

**The World Bank**

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

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January 8, 2004

Lic. Arturo Alvarado  
Secretario  
Secretaria de Estado en el Despacho de Finanzas  
Tegucigalpa, M.D.C.  
Honduras

**Re: Credit No. 3414-HO  
(Economic and Financial Management Project)  
First Amendment to the Credit Agreement**

Dear Sir:

Please refer to the Credit Agreement (the Credit Agreement) between the Republic of Honduras (the Borrower) and the International Development Association (the Association), dated October 24, 2000, with respect to the above-captioned Project.

Based on discussions with your representatives, we are pleased to inform you that the Association hereby proposes to amend the Credit Agreement to read as set forth in Attachment A to this letter (the specific changes made in arriving at those amended texts are reflected for your convenience in Attachment B to this letter).

Please confirm your agreement with the foregoing amendments by signing and dating the two originals of this letter and returning one fully signed original to us. The amendment set forth in this letter will become effective as of June 1, 2003 upon receipt by the Association of (i) one fully executed original of this letter and (ii) a copy of the Subsidiary Agreement referred to in Section 3.04 of the Credit Agreement, together with legal opinions (from the Borrower and the TSC), satisfactory to the Association and issued by counsel acceptable to the Association, confirming that said Subsidiary Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the party on whose behalf the opinion is issued and is legally binding upon such party in accordance with the terms of such Subsidiary Agreement.

Sincerely,

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

---

Jane Armitage  
Director  
Central America Country Management Unit  
Latin America and the Caribbean Region

**AGREED:**

**REPUBLIC OF HONDURAS**

By: \_\_\_\_\_  
Authorized Representative

Name: Arturo Alvarado

Date: March 11, 2004

**Attachment A**

**CREDIT NUMBER 3414-HO**

# **Development Credit Agreement**

**(Economic and Financial Management Project)**

**between**

**REPUBLIC OF HONDURAS**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated October 24, 2000 (as amended on \_\_\_\_\_, 2003)**

**CREDIT NUMBER 3414-HO**

**DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated October 24, 2000 (as amended on \_\_\_\_\_, 2003) between REPUBLIC OF HONDURAS (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS 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

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), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries."; and

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any

country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.”.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth the following additional terms have the following meanings:

(a) “Autonomous Institution” means a legal entity created by law which is owned by the Borrower;

(b) “BCH” means *Banco Central de Honduras*, the Borrower’s Central Bank;

(c) “CCP” means *Comisión Consultiva de Privatización*, the Borrower’s Consultative Commission for Privatization;

(d) “Civil Service Law” means the Borrower’s *Decreto* No. 126 of November 13, 1967 which established the legal framework for the civil service regime, and such term also includes the regulations to such *Decreto*, as such *Decreto* and regulations have been amended to the date of this Agreement;

(e) “CPME” means *Comisión Presidencial para la Modernización del Estado*, the Presidential Commission for the Modernization of the State established pursuant to the Borrower’s Decree (*Decreto*) No. 190-91 of December 11, 1991;

(f) “Decree No. 10-2002-E” means the Borrower’s *Decreto* No. 10-2002-E published in the Borrower’s Official Gazette No. 29,990 of January 20, 2003 which sets forth the organic law of the TSC (*Ley Orgánica del Tribunal Superior de Cuentas*), and such term also includes the regulations to such Decree, as such Decree and regulations have been amended to the date of this Agreement;

(g) “DGSC” means *Dirección General de Servicio Civil*, the General Directorate of Civil Service within SPR (as defined below);

(h) “Eligible Categories” means Categories (1) through (3) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

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

(j) “Implementation Letter” means the letter of even date herewith from the Borrower to the Association which sets forth the Project indicators;

(k) “Operational Manual” means the manual referred to in Section 3.03 (a) of this Agreement;

(l) “Participating Autonomous Institution” means an Autonomous Institution (as defined above) which meets the criteria set forth in the Operational Manual for participating in Parts A.3 and A.4 of the Project;

(m) “Participating Semi-Autonomous Institution” means a Semi-Autonomous Institution (as defined below) which meets the criteria set forth in the Operational Manual for participating in Parts A.3 and A.4 of the Project;

(n) “Participating Secretariats” means *Secretaría de Estado en el Despacho de Agricultura* (the Borrower’s Secretariat of Agriculture), *Secretaría de Estado en el Despacho de Salud Pública* (the Borrower’s Secretariat of Health), *Secretaría de Estado en el Despacho de Educación* (the Borrower’s Secretariat of Education), *Secretaría de Estado en el Despacho de Obras Públicas, Transportes y Vivienda* (the Borrower’s Secretariat of Public Works, Transport and Housing) and *Secretaría de Estado en el Despacho de Recursos Naturales y del Ambiente* (the Borrower’s Secretariat of Natural Resources and the Environment);

(o) “PCU” means the unit established pursuant to the Borrower’s Decree (*Decreto*) No. 31-96 of February 17, 1996 and referred to in Section 3.06 (a) of this Agreement;

(p) “Project Management Report” means each report prepared in accordance with Sections 4.03 and 4.04 of this Agreement;

(q) “PSMP” means *Programa de Modernización para el Sector Público*, the Public Sector Modernization Program approved pursuant to the Borrower’s Decree (*Decreto*) No. 62-96 of May 21, 1996;

(r) “PU” means the Project unit established within TSC and referred to in Section 3.07 (a) of this Agreement;

(s) “Regulatory Entities” means *Comisión Nacional de Energía* (the Borrower’s regulatory agency for the energy sector), *Comisión Nacional de Telecomunicaciones* (the Borrower’s regulatory agency for the telecommunications sector), *Superintendencia de Concesiones y Licencias* (the Borrower’s agency which grants public concessions and licenses) and any other entity with regulatory capacity acceptable to the Association;

(t) “Secretariat” means a *Secretaría*, a higher level administrative body within the structure of Borrower’s executive branch;

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

(v) “Semi-Autonomous Institution” means an agency or a legal entity created by law under the jurisdiction of the Borrower’s executive branch which is empowered to provide public administrative services;

(w) “SIAFI” means *Sistema Integrado de Administración Financiera*, the Borrower’s integrated financial management system;

(x) “SIARH” means *Sistema Integral de Administración de Recursos Humanos*, the Borrower’s comprehensive human resources management system;

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

(z) “SPR” means *Secretaría de Estado del Despacho Presidencial* (the Borrower’s Secretariat of the Presidency);

(aa) “Subsidiary Agreement” means the agreement referred to in Section 3.04 (a) of this Agreement;

(ab) “TSC” means *Tribunal Superior de Cuentas*, the Borrower’s governing entity for the public resource control system, with functional and administrative autonomy, established pursuant to Article 222 of the Borrower’s Constitution (as amended); and

(ac) “UPEG” means *Unidad de Planeamiento y Evaluación de Gestion*, a planning and evaluation unit within each Secretariat (as defined above).

## **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 fourteen million four hundred thousand Special Drawing Rights (SDR 14,400,000).

Section 2.02. 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 and services required for the Project and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be August 31, 2004 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 ( $\frac{3}{4}$  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 June 1 and December 1 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 June 1 and December 1 commencing December 1, 2010 and ending June 1, 2040. Each installment to and including the installment payable on June 1, 2020 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. 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:

(a) carry out: (i) Part A of the Project through SEFIN; and (ii) Parts C, D, E, F and G of the Project through the PCU, all with due diligence and efficiency and in conformity with appropriate technical, administrative, financial and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for said Parts of the Project; and

(b) cause TSC to carry out Part B of the Project with due diligence and efficiency and in conformity with appropriate technical, administrative, financial and environmental practices and in accordance with the provisions of the Subsidiary Agreement, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable TSC to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of said Part of the Project.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods 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 3.03. (a) Without limitation to the provisions of Section 3.01 of this Agreement, the Borrower shall: (i) carry out Part A of the Project through SEFIN; (ii) carry out Parts C, D, E, F and G of the Project through the PCU; and (iii) shall cause TSC to carry out Part B of the Project, in accordance with an operational manual, satisfactory to the Association, said manual to include, *inter alia*, the disbursement and procurement procedures for the Project and the criteria for the selection of the Participating Autonomous Institutions and Participating Semi-Autonomous Institutions.

(b) 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 3.04. (a) For purposes of carrying out Part B of the Project, the Borrower shall transfer, on a grant basis, the proceeds of the Credit allocated to Categories (1) (b), (2) (b) and (3) (b) set forth in the table in paragraph 1 of Part A of Schedule 1 to this Agreement to TSC under a subsidiary agreement (the Subsidiary Agreement) to be entered into between the Borrower and TSC, under terms and conditions which shall have been approved by the Association, providing, *inter alia*, that TSC shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06 and 9.07 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports and maintenance, respectively in respect of Part B of the Project).

(b) The Borrower shall exercise its rights under the Subsidiary Agreement in such 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, terminate, abrogate, waive or fail to enforce the Subsidiary Agreement or any provision thereof.

Section 3.05. 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 designed to ensure the sustainability of the Project;

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan; and

(c) cause TSC to afford the Association a reasonable opportunity to exchange views with the Borrower and TSC on said plan.

Section 3.06. (a) The Borrower shall operate and maintain within CPME, during the implementation of the Project, a Project coordination unit (the PCU) with functions and responsibilities satisfactory to the Association.

(b) The Borrower shall ensure that the PCU is at all times during the implementation of the Project, headed by a coordinator and assisted by staff in adequate numbers, all with qualifications and experience satisfactory to the Association.

Section 3.07. (a) The Borrower shall cause TSC to operate and maintain the PU during the implementation of the Project, with functions and responsibilities acceptable to the Association.

(b) The Borrower shall cause TSC to ensure that the PU is at all times during the implementation of the Project, headed by a coordinator and assisted by staff in adequate numbers, all with qualifications and experience satisfactory to the Association.

Section 3.08. The Borrower shall: (a) not later than December 31 of each year during Project implementation, starting in the year 2000, prepare and furnish to the Association a plan, acceptable to the Association, which shall describe the Project activities to be carried out during the calendar year following the date of presentation of such plan; and (b) thereafter implement said plan in accordance with its terms.

Section 3.09. The Borrower shall:

(a) maintain, and cause TSC to maintain, policies and procedures adequate to enable the Borrower and the TSC to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in the Implementation Letter, the carrying out of the Parts of the Project under their responsibility 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 July 31 and January 31 of each year during Project implementation, starting with the report due on January 31, 2001, 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 calendar semester 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 following calendar semester; and

(c) review with TSC and the Association, not later than September 30 of each year during Project implementation, or such later date as the Association shall request, the pertinent report referred to in paragraph (b) of this Section, and, thereafter, take, or cause to be taken, 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. The Borrower shall: (a) not later than 18 months after the Effective Date carry out the study referred to in Part F.1 (b) of the Project; (b) not later than 45 days after the completion of said study, prepare and furnish to the Association, an environmental management plan, acceptable to the Association, which shall include, *inter*

*alia*, the actions to mitigate negative environmental impacts identified in the environmental assessment within said study, and a financing plan therefor; and (c) thereafter carry out, or cause to be carried out, said plan in accordance with its terms.

Section 3.11. The Borrower shall implement each action plan referred to in Part D.2 (b) of the Project in a manner acceptable to the Association.

## **ARTICLE IV**

### **Financial Covenants**

Section 4.01. (a) The Borrower shall:

- (i) establish within SEFIN and thereafter maintain a financial management system, including records and accounts and prepare financial statements in format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to Part A of the Project; and
- (ii) establish within CPME and thereafter maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to Parts C, D, E, F and G of the Project.

(b) The Borrower shall:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account 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, records and accounts 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 and accounts, 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 Project Management Reports or statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, 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, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Project Management Reports or 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.

Section 4.02. (a) The Borrower shall cause TSC to establish and thereafter maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to Part B of the Project.

(b) The Borrower shall cause TSC to:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section 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 and accounts, 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 Project Management Reports or statements of expenditure in respect of Part B of the Project, the Borrower shall cause TSC to:

- (i) maintain in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain 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 in respect of Part B of the Project, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Project Management Reports or 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.

Section 4.03. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than March

31, 2001, or such later date as the Association shall agree, to prepare quarterly Project management reports, acceptable to the Association, each of which:

- (i) (A) sets forth actual sources and applications of funds for Parts A, C, D, E, F and G of the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for said Parts of the Project for the six-month period following the period covered by said report; and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;
- (ii) (A) describes physical progress in the implementation of Parts A, C, D, E, F and G of the Project, both cumulatively and for the period covered by said report; and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under Parts A, C, D, E, F and G of the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

Section 4.04. (a) Without limitation upon the provisions of Section 4.02 of this Agreement, the Borrower shall cause TSC to carry out a time-bound action plan acceptable to the Association for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.02 in order to enable TSC, not later than March 31, 2001, or such later date as the Association shall agree, to prepare quarterly Project management reports, acceptable to the Association, each of which:

- (i) (A) sets forth actual sources and applications of funds for Part B of the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for said Part of the Project for the six-month period following the period covered by said report; and (B) shows separately



expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

- (ii) (A) describes physical progress in the implementation of Part B of the Project, both cumulatively and for the period covered by said report; and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under Part B of the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall cause TSC to prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

## **ARTICLE V**

### **Other Covenants**

Section 5.01. The Borrower shall cause TSC to carry on its operations and conduct its affairs in accordance with sound technical, administrative, financial and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

## **ARTICLE VI**

### **Remedies of the Association**

Section 6.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) TSC shall have failed to perform any of its obligations under the Subsidiary Agreement.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall

make it improbable that TSC will be able to perform its obligations under the Subsidiary Agreement.

(c) Decree No. 10-2002-E or any provision thereof shall have been amended, suspended, abrogated, repealed, waived or not enforced in such a manner so as to materially and adversely affect, in the opinion of the Association, the ability of TSC to carry out Part B of the Project.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 6.01 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; and

(b) any of the events specified in paragraph (c) of Section 6.01 of this Agreement shall occur.

## **ARTICLE VII**

### **Effective Date; Termination**

Section 7.01. 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 Operational Manual has been approved by the Association;

(b) a financial management system, acceptable to the Association, has been established as provided in Section 4.01 (a) of this Agreement; and

(c) a financial management system, acceptable to the Association, has been established as provided in Section 4.02 (a) of this Agreement.

Section 7.02. The date January 24, 2001 is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 7.03. The obligations of the Borrower under Articles III, IV and V of this Agreement shall cease and determine on the date on which the Development Credit

Agreement shall terminate or on the date twenty years after the date of this Agreement, whichever shall be the earlier.

## **ARTICLE VIII**

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

Section 8.01. The Secretary of SEFIN is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. 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 Tegucigalpa, Honduras, as of the day and year first above written.

REPUBLIC OF HONDURAS

By /s/ Gabriela Nuñez de Reyes

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Joseph M. Owen

Resident 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) Goods		
(a) under Parts A, C, D, E, F.1, F.2, F.4 and G of the Project	4,830,000 ) ) ) )	100% of foreign expenditures and 88% of local expenditures
(b) under Part B of the Project	910,000 ) ) )	
(c) under Part F.3 of the Project	80,000 ) )	
(2) Consultants' services		
(a) under Parts A, C, D, E, F.1, F.2, F.4 and G of the Project	6,560,000 ) ) ) )	100%
(b) under Part B of the Project	760,000 ) ) )	
(c) under Part F.3 of the Project	650,000 ) )	

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(3) Training		
(a) under Parts A, C, D, E, F.1, F.2, F.4 and G of the Project	490,000 ) ) ) )	
(b) under Part B of the Project	80,000 ) ) )	100%
(c) under Part F.3 of the Project	40,000 ) )	
TOTAL	<u>14,400,000</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; and

(c) the term “Training” means expenditures (other than those for Consultants’ services) incurred by the Borrower and TSC to finance the *per diem* and travel cost of trainers and trainees and the rental of training facilities under 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, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 1,440,000, may be made in respect of Categories (1) (a) and (b), (2) (a) and (b) and (3) (a) and (b) on account of payments made for expenditures before that date but after November 1, 1999;

(b) payments made for expenditures under Categories (1) (b), (2) (b) and (3) (b) set forth in the table in paragraph 1 of this Part, unless: (i) the Subsidiary Agreement has been executed on behalf of the Borrower and TSC; and (ii) the Borrower has furnished to the Association a legal opinion, acceptable to the Association of counsel acceptable to the Association, indicating that the Subsidiary Agreement has been duly authorized or ratified by the Borrower and TSC and is legally binding upon the Borrower and TSC in accordance with its terms; and

(c) payments made for expenditures under Categories (1) (c), (2) (c) and (3) (c) set forth in the table in paragraph 1 of this Part, unless the Borrower has created a regulatory entity for its aviation sector with functions and responsibilities acceptable to the Association.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under: (a) contracts for goods costing less than \$25,000 equivalent each with the exception of the first two contracts to be procured under Part C.2 of Section I of Schedule 3 to this Agreement; (b) contracts for the employment of consulting firms costing less than \$100,000 equivalent each; (c) contracts for the employment of individual consultants costing less than 30,000 equivalent each; and (d) Training as set forth in Category (3) of the table in paragraph 1 of this Part A, all under such terms and conditions as the Association shall specify by notice to the Borrower.

#### B. Special Account

1. The Borrower shall open and maintain in Dollars a separate special deposit account in BCH, 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) until the Association shall have received: (i) the first Project Management Report under Sections 4.03 (b) and 4.04 (b) of this Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Association of a Project Management Report pursuant to each of Sections 4.03 (b) and 4.04 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports,

all further 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 determines at any time that any Project Management Report does not adequately provide the information required pursuant to Sections 4.03 and 4.04 of this Agreement;

(b) if the Association determines at any time that all further withdrawals 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 Sections 4.01 (b) (ii) and 4.02 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Sections 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 made on the basis of Project Management Reports.

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 sub-paragraph (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 Development Credit Agreement.

**Annex A  
to  
SCHEDULE 1**

**Operation of Special Account  
When Withdrawals Are Not Made  
On the Basis of Project Management Reports**

1. For the purposes of this Annex:

(a) the term “Authorized Allocation” means an amount equivalent to \$1,400,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

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

(a) For withdrawals of the Special Account’s 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 Special Account’s 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 allocated to said Special Account’s 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 in respect of expenditures to be financed out of the proceeds of the Credit allocated to said Categories, shall equal the equivalent of twice the amount of the Special Account's Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to said 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.

**Annex B  
to  
SCHEDULE 1**

**Operation of Special Account  
When Withdrawals Are Made  
On the Basis of Project Management Reports**

1. Except as the Association may otherwise specify by notice to the Borrower, all 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 Special Account's Eligible Categories.
2. Each application for withdrawal from the Credit Account for deposit into the Special Account shall be supported by Project Management Reports.
3. 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 respective 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 Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$3,800,000.

## **SCHEDULE 2**

### **Description of the Project**

The objective of the Project is to deepen the public sector reforms initiated under the PSMP by: (a) improving transparency and accountability in the allocation and use of public resources; (b) developing a budgetary planning and evaluation capacity in SEFIN and the Participating Secretariats; and (c) assisting the Borrower in the carrying out of the institutional restructuring within the telecommunications, ports and postal sectors and strengthening the technical capacity of the Regulatory Entities.

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: Public Finance Management and Internal Control

1. Strengthening of SEFIN's institutional capacity, through, inter alia:
  - (a) the design of a legal framework, including the issuance of appropriate regulations to govern the operation of SIAFI within the Borrower's public sector;
  - (b) the completion of the organizational restructuring of SEFIN initiated under the PSMP;
  - (c) the improvement of SEFIN's technical capacity to formulate, coordinate, execute and evaluate policies concerning public finances and the Borrower's budget;
  - (d) the preparation and distribution of internal manuals within SEFIN, said manuals to include, inter alia, norms and procedures for the carrying out of SEFIN's functions and responsibilities;
  - (e) the design and implementation of an internal performance benchmarking system that will enable SEFIN to, inter alia, measure operational efficiency and customer satisfaction and improve service quality standards;
  - (f) the design and implementation of a training program for SEFIN's technical and professional personnel;

(g) the carrying out of a communications program to inform SEFIN's staff and the Borrower's population concerning the benefits of modernizing the management of public finances; and

(h) the improvement of the capacity of its UPEG to design and analyze policies and programs related to public investment and budgeting.

2. Completion of the design of SIAFI's sub-systems consisting of, inter alia:

- (i) the adaptation of the accounting sub-system to enable the incorporation of information concerning the Borrower's networth accounts and the management of non-financial assets in said sub-system;
- (ii) the design of a sub-system to reconcile bank accounts in which public funds are deposited;
- (iii) the design of a detailed plan of accounts to permit the administrative decentralization of budget execution;
- (iv) the design of a treasury sub-system; and
- (v) the integration of SIAFI's accounting, budget, debt management and treasury sub-systems.

3. Implementation of SIAFI, including all its subsystems in all Secretariats, Participating Semi-Autonomous Institutions and Participating Autonomous Institutions.

4. Design and implementation of a training program with respect to the implementation and use of SIAFI within the Secretariats, Participating Semi-Autonomous Institutions and Participating Autonomous Institutions.

#### Part B: Strengthening of TSC and Financial Control Systems

1. Strengthening of TSC through the provision of technical assistance and equipment.

2. Carrying out of a program to promote the participation of civil society in the external control process carried out by TSC.

3. Design and implementation of a training program for TSC's staff in public financial management, internal and external control and auditing and evaluation of entities which manage public resources.

4. Establishment of an information network within SIAFI to enable TSC to obtain information concerning the accounting practices, financial transactions and reporting requirements of the Secretariats, Semi-Autonomous Institutions and Autonomous Institutions.

Part C: Human Resource Management

1. Strengthening of the Borrower's capacity to design and implement a human resources policy, through the provision of technical assistance and training, as the case may be, to:

(a) further rationalize employment within the Secretariats, Semi-Autonomous Institutions and Autonomous Institutions;

(b) prepare a proposal to enable special employment and salary regimes governing public servants to be consistent with the principles set forth in the Civil Service Law;

(c) prepare a bill of law to amend the Civil Service Law to implement said policy; and

(d) improve the administrative, operational and technical capacity of DGSC.

2. Design and implementation of SIARH, said system to include, inter alia:

(a) a management and evaluation of a staff positions sub-system, a training sub-system, a career management sub-system and an evaluation of staff performance sub-system; and

(b) information concerning staff, staff positions, salary and benefits and organizational structure of all Secretariats and of those Semi-Autonomous Institutions and Autonomous Institutions in which said system will be implemented.

Part D: Development of Performance Evaluation Capacity

1. Strengthening of the technical capacity of SPR's performance evaluation unit to enable said unit to improve the planning, monitoring and evaluation capacity of the Participating Secretariats and their corresponding UPEGs.
2. (a) Carrying out of a diagnosis of the evaluation capacity of the Participating Secretariats; and (b) based on the findings of each said diagnosis, preparation of an action plan, acceptable to the Association, for each Participating Secretariat.
3. Carrying out of a communication and dissemination program to: (a) promote the exchange of information among the staff within the Secretariats and representatives of the private sector and civil society with respect to the monitoring and evaluation of the annual programs carried out by the Secretariats; (b) encourage public dissemination of the results of the evaluation concerning the Secretariats' performance in respect of said annual programs; and (c) foster public awareness and participation in the evaluation of public sector performance.

Part E: Administrative Reform and Public Sector Reengineering

1. Carrying out of a comprehensive study for the reengineering of the public sector and other administrative reform strategies, such as decentralization of public services, e-government and simplification of administrative procedures.
2. Implementation of a communication campaign to build public support for the administrative reform.

Part F: Consolidation of Regulatory Reforms

1. Carrying out of:
  - (a) technical, financial and legal studies to support the institutional restructuring within the telecommunications sector;
  - (b) a study of the ports sector to design a strategy to restructure the ports sector, said study to include the carrying out of an environmental assessment, acceptable to the Association, to assess the potential environmental impacts of any participation of the private sector in the ports sector;



(c) a study of the postal sector to design a strategy to restructure the postal sector; and

(d) a program to strengthen CCP's technical capacity to manage the Borrower's privatization process, through the provision of technical assistance and training required therefor.

2. Strengthening of the technical capacity of the Regulatory Entities through the provision of technical assistance and training required therefor.

3. Strengthening of the technical capacity of the entity referred to in paragraph 3 (c) of Part A of Schedule 1 to this Agreement, through the provision of technical assistance and training required therefor.

4. Carrying out of a legal and technical review of the operations of the Regulatory Entities for the purpose of improving, if necessary, the efficiency of said entities.

5. Carrying out of technical, financial and legal studies to support the Borrower's petroleum sector reform.

Part G: Project Management

Strengthening of the operational capacity of the PCU to manage and coordinate the carrying out of Parts C, D, E, F and G of the Project.

\* \* \*

The Project is expected to be completed by February 28, 2004.

### **SCHEDULE 3**

#### **Procurement and Consultants' Services**

##### Section I. Procurement of Goods

###### Part A: General

1. Goods shall be procured in accordance with: (a) 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 (b) the provisions of the following Parts of this Section I.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

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

1. Except as otherwise provided in Part C of this Section, goods 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. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

###### (a) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

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

###### 1. National Competitive Bidding

(a) Goods estimated to cost \$100,000 equivalent or less per contract, up to an aggregate amount not to exceed \$700,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Procurement of goods under this Part shall be carried out using standard bidding documents acceptable to the Association.

2. Shopping

Goods estimated to cost less than \$25,000 equivalent per contract, up to an aggregate amount not to exceed \$340,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures, at the option of the Borrower, in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

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 each: (i) contract for goods to be procured under Part B of this Section; and (ii) contract for goods to be procured under Part C.1 of this Section estimated to cost the equivalent of \$25,000 or more, 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 for goods to be procured under Part C.2 of this Section, the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any said contract procured under shopping procedures, 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

1. Consultants' services shall be procured in accordance with: (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines); and (b) the provisions of the following Parts of this Section II.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Quality- and Cost-based Selection

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, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Consultants' services for the Project estimated to cost \$100,000 equivalent or less per contract, up to an aggregate amount not to exceed \$900,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Consultants' services for the Project that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants 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

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under 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 Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

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

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or less, the terms of reference and short list of the consulting firms 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.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$30,000 or more, the qualifications, experience, 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.

(d) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of less than \$30,000, the terms of reference and short list 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.

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.

Section III. Special Provisions

1. In addition and without limitation to any other provisions set forth in this Schedule or the Guidelines, the following principles and rules of procurement shall expressly govern all procurement of goods referred to in Part C.1 of Section I 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 Honduras;
- (ii) have a representative in Honduras;
- (iii) be associated with Honduran suppliers or contractors; and
- (iv) certify that, in their country of origin, Honduran suppliers or contractors 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.

2. In addition and without limitation to any other provisions set forth in this Schedule or the Consultant Guidelines, the following principles of procurement shall expressly govern all procurement of consultants' services referred to in Section II of this Schedule:

(a) Foreign consultants shall be permitted to participate in the selection process even if there is availability of Honduran consultants for the services being procured.

(b) Foreign consultants shall not be required to be registered with Honduran associations or to be associated with Honduran consulting firms as a condition for participating in any selection process.

Section IV. Internal Approvals

1. With respect to the procurement of goods to be financed out of the proceeds of the Credit, any approval of bidding documents and contracts required under the laws of the Borrower shall be given: (a) only by: (i) CPME in respect of Parts C, D, E and G of the Project; and (ii) SEFIN in respect of Parts A and F of the Project; and (b) only by TSC in respect of Part B of the Project.

2. With respect to the employment of consultants, any approval of contracts or of consultant selection processes required under the laws of the Borrower, shall be given: (a) only by: (i) CPME in respect of Parts C, D, E and G of the Project; and (ii) SEFIN in respect of Parts A and F of the Project; and (b) only by TSC in respect of Part B of the Project.

**Attachment B**

**CREDIT NUMBER 3414-HO**

**Development Credit Agreement**

**(Economic and Financial Management Project)**

**between**

**REPUBLIC OF HONDURAS**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated October 24, 2000 (as amended on \_\_\_\_\_, 2003)**



**CREDIT NUMBER 3414-HO**

**DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated October 24, 2000 (as amended on \_\_\_\_\_, 2003), between REPUBLIC OF HONDURAS (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS 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

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), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries."; and

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any

country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.”.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth the following additional terms have the following meanings:

(a) “Autonomous Institution” means a legal entity created by law which is owned by the Borrower;

(b) “BCH” means *Banco Central de Honduras*, the Borrower’s Central Bank;

(c) “CCP” means *Comisión Consultiva de Privatización*, the Borrower’s Consultative Commission for Privatization;

(d) “Civil Service Law” means the Borrower’s *Decreto* No. 126 of November 13, 1967 which established the legal framework for the civil service regime, and such term also includes the regulations to such *Decreto*, as such *Decreto* and regulations have been amended to the date of this Agreement;

(e) “CPME” means *Comisión Presidencial para la Modernización del Estado*, the Presidential Commission for the Modernization of the State established pursuant to the Borrower’s Decree (*Decreto*) No. 190-91 of December 11, 1991;

(f) “Decree No. 10-2002-E” means the Borrower’s *Decreto* No. 10-2002-E published in the Borrower’s Official Gazette No. 29,990 of January 20, 2003 which sets forth the organic law of the TSC (*Ley Orgánica del Tribunal Superior de Cuentas*), and such term also includes the regulations to such Decree, as such Decree and regulations have been amended to the date of this Agreement;

(g) “DGSC” means *Dirección General de Servicio Civil*, the General Directorate of Civil Service within SPR (as defined below);

(h) “Eligible Categories” means Categories (1) through (3) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

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

(j) “Implementation Letter” means the letter of even date herewith from the Borrower to the Association which sets forth the Project indicators;

(k) “Operational Manual” means the manual referred to in Section 3.03 (a) of this Agreement;

(l) “Participating Autonomous Institution” means an Autonomous Institution (as defined above) which meets the criteria set forth in the Operational Manual for participating in Parts A.3 and A.4 of the Project;

(m) “Participating Semi-Autonomous Institution” means a Semi-Autonomous Institution (as defined below) which meets the criteria set forth in the Operational Manual for participating in Parts A.3 and A.4 of the Project;

(n) “Participating Secretariats” means *Secretaría de Estado en el Despacho de Agricultura* (the Borrower’s Secretariat of Agriculture), *Secretaría de Estado en el Despacho de Salud Pública* (the Borrower’s Secretariat of Health), *Secretaría de Estado en el Despacho de Educación* (the Borrower’s Secretariat of Education), *Secretaría de Estado en el Despacho de Obras Públicas, Transportes y Vivienda* (the Borrower’s Secretariat of Public Works, Transport and Housing) and *Secretaría de Estado en el Despacho de Recursos Naturales y del Ambiente* (the Borrower’s Secretariat of Natural Resources and the Environment);

(o) “PCU” means the unit established pursuant to the Borrower’s Decree (*Decreto*) No. 31-96 of February 17, 1996 and referred to in Section 3.06 (a) of this Agreement;

(p) “Project Management Report” means each report prepared in accordance with Sections 4.03 and 4.04 of this Agreement;

(q) “PSMP” means *Programa de Modernización para el Sector Público*, the Public Sector Modernization Program approved pursuant to the Borrower’s Decree (*Decreto*) No. 62-96 of May 21, 1996;

(r) “PU” means the Project unit established within TSC and referred to in Section 3.07 (a) of this Agreement;

(s) “Regulatory Entities” means *Comisión Nacional de Energía* (the Borrower’s regulatory agency for the energy sector), *Comisión Nacional de Telecomunicaciones* (the Borrower’s regulatory agency for the telecommunications sector), *Superintendencia de Concesiones y Licencias* (the Borrower’s agency which grants public concessions and licenses) and any other entity with regulatory capacity acceptable to the Association;

(t) “Secretariat” means a *Secretaría*, a higher level administrative body within the structure of Borrower’s executive branch;

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

(v) “Semi-Autonomous Institution” means an agency or a legal entity created by law under the jurisdiction of the Borrower’s executive branch which is empowered to provide public administrative services;

(w) “SIAFI” means *Sistema Integrado de Administración Financiera*, the Borrower’s integrated financial management system;

(x) “SIARH” means *Sistema Integral de Administración de Recursos Humanos*, the Borrower’s comprehensive human resources management system;

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

(z) “SPR” means *Secretaría de Estado del Despacho Presidencial* (the Borrower’s Secretariat of the Presidency);

(aa) “Subsidiary Agreement” means the agreement referred to in Section 3.04 (a) of this Agreement;

(ab) “TSC” means *Tribunal Superior de Cuentas*, the Borrower’s governing entity for the public resource control system, with functional and administrative autonomy, established pursuant to Article 222 of the Borrower’s Constitution (as amended); and

(ac) “UPEG” means *Unidad de Planeamiento y Evaluación de Gestion*, a planning and evaluation unit within each Secretariat (as defined above).

## **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 fourteen million four hundred thousand Special Drawing Rights (SDR 14,400,000).

Section 2.02. 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 and services required for the Project and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be August 31, 2004 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 June 1 and December 1 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 June 1 and December 1 commencing December 1, 2010 and ending June 1, 2040. Each installment to and including the installment payable on June 1, 2020 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. 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:

(a) carry out: (i) Part A of the Project through SEFIN; and (ii) Parts C, D, E, F and G of the Project through the PCU, all with due diligence and efficiency and in conformity with appropriate technical, administrative, financial and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for said Parts of the Project; and

(b) cause TSC to carry out Part B of the Project with due diligence and efficiency and in conformity with appropriate technical, administrative, financial and environmental practices and in accordance with the provisions of the Subsidiary Agreement, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable TSC to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of said Part of the Project.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods 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 3.03. (a) Without limitation to the provisions of Section 3.01 of this Agreement, the Borrower shall: (i) carry out Part A of the Project through SEFIN; (ii) carry out Parts C, D, E, F and G of the Project through the PCU; and (iii) shall cause TSC to carry out Part B of the Project, in accordance with an operational manual, satisfactory to the Association, said manual to include, *inter alia*, the disbursement and procurement procedures for the Project and the criteria for the selection of the Participating Autonomous Institutions and Participating Semi-Autonomous Institutions.

(b) 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 3.04. (a) For purposes of carrying out Part B of the Project, the Borrower shall transfer, on a grant basis, the proceeds of the Credit allocated to Categories (1) (b), (2) (b) and (3) (b) set forth in the table in paragraph 1 of Part A of Schedule 1 to this Agreement to TSC under a subsidiary agreement (the Subsidiary Agreement) to be entered into between the Borrower and TSC, under terms and conditions which shall have been approved by the Association, providing, *inter alia*, that TSC shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06 and 9.07 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports and maintenance, respectively in respect of Part B of the Project).

(b) The Borrower shall exercise its rights under the Subsidiary Agreement in such 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, terminate, abrogate, waive or fail to enforce the Subsidiary Agreement or any provision thereof.

Section 3.05. 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 designed to ensure the sustainability of the Project;

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan; and

(c) cause TSC to afford the Association a reasonable opportunity to exchange views with the Borrower and TSC on said plan.

Section 3.06. (a) The Borrower shall operate and maintain within CPME, during the implementation of the Project, a Project coordination unit (the PCU) with functions and responsibilities satisfactory to the Association.

(b) The Borrower shall ensure that the PCU is at all times during the implementation of the Project, headed by a coordinator and assisted by staff in adequate numbers, all with qualifications and experience satisfactory to the Association.



Section 3.07. (a) The Borrower shall cause TSC to operate and maintain the PU during the implementation of the Project, with functions and responsibilities acceptable to the Association.

(b) The Borrower shall cause TSC to ensure that the PU is at all times during the implementation of the Project, headed by a coordinator and assisted by staff in adequate numbers, all with qualifications and experience satisfactory to the Association.

Section 3.08. The Borrower shall: (a) not later than December 31 of each year during Project implementation, starting in the year 2000, prepare and furnish to the Association a plan, acceptable to the Association, which shall describe the Project activities to be carried out during the calendar year following the date of presentation of such plan; and (b) thereafter implement said plan in accordance with its terms.

Section 3.09. The Borrower shall:

(a) maintain, and cause TSC to maintain, policies and procedures adequate to enable the Borrower and the TSC to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in the Implementation Letter, the carrying out of the Parts of the Project under their responsibility 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 July 31 and January 31 of each year during Project implementation, starting with the report due on January 31, 2001, 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 calendar semester 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 following calendar semester; and

(c) review with TSC and the Association, not later than September 30 of each year during Project implementation, or such later date as the Association shall request, the pertinent report referred to in paragraph (b) of this Section, and, thereafter, take, or cause to be taken, 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. The Borrower shall: (a) not later than 18 months after the Effective Date carry out the study referred to in Part F.1 (b) of the Project; (b) not later than 45 days after the completion of said study, prepare and furnish to the Association, an environmental management plan, acceptable to the Association, which shall include, *inter*

*alia*, the actions to mitigate negative environmental impacts identified in the environmental assessment within said study, and a financing plan therefor; and (c) thereafter carry out, or cause to be carried out, said plan in accordance with its terms.

Section 3.11. The Borrower shall implement each action plan referred to in Part D.2 (b) of the Project in a manner acceptable to the Association.

## **ARTICLE IV**

### **Financial Covenants**

Section 4.01. (a) The Borrower shall:

- (i) establish within SEFIN and thereafter maintain a financial management system, including records and accounts and prepare financial statements in format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to Part A of the Project; and
- (ii) establish within CPME and thereafter maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to Parts C, D, E, F and G of the Project.

(b) The Borrower shall:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account 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, records and accounts 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 and accounts, 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 Project Management Reports or statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, 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, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Project Management Reports or 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.

Section 4.02. (a) The Borrower shall cause TSC to establish and thereafter maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to Part B of the Project.

(b) The Borrower shall cause TSC to:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section 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 and accounts, 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 Project Management Reports or statements of expenditure in respect of Part B of the Project, the Borrower shall cause TSC to:

- (i) maintain in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain 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 in respect of Part B of the Project, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Project Management Reports or 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.

Section 4.03. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of the financial management systems referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than March

31, 2001, or such later date as the Association shall agree, to prepare quarterly Project management reports, acceptable to the Association, each of which:

- (i) (A) sets forth actual sources and applications of funds for Parts A, C, D, E, F and G of the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for said Parts of the Project for the six-month period following the period covered by said report; and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;
- (ii) (A) describes physical progress in the implementation of Parts A, C, D, E, F and G of the Project, both cumulatively and for the period covered by said report; and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under Parts A, C, D, E, F and G of the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

Section 4.04. (a) Without limitation upon the provisions of Section 4.02 of this Agreement, the Borrower shall cause TSC to carry out a time-bound action plan acceptable to the Association for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.02 in order to enable TSC, not later than March 31, 2001, or such later date as the Association shall agree, to prepare quarterly Project management reports, acceptable to the Association, each of which:

- (i) (A) sets forth actual sources and applications of funds for Part B of the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for said Part of the Project for the six-month period following the period covered by said report; and (B) shows separately

expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

- (ii) (A) describes physical progress in the implementation of Part B of the Project, both cumulatively and for the period covered by said report; and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under Part B of the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall cause TSC to prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

## **ARTICLE V**

### **Other Covenants**

Section 5.01. The Borrower shall cause TSC to carry on its operations and conduct its affairs in accordance with sound technical, administrative, financial and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

## **ARTICLE VI**

### **Remedies of the Association**

Section 6.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) TSC shall have failed to perform any of its obligations under the Subsidiary Agreement.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall

make it improbable that TSC will be able to perform its obligations under the Subsidiary Agreement.

(c) Decree No. 10-2002-E or any provision thereof shall have been amended, suspended, abrogated, repealed, waived or not enforced in such a manner so as to materially and adversely affect, in the opinion of the Association, the ability of TSC to carry out Part B of the Project.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 6.01 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; and

(b) any of the events specified in paragraph (c) of Section 6.01 of this Agreement shall occur.

## **ARTICLE VII**

### **Effective Date; Termination**

Section 7.01. 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 Operational Manual has been approved by the Association;

(b) a financial management system, acceptable to the Association, has been established as provided in Section 4.01 (a) of this Agreement; and

(c) a financial management system, acceptable to the Association, has been established as provided in Section 4.02 (a) of this Agreement.

Section 7.02. The date January 24, 2001 is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 7.03. The obligations of the Borrower under Articles III, IV and V of this Agreement shall cease and determine on the date on which the Development Credit

Agreement shall terminate or on the date twenty years after the date of this Agreement, whichever shall be the earlier.

## ARTICLE VIII

### Representative of the Borrower; Addresses

Section 8.01. The Secretary of SEFIN is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. 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 Tegucigalpa, Honduras, as of the day and year first above written.

REPUBLIC OF HONDURAS

By /s/ Gabriela Nuñez de Reyes

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Joseph M. Owen

Resident 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) Goods		
(a) under Parts A, C, D, E, F.1, F.2, F.4 and G of the Project	4,830,000 ) ) ) )	100% of foreign expenditures and 88% of local expenditures
(b) under Part B of the Project	910,000 ) ) )	
(c) under Part F.3 of the Project	80,000 ) )	
(2) Consultants' services		
(a) under Parts A, C, D, E, F.1, F.2, F.4 and G of the Project	6,560,000 ) ) ) )	100%
(b) under Part B of the Project	760,000 ) ) )	
(c) under Part F.3 of the Project	650,000 ) )	

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(3) Training		
(a) under Parts A, C, D, E, F.1, F.2, F.4 and G of the Project	490,000 ) ) ) )	
(b) under Part B of the Project	80,000 ) ) )	100%
(c) under Part F.3 of the Project	40,000 ) )	
TOTAL	<u>14,400,000</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; and

(c) the term “Training” means expenditures (other than those for Consultants’ services) incurred by the Borrower and TSC to finance the *per diem* and travel cost of trainers and trainees and the rental of training facilities under 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, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 1,440,000, may be made in respect of Categories (1) (a) and (b), (2) (a) and (b) and (3) (a) and (b) on account of payments made for expenditures before that date but after November 1, 1999;

(b) payments made for expenditures under Categories (1) (b), (2) (b) and (3) (b) set forth in the table in paragraph 1 of this Part, unless: (i) the Subsidiary Agreement has been executed on behalf of the Borrower and TSC; and (ii) the Borrower has furnished to the Association a legal opinion, acceptable to the Association of counsel acceptable to the Association, indicating that the Subsidiary Agreement has been duly authorized or ratified by the Borrower and TSC and is legally binding upon the Borrower and TSC in accordance with its terms; and

(c) payments made for expenditures under Categories (1) (c), (2) (c) and (3) (c) set forth in the table in paragraph 1 of this Part, unless the Borrower has created a regulatory entity for its aviation sector with functions and responsibilities acceptable to the Association.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under: (a) contracts for goods costing less than \$25,000 equivalent each with the exception of the first two contracts to be procured under Part C.2 of Section I of Schedule 3 to this Agreement; (b) contracts for the employment of consulting firms costing less than \$100,000 equivalent each; (c) contracts for the employment of individual consultants costing less than 30,000 equivalent each; and (d) Training as set forth in Category (3) of the table in paragraph 1 of this Part A, all under such terms and conditions as the Association shall specify by notice to the Borrower.

#### B. Special Account

1. The Borrower shall open and maintain in Dollars a separate special deposit account in BCH, 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) until the Association shall have received: (i) the first Project Management Report under Sections 4.03 (b) and 4.04 (b) of this Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Association of a Project Management Report pursuant to each of Sections 4.03 (b) and 4.04 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports,

all further 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 determines at any time that any Project Management Report does not adequately provide the information required pursuant to Sections 4.03 and 4.04 of this Agreement;

(b) if the Association determines at any time that all further withdrawals 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 Sections 4.01 (b) (ii) and 4.02 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Sections 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 made on the basis of Project Management Reports.

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 sub-paragraph (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 Development Credit Agreement.

**Annex A  
to  
SCHEDULE 1**

**Operation of Special Account  
When Withdrawals Are Not Made  
On the Basis of Project Management Reports**

1. For the purposes of this Annex:

(a) the term “Authorized Allocation” means an amount equivalent to \$1,400,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

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

(a) For withdrawals of the Special Account’s 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 Special Account’s 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 allocated to said Special Account’s 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 in respect of expenditures to be financed out of the proceeds of the Credit allocated to said Categories, shall equal the equivalent of twice the amount of the Special Account's Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to said 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.



**Annex B  
to  
SCHEDULE 1**

**Operation of Special Account  
When Withdrawals Are Made  
On the Basis of Project Management Reports**

1. Except as the Association may otherwise specify by notice to the Borrower, all 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 Special Account's Eligible Categories.
2. Each application for withdrawal from the Credit Account for deposit into the Special Account shall be supported by Project Management Reports.
3. 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 respective 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 Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$3,800,000.

## **SCHEDULE 2**

### **Description of the Project**

The objective of the Project is to deepen the public sector reforms initiated under the PSMP by: (a) improving transparency and accountability in the allocation and use of public resources; (b) developing a budgetary planning and evaluation capacity in SEFIN and the Participating Secretariats; and (c) assisting the Borrower in the carrying out of the institutional restructuring within the telecommunications, ports and postal sectors and strengthening the technical capacity of the Regulatory Entities.

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: Public Finance Management and Internal Control

1. Strengthening of SEFIN's institutional capacity, through, inter alia:
  - (a) the design of a legal framework, including the issuance of appropriate regulations to govern the operation of SIAFI within the Borrower's public sector;
  - (b) the completion of the organizational restructuring of SEFIN initiated under the PSMP;
  - (c) the improvement of SEFIN's technical capacity to formulate, coordinate, execute and evaluate policies concerning public finances and the Borrower's budget;
  - (d) the preparation and distribution of internal manuals within SEFIN, said manuals to include, inter alia, norms and procedures for the carrying out of SEFIN's functions and responsibilities;
  - (e) the design and implementation of an internal performance benchmarking system that will enable SEFIN to, inter alia, measure operational efficiency and customer satisfaction and improve service quality standards;
  - (f) the design and implementation of a training program for SEFIN's technical and professional personnel;

(g) the carrying out of a communications program to inform SEFIN's staff and the Borrower's population concerning the benefits of modernizing the management of public finances; and

(h) the improvement of the capacity of its UPEG to design and analyze policies and programs related to public investment and budgeting.

2. Completion of the design of SIAFI's sub-systems consisting of, inter alia:

- (i) the adaptation of the accounting sub-system to enable the incorporation of information concerning the Borrower's networth accounts and the management of non-financial assets in said sub-system;
- (ii) the design of a sub-system to reconcile bank accounts in which public funds are deposited;
- (iii) the design of a detailed plan of accounts to permit the administrative decentralization of budget execution;
- (iv) the design of a treasury sub-system; and
- (v) the integration of SIAFI's accounting, budget, debt management and treasury sub-systems.

3. Implementation of SIAFI, including all its subsystems in all Secretariats, Participating Semi-Autonomous Institutions and Participating Autonomous Institutions.

4. Design and implementation of a training program with respect to the implementation and use of SIAFI within the Secretariats, Participating Semi-Autonomous Institutions and Participating Autonomous Institutions.

#### Part B: Strengthening of TSC and Financial Control Systems

1. Strengthening of TSC through the provision of technical assistance and equipment.

2. Carrying out of a program to promote the participation of civil society in the external control process carried out by TSC.

3. Design and implementation of a training program for TSC's staff in public financial management, internal and external control and auditing and evaluation of entities which manage public resources.

4. Establishment of an information network within SIAFI to enable TSC to obtain information concerning the accounting practices, financial transactions and reporting requirements of the Secretariats, Semi-Autonomous Institutions and Autonomous Institutions.

Part C: Human Resource Management

1. Strengthening of the Borrower's capacity to design and implement a human resources policy, through the provision of technical assistance and training, as the case may be, to:

(a) further rationalize employment within the Secretariats, Semi-Autonomous Institutions and Autonomous Institutions;

(b) prepare a proposal to enable special employment and salary regimes governing public servants to be consistent with the principles set forth in the Civil Service Law;

(c) prepare a bill of law to amend the Civil Service Law to implement said policy; and

(d) improve the administrative, operational and technical capacity of DGSC.

2. Design and implementation of SIARH, said system to include, inter alia:

(a) a management and evaluation of a staff positions sub-system, a training sub-system, a career management sub-system and an evaluation of staff performance sub-system; and

(b) information concerning staff, staff positions, salary and benefits and organizational structure of all Secretariats and of those Semi-Autonomous Institutions and Autonomous Institutions in which said system will be implemented.

Part D: Development of Performance Evaluation Capacity

1. Strengthening of the technical capacity of SPR's performance evaluation unit to enable said unit to improve the planning, monitoring and evaluation capacity of the Participating Secretariats and their corresponding UPEGs.
2. (a) Carrying out of a diagnosis of the evaluation capacity of the Participating Secretariats; and (b) based on the findings of each said diagnosis, preparation of an action plan, acceptable to the Association, for each Participating Secretariat.
3. Carrying out of a communication and dissemination program to: (a) promote the exchange of information among the staff within the Secretariats and representatives of the private sector and civil society with respect to the monitoring and evaluation of the annual programs carried out by the Secretariats; (b) encourage public dissemination of the results of the evaluation concerning the Secretariats' performance in respect of said annual programs; and (c) foster public awareness and participation in the evaluation of public sector performance.

Part E: Administrative Reform and Public Sector Reengineering

1. Carrying out of a comprehensive study for the reengineering of the public sector and other administrative reform strategies, such as decentralization of public services, e-government and simplification of administrative procedures.
2. Implementation of a communication campaign to build public support for the administrative reform.

Part F: Consolidation of Regulatory Reforms

1. Carrying out of:
  - (a) technical, financial and legal studies to support the institutional restructuring within the telecommunications sector;
  - (b) a study of the ports sector to design a strategy to restructure the ports sector, said study to include the carrying out of an environmental assessment, acceptable to the Association, to assess the potential environmental impacts of any participation of the private sector in the ports sector;

(c) a study of the postal sector to design a strategy to restructure the postal sector; and

(d) a program to strengthen CCP's technical capacity to manage the Borrower's privatization process, through the provision of technical assistance and training required therefor.

2. Strengthening of the technical capacity of the Regulatory Entities through the provision of technical assistance and training required therefor.

3. Strengthening of the technical capacity of the entity referred to in paragraph 3 (c) of Part A of Schedule 1 to this Agreement, through the provision of technical assistance and training required therefor.

4. Carrying out of a legal and technical review of the operations of the Regulatory Entities for the purpose of improving, if necessary, the efficiency of said entities.

5. Carrying out of technical, financial and legal studies to support the Borrower's petroleum sector reform.

Part G: Project Management

Strengthening of the operational capacity of the PCU to manage and coordinate the carrying out Parts C, D, E, F and G of the Project.

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The Project is expected to be completed by February 28, 2004.

### **SCHEDULE 3**

#### **Procurement and Consultants' Services**

##### Section I. Procurement of Goods

###### Part A: General

1. Goods shall be procured in accordance with: (a) 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 (b) the provisions of the following Parts of this Section I.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

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

1. Except as otherwise provided in Part C of this Section, goods 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. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

###### (a) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

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

###### 1. National Competitive Bidding

(a) Goods estimated to cost \$100,000 equivalent or less per contract, up to an aggregate amount not to exceed \$700,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Procurement of goods under this Part shall be carried out using standard bidding documents acceptable to the Association.

2. Shopping

Goods estimated to cost less than \$25,000 equivalent per contract, up to an aggregate amount not to exceed \$340,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures, at the option of the Borrower, in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

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 each: (i) contract for goods to be procured under Part B of this Section; and (ii) contract for goods to be procured under Part C.1 of this Section estimated to cost the equivalent of \$25,000 or more, 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 for goods to be procured under Part C.2 of this Section, the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any said contract procured under shopping procedures, 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

1. Consultants' services shall be procured in accordance with: (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines); and (b) the provisions of the following Parts of this Section II.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Quality- and Cost-based Selection

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, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Consultants' services for the Project estimated to cost \$100,000 equivalent or less per contract, up to an aggregate amount not to exceed \$900,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Consultants' services for the Project that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants 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

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under 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 Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

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

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or less, the terms of reference and short list of the consulting firms 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.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$30,000 or more, the qualifications, experience, 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.

(d) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of less than \$30,000, the terms of reference and short list 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.

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.

Section III. Special Provisions

1. In addition and without limitation to any other provisions set forth in this Schedule or the Guidelines, the following principles and rules of procurement shall expressly govern all procurement of goods referred to in Part C.1 of Section I 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 Honduras;
- (ii) have a representative in Honduras;
- (iii) be associated with Honduran suppliers or contractors; and
- (iv) certify that, in their country of origin, Honduran suppliers or contractors 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.

2. In addition and without limitation to any other provisions set forth in this Schedule or the Consultant Guidelines, the following principles of procurement shall expressly govern all procurement of consultants' services referred to in Section II of this Schedule:

(a) Foreign consultants shall be permitted to participate in the selection process even if there is availability of Honduran consultants for the services being procured.

(b) Foreign consultants shall not be required to be registered with Honduran associations or to be associated with Honduran consulting firms as a condition for participating in any selection process.

Section IV.      Internal Approvals

1. With respect to the procurement of goods to be financed out of the proceeds of the Credit, any approval of bidding documents and contracts required under the laws of the Borrower shall be given: (a) only by: (i) CPME in respect of Parts C, D, E and G of the Project; and (ii) SEFIN in respect of Parts A and F of the Project; and (b) only by TSC in respect of Part B of the Project.

2. With respect to the employment of consultants, any approval of contracts or of consultant selection processes required under the laws of the Borrower, shall be given: (a) only by: (i) CPME in respect of Parts C, D, E and G of the Project; and (ii) SEFIN in respect of Parts A and F of the Project; and (b) only by TSC in respect of Part B of the Project.