

CONFORMED COPY

CREDIT NUMBER 4099-HO

Development Credit Agreement

(Rural Infrastructure Project)

between

REPUBLIC OF HONDURAS

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 16, 2005

CREDIT NUMBER 4099-HO

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated November 16, 2005, between REPUBLIC OF HONDURAS (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

WHEREAS (B) (1) the Borrower has requested assistance from the resources of the Global Environment Facility (GEF) Trust Fund in the financing of Part B.3 of the Project; and (2) the Borrower intends to contract from the International Bank for Reconstruction and Development (the Bank), acting as an implementing agency of the Global Environment Facility (GEF) a grant in an amount of one million three hundred thousand dollars (\$1,300,000) (the GEF Trust Fund Grant) to assist in financing Part B.3 of the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and Bank (the GEF Trust Fund Grant Agreement); and

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) 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Except as otherwise provided in the Development Credit Agreement, the proceeds of the Credit may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Credit, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to

the Association's policy of requiring economy and efficiency in the use of the proceeds of its credits. To that end, if the Association 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 Credit is excessive or otherwise unreasonable, the Association may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Credit Agreement as required to be consistent with such policy of the Association.”; and

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

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) “AMHON” means *Asociación de Municipios de Honduras*, the Honduran association of municipalities established pursuant to the Borrower's Executive Resolution No. 16-1962;

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

(c) “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;

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

(e) “Electricity Subproject” means a set of activities or investments covered by Part B.1 (c) of the Project which is eligible for financing in accordance with the criteria set forth in the Operational Manual;

(f) “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 Borrower and approved by the Association;

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

(h) “Eligible Categories” means Categories (1) through (7) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

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

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

(k) “ENEE” means *Empresa Nacional de Energía Eléctrica*, the Borrower’s national electrical energy enterprise created pursuant to the Borrower’s Decree-Law No. 48 of February 20, 1957;

(l) “ERSAPS” means *Ente Regulador de los Servicios de Agua Potable y Saneamiento*, the Borrower’s regulating entity for potable water and sanitation created by the Borrower’s Legislative Decree No. 118-2003 published in the Borrower’s Official Gazette on October 8, 2003;

(m) “FHIS” means *Fondo Hondureño de Inversión Social*, the Borrower’s Social Investment Fund established pursuant to the Borrower’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 Borrower’s Decree No. 261-91 of April 2, 1991, as said regulations may have been amended to the date of this Agreement;

(n) “FHIS Subsidiary Agreement” means the agreement to be entered into between the Borrower 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;

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

(p) “Fondo Vial” means *Fondo Vial de Honduras*, the Borrower’s fund for the provision of routine and periodic maintenance and rehabilitation of roads, established and governed pursuant to the Borrower’s Decrees No. 131-93 and 286-98;

(q) “IHAH” means *Instituto Hondureño de Antropología e Historia*, the Borrower’s Instituto for Anthropology and History, established under the Borrower’s Legislative Decree No. 118-68 published in the Borrower’s Official Gazette on December 24, 1968, as such Decree may have been amended to the date of this Agreement;

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

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

(t) “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;

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

(v) “Municipality Law” means the Borrower’s *Ley de Municipalidades*, established by the Borrower’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 Borrower’s Accord No. 18-93 of February, 29, 1993, as said regulations may have been amended to the date of this Agreement;

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

(x) “Participating Sector Agency” means SOPTRAVI, Fondo Vial, SANAA, ERSAPS, ENEE, SERNA, SEGJ and IHAH and/or any other agency in addition to or in substitution of these agencies that the Borrower and the Association deem necessary to carry out the Project;

(y) “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;

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

(aa) “Procurement Plan” means the Borrower’s procurement plan, dated May 19, 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;

(ab) “Project Preparation Advance” means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on

behalf of the Association on December 30, 2004 and on behalf of the Borrower on February 14, 2005;

(ac) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Credit Account referred to in Part A.5 of Schedule 1 to this Agreement;

(ad) “Resettlement Policy Framework” means the Borrower’s resettlement policy framework for the Project submitted to the Association on May 17, 2005, as may be amended from time to time with the prior approval of the Association;

(ae) “Road Sector Subproject” means a set of activities or investments covered by Part B.1 (a) of the Project which is eligible for financing in accordance with the criteria set forth in the Operational Manual;

(af) “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;

(ag) “SANAA” means *Servicio Autónomo Nacional de Acueductos y Alcantarillados*, the Borrower’s national autonomous service for aqueducts and sewerage created by the Borrower’s Legislative Decree No. 91 of April 26, 1961, as it may have been amended to the date of this Agreement;

(ah) “SEDP” means *Secretaría de Estado en el Despacho de la Presidencia de la República*, the Borrower’s Office of the President;

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

(aj) “SEGJ” means *Secretaría de Estado en el Despacho de Gobernación y Justicia*, the Borrower’s Ministry of Interior and Justice;

(ak) “SERNA” means *Secretaría de Estado en el Despacho de Recursos Naturales y del Ambiente*, the Borrower’s Ministry of Natural Resources and the Environment;

(al) “SHS” means solar home systems;

(am) “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;

(an) “SOPTRAVI” means *Secretaría de Estado en los Despachos de Obras Públicas, Transporte y Vivienda*, the Borrower’s Ministry of Public Works, Transport and Housing;

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

(ap) “Subprojects” means collectively Road Sector Subprojects, Water and Sanitation Subprojects, and Electricity Subprojects;

(aq) “UTI” means *unidad técnica inter-municipal*, any of the inter-municipal technical units referred to in Section 3.07 (c) of this Agreement; and

(ar) “Water and Sanitation 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.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to thirty-two million Special Drawing Rights (SDR 32,000,000).

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

(b) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

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

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

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

Section 2.07. The Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 15 and September 15 commencing September 15, 2015 and ending March 15, 2025. Each installment shall be five percent (5%) of such principal amount.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall cause FHIS to carry out the Project 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 Borrower shall enter into an agreement with FHIS (the FHIS Subsidiary Agreement), satisfactory to the Association, providing *inter alia*, for:

- (i) the provision to FHIS of the funds, facilities, services and other resources required to enable FHIS to carry out the Project, including the transfer of the proceeds of the Credit on a grant basis; and
- (ii) the obligation of FHIS to carry out the Project in accordance with the terms and conditions set forth in this Agreement and in the Operational Manual, including the obligation to:
 - (A) comply with the provisions of Sections 4.01 and 4.02 of this Agreement;
 - (B) promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project or the Subprojects, the accomplishment of the purposes of the Credit, 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 Borrower shall exercise its rights under the FHIS Subsidiary Agreement in such a manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not change, assign, amend, abrogate, waive or fail to enforce the FHIS Subsidiary Agreement or any provision thereof.

Section 3.02. (a) The Borrower shall cause FHIS to enter into an agreement with each Participating Sector Agency (a Participation Agreement), under terms and conditions satisfactory to the Association, 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*, 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.

(c) The Borrower shall cause FHIS and each Participating Sector Agency to exercise their respective rights under each Participation Agreement in such a manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, 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 Borrower shall cause FHIS, before commencing the implementation of any 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 Subprojects, except that the funds required for works estimated to cost more than \$250,000 per contract shall be retained by FHIS so that the procurement of such works 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 Subprojects being financed in part with proceeds of the Credit, 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 such RIAPs and Subprojects, including any actions

required from such Eligible Mancomunidad in the implementation of the IPDF, the Resettlement Policy Framework 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 Subprojects;
- (vi) the commitment of such Eligible Mancomunidad to implement the 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 Subprojects.

(b) The Borrower shall cause FHIS and each Eligible Mancomunidad to exercise their respective rights 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 Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association 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 Borrower shall cause FHIS to enter into an agreement with each Electricity Provider (the Electricity Provider Subsidy Agreement) to:

- (i) make available to each Electricity Provider the required amounts from the Credit to subsidize the carrying out of SHS Subprograms 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 Borrower shall cause FHIS and each Electricity Provider to exercise their respective rights under each Electricity Provider Subsidy Agreement in such a manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, 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 Association shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

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

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

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

- (i) the procedures for the carrying out, monitoring and evaluation of the Project (including the procurement, financial and environmental requirements thereof);
- (ii) the criteria for the approval, implementation, monitoring and evaluation of Subprojects and SHS Subprograms including the technical, social and economic criteria approved by FHIS for the evaluation of such Subprojects and SHS Subprograms;
- (iii) the criteria for eligibility of Mancomunidades, RIAPs, Subprojects, and Community Beneficiaries, including without limitation the procedures required for a participatory process during the preparation of RIAPs;
- (iv) model Mancomunidad Framework Agreement and Community Beneficiary Agreement;

- (v) the criteria for the eligibility of Electricity Providers and SHS Subprograms;
- (vi) a model Electricity Provider Subsidy Agreement; and
- (vii) the IPDF, the Resettlement Policy Framework, 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 Association. In the case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.07. (a) The Borrower shall cause FHIS to establish and maintain through the course of Project implementation, as may be required, an advisory committee composed of representatives from SEDP, SEGJ, each of the Participating Sector Agencies and AMHON, with functions and responsibilities satisfactory to the Association, including, *inter alia*, providing strategic guidance for the Project, developing sectoral policies and inter-sectoral coordination.

(b) The Borrower 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, a road 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 Association, and to agree with the Association with respect to the replacement of key staff of FHIS prior to any such replacement.

(c) The Borrower 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 Association, including technical and administrative staff.

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

- (a) (i) prior to the implementation of a Subproject in which the Resettlement Policy Framework applies, furnish to the Association for its prior approval, the resettlement plan prepared in accordance with such Resettlement Policy Framework; and

- (ii) thereafter: (A) enter into the inter-institutional agreements that may be necessary; and (B) carry out such resettlement plan in accordance with its terms;
- (b) implement the IPDF in accordance with its terms; and
- (c) implement the Conceptual Framework for Social and Environmental Management in accordance with its terms.

Section 3.09. The Borrower 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 Association, and furnish to the Association, not later than six months after the Effective Date and semestrally 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 Association not later than two months after the date of such report, or such later date as the Association 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 Association's views on the matter.

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

- (a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and
- (b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.11. The Borrower and the Association 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 Borrower 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 Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall cause FHIS to:

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

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of 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 Borrower shall cause FHIS and each Eligible Mancomunidad to:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such 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 Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.09 of this Agreement, the Borrower shall prepare or cause FHIS to prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

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

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

ARTICLE V

Remedies of the Association

Section 5.01. (a) Pursuant to Section 6.02 (l) 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 (B) of this subparagraph, the right of the Borrower to withdraw the proceeds of any grant made to the Borrower for the financing of Part B.3 of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the GEF Trust Fund Grant Agreement.

(B) Subparagraph (A) of this subparagraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (1) such suspension, cancellation, or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (2) adequate funds for Part B.3 of the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(b) Notwithstanding the rights contained in Section 6.02 of the General Conditions, it is understood that:

- (i) if any of the events specified in paragraph (a)(ii) of this Section shall have occurred, the Association may, by notice to the Borrower, choose to suspend in whole or in part only the right of the Borrower to make withdrawals from the Credit Account for expenditures in respect of the concerned Mancomunidad; and
- (ii) if any of the events specified in paragraph (a)(iii) of this Section shall have occurred, the Association may, by notice to the Borrower, choose to suspend in whole or in part only the right of the Borrower to make withdrawals from the Credit Account for

expenditures covered by disbursement category 2 set forth in the table in paragraph 1 of Part A of this Schedule.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely that the event specified in paragraph (a)(i) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the FHIS Subsidiary Agreement has been executed on behalf of the Borrower and FHIS;

(b) FHIS has adopted the Operational Manual on terms and in scope acceptable to the Association; and

(c) Participation Agreements have been executed on behalf of FHIS and each of the Participating Sector Agencies.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the FHIS Subsidiary Agreement has been duly authorized or ratified by the Borrower and FHIS and is legally binding upon the Borrower and FHIS in accordance with its terms.

Section 6.03. The date February 14, 2006 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of SEFIN is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

SEFIN
Tegucigalpa, M.D.C.
Honduras

Cable address:

HACIENDA
Tegucigalpa

Facsimile:

(504) 237-4142

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

(202) 477-6391

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

REPUBLIC OF HONDURAS

By /s/ William Chong Wong

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/Jane Armitage

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Subprojects under Part B.1 of the Project	23,000,000	100% of the cost of goods, works, services, training and operating costs for Subprojects, except for those costs covered by the counter- part contribution cited in Section 3.03(a)(ii) of this Agreement
(2) SHS Subprograms under Part B.3 of the Project	1,900,000	70% of the cost of goods, works, services, training and operating costs for SHS Sub- programs
(3) Goods (other than those included in Categories (1) and (2) above)	400,000	100%
(4) Works (other than those included in Categories (1) and (2) above)	500,000	100%

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(5) Consultants' services (other than those included in Categories (1) and (2) above)	2,000,000	100%
(6) Training (other than that included in Categories (1) and (2) above)	300,000	100%
(7) Operating Costs (other than those included in Categories (1) and (2) above)	400,000	100%
(8) Refunding of Project Preparation Advance	1,500,000	Amount due pursuant to Section 2.02 (b) of this Agreement
(9) Unallocated	2,000,000	
TOTAL	<u>32,000,000</u>	

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;

(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 (c) 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; and

(c) payments for expenditures covered by disbursement category 2 set forth in the table in paragraph 1 of this Schedule, unless the GEF Trust Fund Grant Agreement has been executed and delivered and all of the conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals thereunder, except only this condition of disbursement, have been fulfilled.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (i) goods, works and services under Subprojects and SHS Subprograms; (ii) training; and (iii) operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Credit Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Credit Account, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the three-month period following the date of such request.

B. Special Account

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

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

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

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

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Credit Account; or

(c) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

(d) Refunds to the Association made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Credit Agreement.

**Annex A
to
SCHEDULE 1**

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

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$4,700,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B
to
SCHEDULE 1**

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

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

2. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.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 infrastructure services (roads, water, sanitation and electricity) for the rural poor in the Borrower's territory; and (b) to develop capacities and an enabling environment within the Borrower for locally-driven infrastructure service provision and planning.

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

Part A: Participatory Local Planning for Integrated Infrastructure Service Delivery

1. Preparing rural infrastructure diagnostics in each Eligible Mancomunidad.
2. Reviewing existing local development plans in Eligible Mancomunidades.
3. Expanding and/or complementing the existing local development plans referred to above with infrastructure projects through a participatory process.
4. Establishing mechanisms and procedures for approaching the infrastructure issues in an integrated manner among the sectors and localities.
5. Providing follow-up support and monitoring of the overall planning process in each Eligible Mancomunidad.

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 transport, water and sanitation, and electricity as needed under the RIAPs for:

(a) (i) upgrading (rehabilitation and spot improvement) of rural road networks under the Municipalities' responsibility; (ii) establishing sustainable maintenance arrangements through the implementation of rural maintenance micro-enterprise pilots; (iii) rehabilitating selected municipal roads using labor-based construction methods; and (iv) improving selected urban streets in a limited number of Municipalities;

(b) (i) rehabilitating, expanding and/or constructing new water and sanitation systems and facilities in rural communities; (ii) developing and implementing

other rural sanitation solutions; and (iii) developing and implementing a water and sanitation operation and maintenance pilot sub-project; and

(c) (i) expanding the Borrower's national power grid to rural communities; and (ii) implementing off-grid electrification pilots in Eligible Mancomunidades using renewable energy sources.

2. Implementing off-grid electrification pilots in sites specified in the Operational Manual which are outside of Eligible Mancomunidades, using renewable energy sources.

3. Carrying out a solar photovoltaic program, consisting of the commercial dissemination and installation of photovoltaic systems, by, *inter alia*, providing funds to accredited dealers of SHS to make SHS affordable to households and businesses located in the sites agreed to with the Association.

4. Providing technical assistance and training to local service providers in the water, electricity and transport sectors to strengthen their capacity in infrastructure service provision, operation and maintenance, and monitoring.

Part C: Local Capacity Building and Policy Development Technical Assistance

Strengthening capacity within the Borrower at the national and local level to plan and implement decentralized, integrated rural infrastructure programs, using the territorial approach, including provision of consulting services, training, goods and other technical assistance to strengthen FHIS, sectoral agencies, UTIs, Municipalities, Eligible Mancomunidades and Community Beneficiaries.

Part D: Project Management, Monitoring and Evaluation

Providing technical assistance, equipment, training and incremental operational costs as necessary to operate and strengthen FHIS to enable it to effectively monitor and evaluate the implementation of the Project components (including audit services for purposes of Section 4.01 (b) of this Agreement).

* * *

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 Borrower's territory;
- (ii) have a representative in the Borrower's territory;
- (iii) be associated with suppliers or contractors of the Borrower's territory; and
- (iv) certify that, in their country of origin, suppliers or contractors of the Borrower'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 Borrower's territory for the services being procured; and

(b) Foreign consultants shall not be required to be registered with associations of the Borrower's territory or to be associated with consulting firms of the Borrower'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 Association 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 Borrower.

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 Association 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 Association 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 Association 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 Association'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 Association.

Section IV. 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. 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 Association. All other contracts shall be subject to Post Review by the Association.