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GEF TRUST FUND GRANT NUMBER TF055968

# **Global Environment Facility Trust Fund Grant Agreement**

**(Rural Electrification Project)**

**between**

**REPUBLIC OF HONDURAS**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**acting as an Implementing Agency of the Global Environment Facility**

**Dated March 21, 2006**

**GEF TRUST FUND GRANT NUMBER TF055968**

**GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT**

AGREEMENT, dated March 21, 2006, between REPUBLIC OF HONDURAS (the Recipient) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) acting as an implementing agency of the Global Environment Facility (GEF) in respect of grant funds provided to the GEF Trust Fund by certain members of the Bank as participants of the GEF.

WHEREAS (A) the Bank, pursuant to Resolution No. 91-5 of March 14, 1991 of the Executive Directors of the Bank, established the GEF to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development;

(B) following the restructuring of the GEF, such arrangements continued in place on the basis set forth in Resolution No. 94-2 of May 24, 1994, of the Executive Directors of the Bank which, inter alia, established the GEF Trust Fund and appointed the Bank as trustee of the GEF Trust Fund (Resolution 94-2);

(C) the Recipient, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested assistance from the resources of the GEF Trust Fund for funding the Project, and said request having been approved in accordance with the provisions of the Instrument for the Establishment of the Restructured Global Environment Facility approved under Resolution 94-2;

(D) the Recipient has also requested the International Development Association (the Association) to provide additional financing for the Project and by an agreement dated November 16, 2005 between the Recipient and the Association (the Development Credit Agreement), the Association has agreed to provide such assistance in an aggregate principal amount equivalent to thirty-two million Special Drawing Rights (SDR 32,000,000) (the Credit); and

(E) the Project will be carried out by FHIS (as defined below) with the Recipient's assistance and, as part of such assistance, the Recipient will make the proceeds of the GEF Trust Fund Grant available to FHIS, as provided in this Agreement (the GEF Trust Fund Grant Agreement); and

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend a grant (the GEF Trust Fund Grant) to the Recipient 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 (a) The following provisions of the “General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through May 1, 2004), with the modifications set forth in paragraph (b) of this Section (the General Conditions) constitute an integral part of this Agreement:

- (i) Article I;
  - (ii) Sections 2.01 (2), (3), (4), (5), (6), (7), (8), (14), (15), (16), (18) and (21), 2.02 and 2.03;
  - (iii) Section 3.01;
  - (iv) Sections 4.01 and 4.06;
  - (v) Article V;
  - (vi) Sections 6.01, 6.02 (a), (c), (d), (e), (f), (i), (l), (m), (n), (o) and (p), 6.03, 6.04 and 6.06;
  - (vii) Section 8.01 (b);
  - (viii) Sections 9.01 (a) and (c), 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09;
  - (ix) Sections 10.01, 10.03 and 10.04;
  - (x) Article XI; and
  - (xi) Sections 12.01 (c), 12.03 and 12.04.
- (b) The General Conditions shall be modified as follows:

- (i) the term “Bank”, wherever used in the General Conditions, other than in Sections 2.01 (6), 6.02 (f) and 5.01 (a) thereof, means the Bank acting as an implementing agency of the GEF, except that in Section 6.02, the term “Bank” shall also include the Bank acting in its own capacity;
- (ii) the term “Borrower”, wherever used in the General Conditions, means the Recipient;
- (iii) the term “Loan Agreement”, wherever used in the General Conditions, means this Agreement;
- (iv) the term “Loan” and “loan”, wherever used in the General Conditions, means the GEF Trust Fund Grant;
- (v) the term “Loan Account”, wherever used in the General Conditions, means the GEF Trust Fund Grant Account;
- (vi) Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the GEF Trust Fund Grant Agreement, the proceeds of the GEF Trust Fund Grant may be withdrawn to pay for taxes levied by, or in the territory of, the Recipient or the Guarantor on the goods or services to be financed under the GEF Trust Fund Grant, or on their importation (with the exception of import tariffs above 28%), manufacture, procurement or supply. Financing of such taxes is subject to the Bank’s policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on, or in respect of any item to be financed out of, the proceeds of the GEF Trust Fund Grant is excessive or otherwise unreasonable, the Bank may, by notice to the Recipient, adjust the percentage for withdrawal set forth or referred to in respect of such item in the GEF Trust Fund Grant Agreement as required to be consistent with such policy of the Bank.”.

- (vii) a new subparagraph is added after subparagraph (o) in Section 6.02 of the General Conditions, as follows: “an extraordinary situation shall have arisen in which any further disbursement under the GEF Trust Fund Grant would exceed the resources available for disbursement from the GEF.”; and

- (viii) the words “corrupt or fraudulent” in paragraph (c) of Section 6.03 are replaced with the words “corrupt, fraudulent, collusive or coercive”.

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions and in the Recitals to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Community Beneficiary” means a community located in a rural area, which benefits from a RIAP or Off-Grid Electrification Subproject pursuant to the criteria set forth in the Operational Manual;

(b) “Community Beneficiary Agreement” means the agreement to be entered into between an Eligible Mancomunidad, through an UTI, and each Community Beneficiary pursuant to Section 3.03 (a) (vii) of this Agreement, as the same may be amended from time to time; and such term includes all schedules to the Community Beneficiary Agreement;

(c) “Conceptual Framework for Social and Environmental Management” means the Recipient’s framework for the management of social and environmental aspects of the Project submitted to the Bank on May 17, 2005, as may be amended from time to time with the prior approval of the Bank;

(d) “Electricity Provider” means an entity selected as per the criteria set forth in the Operational Manual to carry out SHS Subprograms in the sites proposed by the Recipient and approved by the Bank;

(e) “Electricity Provider Subsidy Agreement” means an agreement, between FHS and an Electricity Provider, referred to in Section 3.04 (a) of this Agreement;

(f) “Eligible Categories” means Categories (1) through (6) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

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

(h) “Eligible Mancomunidad” means each of the Recipient’s Mancomunidades of CHORTI and CRA (*Consejo Regional Ambiental*), and any other Mancomunidad as may be proposed by the Recipient and agreed to by the Bank;

(i) “ENEE” means *Empresa Nacional de Energía Eléctrica*, the Recipient’s National Electrical Energy Enterprise created pursuant to the Recipient’s Decree-Law No. 48 of February 20, 1957;

(j) “FHIS” means *Fondo Hondureño de Inversión Social*, the Recipient’s Social Investment Fund established pursuant to the Recipient’s Decree No. 12-90 of February 22, 1990, as said Decree may have been amended to the date of this Agreement, and governed by the regulations set forth in the Recipient’s Decree No. 261-91 of April 2, 1991, as said regulations may have been amended to the date of this Agreement;

(k) “FHIS Subsidiary Agreement” means the agreement to be entered into between the Recipient and FHIS pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the FHIS Subsidiary Agreement;

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

(m) “FOSODE” means *Fondo Social de Desarrollo Eléctrico*, the Recipient’s fund, within ENEE, for the funding of studies and works in the electrification area, particularly those of social interest, established and governed pursuant to the Recipient’s Legislative Decree No. 158-94 published in the Recipient’s Official Gazette on November 26, 1994, as amended by Legislative Decree No. 89-98 published in the Recipient’s Official Gazette on October 22, 1998;

(n) “IPDF” means the Recipient’s indigenous people’s policy framework for the Project submitted to the Bank on May 17, 2005, as may be amended from time to time with the prior approval of the Bank;

(o) “Mancomunidad” means an association of Municipalities established and recognized pursuant to the Municipality Law;

(p) “Mancomunidad Framework Agreement” means the agreement to be entered into between FHIS and each Eligible Mancomunidad pursuant to Section 3.03 (a) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Mancomunidad Framework Agreement;

(q) “Municipality” means an entity established pursuant to the Municipality Law;

(r) “Municipality Law” means the Recipient’s *Ley de Municipalidades*, established by the Recipient’s Decree No. 134-90 of November 19, 1990, as said Decree may have been amended to the date of this Agreement, and including the regulations adopted pursuant to the Recipient’s Accord No. 18-93 of February, 29, 1993, as said regulations may have been amended to the date of this Agreement;

(s) “Off-Grid Electrification Subproject” means a set of activities or investments covered by Part B.1 (b) of the Project which is eligible for financing in accordance with the criteria set forth in the Operational Manual;

(t) “Operational Manual” means the manual referred to in Section 3.06 (a) of this Agreement;

(u) “Participating Sector Agency” means ENEE, including FOSODE, and/or any other agency in addition to, or in substitution of, these agencies that the Recipient and the Bank deem necessary to carry out the Project;

(v) “Participation Agreement” means the agreement to be entered into between FHIS and each Participating Sector Agency pursuant to Section 3.02 (a) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Participation Agreement;

(w) “Performance Indicators” means the indicators for Project monitoring and evaluation set forth in the Operational Manual;

(x) “Procurement Plan” means the Recipient’s procurement plan, dated November 4, 2005 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.05 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(y) “Report-based Disbursements” means the Recipient’s option for withdrawal of funds from the GEF Trust Fund Grant Account referred to in Part A.5 of Schedule 1 to this Agreement;

(z) “Rural Infrastructure Action Plan” or “RIAP” means a framework plan to support the development of an Eligible Mancomunidad which: (i) is based on strategic development plans prepared by Municipalities; (ii) integrates rural infrastructure investments; (iii) is prepared by a Mancomunidad following the participatory procedures set forth in the Operational Manual; and (iv) is favorably endorsed by FHIS based on the eligibility criteria set forth in the Operational Manual;

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

(ab) “SHS” means solar home systems;

(ac) “SHS Subprogram” means a set of activities or investments covered by Part B.3 of the Project which is eligible for financing in accordance with the criteria set forth in the Operational Manual;

(ad) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement; and

(ae) “UTI” means *unidad técnica inter-municipal*, any of the inter-municipal technical units referred to in Section 3.07 (b) of this Agreement.

## ARTICLE II

### The GEF Trust Fund Grant

Section 2.01. The Bank agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the GEF Trust Fund Grant in an amount equal to two million three hundred fifty thousand Dollars (\$2,350,000).

Section 2.02. The amount of the GEF Trust Fund Grant may be withdrawn from the GEF Trust Fund Grant Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant.

Section 2.03. The Closing Date shall be June 30, 2010 or such later date as the Bank shall establish. The Bank shall promptly notify the Recipient of such later date.

## ARTICLE III

### Execution of the Project

Section 3.01. (a) The Recipient 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 with the assistance of the Participating Sector Agencies, the Eligible Mancomunidades, and, for purposes of Part B.3 of the Project, the Electricity Providers, all with due diligence and efficiency and in conformity with appropriate administrative, engineering, economic, financial, technical, social and environmental practices, and in accordance with the Operational Manual, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Recipient shall enter into an agreement with FHIS (the FHIS Subsidiary Agreement), satisfactory to the Bank, 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 GEF Trust Fund Grant 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 Bank of any condition which interferes or threatens to interfere with the progress of the Project, the Off-Grid Electrification Subprojects, or the SHS Subprograms, the accomplishment of the purposes of the GEF Trust Fund Grant, or the performance of its obligations under the FHIS Subsidiary Agreement; and
  - (C) prepare the reports referred to in Section 3.09 of this Agreement.

(c) The Recipient shall exercise its rights and carry out its obligations under the FHIS Subsidiary Agreement in such a manner as to protect the interests of the Recipient and the Bank and to accomplish the purposes of the GEF Trust Fund Grant, and, except as the Bank shall otherwise agree, the Recipient shall not change, assign, amend, abrogate, waive or fail to enforce the FHIS Subsidiary Agreement or any provision thereof.

Section 3.02. (a) The Recipient shall cause FHIS to enter into an agreement with each Participating Sector Agency (a Participation Agreement), under terms and conditions satisfactory to the Bank, such agreement to provide *inter alia*, for:

- (i) coordination mechanisms ensuring consistent approaches and complementarity between the Project and activities implemented by such Participating Sector Agency;
- (ii) assistance by such Participating Sector Agency to FHIS on sector specific technical issues, including, *inter alia*, Off-Grid Electrification Subproject evaluation, screening criteria, preparation of technical specifications, and review of technical designs;
- (iii) provision by such Participating Sector Agency of technical assistance and training to FHIS, UTIs and small-scale infrastructure service providers for the design, implementation and the monitoring of the infrastructure systems included in the RIAPs; and

- (iv) provision of technical assistance by consultants hired by FHIS under Part C of the Project and goods to such Participating Sector Agency to enable it to fulfill its obligations under paragraphs (i), (ii) and (iii) above.

(b) The Recipient shall cause FHIS and each Participating Sector Agency to exercise their respective rights and carry out their obligations under each Participation Agreement in such a manner as to protect the interests of the Recipient and the Bank and to accomplish the purposes of the GEF Trust Fund Grant, and, except as the Bank shall otherwise agree, FHIS and each Participating Sector Agency shall not change, assign, amend, abrogate, waive or fail to enforce their respective Participation Agreement or any provision thereof.

Section 3.03. (a) The Recipient shall cause FHIS, before commencing the implementation of any Off-Grid Electrification Subproject, to enter into an agreement (a Mancomunidad Framework Agreement), under terms and conditions substantially similar to those of the model form contained in the Operational Manual, with the respective Eligible Mancomunidad to provide for:

- (i) the transfer to such Eligible Mancomunidad of the funds required to finance the implementation of Off-Grid Electrification Subprojects, except that the funds required for works estimated to cost more than \$250,000 per contract, and the funds required for services provided by consulting firms, shall be retained by FHIS so that the procurement of such works and consultants' services shall be carried out by FHIS and the works shall then be supervised by FHIS and transferred when completed to the respective Eligible Mancomunidad;
- (ii) the commitment of such Eligible Mancomunidad to contribute in cash or in kind at least fifteen percent of the cost of works and goods for Off-Grid Electrification Subprojects being financed in part with proceeds of the GEF Trust Fund Grant, as specified in the Operational Manual;
- (iii) the obligation of such Eligible Mancomunidad to follow the requirements of this Agreement and the Operational Manual in respect of RIAPs and Off-Grid Electrification Subprojects, including any actions required from such Eligible Mancomunidad in the implementation of the IPDF and the Conceptual Framework for Social and Environmental Management;

- (iv) the obligation of such Eligible Mancomunidad to provide FHIS with the information necessary for it to comply with the audit requirements set forth in Section 4.01 of this Agreement;
- (v) the respective roles and responsibilities of FHIS and such Eligible Mancomunidad in the procurement of goods, works and services required for Off-Grid Electrification Subprojects;
- (vi) the commitment of such Eligible Mancomunidad to implement the relevant RIAP; and
- (vii) the commitment of such Eligible Mancomunidad to enter into an agreement (the Community Beneficiary Agreement), through an UTI, with each Community Beneficiary in its territory to set forth the Community Beneficiary's rights and obligations for, *inter alia*, the operation and maintenance, as the case may be, of the Off-Grid Electrification Subprojects.

(b) The Recipient shall cause FHIS and each Eligible Mancomunidad to exercise their respective rights and carry out their obligations under each Mancomunidad Framework Agreement and each Community Beneficiary Agreement in the case of each Eligible Mancomunidad in such a manner as to protect the interests of the Recipient and the Bank and to accomplish the purposes of the GEF Trust Fund Grant, and, except as the Bank shall otherwise agree, FHIS and each Eligible Mancomunidad shall not change, assign, amend, abrogate, waive or fail to enforce their respective Mancomunidad Framework Agreement, Community Beneficiary Agreement, or any provision thereof.

Section 3.04. (a) For purposes of carrying out Part B.3 of the Project, the Recipient shall cause FHIS to enter into an agreement, satisfactory to the Bank, with each Electricity Provider (the Electricity Provider Subsidy Agreement) to:

- (i) make available to each Electricity Provider the required amounts from the GEF Trust Fund Grant to subsidize the carrying out of SHS Subprograms under Part B.3 (b) of the Project by such Electricity Provider; and
- (ii) ensure that each Electricity Provider installs, operates and maintains equipment under Part B.3 of the Project in accordance with environmental standards and procedures that comply with local law and ensure proper recycling or disposal of batteries and solar cells.

(b) The Recipient shall cause FHIS and each Electricity Provider to exercise their respective rights and carry out their obligations under each Electricity Provider Subsidy Agreement in such a manner as to protect the interests of the Recipient and the

Bank and to accomplish the purposes of the GEF Trust Fund Grant, and, except as the Bank shall otherwise agree, FHIS and each Electricity Provider shall not change, assign, amend, abrogate, waive or fail to enforce their respective Electricity Provider Subsidy Agreement, or any provision thereof.

Section 3.05. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Recipient shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than 12 months after the date of the preceding Procurement Plan, for the Bank's approval.

(c) Without limitation to the provisions in paragraphs (a) and (b) above, the Recipient shall ensure that procurement of works estimated to cost more than \$250,000 equivalent per contract and procurement of services provided by consulting firms is carried out by FHIS.

Section 3.06. (a) The Recipient shall cause FHIS and cause FHIS to cause each Eligible Mancomunidad to adopt a manual (the Operational Manual), satisfactory to the Bank, setting forth rules and procedures for the carrying out of the Project, such manual to include, *inter alia*:

- (i) the procedures for the carrying out, monitoring and evaluation of the Project (including the procurement, financial, environmental and social requirements thereof);
- (ii) the criteria for the approval, implementation, monitoring and evaluation of Off-Grid Electrification Subprojects and SHS Subprograms including without limitation: (A) the criteria and procedures for approval of each type of Off-grid Electrification Subproject and SHS Subprogram, depending on their respective scope and size; and (B) the technical, social and economic criteria approved by FHIS and the Bank for the evaluation of such Off-Grid Electrification Subprojects and SHS Subprograms;
- (iii) the criteria for Project financing eligibility of Mancomunidades, RIAPs, Off-Grid Electrification Subprojects, and Community Beneficiaries, including without limitation: (A) a negative list of investments that cannot be financed under the Project; (B) investment site screening criteria; and (C) the procedures required for a participatory process during the preparation of RIAPs;

- (iv) a model Mancomunidad Framework Agreement and Community Beneficiary Agreement;
- (v) the criteria for Project financing eligibility of Electricity Providers and SHS Subprograms; and
- (vi) the IPDF, the Conceptual Framework for Social and Environmental Management, the procedures to safeguard cultural property and the Performance Indicators.

(b) The Operational Manual may be amended by FHIS from time to time with the prior approval of the Bank. 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 3.07. (a) The Recipient shall cause FHIS, until completion of the Project, to maintain key staff for the Project, including without limitation, a Project coordinator, a procurement director, a financial management director, an electricity sector specialist, an environmental unit chief, and a monitoring and supervision director, all with experience and qualifications that shall be at all times acceptable to the Bank, and to agree with the Bank with respect to the replacement of key staff of FHIS prior to any such replacement.

(b) The Recipient shall cause FHIS to cause each Eligible Mancomunidad to maintain, during Project implementation, an inter-municipal technical unit (UTI) with duties and responsibilities as set forth in the Operational Manual and staffed with personnel with qualifications and experience satisfactory to the Bank, including technical and administrative staff.

Section 3.08. Without limitation to the provisions of Section 3.06 (a) (vi) of this Agreement, the Recipient shall cause FHIS to:

- (a) implement the IPDF in accordance with its terms;
- (b) implement the Conceptual Framework for Social and Environmental Management in accordance with its terms; and
- (c) ensure that no physical or involuntary resettlement (as interpreted in accordance with the Bank's Operational Policy 4.12) shall take place as a consequence of the carrying out of the Project.

Section 3.09. The Recipient shall cause FHIS to:

(a) maintain policies and procedures adequate to enable FHIS to monitor and evaluate on an ongoing basis, in accordance with the Performance Indicators, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, not later than six months after the Effective Date and semestally thereafter during the period of Project implementation, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

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

Section 3.10. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Recipient shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Bank, a plan for the future operation of the Project; and

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

Section 3.11. The Recipient and the Bank hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by FHIS.

## **ARTICLE IV**

### **Financial Covenants**

Section 4.01. (a) The Recipient shall cause FHIS to maintain and each Eligible Mancomunidad 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 Bank, adequate to reflect the operations, resources and expenditures related to the Project.

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

(c) For all expenditures with respect to which withdrawals from the GEF Trust Fund Grant Account were made on the basis of reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Recipient shall cause FHIS and each Eligible Mancomunidad to:

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the GEF Trust Fund Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year in the case of FHIS and for each fiscal semester in the case of the Eligible Mancomunidades (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Recipient's progress reporting obligations set out in Section 3.09 of this Agreement, the Recipient shall prepare or cause FHIS to prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, 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 GEF Trust Fund Grant, 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 Bank 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 Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

## **ARTICLE V**

### **Remedies of the Bank**

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

- (i) FHIS shall have failed to perform any of its obligations under the FHIS Subsidiary Agreement.
- (ii) An Eligible Mancomunidad shall have failed to perform any of its obligations under its respective Mancomunidad Framework Agreement.
- (iii) (A) Subject to subparagraph (ii) of this paragraph:
  - (1) the right of the Recipient to withdraw the proceeds of the Development Credit Agreement



shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the Development Credit Agreement, or

- (2) the Development Credit Agreement shall have become due and payable prior to the agreed maturity thereof.
  
- (B) Subparagraph (i) of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Bank that:
  - (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Recipient to perform any of its obligations under such agreement;
  - and (B) adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

(b) Notwithstanding the rights contained in Section 6.02 of the General Conditions, it is understood that if any of the events specified in paragraph (a)(ii) of this Section shall have occurred, the Bank may, by notice to the Recipient, choose to suspend in whole or in part only the right of the Recipient to make withdrawals from the GEF Trust Fund Grant Account for expenditures in respect of the concerned Mancomunidad.

## **ARTICLE VI**

### **Effectiveness, Termination**

Section 6.01. The following events are specified as additional condition to the effectiveness of the GEF Trust Fund Grant Agreement within the meaning of Section 12.01 (c) of the General Conditions:

- (a) that the FHIS Subsidiary Agreement has been executed on behalf of the Recipient and FHIS; and
  
- (b) that the Development Credit Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals thereunder, except only effectiveness of the GEF Trust Fund Grant Agreement, have been fulfilled.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the FHIS Subsidiary Agreement has

been duly authorized or ratified by the Recipient and FHIS and is legally binding upon the Recipient and FHIS in accordance with its terms.

Section 6.03. The date June 19, 2006 is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.04. This Agreement shall continue in effect until the GEF Trust Fund Grant has been fully disbursed and the parties to this Agreement have fulfilled all their obligations hereunder.

## **ARTICLE VII**

### **Representative of the Recipient; Addresses**

Section 7.01. The Minister of SEFIN is designated as representative of the Recipient 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 Recipient:

SEFIN  
Tegucigalpa, M.D.C.  
Honduras

Cable address:

HACIENDA  
Tegucigalpa

Facsimile:

(504) 237-4142

For the Bank:

International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

248423 (MCI)  
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 the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF HONDURAS

By /s/ Elvin Ernesto Santos Ordoñez

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT  
acting as an Implementing Agency of the Global Environment Facility

By /s/ Jane Armitage

Authorized Representative

## SCHEDULE 1

### Withdrawal of the Proceeds of the GEF Trust Fund Grant

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

<u>Category</u>	<u>Amount of the GEF Trust Fund Grant Allocated (Expressed in Dollar Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Off-Grid Electrification Subprojects under Part B.1 (b) of the Project	100,000	50% of the cost of goods, works, services, training and operating costs for Off-Grid Electrification Subprojects
(2) SHS Subprograms under Part B.3 (b) of the Project	1,000,000	100% of the cost of goods, works, services, training and operating costs for SHS Subprograms
(3) Goods under Parts C and D of the Project	300,000	100%
(4) Consultants' services under Parts A, B.2, C and D of the Project	500,000	100%
(5) Training under Parts A, B.2, C and D of the Project	200,000	100%
(6) Operating Costs under Parts A, B.2, C and D of the Project	100,000	100%

(7) Unallocated 150,000

TOTAL 2,350,000

2. For the purposes of this Schedule:

(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).

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of :

(a) payments made for expenditures prior to the date of this Agreement; and

(b) payments made for expenditures covered by disbursement category 1 set forth in the table in paragraph 1 of this Schedule in respect of an Eligible Mancomunidad, unless the respective: (i) Mancomunidad Framework Agreement has been entered into by the parties thereto; (ii) UTI for such Eligible Mancomunidad has been properly staffed as provided in Section 3.07 (b) of this Agreement; and (iii) financial management arrangements referred to in Section 4.01 (a) of this Agreement for such Eligible Mancomunidad have been established and become operational.

4. The Bank may require withdrawals from the GEF Trust Fund Grant Account to be made on the basis of statements of expenditure for expenditures for: (i) goods, works and services under Off-Grid Electrification Subprojects and SHS Subprograms; (ii) training; and (iii) operating costs, all under such terms and conditions as the Bank shall specify by notice to the Recipient.

5. The Recipient may request withdrawals from the GEF Trust Fund Grant Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Recipient (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made

from the GEF Trust Fund Grant Account, the Recipient shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the three-month period following the date of such request.

B. Special Account

1. The Recipient may open and maintain in Dollars a special deposit account in its Central Bank, on terms and conditions satisfactory to the Bank.

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

(a) if the Recipient 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 Recipient 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 Recipient out of the Special Account, the Recipient shall, at such time as the Bank shall reasonably request, furnish to the Bank 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 Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Recipient directly from the GEF Trust Fund Grant Account; or

(c) if the Recipient shall have failed to furnish to the Bank, 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 Bank 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 Bank 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 Bank shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the GEF Trust Fund Grant Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank 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 Recipient of its determination.

6. (a) If the Bank 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 Bank, the Recipient shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank 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 Recipient shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

(d) Refunds to the Bank 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 GEF Trust Fund Grant 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 \$250,000 to be withdrawn from the GEF Trust Fund Grant 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 Recipient shall furnish to the Bank 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 Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account such amount as the Recipient shall have requested.
  - (b) For replenishment of the Special Account, the Recipient shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Recipient shall furnish to the Bank 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 Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account such amount as the Recipient 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 Bank from the GEF Trust Fund Grant Account under one or more of the Eligible Categories.
3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the GEF Trust Fund Grant minus the total amount of all outstanding special commitments entered into by the Bank 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 GEF Trust Fund Grant Account of the remaining unwithdrawn amount of the GEF Trust Fund Grant shall follow such procedures as the Bank shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Bank 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 GEF Trust Fund Grant Account shall be deposited by the Bank 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 Bank from the GEF Trust Fund Grant Account under one or more of the Eligible Categories.
  
2. Upon receipt of each application for withdrawal of an amount of the GEF Trust Fund Grant, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant 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 Bank has determined, based on the reports referred to in Part A.5 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 objectives of the Project are: (a) to improve the access, quality and sustainability of electricity services through the development of off-grid electrification pilot projects for the rural poor in the Recipient's territory; and (b) to develop capacities and an enabling environment within the Recipient for off-grid electrification in a decentralized setting.

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

#### Part A: Support to the Participatory Local Planning for Integrated Infrastructure Service Delivery

Providing training and other technical assistance to the Eligible Mancomunidades to integrate off-grid electrification pilots into the RIAPs and the related local participatory planning process.

#### Part B: Infrastructure Service Delivery

1. Carrying out feasibility studies, developing technical designs, and providing goods, works, services and training related to rural infrastructure services in electricity as needed under the RIAPs for implementing off-grid electrification pilots in Eligible Mancomunidades using:

- (a) water (in micro-hydro projects); and
- (b) other renewable energy sources.

2. Providing technical assistance related to the planning, design, implementation, and operation and maintenance of micro-hydro projects:

- (a) in Eligible Mancomunidades; and
- (b) in sites specified in the Operational Manual which are outside of Eligible Mancomunidades.

3. Carrying out a solar photovoltaic program, consisting of the commercial dissemination and installation of photovoltaic systems, by, *inter alia*, providing:

(a) funds to accredited dealers of SHS, to ensure that poor households, businesses and public facilities located in the sites agreed to with the Bank can afford to buy such systems; and

(b) funds and technical assistance to accredited dealers of SHS, to ensure that larger scale sales of photovoltaic systems to poor households, businesses and public facilities are achieved within the Recipient's territory.

Part C: Local Capacity Building and Policy Development Technical Assistance

Strengthening capacity within the Recipient at the national and local level to integrate off-grid electrification solutions into the planning and implementation of decentralized, integrated rural infrastructure programs, using the territorial approach, including provision of consulting services, training, goods and other technical assistance to, *inter alia*, strengthen ENEE, including FOSODE, and FHIS and private sector participants with regard to renewable energy alternatives and to ensure that the allocation and setting of tariffs and subsidies for off-grid electrification service are rationalized.

Part D: Project Management, Monitoring and Evaluation

Providing technical assistance, equipment, training and incremental operational costs as necessary to operate and strengthen FOSODE to enable it to effectively support FHIS in the monitoring and evaluation of the Project.

\* \* \*

The Project is expected to be completed by December 30, 2009.

### **SCHEDULE 3**

#### **Procurement**

##### Section I. General

A. (1) All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

(2) Without any limitations to any other provisions set forth in this Schedule or in the Procurement Guidelines, the following shall expressly govern the procurement of goods, works and services (other than consultant services) referred to in Section II of this Schedule:

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

(b) Foreign bidders shall not, as a condition for submitting bids, be required to:

- (i) be registered in the Recipient's territory;
- (ii) have a representative in the Recipient's territory;
- (iii) be associated with suppliers or contractors of the Recipient's territory; and
- (iv) certify that, in their country of origin, suppliers or contractors of the Recipient's territory are allowed to participate in competitive bidding procedures under equal conditions with other bidders.

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

B. (1) All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

(2) Without limitation to any other provisions set forth in this Schedule or the Consultant Guidelines, the following shall expressly govern the procurement of consultants' services referred to in Section III of this Schedule:

(a) 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

(b) 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.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Recipient.

B. Other Procurement Procedures

1. National Competitive Bidding. Works estimated to cost less than \$1,500,000 equivalent per contract and goods estimated to cost less than \$150,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.

2. Shopping. Goods and works estimated to cost less than \$50,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods and works which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$150,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Selection Under a Fixed Budget. Services for assignments which the Bank agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

2. Least-cost Selection. Services for assignments which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

4. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

5. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis, subject to prior review of the Bank.

Section IV. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. If the Procurement Plan provides for prior review of contracts for the employment of individual consultants, the report on the qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the

consultants shall be subject to prior approval by the Bank. All other contracts shall be subject to Post Review by the Bank.