

CONFORMED COPY

CREDIT NUMBER 4583-HN

Financing Agreement

**(Additional Financing for Second Road Rehabilitation
and Improvement Project)**

between

REPUBLIC OF HONDURAS

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 2, 2010

FINANCING AGREEMENT

Agreement dated August 2, 2010, entered into between REPUBLIC OF HONDURAS (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement and amended in Schedule 1 to this Agreement). 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 sixteen million eight hundred thousand Special Drawing Rights (SDR 16,800,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 March 15 and September 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 objective of the Project. To this end, the Recipient shall: (a) carry out Parts A.1 through 8, A.10, C.1 (a), C.1 (b) (i), C.1(c) and D.1 of the Project through SOPTRAVI; and (b) cause the Road Fund to carry out Parts A.9, B, C.1 (b) (ii), C.2, and D.2 of the Project, 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) Key personnel in SOPTRAVI and/or the Road Fund shall have been replaced so as to affect, in the opinion of the Association, materially and adversely, the implementation of the Project.
 - (b) The Road Fund shall have failed to perform any of its obligations under the Subsidiary Agreement.
 - (c) Decree No. 131-93 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 the Road Fund to carry out Parts B, C.2 and D.2 of the Project.
 - (d) The Recipient and/or the Road Fund shall have failed to comply with any of the GAP Priority Measures.
 - (e) The Recipient shall have failed to comply with any of the Advance Conservation Measures once these have come into effect, or any action has been taken or a policy has been adopted that could, in the opinion of the Association, adversely affect or reverse the sustainability of the Advance Conservation Measures at any moment after their implementation.

- (f) The Co-financing Agreement shall have failed to become effective by September 30, 2009, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Association that adequate funds for the carrying out of the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.
 - (g) The Recipient shall have failed to comply with any of its obligations under the Co-financing Agreement so as to, in the opinion of the Association, adversely affect the potential achievement of the objectives of the Project.
- 4.02. The Additional Events of Acceleration consist of the following, namely, that any event specified in 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.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) the amendment to update the Subsidiary Agreement has been executed on behalf of the Recipient and the Road Fund; and
 - (b) the updated Operational Manual has been adopted in a manner satisfactory to the Association.
- 5.02. 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 November 22, 2010.
- 5.03. 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 of SEFIN.

6.02. The Recipient's Address is:

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

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

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 objective of the Project is to improve the Recipient's quality of road network and of road management through, *inter alia*: (i) improved governance and enhanced road management capacity in SOPTRAVI and the Road Fund; (ii) improvement of selected road corridors; and (iii) extension in the scope of maintenance of the Recipient's unpaved road network.

The Project consists of the following parts included in the Original Project, as amended below solely for purposes of the Financing:

Part A: Rehabilitation and Improvement of Selected Primary and Secondary Roads

1. Improvement and rehabilitation of about 70 kilometers of the *Cucuyagua – Nueva Ocotepeque – El Poy* road which consists of: (a) the improvement of the pavement structure and shoulders which includes the provision of an overlay; and (b) the rehabilitation and repair of bridges and drainage structures.
2. Improvement and rehabilitation of about 22 kilometers of the *Nueva Ocotepeque – Agua Caliente* road which consists of: (a) the improvement of the pavement structure and shoulders which includes the provision of overlays; and (b) the rehabilitation and repair of bridges and drainage structures.
3. Improvement and rehabilitation of about 60 kilometers of the *La Esperanza – Camasca* road which consists of: (a) rehabilitation and paving to improve the road design and operating conditions; (b) carrying out of realignment works, including earthworks; and (c) the rehabilitation and repair of bridges, drainage structures and shoulders.
4. Improvement and rehabilitation of about 47 kilometers of the *Olanchito – San Lorenzo* road which consists of: (a) paving of main road; and (b) the rehabilitation and repair of bridges, drainage structures and shoulders.
5. Improvement and rehabilitation of about 31 kilometers of the *El Porvenir – Marale* road which consists of: (a) the improvement of the pavement structure; and (b) the rehabilitation and repair of bridges, drainage structures and shoulders.
6. Improvement and rehabilitation of about 37 kilometers of the *Sulaco – Empalme de Carretera Yoro* road which consists of: (a) the improvement of the pavement structure; (b) the rehabilitation and repair of bridges, drainage structures and shoulders; and (c) the carrying out of realignment works to bypass the town of *Sulaco*.

7. Reconstruction of sections of the following primary roads damaged as a result of Tropical Depression No. 16: (a) Tegucigalpa-Danli; (b) La Entrada-Copan Ruinas; (c) La Entrada-Santa Rosa-Ocotepeque; and (d) Santa Rita-Yoro.
8. Reconstruction or replacement of bridges on the primary and secondary network damaged as a result of Tropical Depression No. 16.
9. Rehabilitation of sections of secondary roads damaged as a result of Tropical Depression No. 16.
10. Implementation of the social and environmental mitigation measures recommended by the ESMF, as well as of improved road safety measures for Parts A.1 to A.9 of the Project with respect to the works referred to therein.

Part B: Maintenance of Unpaved Road Networks by Micro-enterprises

Carrying out of a pilot program on road routine maintenance by Micro-enterprises for about 380 kilometers of main roads selected by the Recipient in accordance with criteria acceptable to the Association including, *inter alia*, recently rehabilitated primary and secondary unpaved roads in the Recipient's Departments of *Ocotepeque, La Paz, Intibucá, Olancho and Francisco Morazán*.

Part C: Implementation Support

1. (a) Provision of technical assistance and training to UEBM in the areas of road management, procurement and financial management; (b) design and supervision of the civil works under: (i) Part A of the Project except Part A.9; and (ii) Part A.9 of the Project, including the carrying out of any necessary technical environmental and/or safety audits and the follow-up of any conclusions arising therefrom; and (c) preparation and design of a potential works program on the corridors of Recipient's roads: (i) *La Entrada - Santa Rosa de Copan - Cucuyagua*; and (ii) *Yoro to San Lorenzo*; and (iii) *Marale to Sulaco*.
2. Provision of technical support for the start-up and establishment of new Micro-enterprises, as well as for supervision of the works to be carried out under Part B of the Project.

Part D: Institutional Strengthening

1. Institutional strengthening of SOPTRAVI through, *inter alia*, the provision of equipment, technical assistance and training in the following areas:
 - (a) Strategic sector planning, including the development of: (i) the Strategic Sector Plan, following a participatory process; (ii) institutional and investment strategies for the extension and quality improvement of the

road network; (iii) a monitoring and evaluation system for the Project; (iv) a contract management system; and (v) studies on improved organizational structures.

- (b) Human resource management, including the: (i) review and update of personnel policies; (ii) development of a training program; and (iii) the establishment of a training center.
 - (c) Road management, including: (i) the preparation of a revised Road Maintenance Plan; and (ii) building technical capacity on the areas of road technical management, road safety aspects and social and environmental management within SOPTRAVI.
 - (d) Governance and transparency, including: (i) provision of technical support and capacity building of SOPTRAVI; and (ii) development of programs between SOPTRAVI and other public agencies and civil society organizations to disseminate good practices and share knowledge with respect to the road infrastructure sector.
 - (e) Information system modernization, including the provision of technical assistance for the modernization of the technology and information systems required for contract and financial management of the Project.
 - (f) Development of policies and mitigation strategies to reduce vulnerability and strengthen risk management capacity in the road sector, including: (i) the review of design and construction standards in view of the potential for greater frequency and strength of destructive climatic events in the future; and (ii) the strengthening of the technical capacity in SOPTRAVI and the Road Fund.
2. Institutional strengthening of the Road Fund through, *inter alia*, the provision of equipment, technical assistance and training for: (a) the development of a revised Road Maintenance Plan in collaboration with SOPTRAVI; (b) strengthening of road management in regard to the carrying out of maintenance programs, including their supervision, technical standards and unit cost; and (c) its participation in the training program to be prepared by SOPTRAVI under Part D.1 (b) (ii) of the Project.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. (a) For purposes of carrying out Parts A.9, B, C.1(b)(ii), C.2, and D.2 of the Project, the Recipient shall transfer, on a grant basis, the proceeds of the Credit allocated to Category (3) set forth in the table in Section IV.A.2 of this Schedule to the Road Fund under a subsidiary agreement (the Subsidiary Agreement) to be entered into between the Recipient and the Road Fund, under terms and conditions which shall have been approved by the Association, providing, *inter alia*, the obligation of the Road Fund to carry out its respective Parts of the Project in accordance with the provisions of Article IV of the General Conditions, those of the Operational Manual and the Anti-Corruption Guidelines.
- (b) The Recipient shall exercise its rights under the Subsidiary Agreement in such a manner as to protect the interests of the Recipient and the Association and to accomplish the objective of the Credit, and, except as the Association shall otherwise agree, the Recipient shall not assign amend, terminate, abrogate, waive or fail to enforce the Subsidiary Agreement or any provision thereof.
2. (a) The Recipient, through SOPTRAVI, shall establish and maintain throughout Project implementation, a Project execution unit (UEBM), with composition, functions and responsibilities acceptable to the Association.
- (b) The Recipient shall ensure that UEBM is at all times during Project implementation headed by a coordinator and assisted by staff in adequate numbers (including *inter alia*, technical and administrative staff as well as procurement and financial management specialists), all with qualifications and experience satisfactory to the Association.
- (c) The Recipient undertakes that, unless the Association may otherwise agree, UEBM personnel shall only be hired based on professional criteria and shall only be replaced for reasons related to performance. The performance of UEBM personnel shall be assessed once a year by an independent firm contracted under terms of reference satisfactory to the Association, which firm shall be hired by the Recipient no later than ninety (90) days after the Effective Date.

B. Implementation Documents

1. (a) The Recipient, through SOPTRAVI, shall adopt a Project operational manual (the Operational Manual), acceptable to the Association, therein setting forth rules, methods, guidelines, policies and standard documents for the carrying out of the Project, including *inter alia*, the following:
 - (i) (A) the detailed description of Project implementation activities, their sequencing and the prospective timetable and benchmarks in relation thereto; and (B) the detailed institutional arrangements in respect thereof;
 - (ii) the Project's administrative, accounting, auditing, reporting, financial, procurement and disbursement procedures, including all pertinent standard documents and model contracts in relation thereto;
 - (iii) the criteria for the selection of the Micro-enterprises;
 - (iv) the ESMF, the IPP, the GAP, the GAP Priority Measures and the Resettlement Plan for the Project, and other safeguard procedures referred to in paragraph D of this Section I;
 - (v) the plan for the training and the capacity building activities under the Project;
 - (vi) the plan for the monitoring and supervision of the Project, including all environmental, economic and social aspects in relation thereto; and
 - (vii) the Performance Indicators for the Project.
- (b) The Operational Manual may be amended by the Recipient from time to time with the prior written approval of the Association.

C. Anti-Corruption

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

D. Safeguards

The Recipient undertakes that, unless the Association shall otherwise agree: (1) no transformation or degradation of Critical Natural Habitats shall take place as a consequence of Project implementation; (2) no activities involving significant clearing or logging of natural forests shall be carried out as part of the Project; and (3) any activities within existing protected areas shall be consistent with the written management plans for those areas (if they exist) and also with the written consent of the protected area management authority.

E. Other Provisions

1. No later than December 31, 2010 and after having conducted appropriate consultations with stakeholders to the satisfaction of the Association, the Recipient shall have duly adopted: (a) the Strategic Sector Plan; and (b) a revised Road Maintenance Plan, all in form and content acceptable to the Association.
2. The Recipient shall not carry out any works under Parts A.7, A.8 and A.9 of the Project until the Association has received the updated: (i) IPP; (ii) ESMF; and (iii) Resettlement Plan, all of which shall be satisfactory to the Association.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the Performance Indicators. Each Project Report shall cover the period of one semester, and shall be furnished to the Association not later than forty-five days after the end of the period covered by such report.
2. Without limitation upon the provisions of Section II.A.1 above, the Recipient and the Road Fund shall hold annual reviews with the Association with the purpose of exchanging views on the implementation of the GAP Priority Measures and updating, if necessary, the GAP.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. The Recipient shall prepare and furnish to the Association, as part of the Project Reports, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient, commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

Section III. Procurement

A. General

1. Goods and Works and Non-Consultant Services

- (a) All goods, works and services (other than 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 Section I of the Procurement Guidelines, and with the provisions of this Section.
- (b) 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, works and services (other than consultant services) under this Section:
 - (i) Contracts shall be awarded to the lowest evaluated bidder 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.
 - (ii) Foreign bidders shall not, as a condition for submitting bids, be required to: (A) be registered in the Recipient's territory; (B) have a representative in the Recipient's territory; (C) be associated with suppliers or contractors of the Recipient's territory; and (D) 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.
 - (iii) Contracts shall not be divided for the sole purpose of reducing contract amounts.

2. **Consultants' Services**

- (a) 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.
- (b) Without limitation to any other provisions set forth in this Section or the Consultant Guidelines, the following shall expressly govern the procurement of consultants' services under this Section:
 - (i) foreign consultants shall be permitted to participate in the selection process even if there is availability of consultants of the Recipient's territory for the services being procured; and
 - (ii) foreign consultants shall not be required to be registered with associations of the Recipient's territory or to be associated with consulting firms of the Recipient's territory as a condition for participating in any selection process.

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, Works and Non-Consultant Services

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

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

C. Particular Methods of Procurement of Consultants' Services

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

<u>Procurement Method</u>
(a) Quality-based Selection
(b) Selection under a Fixed Budget
(c) Least Cost Selection
(d) Selection based on Consultants' Qualifications
(e) Single Source Selection
(e) Procedures set forth in paragraphs 5.2, 5.3 and 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 (Category), 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:

<u>Category</u>	<u>Amount of the Financing Allocated (expressed in SDR)</u>	<u>Percentage of Expenditures to be Financed</u>
(1) (a) Goods, works, consultant's services, Training and Operating Costs for Parts A.7 and A.8 of the Project; and (b) Goods, works, consultant's services, Training and Operating Costs for Part A.9 of the Project	10,800,000 2,700,000	100%
(2) (a) Goods, works, consultant's services, Training and Operating Costs for Part C.1(b)(i) of the Project; and (b) Goods, works, consultant's services, Training and Operating Costs for Part C.1(b)(ii) of the Project	1,000,000 300,000	100%
(3) Goods, works, consultant's services, Training and Operating Costs for Part D of the Project	300,000	100%
(4) Unallocated	1,700,000	100%
TOTAL AMOUNT	16,800,000	

For the purposes of this paragraph:

- (a) the term "Training" means: (i) reasonable travel, room, board and *per diem* expenditures incurred by trainers and trainees in connection with their training and by non-consultant training facilitators; (ii) course fees; (iii) training facility rentals; and (iv) training material preparation, acquisition, reproduction and distribution expenses not otherwise covered under this paragraph; and
- (b) 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, and salaries of locally contracted employees (none of which would have been incurred absent the Project).

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed: (i) \$8,000,000 equivalent for Categories 1(a) and 2(a) of the table in paragraph A above; and (ii) \$2,000,000 equivalent for Categories 1(b) and 2(b) of the table in paragraph A above, may be made for payments made prior to this date but on or after November 1, 2008.
2. The Closing Date is June 30, 2013.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each September 15 and March 15:	
Commencing September 15, 2019 to and including March 15, 2029	5%

* The percentages represent the percentage of the principal amount of the Credit to be repaid.

APPENDIX

Section I. Definitions

1. “Advance Conservation Measures” means the actions and technical criteria described in the Supplemental Letter of even date of this Agreement, which the Recipient shall implement and carry out, or cause to implement and be carried out, during Project implementation with respect to Part A.4 of the Project.
2. “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.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Co-financier” means Central American Bank for Economic Integration, referred to in paragraph 10 of the Appendix to the General Conditions.
5. “Co-financing” means an amount of at least fifteen million United States Dollars (\$15,000,000) and up to thirty two million United States Dollars (\$32,000,000), to be provided by the Co-financier to assist in financing the Project.
6. “Co-financing Agreement” means the agreement to be entered into by and between the Recipient and the Co-financier to provide co-financing for the Project.
7. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
8. “Critical Natural Habitats” means: (i) existing protected areas in the Recipient’s territory (including those listed in the Recipient’s ESMF); (ii) officially proposed protected areas in the Recipient’s territory; and (iii) other natural areas in the Recipient’s territory which meet the criteria set forth in Annex A of the Association’s Operational Policy 4.04.
9. “Decree No. 131-93” means the Recipient’s Decree No. 131-93 of August 10, 1993, duly published in its official gazette on December 2, 1993, which established the Road Fund, and such term also includes the regulations to such Decree, as such Decree and its regulations have been amended to the date of this Agreement.
10. “Department” means a political subdivision of the Recipient; “Departments” means a number of such subdivisions.

11. “ESMF” or “Environmental and Social Management Framework” means the Recipient’s plan for the management of environmental and social aspects of the Project, dated April 2008, which is included in the Operational Manual, as may be amended from time to time with the prior approval of the Association.
12. “GAP” or “Governance Action Plan” means the Recipient’s plan, dated April 30, 2008, as agreed with the Association, which sets forth the measures and actions to be taken during implementation of the Project with respect to disclosure, civil society oversight, collusion mitigation, mitigation of forgery and fraud, complaints handling and applicable sanctions and remedies.
13. “GAP Priority Measures” means a set of specific actions to be carried out by the Recipient in accordance with the GAP, and contained in Chapter 12 (bullet 13) of the Operational Manual.
14. “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.
15. “IPP” or “Indigenous People’s Plan” means the Recipient’s Indigenous People’s Plan for the Project dated April 2008, and included as part of the Operational Manual, as may be amended from time to time with the prior approval of the Association.
16. “Micro-enterprise” means a legal entity, with fewer than 15 employees, established in Honduras and selected by the Road Fund to provide routine maintenance under Part B of the Project.
17. “Operating Costs” means in respect of Categories (1), (2) and (3) in the table in Section IV.A.2 of Schedule 2 to this Agreement, 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 and salaries of locally contracted employees.
18. “Operational Manual” means a manual for Project implementation as referred to in Section I.B.1 of Schedule 2 to this Agreement.
19. “Original Financing Agreement” means the financing agreement for a Second Road Rehabilitation and Improvement Project between the Recipient and the Association, dated October 13, 2008.
20. “Original Project” means the Project described in the Original Financing Agreement.

21. “Performance Indicators” means the indicators referred to in Section I.B.1 (vii) of Schedule 2 to this Agreement and included in the Operational Manual.
22. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
23. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated April 27, 2009 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.
24. “Project Preparation Advance” means the advance for the preparation of the Project, as documented by the Letter Agreement No. P4410 between the Recipient and the Association dated January 9, 2008.
25. “Resettlement Plan” means the Recipient’s plan dated April 2008, satisfactory to the Association, which consists, *inter alia*, of the actions to be undertaken by the Recipient in connection with resettlement activities under Part A of the Project.
26. “Road Fund” means the *Fondo Vial*, a legal entity wholly owned by the Recipient whose functions include, *inter alia*, the provision of routine and periodic maintenance and the rehabilitation of roads, as provided in Decree No. 131-93.
27. “Road Maintenance Plan” means the Recipient’s plan setting forth targets, appropriate standards and implementation arrangements for its road management sector, dated November 2006.
28. “SEFIN” means *Secretaría de Estado en el Despacho de Finanzas*, the Recipient’s Ministry of Finance.
29. “SOPTRAVI” means *Secretaría de Estado en el Despacho de Obras Públicas, Transporte y Vivienda*, the Recipient’s Secretariat of Public Works, Transport and Housing.
30. “Strategic Sector Plan” means the Recipient’s plan outlining objectives, the investment program, and the institutional changes necessary to raise the quality of its road networks, acceptable to the Association.
31. “Subsidiary Agreement” means the agreement referred to in Section I.A.1 of Schedule 2 to this Agreement.

32. “Supplemental Letter” means the letter of even date of this Agreement, setting forth the technical criteria and actions which the Recipient shall implement and carry out, or cause to implement and be carried out, during Project implementation with respect to Part A.4 of the Project.
33. “Training” means, in respect of categories (1), (2) and (3) in the table in Section IV.A.2 of Schedule 2 to this Agreement: (i) reasonable travel, room, board and *per diem* expenditures incurred by trainers and trainees in connection with their training and by non-consultant training facilitators; (ii) course fees; (iii) training facility rentals; and (iv) training material preparation, acquisition, reproduction and distribution expenses not otherwise covered under said Section IV.A.2 of Schedule 2 to this Agreement.
34. “Tropical Depression No. 16” means a weather system that crossed the Recipient’s northern part between the 14th and 18th of October 2008, causing heavy rains and severe floods resulting in death, displacement and damaged or destroyed infrastructure in 17 out of 18 departments in the Recipient’s territory.
35. “UEBM” means *Unidad Ejecutora Banco Mundial*, the Project execution unit within SOPTRAVI referred to in Section I.A.2 of Schedule 2 to this Agreement.

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. Paragraph (b) of Section 3.03 is hereby deleted in its entirety.
2. The definition of “Project Implementing Entity” in paragraph 40 of the Appendix to the General Conditions shall be amended and replaced in its entirety with the following text:

“Project Implementing Entity” means a legal entity (other than the Recipient or the Guarantor) which is responsible for implementing all or a part of the Project and which: (a) is a party to the Project Agreement; or (b) is not a party to the Project Agreement but is a party to an agreement (referred to in a Legal Agreement as a “Subsidiary Agreement”) whereby such party's role in implementing the Project or any part thereof is set forth. If there is more than one such entity, “Project Implementing Entity” refers separately to each such entity. For cases where clause (b) of this definition applies: the last sentence of Section 1.01 of these General Conditions shall be disregarded; the Association's obligation in Section 6.06(b)(ii) of these General Conditions to notify the Project Implementing Entity shall be disregarded; references to the Project Implementing

Entity in Articles VIII and IX of these General Conditions shall be disregarded with the exception of the reference in Section 9.03; and, in those other Sections of these General Conditions where reference is made to a Project Implementing Entity's obligations under the Project Agreement or under a Legal Agreement, such obligations shall be deemed to be those set forth in the respective "Subsidiary Agreement" referred to herein.