of food production in family farm plots; (ii) health, through training of primary health care staff (traditional birth attendants, health promoters and health guardians), acquisition and utilization of furniture and equipment (including cold chain equipment for vaccination), and development of primary health care community programs; (iii) education, through the development of primary and pre-primary programs, acquisition and utilization of educational materials, libraries and school furniture, and teacher training; and (iv) development of community programs for ethnic minorities.

III. Informal Sector Subprojects

Subprojects consisting of the provision of: (i) financing, with the assistance of non-governmental organizations, for the expansion of productive and service activities carried out by micro-enterprises; and (ii) grants for technical assistance, both for purposes of the establishment or expansion of productive and service activities to be carried out by micro-enterprises.

IV. Institutional Strengthening Subprojects

Subprojects for strengthening the capabilities of the Requesting Entities in designing and supervising the carrying out of Subprojects.

Part B: Institutional Development of SIF

Strengthening SIF's capabilities through:

I. the improvement of SIF's ability to promote, design, target and monitor Subprojects; and

II. the provision of technical assistance to improve SIF's institutional capacity, inter alia, in designing its information system, auditing and evaluating the impact of its operations, and identifying, preparing, appraising, supervising and promoting Subprojects.

Part C: Nutrition Assistance Program

Support of the FAP of the Borrower, which provides special protection to women and young children facing nutritional risks, through the provision of technical assistance, the acquisition and utilization of vehicles, equipment and materials and the printing of

coupons.

Part D: Social Sector Restructuring Program

Provision of technical assistance in the areas of institutional development, social sector planning and improvement of health and education services, aiming at assisting the Borrower in the preparation of social sector projects.

Part E: Living Standards Measurement Program

Provision of technical assistance for the development of a monitoring and evaluation system of the intervention of the Borrower in the social sector, through the carrying out of surveys and studies on living standards measurement, which shall include, inter alia, the evaluation of the operations of SIF and the means to enhance the capacity of MHS to inform the population of the Borrower of the policy decisions taken in the social sector.

* * *

The Project is expected to be completed by June 30, 1993.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

2. To the extent practicable, contracts for goods and works shall be grouped in bid packages estimated to cost the equivalent of \$250,000 or more and \$500,000 or more, respectively.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Honduras may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Except as provided in paragraphs 2 and 3 of this Part C, civil works estimated to cost the equivalent of not more than \$500,000 per contract, up to an aggregate amount not to exceed \$23,800,000 equivalent, as well as goods estimated to cost the equivalent of not more than \$250,000 per contract, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures acceptable to the Association.

2. Civil works estimated to cost the equivalent of less than \$70,000 equivalent per contract, up to an aggregate amount not to exceed \$18,300,000 equivalent, may be procured under contracts awarded on the basis of comparison of price quotations obtained from a least three local qualified contractors, in accordance with procedures acceptable to the Association, provided, however, that: (i) civil works estimated to cost the equivalent of less than \$35,000 per contract, up to an aggregate amount not to exceed \$10,500,000 equivalent (of which no more than \$4,000,000 equivalent will be financed out of the proceeds of the Credit), may be procured under contracts awarded through direct contracting, in accordance with procedures satisfactory to the Association, if only one

quotation is obtained under the procedures set forth in this paragraph; and (ii) such direct contracting will not be permitted if, after any semi-annual review by the Association of the standard regionalized unit prices adopted by FIS, the Association finds such prices unreasonable.

3. Goods estimated to cost the equivalent of less than \$25,000 per contract may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three local suppliers, in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to the first two contracts for civil works and the first two contracts for goods, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 4 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which the Association has authorized withdrawals on the basis of statements of expenditure.

Section II. Employment of Consultants

In order to assist the Borrower in carrying out Parts B, C, D and E of the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultants Guidelines).

Section III. Special Provisions

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

1. 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.

2. 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; (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.

3. No preferences shall be granted to Honduran bidders in the comparison of bids.

4. Contracts shall not be divided for the sole purpose of reducing contract amounts.

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

1. Foreign consultants shall be permitted to participate in the selection process even if there is availability of Honduran consultants for the services being procured.

2. Foreign consultants shall not be required to be registered with Honduran associations or to be associated with Honduran consulting firms.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means all Categories 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 \$2,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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 a deposit or deposits 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 in 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; or

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment 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; (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.

