

OFFICIAL
DOCUMENTS

CREDIT NUMBER 5750-HN

Financing Agreement

(First Fiscal Sustainability and Enhanced Competitiveness Development Policy Financing)

between

REPUBLIC OF HONDURAS

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated DECEMBER 15, 2015

FINANCING AGREEMENT

Agreement dated DECEMBER 15, 2015, 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 an amount of fifty million Dollars (\$50,000,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to the greater of: (a) the sum of three-fourths of one percent (3/4 of 1%) per annum plus the Basis Adjustment to the Service Charge; 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 The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to the greater of: (a) the sum of one and a quarter percent (1.25%) per annum plus the Basis Adjustment to the Interest Charge; and (b) zero percent (0%) per annum.
- 2.06. The Payment Dates are February 1 and August 1 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.

- 2.09. Without limitation upon the provisions of Section 4.08 of the General Conditions (renumbered as such pursuant to paragraph 4 of Section II of the Appendix to this Agreement and relating to *Cooperation and Consultation*), the Recipient shall promptly furnish to the Association such information relating to the provisions of this Article II as the Association may, from time to time, reasonably request.

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.
- 5.03. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty years 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

Telex: 248423(MCI) Facsimile: 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



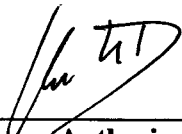
Authorized Representative

Name: Marlon Tabora

Title: Ministro Asesor Presidencial
en Materia Económica

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Humberto López

Title: Country Director

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions Taken Under the Program.

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

1. The Recipient, through SEFIN, has: (a) approved and published on <http://www.sefin.gob.hn> a medium-term macroeconomic and fiscal framework that is consistent with its medium-term management strategy as, certified by the Minister of SEFIN through letter No. DT-OIP-147-10-2015 dated November 3, 2015; and (b) submitted said framework to Congress, as evidenced by SEFIN's letter No. DGP-037-2015 received by the Secretariat of Congress on September 12, 2015.
2. The National Energy Commission has approved and published an energy tariff structure that reduces the electricity subsidy for residential consumers, as evidenced by the National Energy Commission's Executive Minutes No. 044-2014/-18-11-2014 published in the Official Gazette on November 19, 2014.
3. The Recipient, through SEFIN, has:
 - (a) approved and published on <http://inversionistas.sefin.gob.hn/relaciones-con-inversionistas-3/>: (i) a medium term-public debt ceiling recommended targets for state-owned enterprises; and (ii) borrowing guidelines for local governments; and
 - (b) approved and published on <http://inversionistas.sefin.gob.hn/instrumentos-de-deuda-3/> a calendar for debt issuance for 2015-2016;

all certified by the Minister of SEFIN through letter No. DT-OIP-148-10-2015 dated November 3, 2015.

4. The Recipient, through SEFIN, has: (a) created a budgeting module in the SIAFI-GES that specifies budget ceilings consistent with the medium-term macroeconomic and fiscal framework referred to in paragraph 1 (a) above, certified by the Minister of SEFIN through letter No. UPEG-185-2015 dated October 6, 2015; and (b) submitted to Congress for approval the 2016 Budget Bill of Law that specifies the process for registering public trust funds (*fideicomisos*) in the budget, as evidenced by SEFIN's letter No. DGP-037-2015 received by the Secretariat of Congress on September 12, 2015.
5. The Recipient, through SEDIS has: (a) expanded the coverage of the *Bono Vida Mejor* conditional cash transfer program to children attending 7th to 9th grade of lower secondary education as evidenced by the Executive Agreement No. SEDIS-003-2015 dated January 30, 2015 and published in the Official Gazette on February 7th 2015; and (b) approved a methodology to prioritize the coverage of the *Vida Mejor* Platform in 141 municipalities most affected by poverty, vulnerability, violence and migration as evidenced by Ministerial Agreement No. 073-SEDIS-2015 dated October 15, 2015.
6. INE has published on <http://www.ine.gob.hn>: (a) the full documentation and metadata of the 2013 population census; and (b) the tabulations of the EPHPM and the 2013 population census; all certified by the Minister of SEFIN through letter No. DT-OIP-149-10-2015 dated November 3, 2015.

7. (a) The Recipient has enacted the Amended Competition Law creating a leniency program to provide incentives for corporations and individuals that report and cooperate in the investigation of economic cartel practices; and (b) the Competition Authority has issued regulations specifying procedures for the Competition Authority to implement said leniency program, published in the Official Gazette on October 15, 2015.
8. The Recipient, through SEFIN, has submitted to Congress for ratification the World Trade Organization's Agreement on Trade Facilitation as evidenced by SEFIN's letter No. SECM No. 508-2015 received by the Secretariat of Congress on August 26, 2015.

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	50,000,000
TOTAL AMOUNT	50,000,000

- C. **Withdrawal Tranche Release Conditions.**
 1. 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. **Deposit of Financing Amounts.**
 1. The Recipient shall open, prior to furnishing to the Association the first request for withdrawal from the Financing Account, and thereafter maintain, a deposit account in Dollars ("Foreign Currency Deposit Account") on terms and conditions satisfactory to the Bank.
 2. All withdrawals from the Financing Account shall be deposited by the Association into the Foreign Currency Deposit Account. Upon each deposit of an amount of the Financing into the Foreign Currency Deposit Account, the Recipient shall: (a) deposit an equivalent amount into an account designated by the Recipient and acceptable to the Association; and (b) provide the Association with a written confirmation within thirty (30) days of each such deposit.
- E. **Audit.** Upon the Association's request, the Recipient shall:
 1. have the Foreign Currency Deposit Account 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 30, 2017.

SCHEDULE 2

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each February 1 and August 1	
commencing February 1, 2021 to and including August 1, 2030	1.65%
commencing February 1, 2031 to and including August 1, 2040	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. “Amended Competition Law” means the Recipient’s Legislative Decree No. 4/2015 dated February 11, 2015 and published in the Official Gazette on May 23, 2015.
2. “Basis Adjustment to Interest Charge” means the Association’s standard basis adjustment to the Interest Charge 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.
3. “Basis Adjustment to the Service Charge” means the Association’s standard basis adjustment to the Service Charge 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.
4. “*Bono Vida Mejor*” means *Programa Presidencial de Salud, Educación y Nutrición* formerly known as *Programa Presidencial: Bono 10.000*, the Recipient’s presidential conditional cash transfer program on health, education and nutrition, with principal objective to break the intergenerational cycle of poverty and develop human capital of 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.
5. “Competition Authority” means *Comisión para la Defensa y Promoción de la Competencia*, the Recipient’s Commission for the Defense and Promotion of Competition created pursuant to the Recipient’s Legislative Decree No. 357-2005, dated December 16, 2005 and published in the Official Gazette on February 4, 2006.
6. “Congress” means *Congreso Nacional*, the Recipient’s National Congress.
7. “Congress Secretariat” means *Secretaría del Congreso Nacional*, the Recipient’s Congress Secretariat.
8. “EPHPM” means *Encuesta Permanente de Hogares de Propósitos Múltiples*, the Recipient’s Permanent Household Survey for Multiple Purposes.
9. “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.
10. "Foreign Currency Deposit Account" means the account referred to in Part D. 1 of Section II of Schedule 1 to this Agreement.
 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. "INE" means *Instituto Nacional de Estadística*, the Recipient's National Statistics Institute, created pursuant to Legislative Decree No. 86-2000 dated May 31, 2000 and published in the Official Gazette on July 8, 2000.

13. “National Energy Commission” means *Comisión Nacional de Energía*, the Recipient’s National Energy Commission created pursuant to the Recipient’s Legislative Decree No.158-94, dated November 15, 1994 and published in the Official Gazette on November 26, 1994.
14. “Program” means the program of actions, objectives and policies designed to: (i) strengthen institutional arrangements to support fiscal sustainability; and (ii) enhance the regulatory framework to promote competitiveness; and set forth or referred to in the letter dated November 3, 2015 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.
15. “SEDIS” means *Secretaría de Desarrollo e Inclusión Social*, the Recipient’s Ministry of Development and Social Inclusion.
16. “SEFIN” means *Secretaría de Finanzas*, the Recipient’s Ministry of Finance.
17. “SIAFI-GES” means the Recipient’s integrated financial management system.
18. “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 1 to this Agreement.
19. “*Vida Mejor* Platform” means *Estrategia Plataforma de Gestión Vida Mejor*, the Recipient’s social protection strategy that encompasses social security, social assistance, nutrition, health, and education and income generation opportunities for the poor, extreme poor, and the vulnerable, created by the Recipient Executive Agreement No. SEDIS-005-2015, dated February 12, 2015 and published in the Recipient’s Official Gazette on March 28, 2015, as the same may be amended from time to time with the prior agreement of the Association in writing.

Section II. Modifications to the General Conditions

The General Conditions are hereby modified 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 is modified to read as follows:

“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.”

4. 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.
5. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 4 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
6. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 4 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.”

7. Paragraph (c) of Section 4.07 (renumbered as such pursuant to paragraph 4 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.”

8. 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).