

CONFORMED COPY

LOAN NUMBER 2991 HO

(Fourth Agricultural Credit Project)

between

REPUBLIC OF HONDURAS

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated November 21, 1988

LOAN NUMBER 2991 HO

LOAN AGREEMENT

AGREEMENT, dated November 21, 1988, between REPUBLIC OF HONDURAS (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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 Bank to assist in the financing of the Project;

(B) Parts A(1), B and C of the Project will be carried out by Banco Central de Honduras (hereinafter called Banco Central) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Banco Central a portion of the proceeds of the Loan as provided in this Agreement;

(C) Part A (2) of the Project will be carried out by

Federacion de Asociaciones Cooperativas de Ahorro y Credito de Honduras Ltda. (hereinafter called FACACH), with the Borrower's and Banco Central's assistance and, as part of such assistance, the Borrower will make available to FACACH the other portion of the proceeds of the Loan as shall be necessary to implement Part A (2) of the Project as provided in this Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement, in the BCH Project Agreement of even date between the Bank and Banco Central, and in the FACACH Project Agreement of even date herewith between the Bank and FACACH;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, (the General Conditions) with the modifications set forth below, constitute an integral part of this Agreement and are hereby incorporated as if fully set forth herein:

(a) the last sentence of Section 3.02 is deleted;

(b) the words "and for each Investment Plan" are added after the word "Project" in Section 5.03; and

(c) the words "the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be cancelled" set forth at the end of Section 6.03 are deleted and the following is substituted therefor:

"or (f) by the date specified in paragraph 11 (b) of Section II, of Schedule 2 to the BCH Project Agreement (as the term is defined in Section 1.02 (a) of the Loan Agreement), the Bank shall, in respect of any portion of the Loan: (i) have received no applications or requests under subparagraph (a) of said paragraph; or (ii) have denied any such applications or requests, the Bank may, by notice to the Borrower terminate the right of the Borrower to submit such applications or requests or to make withdrawals from the Loan Account, as the case may be, with respect to such amount or portion of the Loan. Upon the giving of such notice, such amount or portion of the Loan shall be cancelled."

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) "BCH Project Agreement" means the agreement between the Bank and Banco Central of even date herewith, and "FACACH Project Agreement" means the agreement between the Bank and FACACH of even date herewith, as each of them may be amended from time to time, and each of such terms includes all schedules and agreements supplemental to the BCH Project Agreement and to the FACACH Project Agreement, respectively;

(b) "BCH Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and Banco Central 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 BCH Subsidiary Loan Agreement;

(c) "FACACH Subsidiary Loan Agreement" means the agreement

to be entered into between the Borrower, Banco Central, as trustee appointed by the Borrower and FACACH, all pursuant to Section 3.01 (c) of this Agreement and Section 2.04 of the BCH Project Agreement, as such agreement may be amended from time to time, and such term includes all schedules to the FACACH Subsidiary Loan Agreement, and "FACACH Subsidiary Loan" means the Loan to be made to FACACH under the FACACH Subsidiary Loan Agreement;

(d) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(e) "Lempira" and "local currency" mean the currency of the Borrower;

(f) "Financial Intermediary" means BANADESA, operating only through certain of its branches (as stipulated under Section I, paragraph 1 (b) of Schedule 2 to the BCH Project Agreement), or each FACACH Credit Union, or each commercial bank operating as such in the Republic of Honduras, to the extent the entity in question has entered or will enter into a Project Administration Contract; "BANADESA" means Banco Nacional de Desarrollo Agricola, the Borrower's National Bank of Agricultural Development and "FACACH Credit Union" means any Cooperativa de Ahorro y Credito (Credit Union) that is a member of FACACH and that is operating in Republic of Honduras outside the urban limits of Tegucigalpa and San Pedro Sula;

(g) "UPCA" means the Agricultural Credit Project Unit of Banco Central, established and expanded under Prior Agreements, as reorganized, as reflected in the Organization and Operation Manual approved by the Banco Central on September 22, 1988;

(h) "Project Administration Contract" means any of the contracts to be entered into between Banco Central and a Financial Intermediary other than a FACACH Credit Union for purposes of Part A (1) and of Part A (3) of the Project, or between FACACH and a Financial Intermediary that is also a FACACH Credit Union, for purposes of Part A (2) of the Project, and any amendment thereto; and "Project Administration Loan" means each loan provided for under a Project Administration Contract;

(i) "Investment Plan" means a proposal for investments intended to be financed either under Part A (1) or Part A (2) of the Project, and (A) aimed at the development of farm activities in the fields mentioned in Part A (1) of the Project, to take place outside the urban limits of Tegucigalpa and San Pedro Sula; or (B) intended to be financed under Part A (3) of the Project and aimed at the development of a privately-owned technical assistance unit able to provide extension services to farmers with emphasis on Beneficiaries and directed to increase farm productivity and revenues (each unit, irrespective of the legal form it adopts, hereinafter called PTAU), to be financed under Part A (3) of the Project;

(j) "Sub-loan" means a loan made or proposed to be made under a Sub-loan Contract by a Financial Intermediary to a Beneficiary for an Investment Plan intended to be financed partially out of the proceeds of the Loan, with the exception of each Sub-loan made or proposed to be made by a FACACH Credit Union, which, unless otherwise determined by the Bank, may be intended to be financed in full out of the proceeds of the Loan; "Long-term Sub-loan" means a Sub-loan, as so defined, the repayment term of which extends for more than 18 months but not more than 12 years, and which has been or will be granted for the financing of investments under an Investment Plan, excluding investments for the purchase of land and housing (other than laborer housing or housing for an individual Small-scale Farmer having title on the farm land and being the sole operator of such farm), or offices of a PTAU, all as more substantially detailed in Section II of Schedule 2 to the Project Agreement; and "Short-term sub-loan" means a Sub-loan, as so defined, the repayment term of which does not extend beyond 18 months and which has been or will

be granted for the financing of incremental needs of working capital relating to an Investment Plan, as more substantially detailed in the aforesaid Section II;

(k) "Sub-loan Contract" means a contract providing for a Sub-loan;

(l) "Beneficiary" means any individual, corporation, cooperativa, including a cooperativa de campesinos (as defined in the Agrarian Reform Law), empresas asociativas de campesinos (as defined in the Agrarian Reform Law), or any legal entity, other than a Financial Intermediary, that has entered or will enter into a Sub-loan Contract and that, only in the case of Sub-loans to individuals under Part A (2) of the Project, is a Small-scale Farmer (as hereinafter defined) who is also a member of the FACACH Credit Union that proposes to make or has made the corresponding Sub-loan;

(m) "Small-scale Farmer" means a Beneficiary who fulfills the conditions set forth in paragraph 4 (a) of Schedule 2 to the BCH or FACACH Project Agreements;

(n) "Medium or Large-scale Farmer" means a Beneficiary who does not fulfill the conditions set forth in paragraph 4 (a) of Schedule 2 to the BCH and FACACH Project Agreements, or a PTAU;

(o) "Agrarian Reform Law" means the Borrower's Decree-Law No. 170, dated December 30, 1974 and published in La Gaceta No. 21.482, of January 28, 1975, and any regulation thereunder, as such Agrarian Reform Law may be amended from time to time;

(p) "Secretaria" means Secretaria de Estado en el Despacho de Recursos Naturales, the Borrower's Ministry of Natural Resources, and any administrative subdivision or agency thereof, and any successor thereto;

(q) "Project Executive Committee" means the Project Executive Committee established pursuant to the provisions of the Preceding Loan Agreement and "Executive Advisory Committee" means the Project Executive Committee, as so defined and as restructured pursuant to Section 3.04 of this Agreement;

(r) "INFOP" means (Institute for Professional Training), an agency of the Borrower;

(s) "First Year" means the first twelve-month period after the date of signature of a Project Administration Contract, or after its effectiveness, if the effectiveness has been subject to conditions precedent thereto related to the meeting by the Financial Intermediary in question of the criteria stipulated in Section I, paragraph 1 of Schedule 2 to the BCH Project Agreement or Section I, paragraph 1 of Schedule 2 to the FACACH Project Agreement, as the case may be; and "Successive Year" means any twelve-month period following the First Year;

(t) "Prior Agreements" means the Development Credit Agreement No. 179-HO (Livestock Development Project) dated March 2, 1970, the Development Credit Agreement No. 434-HO (Second Livestock Project) dated October 29, 1973, the Development Credit Agreement No. 628-HO (Agricultural Credit Project) dated July 2, 1976, the Development Credit Agreement No. 1005-HO (Second Agricultural Credit Project), dated April 28, 1980, entered into between the International Development Association (hereinafter called the Association) and the Borrower, referred to collectively, and the Preceding Loan Agreement, as the term is defined below, and the term includes any Project Agreement, entered into between the Association or the Bank, or both, and Banco Central in respect of the carrying out of any project financed under any of the Prior Agreements, and the term "Preceding Loan Agreement" means the Loan Agreement (Third Agricultural Credit Project) between the Republic of Honduras and the Bank for Loan No. 2284-HO dated September 29, 1983;

(u) "Trust Fund" means the trust fund to be established pursuant to Section 3.01 (c) of this Agreement, and the term "Trustee" means Banco Central, acting as trustee appointed by the Borrower in respect of the administration and management of the Trust Fund; and

(v) "Fideicomiso" means any trust fund established with BANADESA as trustee thereof, for purposes of on-lending funds other than the proceeds of the Loan deposited in such trust fund from time to time.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount in various currencies equivalent to twenty-five million dollars (\$25,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan 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 and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special account in Banco Central on terms and conditions satisfactory to the Bank. 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 June 30, 1992 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

Section 2.08. Banco Central is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V 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, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause Banco Central and FACACH to perform in accordance with the provisions of the BCH Project Agreement and the FACACH Project Agreement, respectively, all the obligations of Banco Central and FACACH therein set forth, shall take or cause to be taken all action, including the provisions of funds, facilities, services and other resources, necessary or appropriate to enable Banco Central or FACACH, as the case may be, to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend the proceeds of the Loan allocated to Categories (1), (2) and (4) in the table in paragraph 1 of Schedule 1 to this Agreement, to Banco Central under a subsidiary loan agreement to be entered into between the Borrower and Banco Central, under terms and conditions which shall have been approved by the Bank and which, inter alia, shall provide that the financial terms and conditions under this Agreement in respect of repayment of principal of, and payments of interest and other charges on, the Loan shall be applied also to the proceeds of the Loan relent to Banco Central under the BCH Subsidiary Loan Agreement.

(c) The Borrower shall establish and maintain a trust fund, with Banco Central as trustee thereof, in order to channel through the said Trust Fund the proceeds of the Loan referred to below, and cause Banco Central, as Trustee, to relend the proceeds of the Loan withdrawn from time to time from the Loan Account under Category (3) of the table set forth in paragraph 1 of Schedule 1 to this Agreement to FACACH under a subsidiary loan agreement to be entered into between the Borrower, Banco Central and FACACH, under terms and conditions which shall have been approved by the Bank, which shall include, inter alia: (i) an interest rate which shall be initially set at 12% per annum and thereafter adjusted every six months to reflect changes, as determined by Banco Central, in the marginal cost of funds to commercial banks; (ii) rates for charges other than interest which shall be the weighted average of rates for the same concept charged to the applicable FACACH Credit Unions under the corresponding Project Administration Contract; (iii) an amortization schedule which shall be amended from time to time to the extent required to conform in relevant part substantially to the aggregate of the amortization schedules applicable to Project Administration Loans; and (iv) the FACACH Subsidiary Loan shall be expressed in the equivalent in Lempiras converted at the rate of exchange prevailing at the time the corresponding disbursements under the aforesaid Category (3) take place from the Loan Account or Special Account, as the case may be.

(d) The Borrower shall exercise its rights under the BCH Subsidiary Loan Agreement and cause Banco Central to perform its obligations, as Trustee, pursuant to paragraph (c) of this Section and comply with all its obligations as trustor of the Trust Fund, all in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except

as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the BCH Subsidiary Loan Agreement, any agreement providing for the aforesaid Trust Fund, or any provision thereof.

Section 3.02. Except as the Bank 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 Loan shall be governed by the provisions of Schedule 1 to the BCH Project Agreement and the FACACH Project Agreement.

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Parts A (1), A (3), B and C of the Project shall be carried out by Banco Central pursuant to Section 2.03 of the BCH Project Agreement; and in respect of Part A (2) of the Project shall be carried out by FACACH pursuant to Section 2.03 of the FACACH Project Agreement.

Section 3.04. The Borrower shall:

(a) not later than February 28, 1989, restructure the Project Executive Committee so as to include in its membership the President of Banco Central (Chairman), the President of BANADESA, and the Heads of Secretaria de Estado de Finanzas y Credito Publico, of Secretaria de Estado de Planificacion, Coordinacion y Presupuesto and of the Honduran Association of Banking Institutions and to have the UPCA's head as permanent secretary of the Committee;

(b) vest the Executive Advisory Committee with the authority to coordinate agricultural credit policies and to resolve agricultural credit issues related to UPCA operation, including decisions on the putting into effect of the recommendations of the studies completed under Part C of the Project; and

(c) maintain the Executive Advisory Committee and cause it to hold regular meetings at least twice a year.

Section 3.05. (a) The Borrower shall carry out a program of actions satisfactory to the Bank aimed, ultimately, at the rationalization of the interest rates applicable to agricultural credit lines managed under the Borrower's banking and financial system, public and private, irrespective of the source of funds, and to permit the periodic review, and, if warranted revision, of interest rates, so as to enable (A) the rediscount rates to reflect the marginal cost of borrowing funds, and (B) the on-lending rates to reflect the corresponding market on-lending rates;

(b) as part of such program, the Borrower shall take all such action as shall be necessary to pool together under the administration of UPCA, on a phased basis and in accordance with a timetable already agreed with the Bank, all the funds externally borrowed by the Borrower or its agencies and channelled through Banco Central, with the purpose of funding agricultural credit lines in the Borrower's territories; and

(c) as a further part of the said program and also in accordance with the timetable referred to in (b) above, the Borrower shall revise gradually the interest rates applicable to agricultural credit lines, other than the Project, so as to bring the rates applicable to such lines to levels satisfactory to the Banco Central and the Bank that shall be closer to the discount and on-lending rates applicable under the Project and shall make possible that the new commitments made under said credit lines be made in terms that will permit the adjustment during the life of loans of discount and on-lending rates so as to reflect the changes in the marginal cost of borrowed funds to banks and market

on-lending rates, respectively.

Section 3.06. The Borrower and the Bank shall, at the request of each other, amend the lending conditions as set forth from time to time in Schedule 2 to the BCH and the FACACH Project Agreements.

ARTICLE IV

Remedies of the Bank

Section 4.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified:

(a) Banco Central shall have failed to perform any of its obligations under the BCH Project Agreement;

(b) FACACH shall have failed to perform any of its obligations under the FACACH Project Agreement;

(c) as a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that Banco Central or FACACH will be able to perform their respective obligations under the BCH Project Agreement or the FACACH Project Agreement, as the case may be;

(d) the credit regulations issued pursuant to paragraph (c) of Section 5.01 shall have been amended or revoked or abrogated so as to become inconsistent with any of the provisions of this Agreement or the BCH Project Agreement or the FACACH Project Agreement or to affect adversely and materially the carrying out of the Project;

(e) the highest interest rate allowed at any point in time by Banco Central shall have been set at a level that will interfere with the interest rate adjustments referred to in Section II, paragraph 14 (d) of Schedule 2 to the BCH Project Agreement, Section 3.01 of this Loan Agreement, and Section I, paragraph 2 (c) of Schedule 2 to the FACACH Project Agreement, and in respect of, respectively, any sub-Loan, or the FACACH Subsidiary Loan or a Project Administration Loan;

(f) the Borrower or any other authority having jurisdiction shall have taken: (i) any action for the dissolution, disestablishment, or suspension of operations of Banco Central or FACACH or any Financial Intermediary; or (ii) any other action which may adversely affect the ability of Banco Central or FACACH or any Financial Intermediary to carry out their respective covenants, agreements and obligations set forth in any Project Administration Contract entered into for purposes of the Project; provided, however, that if any event referred to in this Section shall have occurred only in respect to FACACH or to any Financial Intermediary, the Bank may at its option suspend the right of the Borrower to make withdrawals from the Loan Account only in respect of amounts relented or proposed to be relented to the Financial Intermediary or Intermediaries affected by any such event; and

(g) in respect of the gradual adjustment of the rates referred to in Section 3.05 of this Agreement and to be put in effect after January 1, 1989, the Banco Central and the Bank shall not have reached agreement on the level of such adjustments.

Section 4.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraphs (a) or (b) or (d) or paragraph (f)(ii) of Section 4.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower and Banco Central, and to FACACH also, only in the case of any event specified in paragraph (f)(i) and (ii) of such Section; and

(b) any event specified in paragraph (f)(i) of Section 4.01 of this Agreement shall occur.

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) that the BCH Subsidiary Loan Agreement has been executed on behalf of the Borrower and Banco Central;

(b) that the Trust Fund shall have been established in form and substance satisfactory to the Borrower, the Bank and Banco Central, that Banco Central has been appointed Trustee and that the FACACH Subsidiary Loan Agreement has been executed on behalf of the Trustee and FACACH;

(c) that new credit regulations, satisfactory to the Bank, and embodying all applicable provisions of the Loan, BCH and FACACH Project Agreements, particularly of Schedule 2 to such Project Agreements, have been issued by Banco Central;

(d) at least two Project Administration Contracts have been signed; and

(e) the Borrower is carrying out, in a manner satisfactory to the Bank and in accordance with the timetable referred to in, and pursuant to the provisions of, paragraph (c) of Section 3.05 of this Agreement, the revisions of the discount and on-lending rates to be charged on agricultural credit lines available in the Borrower's territories.

Section 5.02. The following are specified as additional matters, 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:

(a) that the BCH Project Agreement and the FACACH Project Agreement have been duly authorized or ratified by Banco Central and FACACH, respectively, and are legally binding upon Banco Central and FACACH in accordance with their respective terms;

(b) that the BCH Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and Banco Central and is legally binding upon the Borrower and Banco Central in accordance with its terms; and

(c) that the Trust Fund shall have been duly established under the Borrower's law, that all the provisions of the instrument or instruments establishing the Trust Fund are legally binding upon the Borrower and Banco Central in accordance with the terms thereof and that the FACACH Subsidiary Loan Agreement has been duly authorized or ratified by the Trustee and FACACH, and is legally binding upon the Borrower as trustor of the Trust Fund, the Trustee and FACACH in accordance with its terms and the terms of the instrument or instruments establishing the Trust Fund.

Section 5.03. The date February 21, 1989 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representatives of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.08 of this Agreement, the Secretario de Estado en el Despacho de Hacienda y Credito Publico of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General

Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Secretaria de Estado en el
Despacho de Hacienda y Credito Publico
Tegucigalpa, D.C.
Honduras

Cable address:

HACIENDA
Tegucigalpa, Honduras

Telex:

1308-Hacienda HO

With copies to:

Banco Central de Honduras
Tegucigalpa, D.C.
Honduras

Cable address:

BANTRAL
Tegucigalpa

Telex:

1121-HT BANTRAL

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:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

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/ Jorge Ramon Hernandez Alcerro
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Rainer Steckhan
Acting Regional Vice President
Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Sub-loans to Small-Scale Farmers by Financial Intermediaries other than FACACH Credit Unions under Part A (1) of the Project	4,500,000	90% of amounts disbursed by Banco Central under corresponding Project Administration Loans
(2) Sub-loans to other Beneficiaries by Financial Intermediaries other than FACACH Credit Unions under Part A(1) and Project	16,000,000	90% of amounts disbursed Banco Central under corresponding Project Administration Loans
(3) Sub-loans made by FACACH Credit Unions to Beneficiaries under Part A(2) of the Project	2,500,000	100% of amounts disbursed by FACACH under corresponding Project Administration Loans
Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(4) Extension Services Training and Studies under Part B(2), Part B(3) and Part C of the Project	1,000,000	100%
(5) Unallocated	1,000,000	
TOTAL	25,000,000	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made: (i) 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 \$2,500,000, may be made in respect of Categories (1) and (2) on account of payments made for expenditures before that date, but after April 1, 1988 provided, however, that these corresponding withdrawal applications are submitted within 90 days from the Effective Date; or (ii) in respect of a single Sub-loan of more than \$1,500,000 or if such withdrawal, together with the withdrawals made in respect of the aggregate of Sub-loans made to the same Beneficiary, including loans made to such Beneficiary under Prior Agreements reaches the equivalent of more than \$1,500,000, all to the extent that the aggregate amounts still payable at the time of the corresponding withdrawal from the Loan Account, under such Sub-loans and loans, is equivalent to more than \$1,500,000.

SCHEDULE 2

Description of the Project

The objectives of the Project is to improve the rural credit system in Honduras by identifying and promoting innovative forms of channelling more credit to low-income producers, rationalizing interest rates, and utilizing monitorable and enforceable performance criteria by Financial Intermediaries.

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

Part A: Provision of Credit to Financial Intermediaries

(1) The financing, through Long-term Sub-loans to be made by Financial Intermediaries other than FACACH Credit Unions, of investments in the fields of livestock development, orchard and tree crop establishment, soil conservation and land improvements, farm machinery and equipment, on-farm storage, seed processing and distribution, small-scale agro-processing facilities, and collection centers, including the provision of Short-term Sub-loans to complement such Long-term Sub-loans.

(2) The financing, through Short-term and Long-term Sub-loans to be made by FACACH Credit Unions, of investments in the same fields mentioned in (1) above by Small-scale Farmers who are members of certain credit unions affiliated to FACACH.

(3) The financing, through Long-term Sub-loans to be made by Financial Intermediaries other than FACACH Credit Unions, of investments aimed at the establishment of PTAUs, and their development under Part B(1) of the Project, including the provision of Short-term Sub-loans to complement such Long-term Sub-loans.

Part B: Extension Services and Training

(1) Development of privately-owned technical assistance units (PTAUs) which will provide their services to assist medium-to high-income agricultural producers in their activities.

(2) Utilization of group and mass media (radio and television) techniques to provide extension services to low-to medium-income farmers, particularly to Beneficiaries.

(3) Organization of training courses on financial, managerial and agronomy matters for the staff of UPCA and of Financial Intermediaries.

Part C: Studies

The carrying out of studies by Banco Central, through UPCA:

- (i) to evaluate the extent to which credit provided to marketing agents of agricultural products and other intermediaries could increase market competition and encourage on-lending on competitive terms to low-income producers;
- (ii) to determine and propose legal, regulatory and procedural changes aimed at increasing the effectiveness of utilization of agricultural chattel mortgages and reducing the costs of establishing such mortgages;
- (iii) to analyze and review the system of rural property rights and land title recording in order to improve the ways and means to resort to the use of land mortgages to secure agricultural credits;

- (iv) to analyze transaction costs of UPCA, Financial Intermediaries and Beneficiaries so as to identify financial intermediation costs and ways to reduce them or to review margins and spreads, or both; and
- (v) to develop and establish a cost accounting system for UPCA.

* * *

The Project is expected to be completed by December 31, 1991.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)*
March 15, 1994	460,000.00
September 15, 1994	480,000.00
March 15, 1995	495,000.00
September 15, 1995	515,000.00
March 15, 1996	535,000.00
September 15, 1996	555,000.00
March 15, 1997	575,000.00
September 15, 1997	600,000.00
March 15, 1998	620,000.00
September 15, 1998	645,000.00
March 15, 1999	670,000.00
September 15, 1999	695,000.00
March 15, 2000	720,000.00
September 15, 2000	750,000.00
March 15, 2001	775,000.00
September 15, 2001	805,000.00
March 15, 2002	835,000.00
September 15, 2002	870,000.00
March 15, 2003	900,000.00
September 15, 2003	935,000.00
March 15, 2004	970,000.00
September 15, 2004	1,010,000.00
March 15, 2005	1,045,000.00
September 15, 2005	1,085,000.00
March 15, 2006	1,130,000.00
September 15, 2006	1,170,000.00
March 15, 2007	1,215,000.00
September 15, 2007	1,260,000.00
March 15, 2008	1,310,000.00
September 15, 2008	1,370,000.00

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15

More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$4,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, 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 Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule 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 Borrower, withdraw from the Loan 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 made out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower 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.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. 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.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) 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 or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank 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 Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, and with the Bank's consent, 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 paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent cancellation or withdrawal as the Bank may determine.



