

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.
Washington, D.C. 20433
U.S.A.

(202) 473-1000
Cable Address: INTBAFRAD
Cable Address: INDEVAS

CONFORMED COPY FOR PUBLIC DISCLOSURE

June 17, 2010

Mr. William Chong Wong
Secretary
Secretaría de Estado en el Despacho de Finanzas
Tegucigalpa, M.D.C.
Republic of Honduras

Re: Credit No. 4536-HN
Power Sector Efficiency Enhancement Project
First Amendment to the Financing Agreement

Dear Sir,

We refer to the Financing Agreement between International Development Association (the "Association") and Republic of Honduras (the "Recipient") dated February 27, 2009, with respect to the above-captioned Project ("Agreement"). Capitalized terms used in this amendment letter and not defined herein have the meaning ascribed to them in the Agreement.

Pursuant to the request contained in your letter dated April 29, 2010, requesting the Association to reassign to UAP-SDP (as hereinafter defined) the functions and responsibilities previously assigned to the Recipient's Presidential Commission for the Modernization of the State (CPME), we are pleased to inform you that the Association agrees to amend the terms of the Agreement as follows:

1. Article 3.01 of the Agreement is hereby amended to read as follows:

"The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall: (a) carry out the fiduciary and monitoring and evaluation aspects of the Project through UAP-SDP; and (b) cause ENEE to carry out the technical implementation of the Project, all in accordance with the provisions of Article IV of the General Conditions".

2. Article 4.01 (b) of the Agreement is hereby amended to read as follows:

"Key personnel in ENEE and/or UAP-SDP shall have been removed or replaced so as to affect, in the opinion of the Association, materially and adversely the implementation of the Project."

3. Article 5.01 (a) of the Agreement is hereby amended to read as follows:

"The Subsidiary Agreement has been executed on behalf of the Recipient (through SEFIN and SDP) and ENEE."

4. Article 5.01 (b) of the Agreement is hereby amended to read as follows:

“The Operational Manual has been adopted by the Recipient (through SDP) and ENEE.”

5. Article 5.02 of the Agreement is hereby amended to read as follows:

“The Additional Legal Matter consists of the following, namely, that the Subsidiary Agreement has been duly authorized or ratified by the Recipient (through SEFIN and SDP) and ENEE and is legally binding upon the Recipient and ENEE in accordance with its terms.”

6. Part 3.D of Schedule 1 to the Agreement is hereby amended to read as follows:

“(1) Project management by ENEE and the UAP-SDP, including studies and consultancies, Training, Operating Costs, acquisition of equipment and other goods needed for Project implementation, and minor office renovations/refurbishments; and (2) carrying out of monitoring and evaluation activities and audits.”

7. Section I.A.1 of Schedule 2 to the Agreement is hereby amended to read as follows:

“The Recipient shall establish and maintain, throughout Project implementation, a steering committee responsible for Project oversight and coordination, comprised of representatives of SEFIN, UAP-SDP and ENEE.”

8. Section I.A.2 of Schedule 2 to the Agreement is hereby amended to read as follows:

“(a) The Recipient shall cause ENEE to maintain, throughout Project implementation, an execution unit (“PEU”) with composition, functions and responsibilities acceptable to the Association, including the responsibility for the technical implementation of the Project, in coordination with UAP-SDP and the relevant departments of ENEE.

(b) The PEU shall be headed by a Project coordinator and assisted by staff in adequate numbers, including an engineer, a financial management/procurement *liaison* with UAP-SDP and an administrative assistant, all with qualifications and experience satisfactory to the Association.”

9. Section I.A.3 (a) of Schedule 2 to the Agreement is hereby amended to read as follows:

“The Recipient, through UAP-SDP, shall maintain, throughout Project implementation, a coordination unit (“PCU”) with composition, functions and responsibilities acceptable to the Association, including the responsibility for the fiduciary (*i.e.*, financial management and procurement) and monitoring and evaluation aspects of the Project, in coordination with ENEE.”

10. Section I.B of Schedule 2 to the Agreement is hereby amended to read as follows:

“1. To facilitate the carrying out of the Project, the Recipient (through SEFIN and UAP-SDP) shall make the proceeds of the Financing available to ENEE subject to the fiduciary arrangements referred to in paragraph (b) below, under a subsidiary agreement (“Subsidiary Agreement”) between the Recipient (through SEFIN and SDP) and ENEE, under terms and conditions approved by the Association, which shall include:

(a) the provision to ENEE of the funds, facilities and other resources, required to enable it to carry out the Project, including the legal transfer of the proceeds of the Credit: (i) on a loan basis for up to twenty-five million United States Dollars (\$25,000,000); and (ii) on a grant basis for the

remainder, subject to the fiduciary arrangements referred to in paragraph (b) below whereby UAP-SDP manages said proceeds;

(b) the responsibility of UAP-SDP (in coordination with ENEE) for the fiduciary (*i.e.*, financial management and procurement) and monitoring and evaluation aspects of the Project, including the obligation to: (i) ensure that all goods, works and services to be financed out of the Credit are procured in accordance with the provisions of this Agreement; (ii) ensure that adequate policies and procedures are maintained to enable it to monitor and evaluate, in accordance with indicators acceptable to the Association, the progress of the Project and the achievement of its objective; (iii) (A) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the Project; and (B) at the Association's request, have such financial statements audited by independent auditors acceptable to the Association, and promptly furnish the statements so audited to the Association; and (iv) maintain the PCU throughout Project implementation, as provided in Section I.A.3 of Schedule 2 to this Agreement;

(c) the responsibility of ENEE (in coordination with UAP-SDP) for the technical implementation of the Project, including the obligation to: (i) carry out the Project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association, including in accordance with the Operational Manual and the provisions of the Anti-Corruption Guidelines applicable to recipients of Credit proceeds other than the Recipient; (ii) provide, as promptly as needed, its own additional resources required for the purpose, including the necessary human resources, operating expenses, office equipment for the PEU, and operation and maintenance investments for the distribution networks; (iii) provide all the necessary information and assistance to enable UAP-SDP to ensure that all goods, works and services to be financed out of the Credit are procured in accordance with the provisions of this Agreement; (iv) cooperate to maintain policies and procedures adequate to enable UAP-SDP to monitor and evaluate, in accordance with indicators acceptable to the Association, the progress of the Project and the achievement of its objective; (v) provide all necessary information to enable UAP-SDP to: (A) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the Project; and (B) at the Association's request, have such financial statements audited by independent auditors acceptable to the Association, and promptly furnish the statements so audited to the Association; (vi) enable the Recipient and the Association to inspect the Project, its operations and relevant records and documents; (vii) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing; and (viii) maintain the PEU throughout Project implementation, as provided in Section I.A.2 of Schedule 2 to this Agreement; and

(d) the right of the Recipient to suspend or terminate the right of ENEE to benefit from the proceeds of the subsidiary financing, or obtain a refund of any part of the amount of the subsidiary financing then withdrawn, upon ENEE's failure to perform any of its obligations under the Subsidiary Agreement.

2. The Recipient (through SEFIN and UAP-SDP) shall exercise its rights and carry out its obligations under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the

Association shall otherwise agree, the Recipient shall not assign, amend, abrogate, waive or fail to enforce the Subsidiary Agreement or any of its provisions.”

11. Section I of the Appendix is hereby amended as follows:

- (a) The definition of the term “CPME” is hereby deleted.
- (b) The definition of the term “Subsidiary Agreement” is hereby amended to read as follows:

“Subsidiary Agreement” means the agreement referred to in Section I.B of Schedule 2 to this Agreement pursuant to which the Recipient shall make the proceeds of the Financing available to ENEE, subject to the fiduciary arrangements referred to therein whereby UAP-SDP will manage the funds and carry out the monitoring and evaluation of the Project.”
- (c) The following definitions are added, placed in alphabetical order, (and the existing definitions are consequently renumbered to keep the alphabetical order) to read as follows:
 - (i) “UAP-SDP” means *Unidad Administradora de Proyectos*, the Recipient’s project management unit within SDP, created by the Recipient’s Executive Decree No. PCM-008-2010 of March 24, 2010, duly published in the Official Gazette on April 7, 2010.
 - (ii) “PCU” means the Project Coordination Unit within UAP-SDP referred to in Section I.A.3 (a) of Schedule 2 to this Agreement.
 - (iii) “SDP” means *Secretaría de Estado del Despacho Presidencial*, the Recipient’s Ministry of Presidency.

Please confirm your agreement with the foregoing amendment by signing and dating this letter in the spaces provided below. This amendment letter shall be executed in two counterparts, each of which shall be an original. The provisions of this Amendment Letter shall become effective as of the date of countersignature, upon receipt by the Association of one fully executed original of this Amendment Letter.

Very truly yours,

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ J. Humberto López
Acting Director
Central America Country Management Unit
Latin America and the Caribbean Region

AGREED:

REPUBLIC OF HONDURAS

By: /s/ William Chong Wong
Authorized Representative

Name: William Chong Wong

Title: Minister of Finance

Date: June 21, 2010