

**“CONFORMED COPY”**

**CREDIT NUMBER 5021-HN**

# **Financing Agreement**

**(First Programmatic Reducing Vulnerabilities for  
Growth Development Policy Financing)**

**between**

**REPUBLIC OF HONDURAS**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated December 7, 2011**

## **FINANCING AGREEMENT**

Agreement dated December 7, 2011, entered into between REPUBLIC OF HONDURAS (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, *inter alia*, of (a) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement, and (b) the Recipient’s maintenance of an adequate macroeconomic policy framework. The Recipient and the Association therefore 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 fifty five million one hundred thousand Special Drawing Rights (SDR 55,100,000) (variously, “Credit” and “Financing”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to one and a quarter percent (1.25%) per annum.
- 2.06. The Payment Dates are February 1 and August 1 in each year.
- 2.07. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 2 to this Agreement.

2.08. The Payment Currency is United States Dollars.

### **ARTICLE III — PROGRAM**

3.01. The Recipient declares its commitment to the Program and its implementation. To this end:

- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient's macroeconomic policy framework and the progress achieved in carrying out the Program;
- (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
- (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

### **ARTICLE IV — REMEDIES OF THE ASSOCIATION**

4.01. The Additional Event of Suspension consists of the following, namely that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

4.02. The Additional Event of Acceleration consists of the following, namely that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of 30 days after notice of the event has been given by the Association to the Recipient.

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

5.01. The Additional Condition of Effectiveness consists of the following, namely that the Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient's macroeconomic policy framework.

5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than eighteen months (18) after the Association's approval of the Credit which expire on March 6, 2012.

**ARTICLE VI — REPRESENTATIVE; ADDRESSES**

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

6.02. The Recipient's Address is:

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

Facsimile: (504) 238-2309

6.03. The Association's Address is:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423(MCI)	1-202-477-6391

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/ C. Felipe Jaramillo  
Authorized Representative

## SCHEDULE 1

### Program Actions; Availability of Financing Proceeds

#### Section I. Actions Taken under the Program

The actions taken by the Recipient under the Program include the following:

1. To improve taxpayer compliance, the Recipient has: (i) approved a plan to strengthen the large taxpayer unit within DEI, as evidenced by Agreement DEI SG 118-2011, dated May 16, 2011, and published in the Recipient's Official Gazette on October 25, 2011; and (ii) approved a registry of large taxpayers, as evidenced by Agreement DEI SG 043-2011, dated March 18, 2011, and published in the Recipient's Official Gazette on June 25, 2011.
  
2.
  - (a) To reduce the actuarial deficits of the public pension systems, the Recipient has: (i) submitted to Congress, for approval thereof, a bill of law to reform INPREMA's pension system, as evidenced by acknowledgement (*Constancia*) signed by the first secretary of the Congress, dated November 28, 2011; and (ii) submitted to Congress, for approval thereof, a bill of law to reform INJUPEMP's pension system, as evidenced by acknowledgement (*Constancia*) signed by the first secretary of the Congress, dated April 26, 2011.
  
  - (b) To regularize the pension regime for the PROHECO teachers, the Recipient has formalized the incorporation of the PROHECO teachers to the INPREMA pension system as of the date each said teacher was appointed, as evidenced by: (i) agreement signed among SEFIN, SE and INPREMA (*Convenio de Afiliación*), dated October 27, 2011; and (ii) agreement signed between SEFIN and INPREMA to cancel the Recipient's debt to INPREMA with respect to teachers' and employers' contributions (*Convenio de Cancelación de Deuda*), dated October 27, 2011.
  
  - (c) To strengthen the financial situation of IHSS, the Recipient has increased the maximum salary subject to contribution to IHSS, as evidenced by Resolution SOJD No. 02-29-03-2011, and published in the Official Gazette on June 17, 2011.
  
3.
  - (a) To ensure equity of salary increases for all public servants, the Recipient has submitted to Congress, for approval thereof, a bill of law to establish a uniform pay adjustment methodology for all said public servants, as evidenced by acknowledgement (*Constancia*) signed by the first secretary of the Congress, dated October 28, 2011.

- (b) To strengthen the monitoring of the teacher's payroll, the Recipient has:
- (i) Established a single database (SIARH-SIAFI) which accounts for over 80 percent of the Recipient's public servants and includes all teachers, as evidenced by a letter from the Minister of SEFIN, dated October 27, 2011;
  - (ii) created a payroll management and control unit within SEFIN, as evidenced by Executive Decree PCM-006-2011, dated February 8, 2011, and published in the Official Gazette on March 22, 2011; and
  - (iii) approved a consolidated set of norms regulating human resource management processes in the education sector (*Normas Unificadas Aplicables a la Gestión de Recursos Humanos Docentes*), as evidenced by Executive Agreement No 032-2011, date October 25, 2011, and published in the Official Gazette on October 25, 2011.

4. To support the prevention of crime and violence and achieve the Recipient's development and poverty reduction objectives, the Recipient has: (a) adopted a violence prevention strategy of proposed programs focused on: youth at risk, alternative conflict resolution, road safety, and citizenship building, as evidenced by Decree No. PCM 057-2011, dated September 6, 2011, published in the Official Gazette on October 1, 2011; and (b) created the National Citizen Security Council, as evidenced by Decree No. 003-2011, dated October 18, 2011, published in the Official Gazette on October 20, 2011.

**Section II. Availability of Financing Proceeds**

- A. General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.
- B. Allocation of Financing Amounts.** The Financing is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing. The allocation of the amounts of the Financing to this end is set out in the table below:

<u>Allocations</u>	<u>Amount of the Financing Allocated (expressed in SDR)</u>
Single Withdrawal Tranche	55,100,000
<b>TOTAL AMOUNT</b>	<b>55,100,000</b>

**C. Withdrawal Tranche Release Conditions.**

No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied with: (a) the Program being carried out by the Recipient; and (b) with the adequacy of the Recipient's macroeconomic policy framework.

**D. Deposits of Financing Amounts.** Except as the Association may otherwise agree:

1. all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and
2. the Recipient shall: (a) ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association; and (b) provide the Association with a written confirmation within two weeks of each such deposit.

**E. Audit.** Upon the Association's request, the Recipient shall:

1. have the account designated by the Recipient pursuant to Section D.1 of this Section audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;
2. furnish to the Association as soon as available, but in any case no later than four months after the date of the Association's request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request; and
3. furnish to the Association such other information concerning the account and its audit as the Association shall reasonably request.

**F. Excluded Expenditures.** The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

**G. Closing Date.** The Closing Date is November 15, 2012.

## SCHEDULE 2

### Repayment Schedule

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each February 1 and August 1:	
commencing February 1, 2017 to and including August 1, 2026	1.65%
commencing February 1, 2027 to and including August 1, 2036	3.35%

\* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

## APPENDIX

### Section I. Definitions

1. “Congress” means *Congreso Nacional*, the Recipient’s legislative branch.
2. “DEI” means *Dirección Ejecutiva de Ingresos*, the Recipient’s income executive agency.
3. “Excluded Expenditure” means any expenditure:
  - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;
  - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery

897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
  - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
  - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
  - (f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.
4. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 31, 2010 with the modifications set forth in Section II of this Appendix.
  5. "IHSS" means *Instituto Hondureño de Seguridad Social*, the Recipient's social security institute.
  6. "INJUPEMP" means *Instituto Nacional de Jubilación y Pensiones de los Empleados Públicos*, the Recipient's civil servant's pension institute.
  7. "INPREMA" means *Instituto Nacional de Previsión del Magisterio*, the Recipient's national institute for teachers' pensions.
  8. "Program" means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated October 28, 2011 from the Recipient to the Association declaring the Recipient's commitment to the execution of the

Program, and requesting assistance from the Association in support of the Program during its execution.

9. “PROHECO” means *Programa Hondureño de Educación Comunitaria*, the Recipient’s community-based education program of the SE created pursuant to the Recipient’s Executive Decree No. 006-99 dated February 17, 1999.
10. “SE” means *Secretaría de Estado en el Despacho de Educación*, the Recipient’s Ministry of Education.
11. “SEFIN” means *Secretaría de Estado en el Despacho de Finanzas*, the Recipient’s Ministry of Finance.
12. “SIARH-SIAFI” means *Sistema Integrado de Administración de Recursos Humanos*, the Recipient’s integrated human resources management system.
13. “Single Withdrawal Tranche” means the amount of the Financing allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

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

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. “Section 3.02. *Service Charge and Interest Charge*
  - (a) *Service Charge*. The Recipient shall pay the Association a service charge on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. The Service Charge shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Service Charges shall be computed on the basis of a 360-day year of twelve 30-day months.
  - (b) *Interest Charge*. The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Interest shall be computed on the basis

of a 360-day year of twelve 30-day months.”

4. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
5. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
6. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. *Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

7. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.07. *Program Monitoring and Evaluation*

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.”

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

- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

- (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.
- (c) The term “Financing Payment” is modified by inserting the words “the Interest Charge” between the words “the Service Charge” and “the Commitment Charge”.
- (d) A new term called “Interest Charge” is added to read as follows:  
  
“‘Interest Charge’ means the interest charge specified in the Financing Agreement for the purpose of Section 3.02(b).”
- (e) The term “Payment Date” is modified by inserting the words “Interest Charges” between the words “Service Charges” and “Commitment Charges”.
- (f) The term “Project” is modified to read “Program” and its definition is modified to read as follows:  
  
“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.
- (g) The term “Service Charge” is modified by replacing the reference to Section 3.02 with Section 3.02 (a).