

**CONFORMED COPY**

**CREDIT NUMBER 3892-HO**

# **Development Credit Agreement**

*(Nuestras Raíces Project)*

**between**

**THE REPUBLIC OF HONDURAS**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated August 18, 2004**

**CREDIT NUMBER 3892-HO**

**DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated August 18, 2004, between the Republic of Honduras (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) 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 (B) 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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Beneficiary” means a group of the Borrower’s indigenous and afro-honduran peoples which has met the criteria set forth in the Operational Manual to carry out a Sub-project;

(b) “Eligible Categories” means Categories (1) through (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(c) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services referred to in Section 2.02 of this Agreement;

(d) “Environmental Management Plan” means the Borrower’s environmental impact framework for the Project, that contains specific environmental rules and procedures for the Project, as said plan may be updated from time to time in the Operational Manual (as hereinafter defined);

(e) “Ethnic Representatives” means the nine persons representing the nine ethnic peoples existing in Honduras, which have been nominated by the country’s ethnic federations;

(f) “FHIS” means *Fondo Hondureño de Inversión Social*, the Borrower’s Social Investment Fund established pursuant to Decree 12-90, amended by Decrees Numbers 153-94 and 166-99;

(g) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement.

(h) “Grant Agreement” means any of the grant agreements to be entered into between FHIS and a Beneficiary providing for a Sub-project Grant;

(i) “Implementation Letter” means the letter of even date herewith from the Borrower to the Bank setting forth the Performance Indicators (as hereinafter defined);

(j) “MIS” means a FHIS’ comprehensive management information system that allows for processing and monitoring of Sub-projects (herein after defined);

(k) “Model Forms” means the model Grant Agreements set forth in the Operational Manual (as hereinafter defined);

(l) “Nuestras Raíces” means FHIS’ program to address the specific needs of the Borrower’s indigenous and afro-honduran peoples through strengthening their capacity to build sustainable organization, development projects and cultural identity;

(m) “Operational Manual” means the manual referred to in Section 3.03 of this Agreement;

(n) “PCU” means the *Nuestras Raíces* unit within FHIS referred to in Section 3.04 of this Agreement;

(o) “Performance Indicators” means the indicators for monitoring and evaluating progress towards the attainment of Project objectives set forth in the Implementation Letter;

(p) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Credit Account referred to in Part A.4 of Schedule 1 to this Agreement;

(q) “SEFIN” means *Secretaría de Estado en el Despacho de Finanzas*, the Borrower’s Ministry of Finance;

(r) “Subsidiary Agreement” means the agreement referred to in Section 3.01 (b) of this Agreement, as the same may be amended from time to time;

(s) “Sub-project” means a specific set of activities which: (i) meets the criteria set forth in the Operational Manual; (ii) is financed out of the proceeds of the Credit; (iii) is carried out by the Beneficiaries; and (iv) involves the use of technical assistance, utilization of goods, carrying out of works and expenditure for operating costs;

(t) “Sub-project Grant” means a grant made or proposed to be made by FHIS out of the proceeds of the Credit to a Beneficiary for the partial financing of a Sub-project pursuant to the terms of the Operational Manual; and

(u) “Special Account” means the account referred to in Section 2.02(b) of this Agreement.

Section 1.03. Each reference in the General Conditions to the Project implementing entity shall be deemed as a reference to FHIS.

## **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 ten million one hundred thousand Special Drawing Rights (SDR 10,100,000).

Section 2.02. (a) 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 Sub-projects payments and the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in its Central Bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be May 31, 2008 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 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 June 15 and December 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 June 15 and December 15 commencing June 15, 2014 and ending December 15, 2043. Each installment to and including the installment payable on December 15, 2023 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. (a) 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 cause FHIS to carry out the Project pursuant to the Subsidiary Agreement, and with due diligence and efficiency and in conformity with the Operational Manual and with appropriate engineering, economic, financial, administrative and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall enter into an agreement with FHIS, satisfactory to the Association, providing *inter alia*, for:

- (i) the provision to FHIS of the funds, facilities, services and other resources required to enable FHIS to carry out the Project, including the transfer of the proceeds of the Credit on a grant basis; and
- (ii) the obligation of FHIS to carry out the Project in accordance with the terms and conditions set forth in this Agreement and in the Operational Manual, including the obligation to:
  - (A) comply with the provisions of Sections 4.01 and 4.02 of this Agreement;
  - (B) promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project or the Sub-projects, the accomplishment of the purposes of the Credit, or the performance of its obligations under the Subsidiary Agreement; and
  - (C) prepare the reports and plans referred to in Section 3.07 (b) of this Agreement.

(c) The Borrower shall exercise its rights and carry out its obligations under the Subsidiary Agreement in such a 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 change, assign, amend, abrogate, waive or fail to enforce the Subsidiary Agreement or any provision thereof.

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 cause FHIS to adopt a manual, satisfactory to the Association, setting forth rules and procedures for the carrying out of the Project, such manual to include, *inter alia*:

- (i) the Environmental Management Plan;
- (ii) a detailed description of the participatory planning process under Part A of the Project;
- (iii) a detailed description of all phases of the Subproject cycle under Part B of the Project;
- (iv) the eligibility criteria to award Sub-project Grants; and
- (v) the Model Forms.

(b) The Operational Manual may be amended by FHIS from time to time with the prior approval of the Association. In the 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. The Borrower shall cause FHIS to maintain, during Project implementation, a Project coordination unit (the PCU) in accordance with the functions and responsibilities acceptable to the Association and set forth in the Operational Manual. FHIS shall ensure that the PCU is at all times during the implementation of the Project headed by a Project coordinator and staffed by core professional staff in numbers and with experience and qualifications acceptable to the Association.

Section 3.05. The Borrower shall cause FHIS, until completion of the Project, to maintain an executive director and other key staff, including, without limitation, an executive coordinator, a procurement director, a financial management director, a projects director, an environmental unit chief, and a monitoring and supervision director,

all with experience and qualifications that shall be at all times acceptable to the Association, and to consult with the Association with respect to the replacement of key staff of FHIS prior to any such replacement.

Section 3.06. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, and furnish to the Association not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan, of such scope and in such detail as the Association shall reasonably request, for the future operation of the Project;

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

(c) by no later than June 2006, carry out an in-depth Project review (the mid-term review), jointly with the Association, on the progress achieved in the implementation of the Project.

Section 3.07. The Borrower shall cause FHIS to:

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

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, before the end of May and November of each year until the completion of the Project, beginning in November 2004, a report on the implementation of the Project during the preceding semester in which the report is furnished to the Association, each report to detail: (i) the financial and physical progress of the Project; (ii) FHIS' institutional performance and achievements under the Project; (iii) the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section; and (iv) the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following the date of the report;

(c) review with the Borrower and the Association the report referred to in paragraph (b) of this Section; and

(d) 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 said report and the Association's views on the matter.

Section 3.08. The Borrower undertakes that, unless the Association shall otherwise agree, Sub-projects shall be promoted, identified, appraised, carried out and monitored in accordance with the procedures set forth or referred to in the Operational Manual.

Section 3.09. (a) With respect to Part B of the Project, the Borrower shall cause FHIS to: (i) solicit Sub-project proposals from interested groups; (ii) approve only those proposals which meet eligibility criteria set forth in the Operational Manual; (iii) require the Beneficiaries to undertake their Sub-project procurement and consultant selection according to the procedures set forth or referred to in Schedule 3 to this Agreement; (iv) ensure that the amount paid to the providers of the goods, works or consultant services procured to carry out each Sub-project consists of at least ten percent paid by such groups, in cash or in kind, out of their own resources and at most ninety percent financed by FHIS (as set forth in the relevant Grant Agreement); and (v) ensure that such goods, works or consultant services are used by such groups to carry out their respective Sub-projects.

(b) Except the Association otherwise agree, the Borrower shall cause FHIS to ensure that no Sub-project cost more than \$100,000.

Section 3.10. For the purposes of carrying out Part B of the Project, FHIS shall:

(a) enter into an agreement with each Beneficiary in accordance with the terms and conditions of the Operational Manual and the Model Forms;

(b) exercise its rights and comply with its obligations under any Grant Agreement, in such a manner as to protect the interests of the Borrower and the Association and to accomplish the objective of the Credit and, except as the Association shall otherwise agree, FHIS shall not assign, amend, abrogate, waive or fail to enforce the Grant Agreements or any provision thereof; and

(c) hire external auditors to perform a semiannual operational review of a sample of the Sub-projects, including compliance with financial and procurement clauses of this Credit Agreement and the Operational Manual, starting on April 2005. Said external auditors should be hired not later than March 31, 2005.

## ARTICLE IV

### Financial Covenants

Section 4.01. (a) The Borrower shall cause FHIS to establish and maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall cause FHIS to:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than four months after the end of each such year (or such other period agreed to by the Association): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall cause FHIS to:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, 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;

- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.07 of this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

## **ARTICLE V**

### **Remedies of the Association**

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified: that FHIS shall have failed to comply with any of its obligations under the Subsidiary Agreement.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely, that any of the events specified in 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.

## **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) that the Subsidiary Agreement has been entered into between the Borrower and FHIS;

(b) that the Operational Manual, including an operating plan for the first year of Project implementation and a detailed procurement plan satisfactory to the Association, has been adopted and put into effect and the standard forms set forth in the Operational Manual are integrated into MIS;

(c) that the auditors referred to in Section 4.01(b)(i) of this Agreement have been properly appointed; and

(d) that the guidelines for using the FHIS' contractors database have been approved by the Association.

Section 6.02. The date November 16, 2004 is hereby specified for the purposes of Section 12.04 of the General Conditions.

## **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*  
Tegucigalpa, M.D.C  
Honduras

Cable address:

HACIENDA  
Tegucigalpa

Facsimile:

(504) 237-4142

For the Association:

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

Cable address:

INDEVAS  
Washington, D.C.

Telex:

248423 (MCI) or  
64145 (MCI)

Facsimile:

(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Tegucigalpa, Honduras, as of the day and year first above written.

REPUBLIC OF HONDURAS

By /s/ Arturo Alvarado

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Joseph Owen

Authorized Representative

Honorary Witness on behalf of  
the Republic of Honduras:

/s/ Ricardo Maduro  
President of the Republic of Honduras

**SCHEDULE 1**

**Withdrawal of the Proceeds of the Credit**

Part A:

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods (including non-consultant services which are bid and contracted on the basis of performance of a measurable physical output, such as printing and similar operations)	150,000	100% of foreign expenditures and 88% of local expenditures
(2) Consultants' services:		98%
(a) Service Delivery Contracts	100,000	
(b) Other (including audits)	650,000	
(3) Payments made to Beneficiaries by FHIS as Sub-projects Grants	8,200,000	100%
(4) Training	300,000	100%
(5) Unallocated	700,000	
TOTAL	<u>10,100,000</u>	

2. For the purposes of this Schedule:

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

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

(c) the term “service delivery contracts” means contracts with service delivery providers to carry out: (i) participatory social monitoring activities under the Project, which contracts may include travel, per diem, rental of facilities, and any other logistic arrangements needed for such activities; and (ii) activities to promote the Project, which contracts may include travel, per diem, rental of facilities, communication services (expenditures for radio and newspaper advertisements incurred by the Borrower in connection with the carrying out of the communication strategy under the Project); and

(d) the term “training” means expenditures (other than for consultants’ services) incurred for: (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 and equipment rentals; (iv) training material preparation, acquisition, reproduction and distribution expenses not otherwise covered under this paragraph; and (v) study tours in the Borrower’s territory or abroad.

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 SDR1,000,000, may be made on account of payments made for expenditures before that date but after March 8, 2004 (but in no case earlier than twelve months immediately before the date of this Agreement).

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$50,000 equivalent per contract; (b) service delivery contracts costing less than \$50,000 equivalent per contract; (c) services of individual consultants costing less than \$50,000 equivalent per contract; and (d) services of consulting firms under contracts costing less than \$100,000 equivalent per contract, all under such terms and conditions as the Association shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Credit Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements). In the

case of the first such request submitted to the Association before any withdrawal has been made from the Credit Account, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

Part B: Special Account

1. The Borrower may open and maintain in Dollars a special deposit account in its Central Bank, 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) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, 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, at any time, is not satisfied that the reports referred to in Part A.4 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures 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 Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

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 and the Guarantor 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 and the Guarantor 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 subparagraph (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 Credit Agreement.

**Annex A  
to  
SCHEDULE 1**

**Operation of Special Account  
When Withdrawals Are Not  
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$1,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

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

(a) For withdrawals of the 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 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 minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit 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 utilized in making payments for Eligible Expenditures.

**Annex B  
to  
SCHEDULE 1**

**Operation of Special Account  
When Withdrawals Are  
Report-based Disbursements**

1. Withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.4 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

## **SCHEDULE 2**

### **Description of the Project**

The objective of the Project is to increase the participation of the Borrower's indigenous and afro-honduran peoples in the holistic development process of their communities.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

#### Part A: Participatory Development Planning by Ethnic Groups

1. Provision of training to the ethnic communities and their representatives to actively participate in the local development planning process.
2. Provision of technical assistance to identify Sub-projects to be financed under *Nuestras Raices* and other Borrower's programs targeted at the Borrower's indigenous and afro-honduran peoples.
3. Provision of technical assistance to encourage Ethnic Representatives to work closely with the Borrower's municipalities to leverage funds.
4. Carrying out of a participatory needs assessment to develop a community development plan for each community that will include a prioritized list of Sub-projects identified by such community members.

#### Part B: Grants for Sub-projects

Provision of grants to the Beneficiaries to finance up to 90% of the investment costs of implementation of Sub-projects that meet the objectives of the Project.

#### Part C: Capacity Building and Institutional Strengthening

Establishment of a system to monitor and evaluate Project implementation, including:

1. (i) design and implementation of an information, monitoring and evaluation system for Project implementation, including the carrying out of an evaluation and

studies required to assess Project progress; and (ii) design and implementation of a promotion/communication strategy for the Project;

2. strengthening of FHIS to carry out its obligations under the Project (including its financial and procurement responsibilities) through the provision of technical assistance, training and equipment (as necessary);
3. carrying out of financial and operational audits required for the Project; and
4. strengthening the Beneficiaries' capacity to carry out the Sub-projects through the provision of technical assistance and training.

\* \* \*

The Project is expected to be completed by November 30, 2007.

### **SCHEDULE 3**

#### **Procurement**

Section I. Procurement of Goods (including non-consultant services which are bid and contracted on the basis of performance of a measurable output, such as printing and similar operations) and Works

Part A: General

Goods and works shall be procured in accordance with 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 the following provisions of Section I of this Schedule.

Part B: Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost more than or equal to \$50,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 equivalent, may be procured under contracts awarded on the basis of international and national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Goods and Works under Subprojects

Goods and works under Subprojects shall be procured in accordance with the provisions of paragraph 3.15 of the Guidelines and the procedures set forth in the Operational Manual.

Part C: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to the first contract for goods procured under Part B.1 of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first contract for goods procured in accordance with the procedures set forth in Part B.2 of this Section; (ii) the first contract for goods of any price procured under Part B.3 of this Section awarded pursuant to the procedures set forth in paragraphs 3.5 and 3.6 of the Guidelines; (iii) each contract for goods estimated to cost the equivalent of \$50,000 or more procured in under Part B.3 of this Section awarded pursuant to the procedures set forth in paragraphs 3.5 and 3.6 of the Guidelines; (iv) the first contract for works of any price procured under Part B.3 of this Section, under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three qualified domestic contractors in response to a written invitation; (v) each contract for works estimated to cost the equivalent of \$50,000 or more and procured under Part B.3 of this Section, under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three qualified domestic contractors in response to a written invitation; and (vi) each contract for goods procured by direct contracting and estimated to cost the equivalent of \$5,000 or more, the following procedures shall apply:

- (i) prior to the selection of any supplier or the execution of any contract under shopping procedures or small works, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under direct contracting or shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and

- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Part D: Special Provisions

In addition and without limitation to any other provisions set forth in this Schedule or in the Guidelines, the following principles and rules of procurement shall expressly govern all procurement of goods, works and non-consultant technical services referred to in Part B.1 of 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 Honduras;
- (ii) have a representative in Honduras;
- (iii) be associated with Honduran suppliers or contractors; and
- (iv) certify that, in their country of origin, Honduran suppliers or contractors are allowed to participate in competitive bidding procedures under equal conditions with other bidders.

(c) Contracts shall not be divided for the sole purpose of reducing contract amounts.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. 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, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for audits estimated to cost less than \$200,000 equivalent per contract 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

Services for strategic plans estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Services that meet the criteria set forth in paragraphs 3.8 through 3.11 of the Consultant Guidelines, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Service Delivery Contractors

Services to be provided by the Borrower's indigenous and afro-honduran peoples under Parts A and C of the Project shall be procured in accordance with procedures acceptable to the Association.

5. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines: (a) shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines; or (b) may be selected on a sole-source basis in accordance with the provisions of paragraphs 5.3 and 5.4 of the Consultant Guidelines, subject to prior approval of the Association.

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every 6 months during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants to be selected on a sole source basis, or estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, 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. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

(c) With respect to the first three contracts of any price for the employment of consulting firms under Subprojects, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(d) With respect to the first three contracts of any price for the employment of individual consultants under Subprojects and each contract for the employment of individual consultants under Subprojects selected on a sole-source basis, the report on the comparison of the qualifications and experience of candidates, 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. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

### 3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

### Part E: Special Provisions

In addition and without limitation to any other provisions set forth in this Schedule or the Consultant Guidelines, the following principles of procurement shall expressly govern all procurement of consultants' services referred to in Section II of this Schedule:

(a) Foreign consultants shall be permitted to participate in the selection process even if there is availability of Honduran consultants for the services being procured; and

(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.

