

**OFFICIAL
DOCUMENTS**

CREDIT NUMBER 5577-HN

Financing Agreement

(Fiscal Sustainability and Enhanced Social Protection Development Policy Financing)

between

REPUBLIC OF HONDURAS

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated DECEMBER 10, 2014

FINANCING AGREEMENT

Agreement dated DECEMBER 10, 2014, entered into between REPUBLIC OF HONDURAS ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, *inter alia*, of: (a) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Recipient's maintenance of an adequate macroeconomic policy framework. The Recipient and the Association therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in the amount of fifty five million Dollars (\$55,000,000) (variously, "Credit" and "Financing").
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to the greater of: (a) the sum of three-fourths of one percent (3/4 of 1%) per annum plus the Basis Adjustment; and (b) three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to the greater of: (a) the sum of one and a quarter percent (1.25%) per annum plus the Basis Adjustment; and (b) zero percent (0%) per annum.
- 2.06. The Payment Dates are February 15 and August 15 in each year.
- 2.07. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 2 to this Agreement.

2.08. The Payment Currency is Dollar.

ARTICLE III — PROGRAM

- 3.01. The Recipient declares its commitment to the Program and its implementation. To this end:
- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient's macroeconomic policy framework and the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following, namely that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.
- 4.02. The Additional Event of Acceleration consists of the following, namely that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of 30 days after notice of the event has been given by the Association to the Recipient.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, namely that the Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient's macroeconomic policy framework.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is its Minister (*Secretario*) of SEFIN.

6.02. The Recipient's Address is:

Secretaría de Estado en el Despacho de Finanzas
Dirección de Crédito Público
Avenida Cervantes, Barrio El Jazmín
Tegucigalpa, M.D.C.
Honduras, C.A.

Facsimile:
(504) 2237-4142

6.03. The Association's Address is:

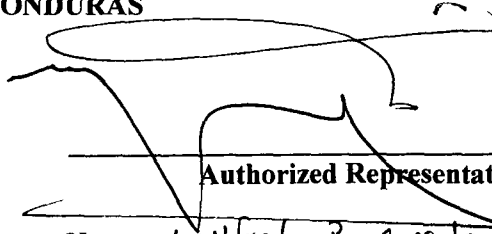
International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423(MCI)	1-202-477-6391

AGREED at THE DISTRICT OF COLUMBIA, UNITED STATES OF AMERICA, as of the day and year first above written.

REPUBLIC OF HONDURAS

By



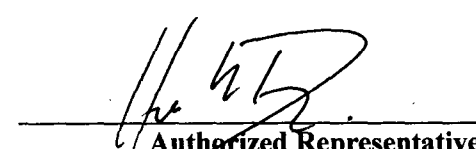
Authorized Representative

Name: Wilfredo R. Cerrato R.

Title: Ministro de Finanzas.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: J. HUMBERTO LOPEZ

Title: COUNTRY DIRECTOR

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

The actions taken by the Recipient under the Program include the following:

1. The Recipient has:
 - (a) created the PARC as evidenced by Executive Decree No. PCM-28-2014 dated June 9, 2014 and published on June 17, 2014;
 - (b) through the PARC, made mandatory and operationalized the register of SEFIN, DEI, HONDUTEL, IHSS and INA's employees in the SIREP as evidenced by: (i) PARC's Resolution dated August 19, 2014 and published on September 3, 2014; and (ii) SIREP's report dated October 9, 2014, certified by the Minister of SEFIN through letter No. S-101-2014 dated October 14, 2014; and
 - (c) through SEFIN, published the number of employees on the institutions referenced in paragraph (b) above of this Schedule and registered in the SIREP, as evidenced by the report published on www.sefin.gob.hn.
2. The Recipient has:
 - (a) enacted the Electronic Procurement Law regulating the use of procurement framework agreements, shared purchases and inverse auctions;
 - (b) issued enabling regulation for the Electronic Procurement Law, No.00641-2014 dated and published on October 28, 2014; and
 - (c) through SEFIN and DPTMRE has signed a shared services agreement dated October 14, 2014 whereby SEFIN will provide information technology support in the administration of the *Honducompras* platform.
3. The Recipient through SEFIN has: (a) approved and published a medium-term debt management strategy, as evidenced by the Public Credit Commission Resolution No. 3, dated October 13, 2014; and (b) submitted the strategy referred to in Section 3(a) of this Schedule to Congress, as evidenced by SEFIN's Letter No. CP-GDR-338-2014, dated October 22, 2014, received by the Secretariat of Congress on October 22, 2014.
4. The Recipient has implemented technology and corporate governance measures including:
 - (a) eliminating the direct electricity subsidy for residential customers consuming more than 75 kWh per month, as evidenced by Legislative Decree No. 278-2013 dated December 21, 2013 and published on December 30, 2013;
 - (b) for purposes of separating distribution, transmission and generation activities, mandated ENEE's Board to restructure ENEE and create a distribution subsidiary

company with a Planning in Distribution Engineering Unit and a Planning and Commercial Management Unit, as evidenced by: (i) Legislative Decree No 404-2013, dated April 2, 2014 and published on May 20, 2014; and (ii) the Resolution of ENEE's Executive Board No. 01-JD-EX-11-2014 dated October 13, 2014;

- (c) through ENEE, establishing an interim Planning in Distribution Engineering Unit and Planning and an interim Commercial Management Unit within ENEE, as evidenced by the Resolution of ENEE's Executive Board No. 01-JD-EX-11-2014 dated October 13, 2014; and
- (d) through ENEE, implementing a national Integrated Commercial Management System, as evidenced by: (i) the Resolution of ENEE's Executive Board No. 01-JD-EX-11-2014 dated October 13, 2014; and (ii) ENEE's certification letter dated August 15, 2014.

- 5. The Recipient, through SEDIS, has approved a new targeting formula for social programs, including for *Bono Vida Mejor*, identifying beneficiaries through a model that predicts rural and urban extreme poverty, as evidenced by Executive Agreement No. SEDIS-079-2014 dated May 27, 2014.
- 6. The Recipient has mandated the use of CENISS's RUP to identify beneficiaries of social assistance programs, as evidenced by Executive Decree No. PCM 071 2014 dated October 10, 2014 and published on October 15, 2014

Section II. Availability of Financing Proceeds

- A. **General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.
- B. **Allocation of Financing Amounts.** The Financing is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Financing Allocated (expressed in USD)
(1) Single Withdrawal Tranche	55,000,000
TOTAL AMOUNT	55,000,000

C. Withdrawal Tranche Release Conditions

No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied: (a) with the Program being carried out by the Recipient; and (b) with the adequacy of the Recipient's macroeconomic policy framework.

D. Deposits of Financing Amounts. Except as the Association may otherwise agree:

- 1. all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and

2. the Recipient shall: (a) ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association; and (b) provide the Association with a written confirmation within two weeks of each such deposit.

E. Audit. Upon the Association's request, the Recipient shall:

1. have the account designated by the Recipient pursuant to Section D.1 of this Section audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;
2. furnish to the Association as soon as available, but in any case no later than four months after the date of the Association's request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request; and
3. furnish to the Association such other information concerning the account and its audit as the Association shall reasonably request.

F. Excluded Expenditures. The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

G. Closing Date. The Closing Date is March 1, 2016.

SCHEDULE 2

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each February 15 and August 15:	
commencing February 15, 2020 to and including August 15, 2029	1.65%
commencing February 15, 2030 to and including August 15, 2039	3.35%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX

Section I. Definitions

1. “Basis Adjustment” means the Association’s standard basis adjustment for credits in the currency of denomination of the Credit, in effect at 12:01 a.m. Washington, D.C. time, on the date on which the Credit is approved by the Executive Directors of the Association, and expressed either as a positive or negative percentage per annum.
2. “*Bono Vida Mejor*” means *Programa Presidencial de Salud, Educación y Nutrición Bono 10.000*, the Recipient’s presidential conditional cash transfer program on health, education and nutrition, which principal objective is to create new opportunities for extreme poor families, created by the Recipient Executive Decree No. 010-2010, dated April 13, 2010 and published in the Recipient’s Official Gazette on May 14, 2010, as the same may be amended from time to time with the agreement of the Association in writing..
3. “CENISS” means *Centro Nacional de Información del Sector Social*, the Recipient’s National Center of Social Sector Information created pursuant to the Recipient’s Legislative Decree No. 38-2011 dated April 13, 2011 and published on June 13, 2013.
4. “Congress” means *Congreso Nacional*, the Recipient’s National Congress.
5. “Congress Secretariat” means *Secretaría del Congreso Nacional*, the Recipient’s Congress Secretariat.
6. “DEI” means *Dirección Ejecutiva de Ingresos*, the Recipient’s Executive Income Unit created pursuant to the Recipient’s Decree No.159/94, published December 17, 1994.
7. “DPTMRE” means *Dirección Presidencial de Transparencia, Modernización y Reforma del Estado*, the Recipient’s Presidential Unit for Transparency, Modernization and State Reform.
8. “Electronic Procurement Law means” the Recipient’s Legislative Decree No. 36-2013, dated July 1, 2014 and published on August 5, 2014.
9. “ENEE” means *Empresa Nacional de Energía Eléctrica*, the Recipient’s National Enterprise of Electric Energy created pursuant to the Recipient’s Law-Decree No. 48 dated February 20, 1957 and published On February 28, 1957.
10. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;
 - (b) for goods included in the following groups or sub-groups of 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) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
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)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
- (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
- (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
- (f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.

11. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010 with the modifications set forth in Section II of this Appendix.
12. “*Hondocompras*” means the Recipient’s procurement information system created pursuant to the Recipient’s Executive Decree No. PCM-10-2005, published on October 14, 2005.
13. “HONDUTEL” means *Empresa Hondureña de Telecomunicaciones*, the Recipient’s Telecommunications Enterprise created pursuant to the Recipient’s Law-Decree No.431 dated May 17, 1976 and published on June 4, 1976.
14. “IHSS” means *Instituto Hondureño de Seguridad Social*, the Recipient’s Social Security Institution created pursuant to the Recipient’s Decree No.140 dated May 19, 1959 and published on July 3, 1959.
15. “INA” means *Instituto Nacional Agrario*, the Recipient’s Agrarian National Institute created pursuant to the Recipient’s Decree No.69 dated March 7, 1961 and published on March 11, 1961.
16. “Program” means the program of actions, objectives and policies designed to: (i) strengthen fiscal and financial management; (ii) strengthen the management of the power sector; and (iii) improve the targeting of social protection programs and set forth or referred to in the letter dated November 3, 2014 from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.
17. “Public Credit Commission” means *Comisión de Crédito Público*, the Recipient’s Public Credit Commission within SEFIN.
18. “PARC” means the Recipient’s Public Administration Reform Commission (*Comisión para la Reforma de la Administración Pública*), created pursuant to the Recipient’s executive decree No. PCM-0280-2014 dated June 9, 2014 and published on June 17, 2014.
19. “RUP” means *Registro Único de Participantes*, CENISS’s Unique Registry of Participants.
20. “SEDIS” means *Secretaría de Desarrollo e Inclusión Social*, the Recipient’s Ministry of Development and Social Inclusion.
21. “SEFIN” means *Secretaría de Finanzas*, the Recipient’s Ministry of Finance.
22. “Single Withdrawal Tranche” means the amount of the Financing allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule I to this Agreement.
23. “SIREP” means *Sistema de Registros de Empleados Públicos*, SEFIN’s system for the registry of public employees.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the subsequent Sections in Article II are renumbered accordingly.
3. “Section 3.02. *Service Charge and Interest Charge*
 - (a) *Service Charge.* The Recipient shall pay the Association a service charge on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. The Service Charge shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Service Charges shall be computed on the basis of a 360-day year of twelve 30-day months.
 - (b) *Interest Charge.* The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months.”
3. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. *Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”
6. Paragraph (c) of Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.07. *Program Monitoring and Evaluation*

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the

execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.”

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The definition of the term “Eligible Expenditure” is modified to read as follows:

““Eligible Expenditure” means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

(b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

(c) The term “Financing Payment” is modified by inserting the words “the Interest Charge” between the words “the Service Charge” and “the Commitment Charge”.

(d) A new term called “Interest Charge” is added to read as follows:

““Interest Charge” means the interest charge specified in the Financing Agreement for the purpose of Section 3.02(b).”

(e) The term “Payment Date” is modified by inserting the words “Interest Charges” between the words “Service Charges” and “Commitment Charges”.

(f) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

““Program” means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.

(g) The term “Service Charge” is modified by replacing the reference to Section 3.02 with Section 3.02 (a).