

Public Disclosure Authorized

**CONFORMED COPY**

**CREDIT NUMBER 5020-HN**

# **Financing Agreement**

**(Improving Public Sector Performance Project)**

**between**

**REPUBLIC OF HONDURAS**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated December 7, 2011**

Public Disclosure Authorized

## **FINANCING AGREEMENT**

AGREEMENT dated December 7, 2011, entered into between the REPUBLIC OF HONDURAS (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

### **ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

### **ARTICLE II — FINANCING**

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to eleven million seven hundred thousand Special Drawing Rights (SDR 11,700,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to one and a quarter percent (1.25%) per annum.
- 2.06. The Payment Dates are February 1 and August 1 in each year.

- 2.07. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.08. The Payment Currency is United States Dollars.

### **ARTICLE III — PROJECT**

- 3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out: (a) Parts A, B, C(1), C(2)(i) and E(1) of the Project, through SEFIN; and (b) Parts C(2)(ii), D, and E(2) of the Project, through SDP, all pursuant to the provisions of the MOU and in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

### **ARTICLE IV — TERMINATION**

- 4.01. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than eighteen (18) months after the Association's approval of the Credit which expire on March 6, 2012.
- 4.02. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty years after the date of this Agreement.

### **ARTICLE V — REPRESENTATIVE; ADDRESSES**

- 5.01. The Recipient's Representative is its Minister (*Secretario*) of SEFIN.
- 5.02. The Recipient's Address is:

Secretaría de Estado en el Despacho de Finanzas  
Ave. Cervantes, Barrio El Jazmín  
Edificio SEFIN  
Tegucigalpa, M.D.C.  
Honduras

Cable:

HACIENDA  
Tegucigalpa

Facsimile:

(504) 237-4142

5.03. The Association's Address is:

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

Cable:

INDEVAS  
Washington, D.C.

Telex:

248423 (MCI)

Facsimile:

1-202-477-6391

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

REPUBLIC OF HONDURAS

By /s/ Marlon Tabora

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ C. Felipe Jaramillo

Authorized Representative

## **SCHEDULE 1**

### **Project Description**

The objectives of the Project are to strengthen the management of public finances and to establish a more efficient, effective and transparent public procurement system through: (i) upgrading the public financial management system; (ii) upgrading the e-procurement platform; (iii) enhancing the internal control systems over personnel expenditures; and (iv) building capacity of the Central Administration.

The Project consists of the following parts:

#### **Part A: Strengthening and Consolidating Financial Management Systems**

1. Upgrading of SIAFI system to ensure a more efficient and sustainable operation and improved user access to said system, through, *inter alia*: (i) development and implementation of a new technological framework to enhance usability and access to SIAFI, including the design and development of applications and functionalities of SIAFI; (ii) design and implementation of ICT security measures for the SIAFI system, and carrying out of audits and certifications to ensure compliance with said ICT security measures; and (iii) creation of a disaster recovery center through the carrying out of minor works, in a manner acceptable to the Association.
2. Strengthening of the conceptual and functional framework of SIAFI, through, *inter alia*: (i) the design and implementation of a procurement module for SIAFI to be connected to the Recipient's procurement system ("*Honducompras*"); and (ii) the design of a connection system between SIAFI's budget module and the Recipient's public investment system.
3. Design and implementation of a long-term capacity building strategy, through, *inter alia*: (i) the development of an accreditation program for SIAFI operators, including the development of training materials and training curricula; and (ii) the carrying out of pilot training and accreditation programs.

#### **Part B: Strengthening the Public Procurement System**

1. Strengthening compliance and transparency of the Recipient's public procurement system, through, *inter alia*: (i) the development of a module to link said procurement system with SIAFI; and (ii) the development of a standard template for procurement plans.
2. Institutional Strengthening of ONCAE, through, *inter alia*: (i) the preparation of an institutional strategic plan; (ii) the creation of a statistical unit to monitor and evaluate the performance of the procurement system mentioned in Part B.1

above; (iii) the creation of a unit specialized in the development and implementation of framework agreements; and (iv) the development of standardized procurement materials.

3. (i) Design and implementation of a new e-procurement platform, including software and hardware; and (ii) the provision of training for civil servants and private sector in the use of the new platform.

### **Part C. Improving Public Sector Human Resource Management**

1. Enhancing controls over personnel expenditures of the Recipient's public sector through, *inter alia*: (i) the implementation of process-based payroll management audits; (ii) the implementation of transaction-based payroll management audits for selected ministries and/or agencies within Central Administration; and (iii) the development of a political economy and communications strategy for the Recipient's Central Administration to communicate the results of the audits mentioned in (i) and (ii) herein.
2. (i) Carrying out of a human resources diagnosis to support SEFIN's efforts to attract and retain qualified personnel by, *inter alia*: analyzing personnel turnover rates, update the profile manual for director positions; and (ii) provision of technical assistance to support professionalization efforts in selected ministries and/or agencies within Central Administration, through, *inter alia*: the certification of positions, the carrying out of a skills gap assessment, the external validation of recruitment or promotion processes, and the update of job profiles.

### **Part D: Strengthening Government Monitoring and Evaluation Capacity**

1. (i) Design and implementation of a new technological platform for the Recipient's monitoring and evaluation system; (ii) development of indicators and targets for the selected groups of the Recipient's ministries (*Gabinetes Sectoriales*) for purposes of implementing their functions and responsibilities; and (iii) design and implementation of an incentives system to promote use of performance information.
2. (i) Definition of the institutional arrangements among the ministries and/or agencies within Central Administration for purposes of operating the monitoring and evaluation system referred to in Part D.1 above; and (ii) strengthening the technical, managerial and organizational capacities of the SDP to implement the monitoring and evaluation system.
3. Development and dissemination of a series of methodological manuals for monitoring and evaluation work.

**Part E: Project Coordination**

1. Provision of support for Project coordination to oversee Project implementation, including the carrying out of Project and operational audits.
2. Design and implementation of a strategy to ensure an adequate implementation of the Project, including the provision of technical assistance and training required thereof.

## **SCHEDULE 2**

### **Project Execution**

#### **Section I. Implementation Arrangements**

##### **A. Institutional and Implementation Arrangements**

1. The Recipient, through SEFIN, shall operate and maintain throughout Project implementation, a Project coordination unit (UAP), with functions, staffing (including, but not limited to, a Project coordinator, a procurement specialist and a financial management specialist), and responsibilities satisfactory to the Association as set forth in the Operational Manual.
2. The Recipient undertakes that the UAP personnel shall only be hired based on professional criteria and shall only be replaced for reasons related to performance, all in a manner acceptable to the Association.
3.
  - (i) The Recipient, through SEFIN and SDP, shall carry out the Project activities in accordance with the Operational Manual.
  - (ii) In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.
4. No later than February 1<sup>st</sup>, 2012, the Recipient, through SEFIN, shall enter into a memorandum of understanding (MOU) with SDP, under terms and conditions acceptable to the Association, as set forth in the Operational Manual, which shall include, *inter alia*, the roles and responsibilities of SEFIN and SDP with respect to the implementation of the Project.

##### **B. Anti-Corruption**

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

#### **Section II. Project Monitoring, Reporting and Evaluation**

##### **A. Project Reports**

The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of Project indicators set forth in the Operational Manual. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than forty five days after the end of the period covered by such report.



**B. Financial Management, Financial Reports and Audits**

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. The Recipient shall prepare and furnish to the Association not later than forty five days after the end of each calendar semester, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.
4. The Recipient shall, not later than three months after the Effective Date, hire independent auditors, with experience and qualifications acceptable to the Association, and under terms of reference acceptable to the Association, for purposes of carrying out the annual audits of the Financial Statements referred in Section B.3 above.

**Section III. Procurement**

**A. General**

1. **Goods, Minor Works, and Non-consultant Services.** All goods, minor works, and Non-consultant Services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.
4. **Special Provisions.** Without limitation to the other provisions in Section III.A of this Schedule, the following additional provisions shall also govern the

procurement of goods, minor works and Non-consultant Services and consultants' services under the Project (as the case may be):

- (a) procurement of goods, minor works, Non-consultant Services and consultants' services (in respect of firms) shall be carried out using: (i) standard bidding documents and standard requests for quotations/proposals (as the case may be), all acceptable to the Association, which shall all include, *inter alia*, a settlement of dispute provision and the pertinent provisions of the Anti-Corruption Guidelines; (ii) model bid evaluation forms, and model quotations/proposals evaluation forms (as the case may be); and (iii) model contract forms, all acceptable to the Association;
- (b) bidders or consultants shall not, as a condition for submitting bids or proposals and/or for contract award: (i) be required to be registered in Honduras; (ii) have a representative in Honduras; and (iii) be associated or subcontract with Honduran suppliers, contractors or consultants;
- (c) prequalification of bidders shall be carried out in accordance with the provisions of the Procurement Guidelines, including the use of standard prequalification documents acceptable to the Association;
- (d) without limitation to the provisions of paragraph (a) above standard bidding documents for the procurement of goods, and Non-consultant Services under National Competitive Bidding procedures which: (A) goods and Non-consultant Services are estimated to cost \$22,500 equivalent or more per contract, shall stipulate that the period for submitting bids shall be at least 30 calendar days from the date of notification and advertising of the specific procurement notice; and (B) goods and Non-consultant Services are estimated to cost less than \$22,500 equivalent per contract, shall stipulate that the period for submitting bids shall be at least 20 calendar days from the date of notification and advertising of the specific procurement notice;
- (e) without limitation to the provisions of paragraph (a) above standard bidding documents for the procurement of minor works under National Competitive Bidding procedures which: (A) minor works are estimated to cost \$100,000 equivalent or more per contract, shall stipulate that the period for submitting bids shall be at least 30 calendar days from the date of notification and advertising of the specific procurement notice; and (B) minor works are estimated to cost less than \$100,000 equivalent per contract, shall stipulate that the period for submitting bids shall be at least 20 calendar days from the date of notification and advertising of the specific procurement notice;

- (f) the invitations to bid, bidding documents, minutes of bid opening, requests for expressions of interest and the pertinent summary of the evaluation reports of bids and proposals of all goods minor works, and Non-consultant Services and consultants services shall be published in the web page of the Recipient (*Honducmpras*), and in a manner acceptable to the Association. The bidding period shall be counted from the date of publication of the invitation to bid or the date of the availability of the bidding documents, whichever is later, to the date of bid opening;
- (g) the provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines providing for domestic preference in the evaluation of bids shall apply to goods manufactured in the territory of the Recipient in respect of contracts for goods to be procured under International Competitive Bidding procedures;
- (h) contracts of goods, minor works, and Non-consultant Services shall not be awarded to the “most convenient” bid, but rather to the bidder whose bid has been determined: (i) to be substantially responsive; and (ii) to offer the lowest evaluated bid, provided that said bidder has demonstrated to the Recipient to be qualified to perform the contract satisfactorily;
- (i) 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;
- (j) the types of contracts described in Section IV of the Consultant Guidelines shall be the only types of contracts to be used by the Recipient in connection with the contracting of consultants’ services provided by a firm and to be financed with the proceeds of the Credit; and
- (k) without limitation to its reporting obligations under this Agreement, the Recipient shall: (a) supply the SEPA with the information contained in the initial Procurement Plan within thirty (30) days after the Project has been approved by the Association; and (b) update the Procurement Plan at least every three months, or as required by the Association, to reflect the actual Project implementation needs and progress and shall supply SEPA with the information contained in the updated Procurement Plan immediately thereafter.

**B. Particular Methods of Procurement of Goods, Minor Works and Non-consultant Services**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, minor works and Non-consultant Services shall be procured under contracts awarded on the basis of International Competitive Bidding procedures.
2. **Other Methods of Procurement of Goods, Minor Works and Non-consultant Services.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, minor works, and Non-consultant Services. The Procurement Plan shall specify the circumstances under which such methods may be used:

<b><u>Procurement Method</u></b>
(a) National Competitive Bidding
(b) Shopping
(c) Direct Contracting

**C. Particular Methods of Procurement of Consultants' Services**

1. **Quality and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used:

<b><u>Procurement Method</u></b>
(a) Least Cost Selection
(b) Selection based on Consultants' Qualifications
(c) Selection under a Fixed Budget
(d) Single-source Selection
(e) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(f) Sole Source Procedures for the Selection of Individual Consultants

**D. Review by the Association of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association.

**Section IV. Withdrawal of the Proceeds of the Financing**

**A. General**

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Credit to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<b><u>Category</u></b>	<b><u>Amount of the Credit Allocated (expressed in SDR)</u></b>	<b><u>Percentage of Expenditures to be Financed (inclusive of Taxes)</u></b>
(1) Goods, minor works, Non-consultant Services, consultants’ services and Training/Workshops under Part A of the Project.	5,100,000	100%
(2) Goods, consultants’ services and Training/Workshops under Part B of the Project.	3,000,000	100%
(3) Goods, consultants’ services and Training/Workshops under Part C of the Project.	2,400,000	100%

<u>Category</u>	<u>Amount of the Credit Allocated (expressed in SDR)</u>	<u>Percentage of Expenditures to be Financed (inclusive of Taxes)</u>
(4) Goods, Non-consultant Services, consultants' services and Training/Workshops under Part D of the Project.	500,000	100%
(5) Goods, consultants' services and Training/Workshops under Part E of the Project.	700,000	100%
<b>TOTAL AMOUNT</b>	11,700,000	100%

For the purposes of this Section the term "Training/Workshops" means expenditures (other than consultants' services and Non-consultant Services), solely as required for the Project, incurred for: (a) reasonable travel, room, board and *per diem* expenditures incurred by trainers and trainees in connection with their training and by non-consultant training facilitators; (b) course fees; (c) training/workshops facility and equipment rentals; (d) training material preparation, acquisition, reproduction and distribution expenses not otherwise covered under this paragraph; (e) scholarship and fellowships for training courses to be provided in the Recipient's territory or abroad; and (f) study tours and internships in the Recipient's territory or abroad.

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed SDR 650,000 may be made for payments made prior to this date but on or after August 1, 2011 (but in no case more than one year prior to the date of this Agreement), for Eligible Expenditures under the Project.
2. The Closing Date is December 31, 2015.

**Section V. Other Undertakings**

**A. Other Audits**

Pursuant to terms of reference previously agreed with the Association, including, *inter alia*, the scope of the audits to be conducted and furnished to the Association, and as further specified in the Operational Manual, the Recipient shall: (a) not later than three month after the Effective Date, hire independent auditors, with experience and qualifications acceptable to the Association, and under terms of reference acceptable to the Association, for purposes of carrying out the annual operational audits referred to in Part E.1 of the Project to assess compliance with the Project's result indicators and targets; (b) not later than six months after each year of Project implementation (starting with calendar year 2012), cause said auditors to the carry out annual operational audits in accordance with terms of reference mentioned in (a) herein; (c) not later than ninety days after the end of the period covered by each such audit, prepare and furnish to the Association a report of such scope and in such detail as the Association shall reasonably request concerning the result of the pertinent audit, and setting out the measures to ensure the adequate and efficient carrying out of the Project and the achievement of the objectives thereof; and (d) immediately thereafter, implement the measures indentified in each of said audit reports in a manner acceptable to the Association.

### SCHEDULE 3

#### Repayment Schedule

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each February 1 and August 1:	
Commencing February 1, 2017 to and including August 1, 2026	1.65%
Commencing February 1, 2027 to and including August 1, 2036	3.35%

\* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.



## APPENDIX

### Section I. Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Central Administration” means the Recipient’s ministries and agencies within its executive branch.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011.
5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010 with the modifications set forth in Section II of this Appendix.
6. “ICT” means information communication technology.
7. “Non-consultant Services” means services (other than consultants’ services) which are bid and contracted on the basis of performance of a measurable physical output, including, *inter alia*, the printing of materials, technical services, and communication services (e.g. dissemination campaigns).
8. “ONCAE” means *Oficina Nacional de Contratación y Adquisiciones del Estado*, the Recipient’s National Procurement Office within SEFIN or any other successor thereto acceptable to the Association.
9. “Operational Manual” means the Recipient’s manual for the Project dated October 20, 2011 and referred to in Section I.A.3 of Schedule 2 to this Agreement, acceptable to the Association, which manual shall include, *inter alia*: (a) the detailed arrangements for the overall carrying out of the Project activities; (b) the format of: (A) the unaudited interim financial reports referred to in Section II.B.2 of Schedule 2 of this Agreement; and (B) the Financial Statements; (c) the composition, functions and responsibilities of the UAP, and terms of reference for its personnel; (d) the detailed responsibilities of SEFIN and SDP in the carrying out of the Project and the corresponding procedures for coordination and collaboration between them; (e) the terms of reference for the carrying out the audits under Section V.A of Schedule 2 of this Agreement; (f) the Project indicators; (g) the environmental management framework,

dated October 19, 2011, which includes, *inter alia*, the procedures to: (A) identify the site in which the center referred to in Part A.1(iii) of the Project will be created; and (B) prevent, mitigate, and manage any potential environmental negative impact of said minor civil works; and (h) the Project disbursement and procurement procedures, as said manual may be updated and/or amended from time to time with the agreement of the Association.

10. “Procurement Guidelines” means the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011.

11. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated October 20, 2011 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

12. “SDP” means *Secretaría de Estado del Despacho Presidencial*, the Recipient’s Ministry of Presidency.

13. “SEFIN” means *Secretaría de Estado en el Despacho de Finanzas*, the Recipient’s Ministry of Finance.

14. “SEPA” means the Association’s system for the execution of procurement processes carried out in accordance with the provisions of Section III of Schedule 2 to this Agreement.

15. “SIAFI” means *Sistema de Administración Financiera Integrado*, the Recipient’s integrated financial administration system.

16. “UAP” means *Unidad Administradora de Proyectos*, the coordination unit referred to in Section I.A.1 of Schedule 2 to this Agreement.

## **Section II. Modifications to the General Conditions**

The modifications to the General Conditions are as follows:

1. Section 3.02 is modified to read as follows:

“Section 3.02. *Service Charge and Interest Charge*

(a) *Service Charge*. The Recipient shall pay the Association a service charge on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. The Service Charge shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-

annually in arrears on each Payment Date. Service Charges shall be computed on the basis of a 360-day year of twelve 30-day months.

(b) *Interest Charge.* The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months.”

2. Paragraph 28 of the Appendix (“Financing Payment”) is modified by inserting the words “the Interest Charge” between the words “the Service Charge” and “the Commitment Charge”.
3. The Appendix is modified by inserting a new paragraph 32 with the following definition of “Interest Charge”, and renumbering the remaining paragraphs accordingly:

“32. “Interest Charge” means the interest charge specified in the Financing Agreement for the purpose of Section 3.02(b).”
4. Renumbered paragraph 37 (originally paragraph 36) of the Appendix (“Payment Date”) is modified by inserting the words “Interest Charges” between the words “Service Charges” and “Commitment Charges”.
5. Renumbered paragraph 50 (originally paragraph 49) of the Appendix (“Service Charge”) is modified by replacing the reference to Section 3.02 with Section 3.02 (a).