

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4964-HN

Financing Agreement

(Additional Financing for Nutrition and Social Protection Project)

between

REPUBLIC OF HONDURAS

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 23, 2011

Public Disclosure Authorized

FINANCING AGREEMENT

Agreement dated August 23, 2011, entered into between REPUBLIC OF HONDURAS (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement) and amending the Original Financing Agreement.

Whereas: (A) by an agreement dated September 9, 2005 between the Recipient and the Association (the Original Financing Agreement), the Association made a credit (Credit No 4097-HO) to the Recipient in amount in various currencies equivalent to thirteen million three hundred thousand Special Drawing Rights (SDR 13,300,000) (the Original Credit) to assist in the financing of the Nutrition and Social Protection Project on terms and conditions set forth in the Original Financing Agreement; and

(B) the Recipient has requested the Association to amend the Original Financing Agreement as specified in Schedule 4 of this Agreement.

The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to two million three hundred thousand Special Drawing Rights (SDR 2,300,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.

- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are June 15 and December 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is United States Dollars.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out Part A of the Project through SOP and SSD, Part B of the Project through SOH and Part C of the Project through SOLSS, in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — TERMINATION

- 4.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Association's approval of the Credit which expire on December 17, 2012.
- 4.02. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty years after the date of this Agreement.

ARTICLE V — REPRESENTATIVE; ADDRESSES

5.01. Except as provided in Section 2.02 of this Agreement, the Recipient's Representative is its Minister (*Secretario*) of SEFIN.

5.02. The Recipient's Address is:

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

Facsimile: (504) 2237-4142

5.03. The Association's Address is:

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

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

AGREED at the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF HONDURAS

By /s/ Marlon Tabora

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Laura Frigenti

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to improve the Recipient's social safety net for children and youth by: (i) strengthening the Recipient's capacity to administer social assistance programs; (ii) improving nutritional and health status of young children by expanding the AIN-C Program; and (iii) increasing employability of at-risk youth by piloting a FE Program.

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

Part A: Institutional Strengthening of the Recipient's Social Protection Framework for Children and Youth

Strengthening Recipient's institutional capacity for improving human capital investment in poor families through:

1. support for the definition, formulation, implementation, evaluation and monitoring of children and youth social protection policies, strategy and programs;
2. development of instruments, systems and mechanisms designed to ensure the efficiency of public expenditures in the area of social protection;
3. support towards the building of capacity of SOP and SSD to undertake policy development activities and Project coordination activities; and
4. (a) collection of household data to identify eligible beneficiaries for the *Bono 10,000* Program; and (b) provision of technical assistance for development of a targeting methodology for urban areas through, *inter alia*: (i) defining a targeting scoring formula; (ii) designing a data collection instrument; and (iii) piloting said data collection instrument.

Part B: Support for the Implementation of the Recipient's AIN-C Program

Deploying integrated nutrition and basic health services activities and enhancement of the institutional and operational capacity therefore through:

1. carrying out of preparatory activities for, and implementation of, the coverage expansion of the Recipient's AIN-C Program to no less than 1000 communities in at least four (4) of the poorest departments of the Recipient's territory; and
2. support for the institutional and operational capacity building of central and departmental levels of SOH to enable: (a) UECF and DGPS, at the central level,

to administer territorial expansion of AIN-C Program nutrition and basic health services, and to define financial sustainability of the AIN-C Program thereafter; and (b) local level SOH bureaus and units to undertake an homogeneously consistent implementation of the AIN-C Program activities.

Part C: Implementation of Recipient's FE Program for Disadvantaged Youth

Promoting opportunities for education, training and labor market insertion of unemployed or underemployed at-risk urban youth through:

1. carrying out of selection processes with respect to determining eligible FE Program Beneficiaries;
2. carrying out of relevant employment training programs and job internships in partnership with selected public and private companies;
3. (a) promotion and dissemination of information about FE Program to eligible FE Program Beneficiaries, civil society, training institutions, prospective employers; and (b) provision of job counseling services and employment referrals for labor market insertion of FE Program Beneficiaries; and
4. (a) development of a monitoring and evaluation system in SOLSS; and (b) provision of support for the institutional and operational capacity building of SOLSS.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. Except as modified pursuant to this Agreement, all Recipient obligations referred to in Article III of the Original Financing Agreement shall apply to the execution of the Project.
2. Without limitation upon the provisions of paragraph 1 of this Section, the Recipient shall carry out the Project in accordance with the Project Operational Manual. In case of any conflict between the terms of this Agreement and those of the Project Operational Manual, those of this Agreement shall prevail.
3. The Recipient, through SOLSS, shall amend the Service Agreement, satisfactory in form and substance to the Association, for purposes of updating, *inter alia*, the terms of reference, the service fees, and the financial obligations related to the provision of management services in respect of the implementation of Part C of the Project.

B. Anti-Corruption

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

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators acceptable to the Association. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than thirty days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the Project Report not later than thirty days after the end of each calendar semester, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Non-consulting Services.** All goods and Non-consulting Services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Non-consulting Services

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

Procurement Method
(a) National Competitive Bidding
(b) Shopping
(c) Direct Contracting

C. Particular Methods of Procurement of Consultants’ Services

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

Procurement Method
(a) Selection based on Consultant’s Qualifications (CQS)
(b) Least Cost Selection(LCS)
(c) Single Source Selection (SSL)
(d) Procedures set forth in Paragraphs 5.2., 5.3, and 5.4 of the Consultant Guidelines for the Selection of Individual Consultants (IC)

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association.

E. Special Provisions

1. 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 and Services (other than consultant services) referred to in Part A.1 of this Section:
 - (a) Contracts shall be awarded to the lowest evaluated bid in accordance with criteria set forth in the bidding documents, and without taking into account, in the evaluation, the financial cost of foreign exchange components.
 - (b) In the case of Shopping, a minimum of three quotations shall be obtained as a condition to award the contract.

- (c) Contracts shall not be divided for the sole purpose of reducing contract amounts.
 - (d) 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.
2. Without limitation to any provisions set forth in this Schedule or the Consultant Guidelines, the following shall expressly govern the procurement of consultant's services referred to in Part A.2 of this Section:
- (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.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, consultants' services, Non-consultant Services, and Operating Costs for Part A.4 of the Project	600,000	100%
(2) Consultant services, Non-consultant Services, Training, and Operating Costs for Part C of the Project	1,700,000	100%
TOTAL AMOUNT	2,300,000	

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, salaries of locally contracted employees.

B. Withdrawal Conditions; Withdrawal Period

- 1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$600,000 equivalent may be made for payments made prior to this date but on or after May 3, 2011, for Eligible Expenditures under Category (1); or

- (b) under Category (2) unless the Recipient has amended and updated the Service Agreement, satisfactory in form and substance to the Association, in accordance with the provisions of Section I.A.3 of Schedule 2.

2. The Closing Date is June 30, 2013.

Section V. Other Undertakings

- A. The Recipient and the Association agreed to amend the Original Financing Agreement as reflected in Schedule 4 to this Agreement.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each June 15th and December 15 th Beginning December 15, 2021 through June 15, 2031	5%

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

SCHEDULE 4

Amendments to the Original Financing Agreement

The Recipient and the Association hereby agree to amend the Original Financing Agreement as follows:

1. Section 1.02 is hereby amended as follows:
 - (a) The terms “FEP Program”, “FEP Program Beneficiary”, and “UDECOFISS” referred to Section 1.02 (d), (e) and (z) respectively are hereby amended to read “FE Program”, “FE Program Beneficiary” and “UECF”, and all references to said terms in the Original Financing Agreement are hereby modified accordingly.
 - (b) The definition of the term “FE Program Beneficiary” referred to in Section 1.02 (e) is hereby amended to read in its entirety as follows:

“FE Program Beneficiary” means a poor, unemployed or under-employed young person from the age of 15 up to 21 approximately, living in urban marginalized areas, facing education challenges and lacking adequate acquisition of knowledge and skills to compete in the Recipient’s labour market, as further determined in the POM;
 - (c) Sections 1.02 (h) and (i) are hereby deleted.
 - (d) Section 1.02 (n) is hereby deleted and all references to the term “Project Implementation Plan” and/or “PIP” in the Original Financing Agreement are hereby deleted accordingly.
 - (e) The definition of the term “SSD” is added, placed in alphabetical order, (and the existing definitions are consequently renumbered to keep the alphabetical order) to read as follows:

“SSD” means *Secretaría de Desarrollo Social*, the Recipient Secretariat of Social Development.”
2. Section 2.03 is hereby amended to read in its entirety as follows:

“Section 2.03. The Closing Date shall be June 30, 2013 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.”

3. Section 3.01(a) is hereby amended to read in its entirety as follows:

“Section 3.01 (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out Part A of the Project through SOP and SSD; Part B of the Project through SOH; and Part C of the Project through SOLSS, with due diligence and efficiency and in conformity with appropriate administrative, environmental, employment and public health practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.”
4. Section 3.05 (a) (A) (iii) is hereby amended to read in its entirety as follows:

“(iii) the selection method, eligibility criteria, and procedures for interventions of, and carrying out of activities by, stakeholders and participants to the Project, and the terms and conditions for such intervention and participation; and”
5. Section 3.05 (b) is hereby deleted (and the following paragraphs are consequently renumbered to keep the alphabetical order).
6. Section 4.01 (a) is hereby amended to read in its entirety as follows:

“(a) The Borrower shall establish and thereafter maintain throughout Project implementation, with respect to the carrying out of: (i) Part A of the Project by SOP and SSD; (ii) Part B of the Project by SOH; and (iii) Part C of the Project by SOLSS, a comprehensive financial management system, including records and accounts, and prepare financial statements, including consolidated financial statements drawn up by SOP, in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.”
7. Section 4.02 (b) is hereby amended to read in its entirety as follows:

“The first FMR shall be furnished to the Association not later than 45 days after the end of the first calendar semester 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 semester; thereafter, each FMR shall be furnished to the Association not later than 30 days after each subsequent calendar semester, and shall cover such calendar semester.”
8. The first paragraph of Schedule 2 is hereby amended to read in its entirety as follows:

“The objective of the Project is to improve the Recipient’s social safety net for children and youth by: (i) strengthening the Recipient’s capacity to administer social assistance programs; (ii) improving nutritional and health status of young

children by expanding the AIN-C Program, and (iii) increasing employability of at-risk youth by piloting a FE Program.”

9. Part A.4 of Schedule 2 is hereby deleted.

10. Part C of Schedule 2 is hereby amended to read in its entirety as follows:

“Promoting opportunities for education, training and labor market insertion of unemployed or underemployed at-risk urban youth through:

1. carrying out of selection processes with respect to determining eligible FE Program Beneficiaries;
2. carrying out of relevant employment training programs and job internships in partnership with selected public and private companies;
3. (a) promotion and dissemination of information about FE Program to eligible FE Program Beneficiaries, civil society, training institutions, prospective employers; and (b) provision of job counseling services and employment referrals for labor market insertion of FE Program Beneficiaries; and
4. (a) development of a monitoring and evaluation system in SOLSS; and (b) provision of support for the institutional and operational capacity building of SOLSS.

APPENDIX

Definitions

1. “AIN-C Program” means *Atención Integral a la Niñez en la Comunidad*, the Recipient’s community-based health and nutrition program for children less than 5 years of age.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011.
3. “Bono 10.000 Program” means *Programa Presidencial de Salud, Educación y Nutrición Bono 10.000*, the Recipient’s presidential program on health, education and nutrition, which principal objective is to create new opportunities for extreme poor families, created by the Recipient Executive Decree No. 010-2010, dated April 13, 2010 (published in the Recipient’s Official Gazette on May 14, 2010).
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” published by the Bank in January 2011.
6. “DGPS” means *Dirección General de Promoción de la Salud*, a general directorate of SOH responsible for the promotion of health services.
7. “FE Program” means the Recipient’s first employment program, adopted on May 02, 2005 to support youth labor market insertion.
8. “FE Program Beneficiary” means a poor, unemployed or under-employed young person from the age of 15 up to 21 approximately, living in urban marginalized areas, facing education challenges and lacking adequate acquisition of knowledge and skills to compete in the Recipient’s labour market, as further determined in the POM.
9. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010.
10. “Management Agency” means an agency, institution, NGO or any other service providing entity selected by the Recipient in accordance with the provisions of Section III of Schedule 2 to this Agreement to assist SOLSS in the implementation of Part C of the Project.

11. “Non-consultant Services” means the services which will be bid and contracted on the basis of performance of measurable physical outputs to cover reasonable costs of, *inter alia*, data collection services and other services which are not rendered by consultants, media campaigns, all of which are not covered by any other category of Eligible Expenditures.
12. “Original Financing Agreement” means the development credit agreement referred to in the Whereas clause (A) of this Agreement, as amended.
13. “Original Project” means the Project described in the Original Financing Agreement.
14. “Procurement Guidelines” means the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” published by the Bank in January 2011.
15. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 6, 2011 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
16. “Project Operational Manual” and “POM” mean the manual referred to in Section 3.05 (a) of the Original Financing Agreement, dated January 2006, as updated and amended on May 9, 2011 in order to incorporate, *inter alia*, an updated indigenous peoples development plan, dated April 29, 2011 (prepared for the Project and disclosed to the public on April 29, 2011).
17. “Service Agreement” means the agreement referred to in Section 3.06 of the Original Financing Agreement, dated February 22, 2006, entered into between the Recipient, through SOLSS, and a Management Agency, setting forth, *inter alia*, the terms of reference, the service fees, and the financial obligations related to the provision of management services in respect of the implementation of Part C of the Project.
18. “SOH” means *Secretaría de Salud*, the Recipient’s Secretariat of Health.
19. “SOLSS” means *Secretaría de Trabajo y Seguridad Social*, the Recipient’s Secretariat of Labor and Social Security.
20. “SOP” means *Secretaría del Despacho Presidencial*, the Recipient’s Secretariat of the Presidency.
21. “SSD” means *Secretaría de Desarrollo Social*, the Recipient Secretariat of Social Development.

22. “UECF” means *Unidad de Extensión de Cobertura y Financiamiento de Servicios de Salud*, a unit of SOH responsible for coverage expansion and health services financing.