

CONFORMED COPY

CREDIT NUMBER 3640-HO

Development Credit Agreement

(Health System Reform Project)

between

REPUBLIC OF HONDURAS

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 15, 2002

CREDIT NUMBER 3640-HO

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 15, 2002, between REPUBLIC OF HONDURAS (the

Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter dated March 18, 2002, from the Borrower and IHSS (as said term is defined in Section 1.02 (k) of this Agreement) describing a program of actions, objectives and policies designed to achieve a reform of the Borrower's health sector and the social security system (hereinafter called the Program) and declaring the Borrower and IHSS' commitment to the execution of the Program;

(B) 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 the Association has agreed, on the basis 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) "Agency Agreement" means the agreement referred to in Section 3.08 (a) of this Agreement;

(b) "Agent" means a legal entity with disbursement, procurement and financial management experience, and qualifications acceptable to the Association;

(c) "AIDS" means Acquired Immune Deficiency Syndrome;

(d) "BCH" means *Banco Central de Honduras*, the Borrower's Central Bank;

(e) "Decree No. 140-1959" means *Decreto* No. 140-1959 of the Borrower dated May 22, 1959 duly published in the Official Gazette No. 16.819 of July 1959 which established IHSS and the Borrower's social security system, as said Decree has been amended to the date of

this Agreement;

(f) “FMR” means each financial monitoring report prepared in accordance with Section 4.02 (a) of this Agreement;

(g) “Health Care Waste Management Study” means the study carried out by MOH in 1995 with respect to health care waste management in Honduras;

(h) “Health Services Agreement” means any of the agreements referred to in Section 3.14 (a) of this Agreement;

(i) “Health Services Provider” means a non-government organization or a private institution vested with legal personality which provides health and health support services and is selected by the Borrower or IHSS, as the case may be, in accordance with the criteria set forth in the Operational Manual;

(j) “HIV” means Human Immune-deficiency Virus;

(k) “IHSS” means the *Instituto Hondureño de Seguridad Social*, the Borrower’s Social Security Institute established pursuant to Decree No. 140-1959 (as defined above);

(l) “IHSS Agreement” means the agreement referred to in Section 3.05 (a) of this Agreement;

(m) “IHSS Subprojects” means a IHSS Subproject I, a IHSS Subproject II and/or a IHSS Subproject III;

(n) “IHSS Subproject I” means an investment under Part B of the Project (within the jurisdiction of IHSS) which cost will be financed in part with the proceeds of the Credit allocated to Categories (1) (d) and (2) (d) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(o) “IHSS Subproject II” means an investment under Part B of the Project (within the jurisdiction of IHSS) which cost will be financed in part with the proceeds of the Credit allocated to Categories (1) (e) and (2) (e) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(p) “IHSS Subproject III” means an investment under Part B of the Project (within the jurisdiction of IHSS) which cost will be financed in part with the proceeds of the Credit allocated to Categories (1) (f) and (2) (f) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(q) “Implementation Letter” means the letter of even date herewith from the Borrower and IHSS to the Association setting forth: (i) the Project monitoring indicators; (ii) the

actions referred to in Section 7.01 (d) of, and paragraph 3 (b) (i), (c) (i), (d) (i) and (e) (i) of Schedule 1 to, this Agreement; and (iii) the IPDP;

(r) “Indigenous Community” means a community comprised of any of the following ethnic groups: *Chorti, Garifuna, Lenca, Miskito, Pech, Tawahka* and *Tolupán*;

(s) “IPDP” means the Borrower’s indigenous peoples development plan set forth in annex 7 to the Implementation Letter;

(t) “IRC” means the committee referred to in Section 3.07 (a) (i) of this Agreement;

(u) “MOH” means *Secretaría de Estado en el Despacho de Salud*, the Borrower’s Ministry of Health;

(v) “MOH Subprojects” means a MOH Subproject I, a MOH Subproject II and/or a MOH Subproject III;

(w) “MOH Subproject I” means an investment under Part B of the Project (within the jurisdiction of MOH) which cost will be financed in part with the proceeds of the Credit allocated to Categories (1) (a) and (2) (a) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(x) “MOH Subproject II” means an investment under Part B of the Project (within the jurisdiction of MOH) which cost will be financed in part with the proceeds of the Credit allocated to Categories (1) (b) and (2) (b) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(y) “MOH Subproject III” means an investment under Part B of the Project (within the jurisdiction of MOH) which cost will be financed in part with the proceeds of the Credit allocated to Categories (1) (c) and (2) (c) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(z) “Operational Manual” means the manual referred to in Section 3.04 (a) of this Agreement, as said manual may be amended from time to time with the agreement of the Association; and

(aa) “PIU” means the unit referred to in Section 3.07 (a) (ii) of this Agreement.

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 twenty one million eight hundred thousand Special Drawing Rights (SDR 21,800,000).

Section 2.02. 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 (excluding the anti-retroviral drugs referred to in Part B of the Project), works, consultants' services and other services (including services provided by Health Services Providers, and audit services) and incremental operating costs required for the Project and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be July 31, 2007 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 April 15 and October 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 April 15 and October 15 commencing October 15, 2012 and ending April 15, 2042. Each installment to and including the installment payable on April 15, 2022 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. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, and without limitation to the provisions set forth in paragraph 3 (b), (c), (d) and (e) of Schedule 1 to this Agreement, shall:

- (a) carry out: (i) Parts A.1 through A.8, A.12 (a) (i), (b) (i) and (c), A.13 (a) and C

of the Project through MOH; and (ii) the MOH Subprojects through MOH, in coordination with the IRC, all with due diligence and efficiency and in conformity with appropriate administrative, technical, financial, health, engineering and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for said Project activities; and

(b) (i) cause IHSS (pursuant to the IHSS Agreement) to carry out: (A) Parts A.9 through A.11, A.12 (a) (ii) and (b) (ii) and A.13 (b) of the Project; and (B) the IHSS Subprojects, in coordination with the IRC, all with due diligence and efficiency and in conformity with appropriate administrative, technical, financial, health, engineering and environmental practices; (ii) in accordance with said IHSS Agreement, take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable IHSS to perform said Project activities; and (iii) not take or permit to be taken any action which would prevent or interfere with the carrying out of said Project activities.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works, consultants' services and other services (including services provided by Health Services Providers, and audit 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. 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 for the future operation of the Project; and

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

Section 3.04. (a) Without limitation to the provisions of Section 3.01 of this Agreement, the Borrower shall: (i) carry out Parts A.1 through A.8, A.12 (a) (i), (b) (i) and (c), A.13 (a) and C of the Project and the MOH Subprojects; and (ii) cause IHSS to carry out Parts A.9 through A.11, A.12 (a) (ii) and (b) (ii) and A.13 (b) of the Project and the IHSS Subprojects, all in accordance with a manual (the Operational Manual), acceptable to the Association, said manual to include, *inter alia*, the criteria for selecting MOH Subprojects and IHSS Subprojects (said criteria to be based, *inter alia*, on the Indigenous Communities' health needs identified in the IPDP and the compliance with current health care waste management regulations in Honduras), the environmental guidelines to be followed by the Borrower and IHSS in the environmental screening of MOH Subprojects and IHSS Subprojects, respectively, the criteria for selecting Health Services Providers, and the Project financial management, disbursement and procurement procedures.

(b) In 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. (a) For purposes of carrying out Parts A.9 through A.11, A.12 (a) (ii) and (b) (ii) and A.13 (b) of the Project and the IHSS Subprojects, the Borrower shall make available from time to time, and on a grant basis, a portion of the Credit proceeds allocated under Categories (1) (d), (e) and (f), (2) (d), (e) and (f), (3) (b), (4) (b) and (5) (b) set forth in the table in paragraph 1 of Schedule 1 to this Agreement to IHSS pursuant to an agreement (the IHSS Agreement) to be entered into between the Borrower and IHSS on terms and conditions satisfactory to the Association, including, *inter alia*, the obligation of IHSS to:

- (i) carry out said Project activities in accordance with the provisions of this Loan Agreement and the Operational Manual;
- (ii) (A) maintain a financial management system (including records and accounts and any other information and/or documentation as the Association may request from time to time) and prepare financial statements, all in accordance with accounting standards acceptable to the Association consistently applied, adequate to reflect its operations and financial condition and register separately the operations, resources and expenditures related to the carrying out of said Project activities; and (B) furnish to the Agent the documentation referred to in (A) herein so as to enable the Borrower to comply with its obligations under Sections 4.01 and 4.02 of this Agreement;
- (iii) provide to the Borrower all information and/or documentation to enable the Borrower to comply with its obligations under Section 3.03 of this Agreement;
- (iv) comply with the obligations referred to in Section 3.06 of this Agreement;
- (v) participate in the reviews and exchange of views referred to in Sections 3.09 (c), 3.10 (a) (ii) and 3.11 (a) (ii) of this Agreement;
- (vi) take all action to enable the Borrower to comply with its obligations under Sections 3.09 (c), 3.12, 3.13, 3.14 and 5.01 of this Agreement; and
- (vii) not to assign, amend, terminate, abrogate, repeal, waive or fail to enforce the IHSS Agreement or the Agency Agreement or any of the Health Services Agreements to which IHSS is a party thereto or any provision thereof.

(b) (i) The Borrower shall exercise its rights and carry out its obligations under the IHSS Agreement in such 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 shall otherwise agree, the Borrower shall not assign, amend, abrogate, repeal, terminate, waive or fail to enforce the IHSS Agreement or any provision thereof.

Section 3.06. The Borrower and the Association hereby agree that the obligations set

forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Parts A.9 through A.11, A.12 (a) (ii) and (b) (ii) and A.13 (b) of the Project and the IHSS Subprojects shall be carried out by IHSS pursuant to the provisions of the IHSS Agreement.

Section 3.07. (a) The Borrower shall:

(i) establish, and thereafter operate and maintain at all times during Project implementation, an inter-institutional reform committee (the IRC) with a structure, functions and responsibilities acceptable to the Association, including, *inter alia*, the responsibility of the IRC to oversee the Borrower and IHSS' compliance with Project activities under Part B of the Project and the actions set forth in annexes 2, 3, 4, 5 and 6 to the Implementation Letter.

(ii) establish under the IRC, and thereafter operate and maintain at all times during Project implementation, a project implementation unit (the PIU) with a structure, functions and responsibilities acceptable to the Association including, *inter alia*, the responsibility of the PIU to assist the Borrower and IHSS in the implementation, monitoring and supervision of the Project activities under their responsibility.

(b) The Borrower shall ensure that the PIU is, at all times during Project implementation, headed by a general coordinator and assisted by adequate professional and administrative staff, all with qualifications and experience acceptable to the Association.

Section 3.08. (a) Without limitations to the provisions of Section 3.01 of this Agreement, the Borrower shall, and shall cause IHSS to, enter into an agreement (the Agency Agreement) with the Agent, on terms and conditions acceptable to the Association, including, *inter alia*, the obligation of the Agent to: (i) assist the Borrower and IHSS in the disbursement of Credit proceeds, procurement of the goods, works and services under the Project and the financial management of the Project; and (ii) comply with those obligations pertaining to the Agent referred to in Sections 3.16, 4.01 and 4.02 of this Agreement.

(b) (i) The Borrower shall exercise its rights and carry out its obligations under the Agency Agreement in such 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 shall otherwise agree, the Borrower shall not assign, amend, abrogate, repeal, terminate, waive or fail to enforce the Agency Agreement or any provision thereof.

Section 3.09. The Borrower shall:

(a) maintain or cause to be maintained policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Annex 1 to the Implementation Letter, the carrying out of the Project and the achievement of the objective thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to

the Association, each January 31 and July 31 during Project implementation, starting with the report due not later than January 31, 2003, a report 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 calendar semester preceding the date of presentation of the pertinent report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the following calendar semester; and

(c) shall cause IHSS to, review with the Association, by March 31, 2005, or such later date as the Association shall request, the pertinent reports referred to in paragraph (b) of this Section, and, thereafter, take, and/or cause to be taken, all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of said reports and the Association's views on the matter.

Section 3.10. (a) Without limitation to the provisions of Section 3.09 (b) and (c) of this Agreement, the Borrower shall, and shall cause IHSS to, not later than: (i) sixty days prior to the date in which the exchange of views with the Association shall occur as referred to in (ii) herein, prepare and furnish to the Association, for its approval, the list of MOH Subprojects II and IHSS Subprojects II to be financed with the proceeds of the Credit allocated under Categories (1) (b) and (e) and (2) (b) and (e) set forth in the table in paragraph 1 of Schedule 1 to this Agreement, and a timetable and procurement plan for the carrying out of said subprojects; and (ii) eighteen months after the Effective Date or such later date as the Association shall establish, exchange views with the Association on the progress achieved by the Borrower and IHSS in carrying out the actions identified in the Annex to the Program, including the actions set forth in Annexes 3 and 5 to the Implementation Letter.

(b) If, after said exchange of views, the Association shall have given notice to the Borrower that the applicable actions set forth in Annex 3 to the Implementation Letter pertaining to MOH have not been fulfilled, and those applicable actions set forth in Annex 5 to the Implementation Letter pertaining to IHSS have been fulfilled, the Association may, upon notice to the Borrower, reallocate to Categories (1) (e) and (2) (e) set forth in the table in paragraph 1 of Schedule 1 to this Agreement the proceeds of the Credit allocated under Categories (1) (b) and (2) (b), respectively.

(c) If, after said exchange of views, the Association shall have given notice to the Borrower that the applicable actions set forth in Annex 5 to the Implementation Letter pertaining to IHSS have not been fulfilled, and those applicable actions set forth in Annex 3 to the Implementation Letter pertaining to MOH have been fulfilled, the Association may, upon notice to the Borrower, reallocate to Categories (1) (b) and (2) (b) set forth in the table in paragraph 1 of Schedule 1 to this Agreement the proceeds of the Credit allocated under Categories (1) (e) and (2) (e), respectively.

(d) If, after said exchange of views, the Association shall have given notice to the Borrower that the applicable actions set forth in Annexes 3 and 5 to the Implementation Letter have not been fulfilled and, within ninety (90) days after such notice, said actions continue to be unfulfilled, then the Association may, by notice to the Borrower cancel the Credit proceeds allocated to Categories (1) (b) and (e) and (2) (b) and (e) set forth in the table in paragraph 1 of Schedule 1 to this Agreement pursuant to Section 6.03 (b) of the General Conditions.

Section 3.11. (a) Without limitation to the provisions of Section 3.09 (b) and (c) of

this Agreement, the Borrower shall, and shall cause IHSS to, not later than: (i) sixty days prior to the date in which the exchange of views with the Association shall occur as referred to in (ii) herein, prepare and furnish to the Association, for its approval, the list of MOH Subprojects III and IHSS Subprojects III to be financed with the proceeds of the Credit allocated under Categories (1) (c) and (f) and (2) (c) and (f) set forth in the table in paragraph 1 of Schedule 1 to this Agreement, respectively, and a timetable and procurement plan for the carrying out of said subprojects; and (ii) thirty-six months after the Effective Date or such later date as the Association shall establish, exchange views with the Association on the progress achieved by the Borrower and IHSS in carrying out the actions identified in the Annex to the Program, including the actions set forth in Annexes 4 and 6 to the Implementation Letter.

(b) If, after said exchange of views, the Association shall have given notice to the Borrower that the applicable actions set forth in Annex 4 to the Implementation Letter pertaining to MOH have not been fulfilled, and those applicable actions set forth in Annex 6 to the Implementation Letter pertaining to IHSS have been fulfilled, the Association may, upon notice to the Borrower, reallocate to Categories (1) (f) and (2) (f) set forth in the table in paragraph 1 of Schedule 1 to this Agreement the proceeds of the Credit allocated under Categories (1) (c) and (2) (c).

(c) If, after said exchange of views, the Association shall have given notice to the Borrower that the applicable actions set forth in Annex 6 to the Implementation Letter pertaining to IHSS have not been fulfilled, and those applicable actions set forth in Annex 4 to the Implementation Letter pertaining to MOH have been fulfilled, the Association may, upon notice to the Borrower, reallocate to Categories (1) (c) and (2) (c) set forth in the table in paragraph 1 of Schedule 1 to this Agreement the proceeds of the Credit allocated under Categories (1) (f) and (2) (f).

(d) If, after said exchange of views, the Association shall have given notice to the Borrower that the applicable actions set forth in Annexes 4 and 6 to the Implementation Letter have not been fulfilled and, within ninety (90) days after such notice, said actions continue to be unfulfilled, then the Association may, by notice to the Borrower cancel the Credit proceeds allocated to Categories (1) (c) and (f) and (2) (c) and (f) set forth in the table in paragraph 1 of Schedule 1 to this Agreement pursuant to the provisions of Section 6.03 (b) of the General Conditions.

Section 3.12. The Borrower shall, and shall cause IHSS to, carry out the MOH Subprojects and IHSS Subprojects, respectively, on the terms approved by the Association.

Section 3.13. The Borrower shall, and shall cause IHSS to, open a joint account in BCH, and thereafter operate jointly, during Project implementation, said account on terms and conditions acceptable to the Association, including, *inter alia*, the obligation of the Borrower and IHSS to maintain at all times in said account a quarterly aggregate amount equal to at least \$200,000 equivalent in Project counterpart funds.

Section 3.14. (a) Upon approval by the Association of MOH Subprojects and/or IHSS Subprojects in which the services of Health Services Providers shall be required for the implementation of said subprojects, the Borrower shall, and/or shall cause IHSS to, as the case may be, enter into a separate agreement (the Health Services Agreement) with each Health Services Provider on terms and conditions acceptable to the Association.

(b) (i) The Borrower shall exercise its rights and carry out its obligations under each Health Services Agreement in such 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 shall otherwise agree, the Borrower shall not assign, amend, abrogate, repeal, terminate, waive or fail to enforce any Health Services Agreement or any provision thereof.

Section 3.15. The Borrower shall: (a) not later than eight months after the Effective Date complete the update of the study referred to in Part A.8 of the Project; and (b) not later than ten months after the Effective Date prepare and furnish to the Association, criteria, acceptable to the Association, to improve health care waste management in primary health care facilities and hospitals in Honduras which criteria shall be included immediately thereafter in the Operational Manual as part of the criteria for selecting MOH Subprojects II, MOH Subprojects III, IHSS Subprojects II and IHSS Subprojects III.

Section 3.16. For purposes of carrying out the annual procurement assessments under Part C.3 of the Project, the Borrower shall: (a) cause the Agent to: (i) not later than December 31 of each year of Project implementation, starting in the year 2002, employ consultants with procurement qualifications and experience acceptable to the Association and under terms of reference satisfactory to the Association; and (ii) not later than four months after the end of each calendar year during Project implementation, starting in the year 2002, prepare and furnish to the Association, a report of such scope and in such detail as the Association shall have reasonably requested setting forth the results and/or recommendations, as the case may be, of the annual procurement assessment of those Project activities carried out during the calendar year prior to the date of presentation of the pertinent report; and (b) if deemed appropriate by the Association, immediately thereafter implement or cause to be implemented the recommended actions set forth in the pertinent report.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause the Agent (pursuant to the provisions of the Agency Agreement) to: (i) at all times, maintain a financial management system, including records and accounts; and (ii) prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall cause the Agent to:

(i) have: (A) the records, accounts and financial statements referred to in paragraph (a) of this Section; and (B) the records, accounts and financial statements of IHSS referred to in Section 3.05 (a) (ii) of this Agreement, for each fiscal year audited, in accordance with auditing standards acceptable to the Association, 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 copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements, records and accounts and report of such audits, by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including as part of the information to be provided in each said report pertaining to the audit of the documentation referred to in paragraph (b) (i) (A) herein, a management letter concerning the Borrower's internal controls and specific reference with respect to Borrower's compliance with the financing of eligible expenditures under MOH Subprojects and IHSS Subprojects; and

- (iii) furnish to the Association such other information concerning such records and accounts, and the audits thereof, 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 in respect of the Project, the Borrower shall cause the Agent to:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report pertaining to the documentation referred to in paragraph (b) (i) (A) of this Section 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) of the documentation referred to in paragraph (b) (i) (A) 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. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.09 of this Agreement, the Borrower shall prepare in accordance with guidelines acceptable to the Association and furnish to the Association a financial monitoring report, in form and substance acceptable to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds

provided under the Credit, and explains variances between the planned and actual 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 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; and 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

Other Covenants

Section 5.01. The Borrower shall cause IHSS:

(a) to carry on its operations and conduct its affairs in accordance with sound administrative, technical, financial, health, engineering and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

(b) at all times to operate and to maintain its equipment and other property, and from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound technical, financial, health, engineering and environmental practices.

ARTICLE VI

Remedies of the Association

Section 6.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) IHSS shall have failed to perform any of its obligations under the IHSS Agreement.

(b) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that IHSS will be able to

perform its obligations under the IHSS Agreement.

(c) The Agent shall have failed to perform any of its obligations under the Agency Agreement.

(d) Decree No. 140-1959 or any provision thereof shall have been amended, suspended, abrogated, repealed, waived or not enforced in such a manner so as to affect materially and adversely, in the opinion of the Association, the ability of IHSS to carry out Parts A.9 through A.11, A.12 (a) (ii) and (b) (ii) and A.13 (b) of the Project and IHSS Subprojects.

(e) IHSS shall have failed to comply with any of its obligations under the Agency Agreement.

(f) IHSS shall have failed to comply with any of its obligations under any Health Services Agreement.

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

(a) any of the events specified in paragraphs (a) or (c) or (e) or (f) of Section 6.01 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; and

(b) any of the events specified in paragraph (d) of Section 6.01 of this Agreement shall occur.

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) the IHSS Agreement has been executed by the parties thereto;

(b) the Agency Agreement has been executed by the parties thereto;

(c) the Operational Manual has been adopted by the Borrower and IHSS in a manner acceptable to the Association;

(d) the actions described in Annex 2 to the Implementation Letter have been taken in form and substance satisfactory to the Association;

(e) the list of MOH Subprojects I and IHSS Subprojects I has been approved in form and substance by the Association (including a timetable and procurement plan for the carrying out of said subprojects);

(f) the IRC has been established as provided in Section 3.07 (a) (i) of this Agreement;

(g) the PIU has been established and staffed as provided in Section 3.07 (a) (ii) and (b) of this Agreement;

(h) the Borrower has transferred to the Agent an amount equal to at least \$200,000 equivalent which amount represents the counterpart funds necessary to finance the expenditures referred to in Section 2.02 of this Agreement within the three months after the Effective Date; and

(i) the Agent has prepared and established, in a manner acceptable to the Association, a chart of accounts for the Project.

Section 7.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the IHSS Agreement has been duly authorized or ratified by the Borrower and IHSS, and is legally binding upon the Borrower and IHSS in accordance with its terms.

Section 7.03. The date November 13, 2002 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. The Secretary of the Secretariat of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. 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:

Telex:

Facsimile:

HACIENDA
Tegucigalpa

1308
FINANZAS HO

(504) 237-4142

For the Association:

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

Cable address:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(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 Tegucigalpa, Honduras, as of the day and year first above written.

REPUBLIC OF HONDURAS

By /s/ Arturo Alvarado

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Joseph Owen

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 Expenses to be Financed</u>
(1) Works, goods (excluding anti-retroviral drugs referred to in Part B of the Project, and pharmaceuticals to be financed under Category (2) below), consultants' services, Health and Support Services Provider Fees and/or Training		85%

as the case may be, under:

(a) MOH Subprojects I	1,000,000)
)
(b) MOH Subprojects II	3,800,000)
)
(c) MOH Subprojects III	1,200,000)
)
(d) IHSS Subprojects I	2,100,000)
)
(e) IHSS Subprojects II	2,000,000)
)
(f) IHSS Subprojects III	900,000)

(2) Pharmaceuticals (excluding anti-retroviral drugs) under: 60%

(a) MOH Subprojects I	60,000)
)
(b) MOH Subprojects II	220,000)
)
(c) MOH Subprojects III	70,000)
)
(d) IHSS Subprojects I	130,000)
)
(e) IHSS Subprojects II	120,000)
)
(f) IHSS Subprojects III	50,000)

(3) Goods (excluding pharmaceuticals) under:

(a) Parts A.1, A.2, A.3, A.4, A.5, A.7, A.12 (a) (i) and C.1 of the Project	450,000)	100% of foreign expenditures;
	)	100% of local
	)	expenditures for
	)	items procured
	)	through the
	)	services of a
	)	tax exempt
	)	procurement
	)	agent; and 87% of
	)	local expenditures
	)	for other items
	)	procured locally
)	
(b) Parts A.9, A.10, A.11, A.12 (a) (ii) of the Project	920,000)	

(4)	Consultants' services under :		
	(a) Parts A.1 through A.8,	2,730,000)	100% of foreign
	A.12 (a) (i), (b) (i) and (c)	)	expenditures and
	A.13 (a), C.1 and C.3 of the	)	95% of local
	Project	)	expenditures
)	
)	
	(b) Parts A.9, A.10, A.11	2,740,000)	
	A.12, (a) (ii) and (b) (ii)		
	and A.13 (b) of the		
	Project		
(5)	Training under:		80%
	(a) Parts A.1 (f) and A.6	600,000)	
	of the Project)	
)	
)	
	(b) Part A.11 (a) of the Project	140,000)	
(6)	Incremental Operating Costs	240,000	60%
	under Part C.1 of the Project		
(7)	Audits under Part C.2 of	330,000	80%
	the Project		
(8)	Unallocated	2,000,000	
	TOTAL	<u>21,800,000</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 "Training" means expenditures (other than those for consultants' services) incurred by the Borrower and/or IHSS to finance reasonable transportation costs and per-diem of trainees and rental of training facilities and equipment under Parts A.1 (f), A.6 and A.11 (a) of the Project and under MOH Subprojects and/or IHSS Subprojects, as the case may be;

(d) the term "Incremental Operating Costs" means reasonable recurrent expenditures that would not have been incurred by the PIU absent the Project, such as transportation and per-diem costs of its staff, office rent and utilities, operation and maintenance of office

equipment and vehicles financed with the proceeds of the Credit, and non-durable goods, all needed for the supervision of the Project; and

(e) the term “Health and Support Services Provider Fees” means the fees paid to a Health Services Provider to cover its incremental salaries, supplies, minor equipment, pharmaceuticals, transportation costs related to the provision of health care and other costs related to the provision of health support services such as hospital cleaning and laundry.

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 400,000, may be made in respect of Categories (3) (a) and (b), (4) (a) and (b), (5) (a) and (b) and (6) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures incurred within twelve months before the date of this Agreement;

(b) payments made for expenditures under Categories (1) (b) and (2) (b) set forth in the table in paragraph 1 of this Schedule unless the Association shall: (i) be satisfied, after the exchange of views referred to in Section 3.10 (a) (ii) of this Agreement based on evidence, satisfactory to the Association, that the actions described in Annex 3 to the Implementation Letter have been taken in form and substance satisfactory to the Association; and (ii) have approved in form and substance the list of MOH Subprojects II (including the timetable and procurement plan for their implementation) referred to in Section 3.10 (a) (i) of this Agreement;

(c) payments made for expenditures under Categories (1) (c) and (2) (c) set forth in the table in paragraph 1 of this Schedule unless the Association shall: (i) be satisfied, after the exchange of views referred to in Section 3.11 (a) (ii) of this Agreement based on evidence, satisfactory to the Association, that the actions described in Annex 4 to the Implementation Letter have been taken in form and substance satisfactory to the Association; and (ii) have approved in form and substance the list of MOH Subprojects III (including the timetable and procurement plan for their implementation) referred to in Section 3.11 (a) (i) of this Agreement;

(d) payments made for expenditures under Categories (1) (e) and (2) (e) set forth in the table in paragraph 1 of this Schedule unless the Association shall: (i) be satisfied, after the exchange of views referred to in Section 3.10 (a) (ii) of this Agreement based on evidence, satisfactory to the Association, that the actions described in Annex 5 to the Implementation Letter have been taken in form and substance satisfactory to the Association; and (ii) have approved in form and substance the list of IHSS Subprojects II (including the timetable and procurement plan for their implementation) referred to in Section 3.10 (a) (i) of this Agreement; and

(e) payments made for expenditures under Categories (1) (f) and (2) (f) set forth in the table in paragraph 1 of this Schedule unless the Association shall: (i) be satisfied, after the exchange of views referred to in Section 3.11 (a) (ii) of this Agreement based on evidence, satisfactory to the Association, that the actions described in Annex 6 to the Implementation

Letter have been taken in form and substance satisfactory to the Association; and (ii) have approved in form and substance the list of IHSS Subprojects III (including the timetable and procurement plan for their implementation) referred to in Section 3.11 (a) (i) 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: (a) contracts for goods costing less than \$150,000 equivalent with the exception of the first contract for goods and all contracts for goods to be procured under Parts C.1 (a) and C.3 of Section I of Schedule 3 to this Agreement, respectively; (b) contracts for works with the exception of the first two contracts for works to be procured under Part C.1 (b) of Section I of Schedule 3 to this Agreement; (c) contracts for the employment of consulting firms (including Health Services Providers and auditors) costing less than \$75,000 equivalent each; (d) contracts for the employment of individual consultants costing less than \$35,000 equivalent each; and (e) Training and Incremental Operating Costs as set forth in Categories (5) and (6) in the table in paragraph 1 of this Schedule, respectively, 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 assist the Borrower and IHSS in the implementation of the Program to, *inter alia*: (a) expand the health care coverage and improve the quality of health care services; and (b) strengthen the organizational and operational capacity of MOH and IHSS.

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: Health Policy Design

1. Strengthening of MOH's operational capacity (including its regulatory function) through, *inter alia*: (a) the design and implementation of an information system; (b) the design of a licensing and accreditation program of primary health care facilities and hospitals; (c) the carrying out of a review of the legal and regulatory frameworks governing the functions and responsibilities of MOH for purposes of improving, if necessary, said frameworks; (d) the design of innovative contracts for: (i) the provision of diagnostic, health care and ancillary hospital services; and (ii) the carrying out of MOH Subprojects and IHSS Subprojects; (e) the design and implementation of a quality and management improvement program for primary health care facilities and hospitals under the jurisdiction of MOH; and (f) the carrying out of a training program of MOH's personnel to strengthen MOH's operational capacity.

2. Strengthening of MOH's organizational capacity through, *inter alia*, the design and implementation of: (a) an internal budgetary system; and (b) a system for monitoring and evaluating the management of the annual budgets assigned to hospitals under the jurisdiction of MOH.

3. (a) Carrying out of a program to provide technical assistance to MOH in the design of MOH Subprojects (including the preparation of said subprojects' proposals); and (b) carrying out of a campaign to inform the population with respect to the contents of the program referred to in (a) herein.
4. Strengthening of the technical capacity of blood banks in the Borrower's territory for purposes of screening for infectious diseases, in particular HIV.
5. Strengthening of the Borrower's disease surveillance system (in particular the HIV/AIDS sub-system) through the provision of technical assistance and training required therefor.
6. Carrying out of a training program for MOH's personnel to improve their technical capacity to manage and address issues related to the health needs of Indigenous Communities.
7. Carrying out of an analysis of community mapping plans of Indigenous Communities for purposes of updating information with respect to constraints that said communities faced in respect of access to health services and local knowledge on medical treatment of diseases and/or sexually transmitted infections.
8. Carrying out of an update of the Health Care Waste Management Study for purposes of improving health care waste management in Honduras.
9. Strengthening of IHSS' operational capacity through, *inter alia*: (a) the carrying out of actuarial studies to improve its financial planning; (b) the design and implementation of an administrative and financial management system; (c) the design and implementation of information systems to provide information with respect to, *inter alia*: (i) mandatory contributions to IHSS; and (ii) current and new IHSS' beneficiaries; (d) the carrying out of a review of the legal and regulatory frameworks governing the functions and responsibilities of IHSS for purposes of improving, if necessary, said frameworks; and (e) the design and implementation of a quality and management improvement program for primary health care facilities and hospitals under the jurisdiction of IHSS.
10. (a) Carrying out of a program to provide technical assistance to IHSS in the design of IHSS Subprojects (including the preparation of said subprojects' proposals); and (b) carrying out of a campaign to inform the population with respect to the contents of the program referred to in (a) herein.
11. Strengthening of IHSS' organizational capacity through, *inter alia*: (a) the design and implementation of a technical assistance and training program for IHSS' Board of Directors to assist said Board of Directors in discharging its functions and responsibilities; and (b) the design and implementation of a procurement system, said system to include a sub-system to monitor and evaluate the procurement of goods and services carried out by IHSS as part of its scope of business.
12. (a) Design and implementation of: (i) a monitoring and evaluation system for Project

activities under the responsibility of MOH; and (ii) a monitoring and evaluation system for Project activities under the responsibility of IHSS; (b) design and carrying out of: (i) a baseline study to collect, *inter alia*, morbidity, mortality, health care coverage and access to health care services data from health facility surveys of MOH's primary health care facilities and hospitals; and (ii) a baseline study to collect, *inter alia*, morbidity, mortality, health care coverage and access to health care services data from health facility surveys of IHSS' primary health care facilities and hospitals, all said data to update the Project indicators; and (c) carrying out of assessments for purposes of evaluating the effect of Project activities (in particular MOH Subprojects and IHSS Subprojects) in Indigenous Communities.

13. Design and implementation of: (a) a program for purposes of informing and educating the population with respect to the contents and benefits of the Project activities under MOH's responsibility; and (b) a program for purposes of informing and educating the population with respect to the contents and benefits of the Project activities under IHSS' responsibility.

Part B: MOH Subprojects and IHSS Subprojects

Carrying out of investments for purposes of, *inter alia*, rehabilitating primary health care facilities, hospitals and health laboratories, upgrading of primary health care facilities, hospitals and health laboratory equipment (including the acquisition and utilization of spare parts for new equipment or in use, as the case may be), expanding health care coverage, improving the quality of health care services (in particular health care services related to maternal-child health, prevention and care of HIV/AIDS (including under said treatment the provision of anti-retroviral drugs to pregnant women and new born children) and other sexually transmitted infections) and strengthening the management capacity of primary health care facilities and hospitals, and any other investment in health care as approved by the Association.

Part C: Project Management

1. Strengthening of the PIU's operational capacity for purposes of assisting the Borrower and IHSS in the implementation, monitoring and supervision of the Project activities under their responsibility.
2. Carrying out of Project audits as referred to in Section 4.01 (b) (i) of this Agreement.
3. Carrying out of annual procurement assessments of Project activities.

* * *

The Project is expected to be completed by January 31, 2007.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

Goods (including pharmaceuticals but excluding the anti-retroviral drugs referred to in Part B of the Project) and works shall be procured in accordance with: (a) 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 (b) the provisions of the following Parts of this Section I.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods (including pharmaceuticals) 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. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of Contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$150,000 equivalent or more each.

(b) Preference for Domestically Manufactured Goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods (including pharmaceuticals) estimated to cost \$25,000 equivalent or more but less than \$150,000 equivalent per contract, up to an aggregate amount not to exceed \$800,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Works estimated to cost \$150,000 equivalent or more per contract shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(c) Procurement of goods and works under this Part shall be carried out using

standard bidding documents acceptable to the Association.

2. Shopping

Goods (including pharmaceuticals) estimated to cost less than \$25,000 equivalent, up to an aggregate amount not to exceed \$150,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures, at the Borrower or the IHSS' option, as the case may be, in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Spare parts which must be purchased from the original supplier to be compatible with existing equipment under MOH Subprojects and/or IHSS Subprojects and costing \$3,000,000 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, up to an aggregate amount not to exceed \$5,000,000, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from at least 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.

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 and works 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 to be awarded under Part B.1 of this Section; (ii) the first contract for goods to be awarded under Part C.1 (a) of this Section; and (iii) the first two contracts for works to be awarded under Part C.1 (b) of this Section, the procedures

set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract for goods to be awarded under Part C.3 of this Section, the following procedures shall apply:

- (i) prior to the execution of any contract procured under direct contracting procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (ii) 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 the Guidelines, the following principles and rules of procurement shall expressly govern all procurement of goods and works referred to in Part C.1 (a) and (b) of this Section, respectively:

(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 and other services (including services provided by Health Services Providers, and audit services) shall be procured in accordance with: (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines); and (b) the provisions of the following Parts of this Section II.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services and other services (including services provided by Health Services Providers, and audit services), shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Consultants' services and other services (including services provided by Health Services Providers, and audit services) estimated to cost less than \$75,000 equivalent per contract, up to an aggregate amount not to exceed \$1,300,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Individual Consultants

Consultants' services for specialized Project activities, as approved by the Association, and tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines, up to an aggregate amount not to exceed \$1,100,000 equivalent, may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under 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 Consultant Guidelines. Selection of all consultants' services and audit services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the

provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$75,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$35,000 or more, 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.

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 and other services (including services provided by Health Services Providers, and audit 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.

(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.

