

CONFORMED COPY

LOAN NUMBER 2990 HO

(Structural Adjustment Loan)

between

REPUBLIC OF HONDURAS

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated September 28, 1988

LOAN NUMBER 2990 HO

LOAN AGREEMENT

AGREEMENT, dated September 28, 1988, between REPUBLIC OF HONDURAS (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated August 19, 1988 from the Borrower's Secretaries of State for Finance and Public Credit and for Planning, Coordination and Budgeting, and the President of the Banco Central de Honduras, describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in the financing of urgently needed imports required during such execution; and

(B) on the basis, inter alia, of the foregoing, the Bank has decided in support of the Program to provide such assistance to the Borrower by making the Loan in two tranches as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications thereof set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 11, shall be modified to read:

"'Project' means the imports and other activities that may be financed out of the proceeds of the Loan pursuant to the provisions of Schedule 1 to the Loan Agreement.";

(b) Section 9.07 (c) shall be modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such

detail as the Bank shall reasonably request, on the execution of the program referred to in the Preamble to the Loan Agreement, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan."; and

(c) The last sentence of Section 3.02 is deleted.

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) "SITC" means the Standard International Trade Classification, Revision 3 (SITC, Rev. 3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986);

(b) "Lempira" and "local currency" mean the currency of the Borrower;

(c) "Consolidated Public Sector" means the Borrower's Central Government, the Governments of the Borrower's political subdivisions, the Autonomous Institutions (as the term is defined in (d) below), and other entities owned or controlled by the Borrower or any of such political subdivisions;

(d) "Autonomous Institutions" means the following entities owned or controlled by the Borrower: ENEE and CONADI, as the terms are defined below and Empresa Hondurena de Telecomunicaciones; Corporacion Hondurena para Desarrollo Forestal; Empresa Nacional Portuaria; Instituto Nacional de la Vivienda; Servicio Autonomo Nacional de Acueductos y Alcantarillados and Banco Nacional de Desarrollo Agricola;

(e) "Net Current Expenditures" means current expenditures excluding therefrom payments on account of interest and other charges on debt, as shown in the Borrower's 1989 budget;

(f) "CONADI" means Corporacion Nacional de Inversiones;

(g) "ENEE" means Empresa Nacional de Energia Electrica;

(h) "CETRA" means Certificado transferible de opcion a divisas por exportacion, as defined in Resolution 654-12/87 of Banco Central de Honduras dated December 30, 1987; and

(i) "Monetary Program" means the program agreed between the

Borrower and the Bank as expressed in Resolution No.331-6/88 dated June 22, 1988, of Banco Central de Honduras, subject to revisions thereto which may be made to reflect agreements reached between the Borrower and the Bank to take into account the effects of measures adopted under the Program.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount in various currencies equivalent to fifty million dollars (\$50,000,000).

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1989 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

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

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.

Section 2.08. (a) Banco Central de Honduras is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

(b) Without limitation or restriction to the foregoing, the Borrower hereby entrusts Banco Central de Honduras with responsibility for the preparation of withdrawal applications under the Loan and for the collection of the documents and other evidence to be furnished to the Bank in support of such

applications; such withdrawal applications shall to the extent practicable be consolidated so as to apply for withdrawal of aggregate amounts of not less than \$2,000,000 equivalent.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 4 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices the expenditures financed out of the proceeds of the Loan.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than four months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audits 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 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.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Effective Date; Termination

Section 5.01. The date of November 29, 1988 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.08 (a) of this Agreement, the Secretaria de Estado en el Despacho de Hacienda y Credito Publico of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Secretaria de Estado en el
Despacho de Hacienda y Credito Publico
Tegucigalpa, D.C.
Honduras

Cable address:

HACIENDA
Tegucigalpa, Honduras

Telex:

1308 Hacienda HO

With copies to:

Banco Central de Honduras
Tegucigalpa, D.C.
Honduras

Cable address:

BANTRAL
Tegucigalpa

Telex:

1121-HT BANTRAL

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

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

REPUBLIC OF HONDURAS

By /s/ Jorge Ramon Hernandez Alcerro
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Everardo Wessels
Regional Vice President
Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. Subject to the provisions set forth or referred to in this Schedule, the proceeds of the Loan may be withdrawn from the Loan Account for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods required during the execution of the Program and to be financed out of such proceeds.

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) expenditures for goods included in the following SITC groups or sub-groups, or any successor groups or sub-groups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-group	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semi-precious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors
Group	Sub-group	Description of Items

897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

(b) expenditures in the currency of the Borrower or for goods supplied from the territory of the Borrower;

(c) payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding the equivalent of \$10,000,000 may be made on account of payments made for such expenditures before that date but after May 15, 1988;

(d) expenditures for goods procured under contracts costing less than \$10,000 equivalent;

(e) expenditures for goods supplied under a contract which any national or international financing institution or agency other than the Bank shall have financed or agreed to finance; and

(f) expenditures for goods intended for a military or para-military purpose or for luxury consumption.

3. No withdrawal shall be made and no commitment shall be entered into to pay amounts to or on the order of the Borrower in respect of expenditures to be financed out of the proceeds of the Loan after the aggregate of the proceeds of the Loan withdrawn from the Loan Account and the total amount of such commitments shall have reached the equivalent of \$25,000,000, unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement, based on evidence satisfactory to the Bank: (a) with the progress achieved by the Borrower: (i) in the carrying out of the Program; and (ii) in setting up the basis for (A) an improved macro-economic policy framework for the Borrower, beyond the period of implementation of the Program, and (B) for a feasible plan that will specify the sources from which the Borrower expects to meet its estimated foreign exchange requirements during 1989; and (b) that the actions described in Schedule 4 to this Agreement have been taken.

4. If, after the exchange of views described in paragraph 3 above, the Bank shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within 90 days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Bank, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

Annex 1

SCHEDULE 2

Amortization Schedule

Date Payment Due	Payment of Principal* (expressed in dollars)
March 15, 1994	920,000
September 15, 1994	955,000
March 15, 1995	995,000
September 15, 1995	1,030,000
March 15, 1996	1,070,000
September 15, 1996	1,110,000
March 15, 1997	1,155,000

September 15, 1997	1,195,000
March 15, 1998	1,245,000
September 15, 1998	1,290,000
March 15, 1999	1,340,000
September 15, 1999	1,390,000
March 15, 2000	1,440,000
September 15, 2000	1,495,000
March 15, 2001	1,555,000
September 15, 2001	1,615,000
March 15, 2002	1,675,000
September 15, 2002	1,740,000
March 15, 2003	1,805,000
September 15, 2003	1,870,000
March 15, 2004	1,945,000
September 15, 2004	2,015,000
March 15, 2005	2,095,000
September 15, 2005	2,175,000
March 15, 2006	2,255,000
September 15, 2006	2,340,000
March 15, 2007	2,430,000
September 15, 2007	2,520,000
March 15, 2008	2,620,000
September 15, 2008	2,715,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than eleven years before maturity	0.55
More than eleven years but not more than sixteen years before maturity	0.80
More than sixteen years but not more than eighteen years before maturity	0.90
More than eighteen years before maturity	1.00

SCHEDULE 3

Procurement

1. Contracts for the procurement of goods estimated to cost the equivalent of \$5,000,000 or more each shall be awarded through international competitive bidding in accordance with procedures

consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines), subject to the following modifications:

(a) Paragraph 2.8 of the Guidelines is deleted and the following is substituted therefor:

"2.8 Notification and Advertising

The international community should be notified in a timely manner of the opportunity to bid. This will be done by advertising invitations to apply for inclusion in a bidder's invitation list, to apply for prequalification, or to bid; such advertisements should be placed in at least one newspaper of general circulation in the Borrower's country and, in addition, in at least one of the following forms:

- (i) a notice in the United Nations publication, Development Forum, Business Edition; or
- (ii) an advertisement in a newspaper, periodical or technical journal of wide international circulation; or
- (iii) a notice to local representatives of countries and territories referred to in the Guidelines, that are potential suppliers of the goods required."

(b) The following is added at the end of paragraph 2.21 of the Guidelines:

"As a further alternative, bidding documents may require the bidder to state the bid price in a single currency widely used in international trade and specified in the bidding documents."

(c) Paragraphs 2.55 and 2.56 of the Guidelines are deleted.

2. Contracts for goods estimated to cost the equivalent of less than \$5,000,000 each shall be awarded on the basis of the normal procurement procedures of the purchaser of such goods.

3. With respect to each contract referred to in paragraph 1 of this Schedule, the Borrower shall furnish to the Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contract, two conformed copies of such contract, together with the analysis of the respective bids and recommendations for award, a description of the advertising and tendering procedures followed and such other information as the Bank shall reasonably request.

4. With respect to each contract referred to in paragraph 2 of this Schedule, the Borrower shall furnish to the Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect thereof, such documentation and information as the Bank may reasonably request to support withdrawal applications in respect of such contract.

5. The provisions of the preceding paragraphs 3, 4 and 5 shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure.

SCHEDULE 4

Actions Referred to in Paragraph 3 (b)
of Schedule 1 to this Agreement

1. The value of the aggregate expenditures for 1988 of the Consolidated Public Sector has been reduced by not less than 40 million Lempiras, such reduction to be calculated in accordance

with a methodology satisfactory to the Borrower and the Bank.

2. The deficit of the Consolidated Public Sector during the last six months of 1988 has been reduced by not less than 65 million Lempiras, all to be calculated in accordance with a methodology satisfactory to the Borrower and the Bank.

3. (a) Enactment of a law by the Borrower's Legislative Branch, and promulgation thereof by the Borrower's Executive Branch, setting forth the Borrower's Central Government budget for 1989; and
- (b) approval by the Borrower's Executive Branch of budgets, at levels satisfactory to the Borrower and the Bank, for each of the Autonomous Institutions.

The measures mentioned above will be taken so as to achieve overall results, as follows:

(i) that the aggregate value of the aforesaid budgets, when combined with the duly approved budgets for 1989 of all other entities and agencies referred to in Section 1.02 (c) of this Agreement, will show that the deficit of the Consolidated Public Sector for 1989, when compared with the deficit of said Sector for 1988, all calculated in accordance with a methodology satisfactory to the Borrower and the Bank, has been reduced by one and eight-tenths of a percentage point of the estimated 1989 gross domestic product estimated in accordance with a methodology satisfactory to the Borrower and the Bank; and

(ii) that the level of Net Current Expenditures of the Borrower's Central Government for 1989 has been reduced to 17.6% of the 1989 gross domestic product estimated in accordance with a methodology satisfactory to the Borrower and the Bank.

4. Preparation of an administrative reform program aimed at improving tax collection procedures during 1989.

5. Preparation of a program of reforms for Autonomous Institutions to be initiated during 1989.

6. Preparation of a month-by-month action plan for 1989 for the execution of CONADI's privatization program, as defined in the Borrower's Decrees No.161/85 and 197/85.

7. Preparation of a plan of action to be implemented during 1989 to rationalize ENEE's expenditures, investment and management, and to restructure ENEE's debt.

8. Agreement has been reached between the Borrower and the Bank on an investment program for 1989 of the Consolidated Public Sector.

9. A list of non-essential items has been set forth and all such measures as shall be necessary have been taken to ensure that foreign exchange for the import of any item included in such list will not be available at any point in time at a rate that is lower than the implied rate of exchange derived from the price, prevailing at the point in time in question, at which CETRAS are being acquired in their secondary market; provided, however, that the aggregate value of the imports during 1987 corresponding to items included in the aforesaid list is not lower than 40% of the aggregate value of all imports into Honduras during such year.

10. Enactment of a law by the Borrower's Legislative Branch and promulgation thereof by the Borrower's Executive Branch, which will eliminate import duty exemptions, and certain surcharges already agreed between the Borrower and the Bank, while allowing

increases in yearly revenues, substantially in the terms on which the corresponding bill was submitted by said Executive Branch to said Legislative Branch on June 22, 1988.

11. Measures have been taken to comply with the targets for the September 30, 1988 through December 31, 1988 period of the Monetary Program.

12. The program of action referred to in Section 3.05 of the draft Loan Agreement between the Borrower and the Bank (Fourth Agricultural Credit Project) submitted to the Bank's Board of Directors for its consideration and approval in its meeting of

September 15, 1988 has begun to be carried out and the Borrower's Central Bank rediscount rate has been raised, as of January 1, 1989, to not less than 10% per annum, except for loans directly related to the production of basic grains.

13. Presentation to the Bank of a plan of action aimed at strengthening the ability of the Borrower's Superintendency of Banks to monitor commercial banks' transactions and performance taking into account the recommendations of the consultants already selected for the related study to be carried out under Part B.3 of the Project described in the Loan Agreement between the Borrower and the Bank (Third Industrial Credit Project) for Loan 2703-HO, dated July 7, 1986, as amended from time to time.
