

**CONFORMED COPY**

**CREDIT NUMBER 4774-HN**

# **Financing Agreement**

**(Social Protection Project)**

**between**

**REPUBLIC OF HONDURAS**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated August 2, 2010**

**CREDIT NUMBER 4774-HN**

**FINANCING AGREEMENT**

AGREEMENT dated August 2, 2010, entered into between 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 twenty six million five hundred thousand Special Drawing Rights (SDR 26,500,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 Payment Dates are June 15 and December 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is United States Dollars.

### **ARTICLE III — PROJECT**

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, under the overall coordination of MoP, the Recipient shall: (a) carry out Parts A.1 and A.3 of the Project, through MoP; and (b) cause PRAF to carry out: (i) Part A.2 of the Project, pursuant to the provisions of the Subsidiary Agreement; and (ii) Part B of the Project, in close coordination with SEFIN, MoH, and MoE, and with the assistance of the pertinent Financial Institution, pursuant to the provisions of the Subsidiary Agreement and the corresponding Financial Institution Agreement, all 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 — REMEDIES OF THE ASSOCIATION**

- 4.01. The Additional Events of Suspension consist of the following:
  - (a) PRAF shall have failed to comply with any of its obligations under the Subsidiary Agreement.
  - (b) PRAF shall have failed to comply with any of its obligations under the pertinent Financial Institution Agreement related to the implementation of Part B of the Project.
  - (c) Any Financial Institution shall have failed to comply with any of its obligations under the pertinent Financial Institution Agreement related to the implementation of Part B of the Project.

- (d) The PRAF's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Association, the ability of PRAF to perform any of its obligations under the Subsidiary Agreement and/or under any Financial Institution Agreement.

4.02. The Additional Events of Acceleration consist of the following:

- (a) Any of the events specified in paragraph (a), (b), and (c) of Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Association to the Recipient.
- (b) The event specified in paragraph (d) of Section 4.01 of this Agreement occurs.

#### **ARTICLE V — EFFECTIVENESS; TERMINATION**

- 5.01. The Additional Condition of Effectiveness consists of, namely, that the Subsidiary Agreement has been signed by the parties thereto.
- 5.02. The Additional Legal Matter consists of, namely, that the Subsidiary Agreement has been duly authorized or ratified by the Recipient and PRAF and is legally binding upon the Recipient and PRAF in accordance with its terms.
- 5.03. 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 December 29, 2011.
- 5.04. 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 VI — REPRESENTATIVE; ADDRESSES**

6.01. The Recipient's Representative is its Minister (*Secretario*) of SEFIN.

6.02. The Recipient's Address is:

Secretaría de Estado en el Despacho de Finanzas  
Dirección General de Crédito Público  
Avenida Cervantes, Barrio El Jazmín,  
Edificio SEFIN  
Tegucigalpa, M.D.C.  
Honduras, C.A

Facsimile: (504) 238-2309

6.03. The Association's Address is:

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

Cable:

Telex:

Facsimile:

INDEVAS

248423 (MCI)

1-202-477-6391

Washington, D.C.

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/ Laura Frigenti

Authorized Representative

## SCHEDULE 1

### Project Description

The objectives of the Project are to: (a) strengthen the institutional capacity of the MoP and PRAF to administer and manage the *Bono 10.000* Program (the “Program”), through the development of transparent mechanisms and instruments for targeting Program beneficiaries, monitoring compliance with Program co-responsibilities, and making payments to Program beneficiaries; and (b) increase: (i) school attendance among students in grades 1 to 6; and (ii) the use of preventive health services among families participating in the Program.

The Project consists of the following parts:

#### **Part A: Institutional strengthening of the *Bono 10.000* Program**

1. Strengthening of MoP’s institutional capacity to improve the design and operation of the Program, through, *inter alia*: (a) the provision of technical assistance and training for building the institutional capacity of the Technical Coordination Unit; (b) the review of the current targeting mechanism for Program beneficiaries; (c) the development and implementation of a monitoring and evaluation system for the Program; (d) the carrying out of a Program beneficiary satisfaction survey; (e) the carrying out of a social audit for the Program; (f) the carrying out of an impact evaluation of the implementation of the Program; (g) the review and piloting of alternative payment mechanisms; and (h) the design and implementation of a communications campaign.
  
2. Strengthening of the operational and administrative capacity of PRAF for the implementation of the Program, through, *inter alia*: (a) the carrying out data collection activities to identify Program beneficiaries; (b) the development of an updated management information system; (c) the development of an operational monitoring system; (d) the development and implementation of a web page providing information about the Program; (e) the creation of a unit to attend grievances and complaints; (f) the review and redesign of the institutional and organizational structure of PRAF; and (g) the development and implementation of a strategy to involve local community organizations in the operation and oversight of the Program.

3. Development of an integrated social protection strategy, through, *inter alia*: (a) the formulation of a strategy for streamlining the multiple social assistance programs and subsidies and for the development of a unique registry of beneficiaries; (b) the carrying out of diagnostic studies, including vulnerability and social safety net assessments and institutional assessments, all under terms of reference acceptable to the Association; (c) the carrying out of workshops to discuss the results of the diagnostic studies; and (d) formulation of a social protection strategy outlining recommended policy and institutional reform options.

**Part B: Bono 10.000 Grants**

Provision of Education Grants and/or Health and Nutrition Grants to Eligible Beneficiaries.



## SCHEDULE 2

### Project Execution

#### Section I. Implementation Arrangements

##### A. Institutional Arrangements

1. The Recipient, through MoP, shall create, and thereafter maintain during the execution of the Project, within its administrative structure, a technical coordination unit (“TCU”) to manage the technical aspects of the implementation of Parts A.1 and A.3 of the Project, with functions and responsibilities acceptable to the Association, at all times headed by the *Bono 10.000* National Coordinator (CN), and staffed with technical experts and other personnel in number and with qualifications and experience acceptable to the Association.
2. The Recipient, through MoP, shall maintain, throughout the execution of the Project, key staff in numbers and with experience and functions satisfactory to the Association, for the effective coordination of the Project.

##### B. Implementation Agreements

1.
  - (a) For purposes of carrying out Parts A.2 and B of the Project, the Recipient shall enter into an agreement (the Subsidiary Agreement) with PRAF under terms and conditions which shall have been approved by the Association which shall include, *inter alia*, those set forth in Schedule 4 to this Agreement.
  - (b) The Recipient shall exercise its rights and carry out its obligations under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate, terminate, waive, or fail to enforce the Subsidiary Agreement or any of its provisions.
2. Without limitation to the provisions of Section 4.10 of the General Conditions, and in case PRAF has decided (in consultation with the Association) to replace the existing Financial Institution (in accordance with the terms of the pertinent Financial Institution Agreement) with one

or more new Financial Institutions, or to select and contract one or more additional Financial Institutions for purposes of assisting PRAF to carry out Part B of the Project, the Recipient shall cause PRAF to:

- (a) not later than one hundred and twenty days: (i) prior to the replacement of the existing Financial Institution; or (ii) after the decision to select and contract one or more additional Financial Institutions has been made, select one or more new or additional Financial Institutions (each of which with qualifications and experience acceptable to the Association), as the case may be; and
- (b)
  - (i) in case PRAF has decided to replace the existing Financial Institution with one or more new Financial Institutions and immediately after the termination of the existing Financial Institution Agreement, enter into a separate new Financial Institution Agreement with each of the selected Financial Institutions, as applicable, all under terms and conditions acceptable to the Association, which terms and conditions shall be identical to those set forth in paragraph C (e) of Schedule 4 to this Agreement; and
  - (ii) in case PRAF has opted for the selection of one or more additional Financial Institutions, immediately after said selection has taken place, enter into a separate new additional Financial Institution Agreement with each of said selected Financial Institutions, as applicable, all under terms and conditions acceptable to the Association, which terms and conditions shall be identical to those set forth in paragraph C (e) of Schedule 4 to this Agreement.

**C. Project Operational Manual**

1. The Recipient shall carry out the Project, and cause the Project to be carried out, in accordance with the provisions of a manual (the Project Operational Manual), which shall include, *inter alia*: (a) the criteria for identification, registration and selection of Eligible Beneficiaries; (b) the Education Grant Co-responsibilities and the Health and Nutrition Grant Co-responsibilities to be complied with by Eligible Beneficiaries as conditions for the provision of Grants; (c) the mechanisms for verification of compliance with Grants Co-responsibilities; (d) the description of the mechanism for the provision of Grants; (e) the format of: (A) the unaudited interim financial reports referred to in Section II.B.2 of this

Schedule; and (B) the Financial Statements; (f) the terms of reference, functions and responsibilities for the personnel of the TCU; (g) the detailed procedures for coordination and collaboration among the relevant Recipient's institutions, and other stakeholders in the carrying out of the Project; (h) the terms of reference for the carrying out the audits under Section II.B.3 of this Schedule; (i) the Project indicators; (j) the Project disbursement and procurement procedures; and (k) the IPP.

2. Except as the Recipient and the Association may otherwise agree in writing, the Recipient shall not, and shall cause PRAF not to, abrogate, amend, suspend, waive or otherwise fail to enforce the Project Operational Manual or any provision thereof.
3. In case of any conflict between the terms of the Project Operational Manual, the Subsidiary Agreement, the Financial Institution Agreement, and this Agreement, the provisions of this Agreement will prevail.

**D. Anti-Corruption**

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

**E. Safeguards**

The Recipient shall carry out the Project, and cause the Project to be carried out in accordance with the IPP.

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

**A. Project Reports**

1. The Recipient, through MoP, shall, and shall cause PRAF to, 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 indicators agreed with the Association. Each Project Report shall cover the period of one calendar semester. The Recipient, through MoP, shall furnish to the Association consolidated Project Reports (including the Project Reports prepared by MoP and PRAF with respect to the Parts of the Project under their respective responsibility), not later than forty five days after the end of the period covered by such report.

2. For purposes of Section 4.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than six months after the Closing Date.

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

1. The Recipient, through MoP, shall maintain, and shall cause PRAF to maintain, a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall, through MoP, and shall cause PRAF to, prepare as part of the Project Report, interim unaudited financial reports for the Project covering a calendar semester, in form and substance satisfactory to the Association. The Recipient, through MoP, shall furnish to the Association consolidated interim unaudited financial reports (including the interim unaudited financial reports prepared by MoP and PRAF with respect to the Parts of the Project under their respective responsibility) not later than forty five days after the end of each calendar semester, in form and substance satisfactory to the Association.
3. The Recipient shall, through MoP, and shall cause PRAF to, have the Project 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 Recipient, through MoP, shall furnish to the Association consolidated audited Project Financial Statements for each such period not later than six months after the end of such period.

**Section III. Procurement**

**A. General**

1. **Goods and Non-consultant Services.** All goods 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 the Procurement Guidelines, or Consultant Guidelines, as the case may be.

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

**1. International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and Non-Consultant Services shall be procured under contracts awarded on the basis of International Competitive Bidding.

**2. Other Methods of Procurement of Goods and Non-consultant Services.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods 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, subject to the modifications set forth in paragraph 3 below
(b) Shopping
(c) Direct Contracting

**3. Modifications to the Recipient's National Competitive Bidding Procedures.** Without any limitations to any other provisions set forth in this Section or in the Procurement Guidelines, the following shall expressly govern the procurement of goods and Non-Consultant Services (other than consultant services) under this Section:

(a) Contracts shall be awarded to the lowest evaluated bid in accordance with criteria set forth in the bidding documents, and without taking into account, in the evaluation, the financial cost of foreign exchange components.

- (b) Foreign bidders shall not, as a condition for submitting bids, be required to: (i) be registered in the Recipient's territory; (ii) have a representative in the Recipient's territory; (iii) be associated with suppliers or contractors of the Recipient's territory; and (iv) certify that, in their country of origin, suppliers or contractors of the Recipient's territory 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.

**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>Procurement Method</b>
(a) Least-Cost Based Selection
(b) Quality-Based Selection
(c) Selection Based on the Consultants' Qualifications
(d) Single Source Selection
(e) Selection under a Fixed Budget
(f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(g) Sole Source Procedures for the Selection of Individual Consultants set forth in paragraph 5.4 of the Consultant Guidelines 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, the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<b>Category</b>	<b>Amount of the Financing Allocated (expressed in SDR)</b>	<b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b>
(1) Education Grants and Health and Nutrition Grants under Part B of the Project	20,700,000	100%
(2) Goods, Consultants’ Services, Non-consultant Services, Operating Costs, and Training under Parts A.1 and A.3 of the Project	2,500,000	100%
(3) Goods, Consultants’ Services, Non-consultant Services, Operating Costs, and Training under Part A.2 of the Project	3,300,000	100%
<b>TOTAL AMOUNT</b>	<b>26,500,000</b>	

For purposes of this paragraph:

- (a) the term “Operating Costs” means the incremental expenses incurred on account of Project implementation, including office equipment and supplies, vehicle operation and maintenance, communication and insurance costs, office administration costs, utilities, travel, *per diem* and supervision costs of locally contracted employees; and
- (b) the term “Training” means reasonable expenditures (other than those incurred for Consultant Services: (i) travel, room, board and *per diem* expenditures incurred by trainers and trainees in connection with their training and by training facilitators; (ii) course fees; (iii) training facility rentals; and (iv) training material preparation, acquisition, reproduction and distribution expenses.

**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.
- 2. The Closing Date is December 31, 2014.

**Section V. Other Undertakings**

- A. 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 Project Operational Manual, the Recipient shall: (a) not later than one 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 concurrent audits of the Program, each of which shall audit: (i) to be carried out for each Program payment cycle; (ii) that Program beneficiaries receiving payments are registered in the Program beneficiary’s registry; and (iii) that information related to compliance with Program co-responsibilities is accurately recorded; and (b) not later than 90 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.



### SCHEDULE 3

#### Repayment Schedule

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each June 15 and December 15, commencing December 15, 2020 to and including June 15, 2030	5%

\* 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.

## **SCHEDULE 4**

### **Terms and Conditions of the Subsidiary Agreement**

The Subsidiary Agreement shall contain, *inter alia*, the following provisions:

- A. the obligation of the Recipient:
  - (a) through SEFIN, to promptly disburse to PRAF part of the proceeds of the Financing to finance the carrying out of Parts A.2 and B of the Project with due diligence and efficiency, and in accordance with the pertinent provisions of this Agreement;
  - (b) (i) through MoH and MoE, to provide the health and education services necessary for Eligible Beneficiaries to comply with their respective Grant Co-responsibilities; and (ii) to take or permit to be taken all actions to enable PRAF to comply with its obligations referred to in Section C of this Schedule;
  - (c) to ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines; and
  - (d) not to assign, amend, terminate, abrogate, repeal, waive or fail to enforce the Subsidiary Agreement or any provision thereof unless previously agreed by the Association;
- B. the right of the Recipient to take remedial actions against PRAF in case PRAF shall have failed to comply with any of its obligations under the Subsidiary Agreement (which actions shall previously be agreed with the Association);
- C. the obligation of PRAF:
  - (a) to carry out Parts A.2 and B of the Project in accordance with the provisions of this Agreement and those set forth in the Project Operational Manual;
  - (b) to maintain throughout Project implementation a project execution unit (the "PEU"), staffed with a coordinator, technical experts and other personnel in number and with qualifications and experience acceptable to the Association;

- (c) (i) to make available, on a grant basis, the proceeds of the Financing allocated to Category (1) to the corresponding Eligible Beneficiary, according to the terms and procedures set forth in the Project Operational Manual, which terms shall include compliance with the pertinent Grant Co-responsibilities, and pursuant to the pertinent provisions of the Financial Institution Agreement; and (ii) to monitor and verify compliance of Eligible Beneficiaries with their Grant Co-responsibilities;
- (d) (i) to comply with the provisions of the pertinent Financial Institution Agreement; and (ii) not to assign, amend, terminate, abrogate, repeal, waive or fail to enforce any Financial Institution Agreement or any provision thereof unless previously agreed by the Association;
- (e) if applicable, to comply with the provisions of Section I.B.2 of Schedule 2 to this Agreement, and to include in any new or additional Financial Institution Agreement, *inter alia*, the following provisions:
  - (i) the obligation of the Financial Institution to: (I) act as an agent of PRAF, for the purposes of making payments under Grants, all in accordance with the procedures detailed in the Project Operational Manual; (II) comply with the provisions of the Anti-Corruption Guidelines; (III) assist PRAF with the carrying out of its financial management obligations under the provisions of this Agreement, in respect to Part B of the Project; and (IV) take or permit to be taken all actions to enable the Recipient and PRAF to comply with their pertinent obligations referred to in this Agreement, the Subsidiary Agreement and/or in the corresponding Financial Institution Agreement in respect of Part B of the Project (as the case may be);
  - (ii) the right of PRAF to take remedial actions against the pertinent Financial Institution in case the Financial Institution shall have failed to comply with any of its obligations under the corresponding Financial Institution Agreement (which actions shall previously be agreed with the Association); and

- (iii) the obligation of PRAF to transfer part of the proceeds of the Financing allocated to Category (1) to the pertinent Financial Institution for purposes of making payments under Grants, all in accordance with the procedures detailed in the Project Operational Manual;
- (f) to ensure that any new or additional Financial Institution Agreement shall remain valid and enforceable throughout Project implementation, unless PRAF (with the prior agreement of the Association) decided to terminate any said Financial Institution Agreement;
- (g) with respect to the implementation of Part A.2 and B of the Project, to: (i) conduct procurement processes pursuant to Section III of Schedule 2 to this Agreement; and (ii) carry out financial management obligations pursuant to Section II.B of Schedule 2 to this Agreement (as applicable);
- (h) to ensure that any activity under Parts A.2 and B of the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines;
- (i) to ensure that any activity under Parts A.2 and B of the Project is carried out in accordance with the provisions of the IPP;
- (j) not to assign, amend, terminate, abrogate, repeal, waive or fail to enforce the Subsidiary Agreement or any provision thereof unless previously agreed by the Association; and
- (k) to take or permit to be taken all actions to enable the Recipient to comply with its obligations referred to in this Agreement and in the Subsidiary Agreement.

## 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 with the modifications set forth in Section III of this Appendix.
2. “BANADESA” means *Banco Nacional de Desarrollo Agrícola*, the Recipient’s National Bank for Agriculture and Development, created by the Recipient’s Decree No. 903, dated March 24, 1980 (published in the Recipient’s Official Gazette on March 28, 1980).
3. “Bono 10.000 Program” or “Program” means *Programa Presidencial de Salud, Educación y Nutrición Bono 10.000*, the Recipient’s presidential program on health, education and nutrition, which principal objective is to create new opportunities for extreme poor families, created by the Recipient Executive Decree No. 010-2010, dated April 13, 2010 (published in the Recipient’s Official Gazette on May 14, 2010).
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “CN” or “Bono 10.000 National Coordinator” means the *Coordinador Nacional del Programa Bono 10.000*, the Program’s National Coordinator, position created by the Recipient’s Executive Decree No. 010-2010, dated April 13, 2010 (published in the Recipient’s Official Gazette on May 14, 2010).
6. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Association in May 2004 and revised in October 2006 and May 2010.
7. “Education Grant” means a conditional cash transfer made out of the proceeds of the Financing under Category (1) to an Eligible Beneficiary who complies with the Education Co-responsibilities, in accordance with the criteria and procedures set forth in the Project Operational Manual.
8. “Education Grant Co-responsibilities” means the Eligible Beneficiary’s co-responsibilities included in the Project Operational Manual, including

that children from 1<sup>st</sup> to 6<sup>th</sup> grade (primary level) be enrolled in school and attend classes.

9. “Eligible Beneficiary” means any individual who meets the eligibility criteria set forth in the Project Operational Manual to benefit from an Education Grant and/or a Health and Nutrition Grant, and who has been selected through public and transparent mechanism, all set forth in the Project Operational Manual.
10. “Financial Institution” means BANADESA and/or any other financial institution, acceptable to the Association, which has signed a Financial Institution Agreement (as hereinafter defined).
11. “Financial Institution Agreement” means the agreement between PRAF and BANDESA dated May 19, 2010, acceptable to the Association, and/or any other agreement entered into between PRAF and a Financial Institution pursuant to Section I.B.2 of Schedule 2 to this Agreement.
12. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006), with the modifications set forth in Section II of this Appendix.
13. “Grant” means an Education Grant and/or a Health and Nutrition Grant (as the case may be) (as hereinafter defined).
14. “Grant Co-responsibilities” means the Education Grant Co-responsibilities and/or the Health and Nutrition Grant Co-responsibilities (as the case may be) (as hereinafter defined).
15. “Health and Nutrition Grant” means a conditional cash transfer made out of the proceeds of the Financing under Category (1) to an Eligible Beneficiary who complies with the Health and Nutrition Grant Co-responsibilities, in accordance with the criteria and procedures set forth in the Project Operational Manual.
16. “Health and Nutrition Grant Co-responsibilities” means the Eligible Beneficiary’s co-responsibilities set forth in the Project Operational Manual, including that: (a) children between 0 and 59 months and pregnant mothers attend preventive health controls; and (b) pregnant women complete their pre-natal check-ups.

17. “IPP” means *Plan Especial para las Comunidades Indigenas y Afro Hondureñas para la Correcta Aplicación del Bono 10.000*, the Recipient’s Indigenous Peoples and Afro Honduran Communities Plan, dated May 6, 2010, acceptable to the Association, set forth in the Project Operational Manual.
18. “MoE” means *Secretaría de Estado en el Despacho de Educación*, the Recipient’s Ministry of Education.
19. “MoH” means *Secretaría de Estado en el Despacho de Salud*, the Recipient’s Ministry of Health.
20. “MoP” means *Secretaría de Estado del Despacho Presidencial*, the Recipient’s Ministry of Presidency.
21. “Non-Consultant Services” means logistical service expenses for capacity building events, printing of training materials and media campaigns, as well as other services which are not rendered by consultants, obtained at reasonable cost on account of Project implementation and which are not covered in the definitions of Training and Operating Costs.
22. “PEU” means the Project Execution Unit within PRAF referred to in Section C (b) of Schedule 4 to this Agreement, or any successor thereto acceptable to the Association.
23. “PRAF” means *Programa de Asignación Familiar*, the Recipient’s Family Allowances Program, regulated by PRAF’s Legislation.
24. “PRAF’s Legislation” means the Recipient’s Legislative Decree No.127-91, dated October 15, 1991 (duly published in the Recipient’s Official Gazette on November 22, 1991), as amended by the Recipient’s Legislative Decree No.135-92, dated October 20, 1992 (published in the Recipient’s Official Gazette on November 14, 1992), as amended to the date of this Agreement.
25. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Association in May 2004 and revised in October, 2006 and May 2010.

26. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 19, 2010 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
27. “Project Operational Manual” means the manual dated May 19, 2010, satisfactory to the Association, as the same may be amended from time to time by agreement between the Recipient and the Association.
28. “SEFIN” means *Secretaría de Estado en el Despacho de Finanzas*, the Recipient’s Ministry of Finance.
29. “Subsidiary Agreement” means the agreement referred to in Section I.B of Schedule 2 to this Agreement pursuant to which the Recipient shall make part of the proceeds of the Financing available to PRAF.
30. “TCU” means the Recipient technical coordination unit within MoP, referred to in Section I.A.1 of Schedule 2 to this Agreement, or any successor thereto acceptable to the Association.

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

The modifications to the General Conditions for Credits and Grants of the Association, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. Section 2.07 is modified to read as follows:

“Section 2.07. *Refinancing Preparation Advance*

If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank (“Preparation Advance”), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to



itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

2. Paragraph (i) of Section 6.02 is modified to read as follows:

“Section 6.02. *Suspension by the Association*

... (1) *Ineligibility*. The Association or the Bank has declared the Project Implementing Entity ineligible to receive proceeds of any financing made by the Association or the Bank or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Association or the Bank, as a result of: (i) a determination by the Association or the Bank that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Association or the Bank; and/or (ii) a declaration by another financier that the Project Implementing Entity is ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

3. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.07.”

### **Section III. Modifications to the Anti-Corruption Guidelines**

The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:

“... (b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

2. Section 11(a) is modified to read as follows:

“... (a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Footnotes:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in

connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”

“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders.”