

Public Disclosure Authorized

**CONFORMED COPY**

**CREDIT NUMBER 3764-HO**

# **Development Credit Agreement**

**(Regional Development in the Copán Valley Project)**

**between**

**REPUBLIC OF HONDURAS**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated July 3, 2003**

Public Disclosure Authorized

**CREDIT NUMBER 3764-HO**

**DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated July 3, 2003, between the 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; and

(B) the Project will be carried out by *Instituto Hondureño de Turismo*, (IHT) the Borrower's Tourism Institute (as hereinafter defined), with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the credit provided for in Article II of this Agreement (the Credit) available to said Institute, as set forth in this 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 October 6, 1999) (the General Conditions), constitute an integral part of this Agreement.

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) "Advisory Committee" means the committee referred to in Section 3.05 (a) of this Agreement;

(b) "Archeological Park" means each of the parks referred to under Part A.1, 2, and 4 of the Project;

(c) “Archeological Site” means each of the sites referred to under Parts A.3 and A.5 of the Project;

(d) “Community Association” means a civil association formed by members of a community duly established in the Copán Valley and surrounding areas in accordance with the Borrower’s laws;

(e) “Eligible Beneficiary” means a Community Association, an indigenous peoples community, or a non-governmental organization, each residing in Copán Valley and surrounding areas, which meets the criteria set forth in the Operational Manual to carry out a *Fondo Prosperidad* Subproject;

(f) “*Fondo Prosperidad* Subproject” means any of the community-based initiatives referred to in Part B.2 (c) of the Project, selected, approved and implemented in accordance with the criteria set forth in the Operational Manual;

(g) “*Fondo Prosperidad* Subproject Agreement” means the agreement referred to in Section 3.03 (b) of this Agreement;

(h) “FMR” means each financial monitoring report prepared in accordance with Section 4.02 of this Agreement;

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

(j) “IHT” means *Instituto Hondureño de Turismo*, the Borrower’s Tourism Institute, established and operating under the Borrower’s Secretariat of Tourism pursuant to Legislative Decree No. 103-93 published in *La Gaceta* (the Borrower’s Official Gazette), on July 14, 1993, as said Decree may have been amended to the date of this Agreement;

(k) “Implementation Agreement” means the agreement to be entered into between the Borrower and IHT 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 Implementation Agreement;

(l) “Implementation Letter” means the letter of even date herewith from the Borrower to the Association, containing the performance indicators for the Project;

(m) “Model *Fondo Prosperidad* Subproject Agreement” means the model agreement referred to under Section 3.07 (a) (xi) of this Agreement;

(n) “Operational Manual” means the manual for the operation of the Project referred to in Section 3.07 of this Agreement;

(o) “PCU” means the Project coordination unit referred to in Section 3.05 (b) of this Agreement;

(p) “SCAD” means *Secretaría de Cultura, Artes y Deportes*, the Borrower’s Ministry of Culture, Arts and Sports;

(q) “SEA” means each of the strategic environmental assessments referred to under Part A.2, 3, 4 and 5 of the Project;

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

(s) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;

(t) “ST” means *Secretaría de Turismo*, the Borrower’s Ministry of Tourism; and

(u) “Technical Support Agreement” means the agreement to be entered into between IHT, and IHAH, pursuant to Section 3.01 (d) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Technical Support Agreement.

## 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 the Development Credit Agreement, an amount in various currencies equivalent to eight million eight hundred thousand Special Drawing Rights (SDR8,800,000).

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) Upon receipt of notification from the Association allowing the establishment of the Special Account, the Borrower may, for the purposes of the Project, open and maintain in dollars a separate special deposit account in its Central Bank on

terms and conditions satisfactory to the Association. 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 March 31, 2008 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 May 15 and November 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 15 and November 15 commencing on November 15, 2013 and ending on May 15, 2043. Each installment to and including the installment payable on May 15, 2023 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the

Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

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 IHT, pursuant to the Implementation Agreement, to carry out the Project with due diligence and efficiency and in conformity with appropriate environmental, economic, social,

financial, and administrative practices, and in accordance with the Operational Manual, and shall take or cause to be taken all actions, including the provision of funds, facilities, services and other resources required for IHT to carry out the Project, and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of the Project by IHT.

(b) The Borrower shall make the proceeds of the Credit available to IHT under an agreement to be entered into between the Borrower and IHT, under terms and conditions acceptable to the Association.

(c) The Borrower shall exercise its rights and carry out its obligations under the Implementation 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 assign, amend, abrogate, suspend, waive, terminate or fail to enforce the Implementation Agreement or any provision thereof.

(d) The Borrower shall cause IHT to enter into an agreement with IHAH, under terms and conditions acceptable to the Association, for the purpose of having IHAH participate in the implementation of Part A of the Project.

(e) The Borrower shall cause IHT and IHAH to exercise their rights and carry out their obligations under the Technical Support 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 allow the Technical Support Agreement, or any provision thereof, to be assigned, amended, abrogated, suspended, terminated or not enforced.

Section 3.02 Within six months from the Effective Date, the Borrower shall cause IHT to engage the services of *Asociación Copán* or any other agency to be selected in accordance with terms of reference satisfactory to the Association, for the purposes of having *Asociación Copán*, or any such agency, provide specialized expertise and short term inputs to the activities under Part A of the Project.

Section 3.03. The Borrower shall cause IHT:

(a) to engage the services of an agent to manage the implementation of Part B. 2 (c) of the Project, under terms and conditions satisfactory to the Association including, *inter alia*, the specific guidelines to be followed by such agency in the management and monitoring of the *Fondo Prosperidad* Subprojects;

(b) to transfer, on a grant basis, the portion of the proceeds of the Credit allocated for a *Fondo Prosperidad* Subproject under an agreement to be entered into between IHT and the respective Eligible Beneficiary, under terms and conditions satisfactory to the Association and substantially in the terms of the Model *Fondo*

*Prosperidad* Subproject Agreement, including the requirement that the respective Eligible Beneficiary finance at least 10%, in cash or in kind, of the respective *Fondo Prosperidad* Subproject's costs; and

(c) to exercise its rights and carry out its obligations under each *Fondo Prosperidad* Subproject Agreement in such a manner as to protect the interests of the Borrower, IHT and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, not assign, amend, abrogate, suspend, waive, terminate or fail to enforce any *Fondo Prosperidad* Subproject Agreement or any provision thereof.

Section 3.04. Without limitation to the provisions of Section 3.01 (a) above, the Borrower shall open and maintain an account in a commercial bank, until completion of the Project, under terms and conditions satisfactory to the Association, for purposes of depositing therein, on a yearly basis, the required counterpart funds required for the implementation of the Project by IHT.

Section 3.05. The Borrower shall cause IHT to:

(a) establish, and thereafter operate and maintain, during the implementation of the Project an advisory committee (the Advisory Committee) with composition, functions and responsibilities satisfactory to the Association;

(b) maintain, during the implementation of the Project, a Project coordination unit, with functions and responsibilities satisfactory to the Association, at all times headed by a Project coordinator and assisted by staff in adequate numbers (including a procurement assistant), and with qualifications and experience acceptable to the Association; and

(c) establish, and thereafter operate and maintain, during the implementation of the Project a branch of the Project coordination unit in Copán, with functions and responsibilities satisfactory to the Association, at all times headed by a coordinator and assisted by staff in adequate numbers, and with qualifications and experience acceptable to the Association.

Section 3.06. Except as the Association 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 Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.07. (a) The Borrower shall cause IHT to carry out the Project in accordance with an operational manual, satisfactory to the Association, said manual to include, *inter alia*:



- (i) the procedures for the carrying out, monitoring and evaluation of the Project (including the procurement and financial requirements thereof);
- (ii) the criteria for the selection, environmental screening, approval, implementation, monitoring and supervision of *Fondo Prosperidad* Subprojects;
- (iii) a guide for categorization of civil works;
- (iv) a negative list of activities that cannot be carried out through *Fondo Prosperidad* Subprojects;
- (v) an environmental manual for all civil works and each *Fondo Prosperidad* Subprojects, addressing *inter alia*: site selection, construction activities and environmental specifications for contractors, preventative measures, security, communication with community, environmental supervision and the environmental impact mitigation guidelines;
- (vi) guidelines for the environmental impact mitigation for implementation of management plans under Part A of the Project;
- (vii) fieldwork checklist of civil works and *Fondo Prosperidad* Subprojects to determine potential social impacts of *Fondo Prosperidad* Subprojects;
- (viii) criteria for distinguishing between Eligible Beneficiaries who shall contribute 10% and those who shall contribute more, as their counterpart in the implementation of *Fondo Prosperidad* Subprojects;
- (ix) the functions and organization of the PCU and the Advisory Committee;
- (x) the Project Implementation Plan; and
- (xi) a model *Fondo Prosperidad* Subproject Agreement regarding implementation of *Fondo Prosperidad* Subprojects.

(b) The Operational Manual may be amended by IHT from time to time, in a manner satisfactory to the Association, to facilitate continued Project implementation. In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.08. The Borrower shall cause IHT:

(a) to maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the performance indicators set forth in the Implementation Letter, the carrying out of the Project and the achievement of the objectives thereof;

(b) to prepare, under terms of reference satisfactory to the Association, and furnish to the Association, not later than twelve months after the Effective Date and yearly thereafter during the period of Project implementation, a report integrating the results of the 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 such 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) to review with the Association shortly after each such report's preparation, each 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 said report and the Association's views on the matter.

Section 3.09. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall cause IHT to:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six 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 3.10. (a) No later than 12 months after the Effective Date, the Borrower shall carry out a study of the optimal use of the revenue for the Copán Archeological Park, to identify its impact on the financing of IHAH.

(b) No later than 24 months after the Effective Date, the Borrower shall cause the Advisory Committee to develop a proposal on the mechanism for the optimal use of the revenue generated in the upgraded Archeological Parks and the Archeological Sites referred to under Parts A of the Project.

## ARTICLE IV

### Financial Covenants

Section 4.01. (a) The Borrower shall cause IHT to establish and maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Association, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) The Borrower shall cause IHT to:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, 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: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning such records, accounts and financial statements, and the audit thereof, 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 statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with sound accounting practices, records and separate accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made; and

- (iii) enable the Association's representatives to examine such records.
- (d) The Borrower shall:
  - (i) have the records and accounts referred to in paragraph (c) (i) of this Section and those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, 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 the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
  - (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

Section 4.02. (a) The Borrower shall prepare, or cause IHT 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**

### **Effective Date; Termination**

Section 5.01. 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 Implementation Agreement has been executed on behalf of the Borrower and IHT;
- (b) the Technical Support Agreement has been executed by IHT and IHAH;
- (c) the Operational Manual shall have been adopted by IHT; and
- (d) the procurement assistant for the PCU mentioned under Section 3.05 (b) shall have been appointed.

Section 5.02. 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 Implementation Agreement has been duly authorized or ratified by the Borrower and IHT and is legally binding upon the Borrower and IHT in accordance with its terms.

Section 5.03. The date October 1, 2003 is hereby specified for the purposes of Section 12.04 of the General Conditions.

## **ARTICLE VI**

### **Representative of the Borrower; Addresses**

Section 6.01. The Secretary of SEFIN 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:

Secretaría de Estado en el Despacho de Finanzas  
Tegucigalpa, M.D.C.  
Honduras

Cable address:	Telex:	Facsimile:
HACIENDA Tegucigalpa	1308 FINANZAS HO	(504) 237-4142

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

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

REPUBLIC OF HONDURAS

By /s/ Arturo Alvarado

Minister of Finance

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Shengman Zhang

Managing Director

HONORARY WITNESSES ON BEHALF OF THE  
REPUBLIC OF HONDURAS

By /s/ Ricardo Maduro

President of the Republic of Honduras

By /s/ Thierry De Pierrefeu

Minister of Tourism

**SCHEDULE 1**

**Withdrawal of the Proceeds of the Credit**

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) Works		88%
(a) Under Part A.5 of the Project	170,000	
(b) Other than under (a) above	2,100,000	
(2) Goods	500,000	100% of foreign expenditures and 88% of local expenditures
(3) Consultants' services	3,150,000	98%
(4) Archeological Services	600,000	98%
(5) Training	450,000	100%
(6) <i>Fondo Prosperidad</i> Subprojects	1,200,000	100% of amounts disbursed by IHT under Part B.2 (c) of the Project
(7) Audits	30,000	98%



<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(8) Operating Costs	300,000	90% up to \$150,000; 60% up to \$230,000; and 30% thereafter
(9) Unallocated	300,000	
TOTAL	<u>8,800,000</u>	

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term “archeological services” means specialized labor required for the archeological protection and consolidation of monuments, sculptures and tunnels under Part A of the Project;

(d) the term “operating costs” means reasonable costs for PCU support staff salaries, office supplies, operation and maintenance of vehicles and equipment, communication expenses, travel and per diem for supervision activities of the PCU, IHT and IHAH staff (none of which would have been incurred absent the Project); and

(e) the term “training” means the non-consultant expenditures incurred by the Borrower in connection with the carrying out of training activities under the Project, including the reasonable costs of travel and per diem of trainees, rental of training facilities and equipment, training materials, and promotion and publicity costs.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made 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 SDR

880,000 (eight hundred and eighty thousand Special Drawing Rights), may be made on account of payments made for expenditures incurred within one year before that date but after February 18, 2003.

4. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures under: (a) Category 1(b) until the Borrower shall have: (i) established a legal non-profit entity, with by-laws acceptable to the Association, for the appropriate management of Plan Grande Archeological Site; and (ii) caused the said non-governmental entity to acquire title to the land on which Plan Grande Archeological Site is located; and (b) Category 6 until the agency referred to in Section 3.03 (a) of this Agreement shall have been hired.

5. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$250,000 equivalent per contract; (b) works costing less than 1,500,000 equivalent; (c) consulting firms costing less than \$100,000 equivalent per contract; (d) individual consultants costing less than \$50,000 equivalent per contract; (e) training; (f) archeological services; (g) *Fondo Prosperidad* Subprojects; and (h) operating costs, under such terms and conditions as the Association shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objective of the Project is to support the Borrower in achieving the sustainable tourism development of its Copán Valley and surrounding areas through: (a) creation of an archeological tourism circuit integrating three Archeological Parks and two Archeological Sites; (b) ecologically sustainable management in the five archeological parks and surrounding areas; (c) environmental education appropriate to the biodiversity and historical characteristics of the Copán Valley and surrounding areas; (d) capacity building for employment associated with park development, eco/cultural guiding, and the tourism service sector; (e) access to training and technical assistance for high-quality alternative products and services provided by indigenous and locally-owned enterprises, tourism operators and municipal staff to generate income; (f) strategic planning for tourism development among key community, private and public stakeholders; and (g) institutional strengthening for cultural management and planning capacity.

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: Integrated Development of Archeological Parks

1. Implementation of a management plan for the Copán Archeological Park, through:

- (a) implementation of priorities, such as:
  - (i) a natural resource management plan to restore and protect the Copan Archeological Park and its surrounding areas;
  - (ii) a plan to disseminate new research findings in the Copán Archeological Park with the production of training material and visitors' guides;
  - (iii) an archeological interpretation plan;
  - (iv) a security plan with signs and security systems (i.e. video cameras, monitors, alarm systems) and infrastructure for Copan Archeological Park and museums;
  - (v) a community outreach plan to promote knowledge and visits from local residents;
  - (vi) an infrastructure plan to increase the flow of tourists;

- (vii) a monitoring plan to collect information about visitors in order to plan future expansions; and
  - (viii) protection and conservation of monuments and sculptures; and
  - (b) carrying out of environmental and cultural education activities for children and families on biodiversity and on the historical characteristics of the Copán Valley, including:
    - (i) expansion of Casa Kin'ich and enhancement of its surroundings;
    - (ii) preparation and/or acquisition of cultural, environmental and new interactive education materials for students and families; and
    - (iii) development of community outreach programs.
2. Development of El Puente Archeological Park, through:
- (a) development of a management plan by, *inter alia*, preparing:
    - (i) a strategic environmental assessment of the El Puente Archeological Park;
    - (ii) a community outreach plan;
    - (iii) an archeological plan for interpretation; and
    - (iv) a public use plan for planning the distribution of the amount of visitors at any one time within the premises of the Park;
  - (b) implementation of the priorities identified in the management plan under paragraph A.2 (a) above; and
  - (c) promotion of tourism in El Puente Archeological Park, through:
    - (i) expansion of the visitors' center;
    - (ii) expansion of transmission line or generator to bring electricity to the El Puente Archeological Park;
    - (iii) installation of security systems and infrastructure similar to those provided under Part A.1 (a) (iv) above;

- (iv) construction and equipping of a visible laboratory for archeological research, cleaning, and restoration; and
  - (v) reconstruction of a Maya village.
3. Development of Cerro Palenque Archeological Site, through:
- (a) development of a management plan by, *inter alia*, preparing:
    - (i) a strategic environmental assessment of the Cerro Palenque Archeological Park;
    - (ii) a community outreach plan;
    - (iii) an archeological plan for interpretation; and
    - (iv) a public use plan for planning the distribution of visitors at any one time within the premises of the Park;
  - (b) implementation of the priorities identified in the management plan under Part A.3 (a) above; and
  - (c) promotion of tourism in the Cerro Palenque Archeological Park, through:
    - (i) rehabilitation of the access road to the Park;
    - (ii) construction and equipping of a visitor's center;
    - (iii) installation of electricity and water services; and
    - (iv) installation of security systems and infrastructure similar to those provided under Part A.1 (a) (iv).
4. Development of Los Naranjos Archeological Park, through:
- (a) development of a management plan by, *inter alia*, preparing:
    - (i) a strategic environmental assessment of Los Naranjos Archeological Park;
    - (ii) a community outreach plan;
    - (iii) an archeological plan for interpretation; and

- (iv) a public use plan for planning the distribution of visitors at any one time within the premises of the Park;
- (b) implementation of the priorities identified in the management plan under Part A. 4 (a) above; and
- (c) promotion of tourism in Los Naranjos Archeological Park, through:
  - (i) enhancement of the existing visitors center;
  - (ii) rehabilitation of the parking space;
  - (iii) rehabilitation of the access road to the Park;
  - (iv) installation of security systems and infrastructure similar to those provided under Part A.1(a) (iv) above;
  - (v) construction and equipping of a laboratory for archeological research; and
  - (vi) construction of a small Interactive Environmental Learning Center for children based on the biodiversity of the Park.

5. Development of Plan Grande Archeological Site (in *Guanaja*, within the Borrower's Department of *Islas de la Bahia*), through:

- (a) development of a management plan by, *inter alia*, preparing:
  - (i) a strategic environmental assessment of Plan Grande Archeological Site;
  - (ii) a community outreach plan;
  - (iii) an archeological plan for interpretation; and
  - (iv) a public use plan for planning the distribution of visitors at the any one time within the premises of the Park.
- (b) implementation of the priorities identified in the management plan under Part A.5 (a) above.

Part B: Capacity Building and Income Generation

1. Capacity Building

Provision of training to local residents in the surrounding areas of the Archeological Parks on:

- (i) specialized skills for the development and enhancement of archeological sites;
- (ii) skills to become eco/archeological guides; and
- (iii) skills to be applied to in the tourism service sector.

2. Income Generation

(a) Carrying out of a pre-feasibility study to identify profitable market niches for the development of tourism-related income generation opportunities.

(b) Development of capacity building, training and technical assistance programs, to respond to tourism increase flow, for small local tourism operators and local services providers, including indigenous communities.

(c) Carrying out of community-based initiatives to be identified by the study referred under Part B. 2 (a) above as *Fondo Prosperidad* Subprojects.

Part C: Institutional Development Support

Provision of support to the Borrower's institutional capacity strengthening in tourism and cultural management at national and local levels, through:

1. strengthening of the PCU to carry out its obligations under the Project (including its financial and procurement responsibilities) through the provision of technical assistance, training, equipment (as necessary), the carrying out of studies and the establishment of a system to monitor and evaluate Project implementation;

2. (a) support to IHT, through:

- (i) the carrying out of an strategic participatory plan for development of archeological-ecological tourism circuit,

including technical assistance and training to municipalities with Archeological Parks and Sites;

- (ii) a marketing and promotion strategy;
  - (iii) a social communication strategy; and
  - (iv) training of staff;
- (b) support to IHAH, through the provision of technical assistance, training and equipment; and
- (c) support to SCAD through provision of technical assistance, training and equipment.
3. Establishment of a branch of the PCU in Copán.
  4. Carrying out of Project audits.

\* \* \*

The Project is expected to be completed by September 30, 2007.



### **SCHEDULE 3**

#### **Procurement**

##### Section I. Procurement of Good and Works

###### Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

###### Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.
2. To the extent practicable, contracts for goods and works shall be grouped in bid packages estimated to cost \$250,000 equivalent or more each and \$1,500,000 equivalent or more each, respectively.

###### Part C: Other Procurement Procedures

###### 1. National Competitive Bidding

Goods, estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$250,000 equivalent, and works estimated to cost less than \$1,500,000 equivalent per contract, up to an aggregate amount not to exceed \$2,300,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

###### 2. Shopping

Goods estimated to cost less than \$25,000 equivalent per contract, up to an aggregate amount not to exceed \$450,000 equivalent, may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

###### 3. Procurement of Small Works

Works estimated to cost less than \$150,000 equivalent per contract, up to an aggregate amount not to exceed \$1,700,000 equivalent, may be procured under lump-

sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

4. Force Account

Works for Part A of the Project (including archeological services referred to in Schedule 1 to this Agreement) which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$1,020,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

5. Procurement under Subprojects

Goods and works estimated to cost \$25,000 equivalent or less per contract required for Part B.2 (c) of the Project shall be procured in accordance with procedures acceptable to the Association, as provided for in the Operational Manual.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to the first two contracts each for goods and works to be procured in accordance with the procedures referred to in Part C.2 above, as well as to all contracts to be procured in accordance with the procedures referred to in Part B above, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first two contracts each for goods and works under Parts C.3 and C.4 above, the following procedures shall apply:

- (i) prior to the selection of the supplier or contractor under shopping procedures or procurement of small works, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures or procurement of small works, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Section.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services for managing the *Fondo Prosperidad* Subprojects under Part B 2 (c) of the Project, estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for auditing under Part C.4 of the Project, estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Single Source Selection

Technical assistance for the implementation of Part A of the Project, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Services of individual consultants for advisory services, studies, technical assistance for *Fondo Prosperidad* Subprojects, including long term consultants for the PCU, up to an aggregate amount of \$1,200,000, shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every twelve months during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms, estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, terms of reference and

terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

## **SCHEDULE 4**

### **Special Account**

1. For the purposes of this Schedule:
  - (a) the term “eligible Categories” means the Categories (1) through (8) 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, works and services required for the Project and to be financed out of the proceeds of the Credit 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 \$1,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000, until in respect of the Special Account the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR1,500,000.
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 Association 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 Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into 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 Association requests for deposits into the Special Account at such intervals as the Association shall specify.
    - (ii) 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 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 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. All such deposits shall be withdrawn by the Association from the Credit 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 Association shall reasonably request, furnish to the Association 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 Association shall not be required to make further deposits into the Special Account:

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

(b) 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 the records and accounts for the Special Account;

(c) 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 the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association 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 Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories 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.

6. (a) If the Association 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 Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) 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 or the portion thereof not so eligible or justified. 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 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 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 paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.



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