

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 3858-HO

Development Credit Agreement

(Land Administration Project)

between

REPUBLIC OF HONDURAS

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 18, 2004

Public Disclosure Authorized

CREDIT NUMBER 3858-HO

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 18, 2004, between REPUBLIC OF HONDURAS (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter from the Borrower, dated November 26, 2003, describing a program designed to establish a national property rights system (*Sistema Nacional de Administración de la Propiedad*) under a single entity that will be fully integrated and decentralized, whereby information on land use will be collected and registered with links to geographical and legal information on public and private property (real estate, movable assets, commercial rights and intellectual property rights), and data will be collected in an efficient and timely manner (the Program) and declaring the Borrower's commitment to the execution of such program;

WHEREAS (B) the Borrower has requested that the Association support the Borrower's execution of the Program through a series of credits over a period of approximately twelve years to be utilized by the Borrower in the implementation of the Program;

WHEREAS (C) 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 first phase of the Program (the Project);

WHEREAS (D) the Borrower intends to contract from the Nordic Development Fund (NDF) a loan in an amount equivalent to approximately \$8,000,000 (the NDF Loan) to assist in the financing of the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and NDF (the NDF Loan Agreement); and

WHEREAS (E) 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) Paragraph (c) of Section 9.06 of the General Conditions is modified to read as follows:

"(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit."

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

(a) "AFE-COHDEFOR" means *Corporación Hondureña de Desarrollo Forestal*, the Borrower's Corporation for Forestry Development, established pursuant to the Borrower's Decree Law No. 103 dated January 10, 1974 (as such Decree Law has been amended to the date of this Agreement), or any successor thereto, acceptable to the Association;

(b) "AMHON" means *Asociación de Municipios de Honduras*, the Honduran Association of Municipalities, a legal entity established pursuant to the Borrower's Executive Resolution No. 16-1962;

(c) "CIEF" means *Centro de Información y Estadísticas Forestales*, the Borrower's Center for Information and Forestry Statistics (a subsystem within SINAP, as hereinafter defined);

(d) “DEC” means *Dirección Ejecutiva del Catastro Nacional*, the Borrower’s Executive Directorate of National Cadastre created by the Borrower’s Cadastre Law of 1980 (Decree 933);

(e) “Ethnic Lands” means those lands that have been ancestrally and historically settled by Amerindian groups and/or Afro-Honduran communities for their use and that constitute their habitat on which they undertake their traditional productive and cultural practices;

(f) “Executing Agencies” means DEC, IGN, INA, RPIM, RNP, AFE-COHDEFOR, INFOP, SERNA, IHT, IHAH, and AMHON;

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

(h) “IGN” means *Instituto Geográfico Nacional*, the Borrower’s National Geographic Institute;

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

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

(k) “Implementation Letter” means the letter of even date herewith, from the Borrower to the Bank, containing the performance indicators for Project monitoring and evaluation;

(l) “INA” means *Instituto Nacional Agrario*, the Borrower’s National Agrarian Institute;

(m) “INFOP” means *Instituto de Formación Profesional*, the Borrower’s largest public training institute;

(n) "Management Plans" means AFE-COHDEFOR's guidelines for the use and control of resources within Protected Areas (as hereinafter defined);

(o) "Municipality" means an autonomous entity established pursuant to the Borrower's Decree Number 134-90 dated October 29, 1990;

(p) "Municipality Agreement" means any of the agreements mentioned in Section 3.01 (c) of this Agreement;

(q) "Operational Manual" means the manual referred to in Section 3.04 of this Agreement;

(r) "Participation Agreement" means each agreement with an Executing Agency referred to in Section 3.01 (b) of this Agreement;

(s) "PCU" means the unit referred to in Section 3.05 (a) of this Agreement;

(t) "Procurement Agent" means an entity, satisfactory to the Association, that may provide assistance to the Borrower as a procurement agent and advisor under a Procurement Agreement;

(u) "Procurement Agreement" means the agreement referred to in Section 3.02 (a) of this Agreement;

(v) "Project Area" means the area consisting of the Borrower's departments of Cortés, Francisco Morazán, Comayagua, Atlántida, Colón, Gracias a Dios and Choluteca and any other department which may be acceptable to the Association in addition to, or in substitution of, the above departments;

(w) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement dated December 11, 2003;

(x) "Protected Area" means an area officially designated by the Borrower to be under a special management regime for the primary purpose of ensuring its biodiversity and ecological integrity;

(y) "RENOT" means *Registro de Normativas de Ordenamiento Territorial*, the Borrower's Registry of Norms (a subsystem within SINAP, as hereinafter defined);

(z) “RNP” means *Registro Nacional de las Personas*, the Borrower’s National Personal Identification Registry;

(aa) “RPIM” means *Registro de la Propiedad Inmueble y Mercantil*, the Borrower’s Registry for Real Property and Commercial Transactions;

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

(cc) “SERNA” means *Secretaría de Estado en los Despachos de Recursos Naturales y Medio Ambiente*, the Borrower’s Ministry of Natural Resources and the Environment;

(dd) “SGJ” means *Secretaría de Estado en los Despachos de Gobernación y Justicia*, the Borrower’s Ministry of Interior and Justice;

(ee) “SINAP” means *Sistema Nacional de Administración de la Propiedad*, the Borrower’s National Property Administration System, which includes SINIT, RENOT, SURE and CIEF;

(ff) “SINIT” means *Sistema Nacional de Información Territorial*, the Borrower’s geographical information system for urban and regional planning (a subsystem within SINAP);

(gg) “SINREC Agreement” means the agreement signed on May 2, 2002, between the Borrower’s executive branch (responsible for cadastre administration), the Borrower’s judicial branch (responsible for the real estate registry) and civil society representatives, where the executive and judicial branches commit to integrate the cadastre and registry and, more generally to coordinate and cooperate in carrying out land regularization and administration activities, through the Executing Agencies under their respective authority;

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

(ii) “SURE” means *Sistema Unificado de Registros*, the Borrower’s computerized parcel-based property registry system (computerized *folio real*) (a subsystem within SINAP).

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 sixteen million nine hundred thousand Special Drawing Rights (SDR 16,900,000).

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

(b) The Borrower may, for the purposes of the Project, open and maintain in United States Dollars a special deposit account in its Central Bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

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

Section 2.03. The Closing Date shall be April 30, 2008 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

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

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

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

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 15 and November 15 commencing May 15, 2014 and ending November 15, 2043. Each installment to and including the installment payable on November 15, 2023 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

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

however, that there shall be a grace period of a minimum of five years on such repayment of principal.

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through SGJ and with the assistance of the Executing Agencies and applicable Municipalities, with due diligence and efficiency and in conformity with appropriate engineering, economic, financial, administrative and environmental practices, and in accordance with the Operational Manual, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) (i) Without limitation to the provisions of paragraph (a) above, the Borrower, through SGJ, shall enter into an agreement (a Participation Agreement) with each Executing Agency under terms and conditions satisfactory to the Association, including those set forth in the Operational Manual and the SINREC Agreement; and (ii) except as the Association shall otherwise agree, the Borrower shall not amend, assign, abrogate, suspend, terminate, waive or fail to enforce any Participation Agreement or any provision thereof.

(c) (i) Without limitation to the provisions of paragraphs (a) and (b) above, the Borrower, through SGJ, shall, prior to carrying out any activity in each Municipality,

enter into an agreement (a Municipality Agreement) with such Municipality under terms and conditions satisfactory to the Association, including those set forth in the Operational Manual; and (ii) except as the Association shall otherwise agree, the Borrower shall not amend, assign, abrogate, suspend, terminate, waive or fail to enforce any Municipality Agreement or any provision thereof.

Section 3.02. (a) For the purposes of providing assistance to the Borrower as a procurement agent and advisor, the Borrower may enter into an agreement with a Procurement Agent, under terms and conditions satisfactory to the Association (the Procurement Agreement).

- (b) (i) The Borrower shall exercise its rights and carry out its obligations under the Procurement Agreement in such a manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit; and
- (ii) except as the Association may otherwise agree, the Borrower shall not assign, amend, abrogate, suspend, waive, terminate or fail to enforce the Procurement Agreement or any provision thereof.

Section 3.03. Except as the Association shall otherwise agree, procurement of the goods, works, non-consultant technical services 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 3.04. (a) The Borrower, through SGJ, shall issue an operational manual (the Operational Manual), satisfactory to the Association, setting forth rules and procedures for the carrying out of the Project, such manual to include, *inter alia*:

- (i) an environmental management plan;
- (ii) an indigenous peoples development plan;
- (iii) a resettlement process framework;
- (iv) the form of Municipality Agreement; and
- (v) the standard bidding documents for procurement of non-consultant technical services;

- (vi) the specific land regularization procedures applicable under Part B of the Project; and
- (vii) the procedures referred to in Section 3.11 of this Agreement, including, but not limited to, procedures to provide adequate access by indigenous groups to legal advice and training and to set up a transparent mechanism for conflict resolution and decision-making.

(b) The Operational Manual may be amended by SGJ from time to time with the prior approval of the Association. In the case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.05. The Borrower shall, throughout the course of Project implementation:

(a) maintain, during Project implementation, a Project coordination unit (the PCU) assigned to SGJ, with functions, staffing and responsibilities satisfactory to the Association, including, but not limited to, a technical unit responsible for overseeing the day-to-day implementation of Project activities;

(b) establish and maintain, during Project implementation, a high-level Council of Governors, with functions and responsibilities satisfactory to the Association, which shall be chaired by SGJ, and include representatives of each of the Executing Agencies and of civil society; and

(c) establish and maintain, during Project implementation, a Technical Steering Committee with functions and responsibilities satisfactory to the Association, including representatives of Executing Agencies and selected independent advisors to ensure proper coordination of Project activities at the field level and to provide specialized advice to the Council of Governors referred to in (b) above.

Section 3.06. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, not later than six months after the Effective Date and semestally thereafter during the period of Project implementation, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association not later than two months after the date of such report, or such later date as the Association shall request, each report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

Section 3.07. 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 before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

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

Section 3.08. Without limitation to the Borrower's obligations in Section 3.01 of this Agreement, the Borrower shall:

(a) carry out an environmental management plan, acceptable to the Association, in accordance with its terms;

(b) carry out an indigenous peoples development plan, acceptable to the Association, in accordance with its terms;

(c) in the event that an activity under the Project requires resettlement of population, prior to the initiation of any such activity: (i) prepare (in accordance with the principles and guidelines set forth in the Operational Manual) and furnish to the Association a resettlement plan for such population, satisfactory to the Association; and (ii) promptly thereafter, carry out the corresponding resettlement plan in accordance with its terms; and

(d) in the event that any activity under the Project in a Protected Area results in the loss of access to resources by people living in or near the Protected Area, the Borrower shall apply a process framework, acceptable to the Association, in accordance with its terms.

Section 3.09. The Borrower shall ensure that no titling on lands with cultural value, according to the criteria set forth in the Operational Manual, under Part B.4 of the Project will take place unless the Borrower has issued a decree establishing cultural heritage sites in the Project Area.

Section 3.10. The Borrower shall ensure that no private land titles are issued in areas within or adjacent to: (a) Protected Areas unless the boundaries of said Protected Areas, have been delineated in a manner satisfactory to the Association; and/or (b) other critical natural habitats (areas of known high conservation value), unless the Borrower has issued a decree establishing new Protected Areas.

Section 3.11. The Borrower shall ensure that no titling or physical demarcation of lands adjacent to Ethnic Lands will take place unless procedures that adequately protect the rights of indigenous and Afro-Honduran peoples, duly consulted with affected parties in a manner satisfactory to the Association, and set forth in the Operational Manual have been followed.

Section 3.12. The Borrower shall implement a time-bound transition plan, satisfactory to the Association, to incorporate selected Project-financed individual consultants into the Borrower's civil service.

ARTICLE IV

Financial Covenants

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

- (b) The Borrower shall:
- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made,

audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;

- (ii) furnish to the Association as soon as available, but in any case not later than four months after the end of each such year (or such other period agreed to by the Association): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

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

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.06 of this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing

separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;

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

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

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) An extraordinary situation shall have arisen which shall make it improbable that the Program will be carried out.

(b) The SINREC Agreement is amended, assigned, abrogated, suspended, terminated, waived or not enforced by any of the parties thereto, affecting the execution of the Program in the opinion of the Association.

(c) Any party to the SINREC Agreement shall have failed to comply with any of its obligations under the SINREC Agreement.

(d) Any Executing Agency shall have failed to comply with any of its obligations under its respective Participation Agreement.

(e) Any Municipality shall have failed to comply with any of its obligations under its respective Municipality Agreement, affecting the Program in the opinion of the Association.

(f) The NDF Loan Agreement shall have failed to become effective by June 30, 2004, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(g) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of the NDF Loan shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the NDF Agreement; or

(B) the NDF Loan shall have become due and payable prior to the agreed maturity thereof.

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

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional events are specified:

(a) any events specified in paragraphs (b), (c), (d), (e) and (f) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower; and

(b) the event specified in paragraph (g) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the provision of paragraph (g) (ii) of that Section.

ARTICLE VI

Effective Date; Termination

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

(a) the Borrower's Supreme Court has issued a regulatory decree (*Auto Acordado*) authorizing a parcel-based property registry (*folio real*) in the Project Area;

(b) the Operational Manual has been adopted by the Borrower and all Executing Agencies; and

(c) the procurement staff at the PCU or with the Procurement Agent, satisfactory to the Association, has been appointed.

Section 6.02. The date November 16, 2004 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

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

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

For the Borrower:

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

Cable address:

HACIENDA
Tegucigalpa

Facsimile:

(504) 237-4142

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

(202) 477-6391

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

REPUBLIC OF HONDURAS

By /s/ Arturo Alvarado

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Joseph Owen

Acting Regional Vice President
Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	1,300,000	88%
(2) Goods	1,800,000	100% of foreign expenditures and 88% of local expenditures
(3) Consultants' services (excluding Procurement Agent's fees)	6,400,000	98%
(4) Non-consultant technical services	3,300,000	100% of foreign expenditures and 88% of local expenditures
(5) Communication Services	300,000	88%
(6) Training/Workshops	1,000,000	100%
(7) Incremental Operating Costs	1,100,000	88% until disbursements under this Category have reached an aggregate amount equivalent to 800,000 SDRs; 60% until disbursements under this Category have reached an aggregate amount equivalent to 1 million SDRs; and 40% thereafter

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(8) Refunding of Project Preparation Advance	1,400,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(9) Unallocated	<u>300,000</u>	
TOTAL	<u>16,900,000</u>	

2. For the purposes of this Schedule:

(a) the term “communication services” means expenditures for radio, television and printed advertisements incurred by the Borrower in connection with the carrying out of the Project;

(b) 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;

(c) the term “incremental operating costs” means reasonable expenditures which would not have been incurred absent the Project, for the maintenance and leasing of vehicles and equipment, for fuel, office supplies and other consumables, salaries of incremental PCU staff, utilities and travel, transportation and accommodations;

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

(e) the term “non-consultant technical services” means: (i) cadastral surveys and inquiries; and (ii) legal and social activities for land demarcation and regularization; and

(f) the term “training/workshops” means expenditures (other than for consultants’ services) incurred for: (i) reasonable travel, room, board and *per diem* expenditures incurred by trainers and trainees in connection with their training and by non-consultant training facilitators; (ii) course fees; (iii) training/workshop facility and equipment rentals; (iv) training material preparation, acquisition, reproduction and distribution expenses not otherwise covered under this paragraph; (v) scholarships and

fellowships for training courses to be provided in the Borrower's territory or abroad; and (vi) study tours and internships in the Borrower's territory or abroad.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR1,500,000, may be made on account of payments made for expenditures before that date but after July 16, 2003 (but in no case earlier than twelve months immediately before the date of this Agreement).

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$150,000 equivalent per contract; (b) works costing less than \$1,500,000 equivalent per contract; (c) non-consultant technical services costing less than \$1,500,000 equivalent per contract; (d) services of individual consultants costing less than \$50,000 equivalent per contract; (e) services of consulting firms under contracts costing less than \$100,000 equivalent per contract; and (f) communication services, incremental operating costs and training/workshops, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to establish and operate (as part of the broader Program) an integrated and decentralized land administration system, composed of public and private entities, which provides users in the Project Area with accurate information on urban and rural land parcels and effective land administration services (e.g., purchases, mortgages, cadastral and registry certifications) in a timely and cost-effective manner.

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: Development of the Policy Framework and Institutional Strengthening to Support the Establishment and Operation of SINAP

1. Policy and Regulatory Framework

(a) Provision of technical assistance to prepare policies, norms, regulatory decrees, and other similar instruments related to property rights and land administration, including without limitation, instruments related to land rights of indigenous and Afro-Honduran peoples;

(b) carrying out of consultation, dissemination and public awareness activities related to the regulatory changes referred to in (a) above; and

(c) provision of training and carrying out of workshops on the regulatory changes referred to in (a) above that are enacted in the course of Project implementation.

2. Development of Technological Platforms

(a) Provision of technical assistance, equipment, software, training and workshops to support the development and implementation of SINAP subsystems, including SURE, SINIT, RENOT, CIEF; and the Borrower's *Sistema Nacional de Información Municipal*; and

(b) provision of technical assistance and equipment and carrying out of works (upgrading of buildings) to finance the telecommunication network necessary for services related to SINAP to reach decentralized offices and remote Project areas.

3. Institutional Strengthening

Institutional re-engineering of key Executing Agencies, particularly RPIM, DEC, IGN and selected Municipalities, through: (i) carrying out minor civil works and provision of equipment; and (ii) strengthening and training human resources from the public and private sectors in partnership with professional training agencies such as INFOP, focusing on certification for the operation of SINAP and on alternative conflict resolution mechanisms, and carrying out of workshops in connection thereto.

Part B: Systematic Land Regularization, Titling and Registration in the Project Area

1. Preparatory Activities for Field Work

(a) Carrying out of a thorough review of all existing paper and digital data (geographical and textual) in the official cadastral and land records of the Executing Agencies; and

(b) carrying out of technical preparatory activities necessary for systematic parcel-based field surveys in selected localities within the Project Area, including: (i) new aerial photography and generation of ortho-photos and line maps; (ii) purchase of equipment and vehicles; (iii) technical services related to the review of maps and preparation of field sites; (iv) promotion through intensive public campaigns; (v) preparation of local level entities; and (vi) financing of operating costs.

2. Field Surveying of Municipal Boundaries, Urban and Rural Areas, Forests, Protected Areas, and Ethnic Lands

(a) Provision of technical services for desk reviews, field delimitation and the physical demarcation of macro-areas (inter-municipal boundaries, urban and rural areas, forests, protected areas and lands of ethnic communities) in selected localities within the Project Area to define territorial layout according to the physical characteristics and the particular uses given to land and to identify: (i) the legal regime under which each specific area will fall; (ii) the institutions in charge of each specific area delimited; and (iii) the land use constraints that apply to each area; and

(b) acquisition of equipment and vehicles and provision of technical assistance to the Borrower's institutions in charge of land-use planning (SGJ, AFE-

COHDEFOR, INA and the Municipalities) in support of the activities described in (a) above.

3. Parcel-level Surveying and Validation

Carrying out of systematic cadastral field surveys of urban and rural areas within the Project Area to clarify the delimitation and demarcation of property boundaries as well as the property rights on each parcel, including:

(a) carrying out of promotion and public campaigns in each Project Area prior to the field survey;

(b) contracting of national and international firms for systematic field surveying in urban and rural areas within the Project Area;

(c) provision of on the ground technical and legal assistance to beneficiaries for alternative conflict resolution during the survey process;

(d) carrying out of post-field activities consisting of technical and legal analysis and comparison of field surveys with existing old registries' information, as well as technical and legal clarification of corresponding rights; and

(e) provision of consultants' services, equipment and operating costs to carry out technical supervision by existing institutions such as DEC and RPIM, as well as private firms specialized in quality control and insurance.

4. Legalization, Titling and Registration

(a) Provision of technical assistance to order properties within the Project Area according to land tenure and use;

(b) prior to the approval and legalization of the information collected in (a) above, disclosure of such data (*vista pública*) providing adequate time for opposition and resolution of conflicts;

(c) implementation of alternative mechanisms for conflict resolution in cases where certain irregularities in the land registry are noted during the titling and registration process, including the establishment of regularization tables, mediation and other conflict resolution mechanisms;

(d) legalization, titling and registration of properties within the Project Area by INA and Municipalities;

(e) legalization, titling and registration of property within the Project Area which is owned by the Borrower for public use (streets, roads, parks, lakes, lagoons, seas, rivers and beaches) in a unified parcel-based system of registries (*folio real*);

(f) (i) carrying out of a census of occupants in Ethnic Lands within the Project Area; and (ii) legalization, titling and registration of selected Ethnic Lands within the Project Area;

(g) (i) carrying out of a census of occupants on forestry management units (*unidades de gestión forestal*) within the Project Area and provision of certificates of occupation to such inhabitants, subject to the acquiescence of said inhabitants, as provided in the Management Plans; (ii) legalization, titling and registration of selected forestry management units (*unidades de gestión forestal*) within the Project Area to the Borrower for administration by AFE-COHDEFOR under a parcel-based system (*folio real*); and (iii) the transfer of data referred to in (i) and (ii) above into CIEF; and

(h) (i) carrying out of a census of occupants in Protected Areas within the Project Area and provision of certificates of occupation to such inhabitants, subject to the acquiescence of said inhabitants, as provided in the Management Plans ; (ii) legalization, titling and registration of selected Protected Areas within the Project Area to the Borrower under a parcel-based system (*folio real*).

Part C: Project Management, Monitoring and Evaluation

1. Provision of technical assistance, equipment, training, workshops and incremental operating costs, as necessary, to operate and strengthen the PCU and to monitor and evaluate the implementation of the Project, including: (a) the effective coordination with other land-related projects in the Borrower's territory; (b) beneficiary assessments; (c) surveys; and (d) other data collection activities.

2. Audit services for purposes of Section 4.01 (b) of this Agreement.

3. Carrying out of studies related to land administration and other aspects of sustainable development, and evaluation studies of the Project.

* * *

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

SCHEDULE 3

Procurement

Section I. Procurement of Goods, Works and Non-Consultant Technical Services

Part A: General

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

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods, works and non-consultant technical services shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.
2. To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$150,000 equivalent or more each and contracts for works and non-consultant technical services shall be grouped in bid packages estimated to cost \$1,500,000 equivalent or more each.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Works estimated to cost less than \$1,500,000 equivalent per contract, up to an aggregate amount not to exceed \$1,600,000 equivalent; (b) goods estimated to cost less than \$150,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent; and (c) non-consultant technical services estimated to cost less than \$1,500,000 equivalent per contract, up to an aggregate amount not to exceed \$3,900,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

(a) Goods estimated to cost \$50,000 equivalent or less per contract, up to an aggregate amount not to exceed \$500,000 equivalent; and (b) non-consultant technical services estimated to cost less than \$150,000 per contract, up to an aggregate amount of \$200,000 equivalent, may be procured under contracts awarded on the basis of international/national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Goods which are of a proprietary nature or must be procured from a particular supplier as a condition of a performance guarantee may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost \$150,000 equivalent or less per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

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 and non-consulting technical services 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: (i) each contract for goods, works and non-consultant technical services procured in accordance with the procedures referred to in Part B of this Section; and (ii) the first two contracts for works, the first two contracts for goods and the first two contracts for non-consultant technical services procured in accordance with the procedures referred to in Part C.1 of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first two contracts for goods and the first two contracts for non-consultant technical services procured in accordance with procedures referred to in Part C.2 of this Section; and (ii) contracts for goods procured in accordance with the procedures referred to in Part C.3 of this Section; and (iii) the first two contracts procured in accordance with the procedures referred to in Part C.4 of this Section; the following procedures shall apply:

- (i) prior to the selection of any supplier/execution of any contract under shopping and small works 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 contract procured under direct contracting, small works, or 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.

Part E: Special Provisions

In addition and without limitation to any other provisions set forth in this Schedule or in the Guidelines, the following principles and rules of procurement shall expressly govern all procurement of goods, works and non-consultant technical services referred to in Part C.1 of this Section:

(a) Contracts shall be awarded to the lowest evaluated bid in accordance with criteria set forth in the bidding documents, and without taking into account, in the evaluation, the financial cost of foreign exchange components.

(b) 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.

Section II. Employment of Consultants

Part A: General

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

Part B: Quality- and Cost-based Selection

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

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for small and simple assignments that can be precisely defined and are of a standard or routine nature (such as auditing) estimated to cost \$200,000 equivalent or less per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services estimated to cost \$100,000 equivalent or less per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services of individual consultants for: (a) tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines; and (b) tasks that meet the requirements set forth in paragraph 5.4 of the Consultant Guidelines may be selected on a sole-source basis in accordance with the provisions of paragraphs 5.3 and 5.4 of the Consultant Guidelines, subject to prior approval of the Association.

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

1. Selection Planning

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

2. Prior Review

(a) With respect to each contract for the employment of consulting firms procured in accordance with the provisions of Part B of this Section, and each contract procured in accordance with the provisions of Section C.1 of this Section which is estimated to cost more than \$100,000 equivalent, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants to be selected on a sole source basis, or estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, 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. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

(c) With respect to each contract for the employment of individual consultants estimated to cost more than the equivalent of \$30,000 up to the equivalent of \$50,000, the terms of reference 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.

Part E: Special Provisions

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; and

(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.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories 1 through 7 set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term “Authorized Allocation” means an amount equivalent to \$2,500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,200,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 7,500,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
 - (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

- (b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

- (c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

- (d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.