

CONFORMED COPY

CREDIT NUMBER 3361-HO

Development Credit Agreement

(Natural Disaster Mitigation Project)

between

REPUBLIC OF HONDURAS

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 29, 2000

CREDIT NUMBER 3361-HO

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 29, 2000, between REPUBLIC OF HONDURAS (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (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 have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "AMHON" means Asociación de Municipios de Honduras, the Honduran Association of Municipalities, a legal entity established pursuant to Executive Resolution No. 16-1962;

(b) "AMHON Agreement" means the agreement referred to in Section 3.04 (a) (ii) of this Agreement;

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

(d) "COPECO" means Comisión Permanente de Contingencias, the Borrower's Permanent Commission on Contingencies, a legal entity established pursuant to Decree 9-90 to coordinate the efforts of the public and private sectors in the prevention, planning, management and execution of, inter alia, emergency assistance and rescue of the population affected by natural phenomena;

(e) "COPECO Agreement" means the agreement referred to in Section 3.04 (a) (i) of this Agreement;

(f) "Decree No. 9-90" means the Borrower's Decreto No. 9-90 of December 12, 1990 which established COPECO, and such term also includes the regulations to such Decree, as such Decree and regulations have been amended to the date of this Agreement;

(g) "Eligible Categories" means categories (1) through (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(h) "Eligible Expenditures" means the expenditures for goods, works and services referred to in Section 2.02 of this Agreement;

(i) "Eligible Municipality" means a political subdivision of the Borrower located in a geographical area subject to floods and landslides which has been selected by the Borrower to participate in the Project in accordance with the criteria set forth in the Operational Manual;

(j) "Executive Resolution No. 16-1962" means the Borrower's Resolución No. 16 of April 11, 1962 which established AMHON, as such Executive Resolution has been amended to the date of this Agreement;

(k) "GAAEX" means Grupo de Apoyo a la Asistencia Externa, the unit referred to in Section 3.06 (a) of this Agreement;

(l) "Hurricane Mitch" means the natural phenomenon which caused heavy rains in Central America between October 25, 1998 and November 1, 1998;

(m) "Implementation Letter" means the letter of even date herewith from the Borrower to the Association which sets forth the Project indicators and the draft building code referred to in Part B.7 of the Project;

(n) "Operational Manual" means the manual referred to in Section

3.03 (a) of this Agreement;

(o) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(p) "SEFIN" means Secretaría de Estado en el Despacho de Finanzas, the Borrower's Secretariat of Finance;

(q) "SERNA" means Secretaría de Estado en el Despacho de Recursos Naturales y del Ambiente, the Borrower's Secretariat of Natural Resources and the Environment;

(r) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement;

(s) "TCU" means the unit referred to in Section 3.07 (a) of this Agreement; and

(t) "UNAH" means Universidad Nacional Autónoma de Honduras, the Borrower's National Autonomous University of Honduras.

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 eight million one hundred thousand Special Drawing Rights (SDR 8,100,000).

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, works and services required for the Project and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be April 15, 2005 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 on October 15, 2010 and ending on April 15, 2040. Each installment to and including the installment payable on April 15, 2020 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, shall carry out: (a) Part A of the Project through GAAEX and the TCU with the participation of SERNA; (b) Part B of the Project through GAAEX and the TCU with the participation of COPECO (in accordance with the provisions of the COPECO Agreement); (c) Part C of the Project through GAAEX and the TCU with the participation of AMHON (in accordance with the provisions of the AMHON Agreement); and (d) Part D of the Project through GAAEX, all with due diligence and efficiency and in conformity with appropriate administrative, technical, financial, engineering and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. (a) The Borrower shall carry out the Project in accordance with an operational manual, satisfactory to the Association, said manual to include, inter alia: (i) the disbursement and procurement procedures to be followed under the Project; (ii) the terms of reference for consultants' services to be carried out during the first year of Project implementation; (iii) the criteria for selecting Eligible Municipalities; (iv) the criteria for selecting the trainers and stakeholders under Part B.5 of the Project; and (v) the Project's implementation plan.

(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 3.04. (a) For purposes of carrying out: (i) Part B of the Project, the Borrower shall enter into an agreement (the COPECO Agreement) with COPECO under terms and conditions satisfactory to the Association, which shall include, inter alia, the functions and responsibilities of COPECO under said Part of the Project; and (ii) Part C of the Project, the Borrower shall enter into an agreement (the AMHON Agreement) with AMHON under terms and conditions satisfactory to the Association, which shall include, inter alia, the functions and responsibilities of AMHON under said Part of the Project.

(b) The Borrower shall exercise its rights under the AMHON Agreement and the COPECO Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, terminate, abrogate, waive or fail to enforce the AMHON Agreement or the COPECO Agreement or any provision thereof.

Section 3.05. 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 designed to ensure the sustainability of the Project; and

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

Section 3.06. (a) The Borrower shall operate and maintain within

SEFIN, during the implementation of the Project, a unit for external aid (GAAEX) with functions and responsibilities satisfactory to the Association.

(b) The Borrower shall ensure that GAAEX is at all times during the implementation of the Project headed by a coordinator and assisted by staff in adequate numbers, all with qualifications and experience satisfactory to the Association.

Section 3.07. (a) The Borrower shall establish, and thereafter operate and maintain within SERNA during Project implementation, a technical coordination unit (the TCU), with functions and responsibilities satisfactory to the Association.

(b) The Borrower shall ensure that the TCU is at all times during the implementation of the Project, headed by a coordinator and assisted by staff in adequate numbers, all with qualifications and experience satisfactory to the Association.

Section 3.08. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association not later than January 31, April 30, July 31 and October 31 of each year of Project implementation, starting with the report due not later than January 31, 2001, 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 quarter preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by not later than sixteen months after the Effective Date, or such later date as the Association shall request, the pertinent reports referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said reports and the Association's views on the matter.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish within GAAEX and thereafter maintain a financial management system, including records and accounts, and 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:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account 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 audit, by said auditors, of such scope and in such
detail as the Association shall have reasonably requested;
and

(iii) furnish to the Association such other information
concerning such records and _____ accounts, and the audit
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 Project Management Reports
or statements of expenditure, the Borrower shall:

(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 for the fiscal year in
which the last withdrawal from the Credit
Account was made, all records (contracts, orders, invoices, bills,
receipts _____ and other documents) evidencing such
expenditures;

(iii) enable the Association's representatives to examine
such records; and

(iv) ensure that such records and accounts are included in
the annual audit _____ referred to in paragraph (b) of
this Section and that the report of such audit
contains a separate opinion by said auditors as to whether the
Project _____ Management Reports or 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 provisions of Section
4.01 of this Agreement, the Borrower shall carry out a time-bound action
plan acceptable to the Association for the strengthening of the financial
management system referred to in paragraph (a) of said Section 4.01 in
order to enable the Borrower, not later than six months after the
Effective Date, or such later date as the Association shall agree, to
prepare quarterly Project management reports, acceptable to the
Association, each of which:

(i) (A) sets forth actual sources and applications of
funds for the Project, both _____ cumulatively and for the
period covered by said report, and projected sources
and applications of funds for the Project for the six-month period
following _____ the period covered by said report; and (B)
shows separately expenditures _____ financed out of the
proceeds of the Credit during the period covered by said
report and expenditures proposed to be financed out of the

proceeds of the _____ Credit during the six-month
period following the period covered by said
report;

(ii) (A) describes physical progress in Project
implementation, both cumulatively _____ and for the period
covered by said report; and (B) explains variances between
the actual and previously forecast implementation targets;
and

(iii) sets forth the status of procurement under the
Project and expenditures under _____ contracts financed out of
the proceeds of the Credit, as at the end of the
period covered by said report.

(b) Upon the completion of the action plan referred to in
paragraph (a) of this Section, the Borrower shall prepare, in accordance
with guidelines acceptable to the Association, and furnish to the
Association not later than February 15, May 15, August 15 and November 15
of each year of Project implementation, a Project Management Report for
each calendar quarter ending on December 31, March 31, June 30 and
September 30.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General
Conditions, the following additional events are specified:

(a) AMHON shall have failed to comply with any of its
obligations under the AMHON Agreement.

(b) COPECO shall have failed to comply with any of its
obligations under the COPECO Agreement.

(c) Decree No. 9-90 or any provision thereof shall have been
amended, suspended, abrogated, repealed, waived or not enforced in such a
manner so as to materially and adversely affect, in the opinion of the
Association, the ability of COPECO to assist the Borrower in the carrying
out of Part B of the Project.

(d) Executive Resolution No. 16-1962 or any provision thereof
shall have been amended, suspended, abrogated, repealed, waived or not
enforced in such a manner so as to materially and adversely affect, in
the opinion of the Association, the ability of AMHON to assist the
Borrower in the carrying out of Part C of the Project.

Section 5.02. Pursuant to Section 7.01 (h) of the General
Conditions, the following additional events are specified:

(a) the events specified in paragraphs (a) or (b) of Section
5.01 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 paragraphs (c) or (d) of
Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. 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 AMHON Agreement has been executed on behalf of the Borrower and AMHON;
- (b) the COPECO Agreement has been executed on behalf of the Borrower and COPECO;
- (c) a financial management system, satisfactory to the Association, has been established as provided in Section 4.01 (a) of this Agreement;
- (d) the TCU has been established and staffed as provided in Section 3.07 of this Agreement; and
- (e) the Operational Manual has been approved by the Association.

Section 6.02. The date November 27, 2000 is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.03. The obligations of the Borrower under Articles III and IV of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Secretary of SEFIN is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. 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
Direccion General de Credito Publico
Avenida Cervantes
Tegucigalpa, M.D.C.
Honduras, C.A.

Facsimile:	Cable address:	Telex:	
237-4142	HACIENDA	1308	(504)
238-6995	Tegucigalpa	FINANZAS HO	(504)

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433

United States of America

Facsimile: Cable address: Telex:
477-6391 INDEVAS 248423 (MCI) or (202)
Washington, D.C. 64145 (MCI)

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/ Gabriela Nuñez de Reyes
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Joseph Owen
Resident Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Works	630,000	100% of foreign expenditures and 86% of local expenditures
(2) Goods	1,100,000	100% of foreign expenditures and 86% of local expenditures
(3) Consultants' services	4,940,000	100% of foreign expenditures and 86% of local expenditures
(4) Training	710,000	100%

(5) Unallocated	720,000
TOTAL	8,100,000

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "Training" means expenditures (other than those for Consultants' services) incurred by the Borrower in connection with the training activities under the Project, including the travel cost and per-diem of trainers and trainees and rental of training facilities.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 270,000, may be made in respect of Categories (2) through (4) set forth in the table in paragraph 1 of this Part A on account of payments made for expenditures before that date but after May 1, 2000.

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 \$150,000 equivalent or less each with the exception of the first two contracts for goods to be procured under Part C.1 of Section I of Schedule 3 to this Agreement; (b) contracts for the employment of consulting firms costing less than \$100,000 equivalent each; (c) contracts for the employment of individual consultants costing less than \$50,000 equivalent each; and (d) Training as set forth in Category (4) of the table in paragraph 1 of this Part A, all under such terms and conditions as the Association shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall open and maintain in Dollars a separate special deposit account in BCH, on terms and conditions satisfactory to the Association.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Association shall have received: (i) the first Project Management Report referred to in Section 4.02 (b) of this Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Association of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance

with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Association determines at any time that all further withdrawals should be made by the Borrower directly from the Credit Account; or

(c) if the Borrower shall have failed to furnish to the Association within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Development Credit Agreement.

Annex A to SCHEDULE 1

Operation of Special Account When Withdrawals Are
Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex:

(a) the term "Authorized Allocation" means an amount equivalent to \$800,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that, unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$400,000 until the aggregate amount of withdrawals from the Credit Account, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of SDR 1,120,000.

2. Withdrawals of the Special Account's Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Special Account's Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Special Account's Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit allocated to said Special Account's Eligible Categories minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions in respect of expenditures to be financed out of the proceeds of the Credit allocated to said Categories, shall equal the equivalent of twice the amount of the Special Account's Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to said Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be

maintenance of said system.

2. Carrying out of a study of the changes in fluvial geomorphology caused by Hurricane Mitch in the basin of the Choluteca River for purposes of, inter alia: (a) understanding current geomorphic conditions; (b) assessing imminent hazards, such as flooding and associated landslides, channel erosion and deposition of sediment associated with changes in geomorphic conditions; and (c) facilitating the identification of effective mitigation measures.

3. Development and installation of a database management system and a geographical information system for the purpose of establishing a national databank which will provide detailed information on environmental conditions and potential risks of floods and landslides, and the provision of training in the use of those systems.

4. Establishment of community-based flood early warning systems to complement the main hydrometeorological network in small river basins, through: (a) the identification of sites for the establishment of said systems; (b) the organization of communities benefited by the establishment of said systems to ensure local ownership and sustainability of said systems; and (c) the acquisition and utilization of goods and the provision of training required therefor.

5. Production of maps, through: (a) the development of biophysical, socio-economic and perception data for each Eligible Municipality; and (b) the carrying out of aerial photography of about 500 square kilometers of areas to be designated by the Eligible Municipalities in accordance with criteria acceptable to the Association.

6. Strengthening of the operational capacity of the TCU to manage and monitor the technical aspects of the Project.

7. Carrying out of studies related to natural disaster mitigation and natural resources management, as approved by the Association.

Part B: Strengthening of National Capacity to Support Emergency
Response at the Municipal Level

1. Identification of: (a) the equipment needed by cities, municipalities and volunteer groups for operations concerning immediate life-saving search and rescue operations and protection of disaster victims; and (b) the equipment necessary for the establishment of a national emergency communications system.

2. Design of a national disaster awareness campaign, through the carrying out of: (a) a comparative evaluation of various alternatives methods for introducing disaster awareness into the national curriculum for primary, secondary and tertiary education; (b) an anthropological study of social communication in Honduras with respect to disaster awareness; and (c) an assessment of the media's capacity to inform the population with respect to disaster awareness.

3. Carrying out of the disaster awareness campaign referred to in Part B.2 above in each Eligible Municipality.

4. Design and implementation of a training program for municipal emergency response in each Eligible Municipality, said program to include, inter alia: (a) the organization of emergency response units; and (b) the provision of training in emergency search and rescue, emergency first aid, emergency communications, management of emergency

shelters and community early warning systems.

5. Carrying out of a training program for trainers and stakeholders (selected by the Borrower in accordance with criteria acceptable to the Association) in local risk management, said program to include, inter alia, the preparation of didactic materials on participatory risk analysis, hazard mapping and vulnerability reduction options.

6. Design and implementation of a system to manage information on emergency assistance, in particular to monitor the municipalities' emergency needs and the national and foreign donations in response to said needs.

7. Carrying out of a review of the draft building code set forth in the Implementation Letter, including but not limited to: (a) the carrying out of an analysis of the technical requirements for construction in disaster prone areas; (b) the carrying out of a legal and administrative analysis of the topics addressed by such code; (c) the revision of seismic maps; and (d) the organization of seminars, workshops and other activities to promote understanding and support among the population for the approval of such code.

8. Improvement of the national capacity to monitor and mitigate seismic risk through, inter alia: (a) the monitoring of seismic regions in Honduras for a period of about three months; (b) the evaluation of the Honduran seismic monitoring system; (c) the evaluation of the existing installations of the Seismology Center of UNAH; (d) the design of an adequate national seismic network, said design to be based on the results of the evaluations mentioned in paragraphs (b) and (c) above; and (e) the development of a plan for the operation and maintenance of the seismic network mentioned in paragraph (d) above.

Part C: Building Capacity in Disaster Mitigation at the Municipal Level

1. Development of a database on municipal vulnerability to natural disasters to provide information to the Honduran population, said information to be organized by the municipalities by topics, such as: risks of natural hazards, disaster preparedness, mitigation measures which have been identified and mitigation measures which have been implemented.

2. Carrying out of a disaster risk analysis in each Eligible Municipality, said analysis to include, inter alia: (a) a risk assessment and vulnerability mapping; (b) the identification of areas at risk within the boundaries of said Eligible Municipalities; (c) the preparation of disaster preventive land use plans; and (d) the identification and prioritization of mitigation measures.

3. Carrying out, if appropriate, of feasibility and engineering studies and final designs of those mitigation measures referred to in Part C.2 (d) of the Project which meet the criteria set forth in the Operational Manual.

Part D: Project Management

Strengthening of the operational capacity of GAAEX to manage and monitor the financial and procurement aspects of the Project.

* * *

The Project is expected to be completed by October 31, 2004.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

Goods 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 and works 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) 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

Goods estimated to cost \$150,000 equivalent or less per contract, up to an aggregate amount not to exceed \$500,000 equivalent may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. Shopping

Goods estimated to cost \$25,000 equivalent or less per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures, at the option of the Borrower, in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

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

With respect to: (a) each contract for works and goods to be procured under Part B of this Section; and (b) the first two contracts for goods to be procured under Part C.1 of this Section, the procedures set forth in paragraphs 2 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.

Section II. Employment of Consultants

Part A: General

Consultants' 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 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 for the Project estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Consultants' services for the Project estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Consultants' services for the Project which meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall 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 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 estimated to cost the equivalent of \$100,000 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 consulting firms estimated to cost the equivalent of less than \$100,000, the terms of reference and short list of the consulting firms 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.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 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.

(d) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of less than \$50,000, terms of reference 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.

Section III. Special Provisions

1. 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 referred to in Part C.1 of Section I of this Schedule:

(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.

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

Section IV. Internal Approvals

1. With respect to the procurement of goods and works to be financed out of the proceeds of the Credit, any approval of bidding documents and contracts required under the laws of the Borrower shall be given only by GAAEX.

2. With respect to the employment of consultants, any approval of contracts or of consultant selection processes required under the laws of the Borrower, shall be given only by GAAEX.

