

The World BankINTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION1818 H Street N.W.
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December 20, 2010

Mr. William Chong Wong
Secretary
Secretaría de Estado en el Despacho de Finanzas
Tegucigalpa, M.D.C.
Republic of Honduras

Re: Water and Sanitation Sector Modernization Project
(Credit No. 4335-HO)
First Amendment to the Financing Agreement

Dear Sir,

We refer to the Financing Agreement between International Development Association (the "Association") and Republic of Honduras (the "Recipient") dated November 16, 2007, with respect to the above-captioned Project ("Agreement"). Capitalized terms used in this amendment letter (the "Amendment Letter") and not defined herein have the meaning ascribed to them in the Agreement.

Pursuant to our recent discussions and in accordance with your letter dated June 10, 2010 whereby the Recipient request to amend the Agreement so as to, *inter alia*: (a) trigger the Association's Resettlement Policy (O.P/B.P 4.12); and (b) reallocate Loan proceeds. We are pleased to inform you that the Association agrees to your request and consequently proposes to amend the Agreement as follows:

1. Section I.C.1(a)(vi) of Schedule 2 to the Agreement is hereby amended to read in its entirety as follows:

“(iv) the FSEM, the RPF and the IPDF;”

2. All references to the term “Subproject Agreement” in Section I.D of Schedule 2 to the Agreement are hereby replaced by the term “Municipality Agreement”.

3. Section I.E of Schedule 2 to the Agreement is hereby amended to read in its entirety as follows:

“1. Without limitation to the provisions set forth in Section I.C.1 (a) of Schedule 2 to this Agreement, the Recipient undertakes that, unless the Association shall otherwise agree:

(a) prior to the implementation of any given Project activity (including Subproject activities) in which Resettlement will be involved, the Recipient shall: (i) prepare a RAP; and (ii) thereafter, implement, and if applicable cause the Eligible Municipality to jointly implemented, the relevant RAP in accordance with its terms;

(b) prior to the implementation of a Subproject in which the IPDF applies, it shall: (i) furnish to the Association for its approval, the indigenous peoples development plan prepared in accordance with the IPDF; and (ii) thereafter, carry out such indigenous peoples development plan in accordance with its terms.

2. Without limitation to the provisions set forth in Section I.E.1 above, prior to the implementation of any Subproject activity in which Resettlement will be involved, the Recipient shall amend the corresponding Municipality Agreement in order to incorporate

the obligation of the respective Eligible Municipality to, jointly with the UAP, prepare a Resettlement Action Plan, satisfactory to the Association, and implement it in accordance with its terms.

3. Without limitation to the provisions of Section I.E.1 and I.E.2 above, the Recipient shall refrain from presenting to the Association Credit withdrawal applications and/or withdrawing Credit proceeds from the Designated Account under Category (4)(b) to finance payments for land acquisition/or Resettlement Cash Compensation, until the corresponding Resettlement Action Plan has been found satisfactory the Association, and, if applicable, the corresponding Municipality Agreement has been amended, as set forth in paragraph 2 above.”

4. The table set forth in Section IV.A.2 of Schedule 2 to the Agreement is hereby amended to read in its entirety as set forth in the Annex to this Amendment Letter.

5. Section IV.B.1 (b) of Schedule 2 to the Agreement is hereby amended to read in its entirety as follows:

“(b) payments made for expenditures covered by Category 4 in respect of an Eligible Municipality, unless the respective Municipality Agreement has been entered into, and amended if applicable, by the parties thereto.”

6. Section IV.A.3 of Schedule 2 to the Agreement is hereby amended to include a paragraph (c) to read as follows:

“(c) the term “Resettlement Cash Compensation” means the payment made out of the proceeds of the Financing to any Affected Person, with respect to any Project activity involving Resettlement, according to the criteria and procedures set forth in the corresponding RAP.”

7. The following definitions are included in the Appendix to the Agreement, placed in alphabetical order, (and the existing definitions are consequently renumbered to keep the alphabetical order) to read in its entirety as follows:

(i) “Affected Person” means any person who has been affected by Resettlement under the Project and had his or her: (i) standard of living adversely affected; or (ii) right, title or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected, temporarily or permanently.

(ii) ‘Resettlement’ means the impact of an involuntary taking of land under Part 1.B, 1.C and 2 of the Project, which taking causes Affected Persons to have their: (i) standard of living adversely affected; or (ii) right, title or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected, temporarily or permanently”

(iii) “Resettlement Action Plan” or “RAP” means any resettlement plan, which has been prepared based on the provision of the RFP, and include, *inter alia*, a program of

actions, measures and policies for compensation and Resettlement of the Affected Persons, and setting forth the magnitude of displacement, proposed compensation and resettlement arrangements, budget and cost estimates, and sources of funding, together with adequate institutional, monitoring and reporting arrangements designed to ensure proper implementation of, and regular feedback on compliance with, such plan.

(iv) ‘RPF’ means the Recipient’s Resettlement Policy Framework, dated November 11, 2010, acceptable to the Association, which sets forth, *inter alia*, the principles and objectives governing the preparation and implementation of Resettlement Action Plans, and a description of the process for preparing and approving said plans under Parts 1.B and 1.C, and Part 2 of the Project (as said terms are defined herein).’

Please confirm your agreement with the foregoing amendment by signing and dating this letter in the spaces provided below. This Amendment Letter shall be executed in two counterparts, each of which shall be an original. The provisions of this Amendment Letter shall become effective as of the date of countersignature, upon receipt by the Association of one fully executed original of this Amendment Letter. Thenceforward, all other provisions of the Agreement, except as amended through this letter shall remain in full force and effect.

Very truly yours,

INTERNATIONAL DEVELOPMENT ASSOCIATION

By p.p. Trina Haque
Laura Frigenti
Acting Director
Central America Country Management Unit
Latin America and the Caribbean Region

AGREED:

REPUBLIC OF HONDURAS

By: /s/ William Chong Wong
Authorized Representative

Name: William Chong Wong

Title: Secretary of Finance

Date: January 7, 2011

Annex

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed
(1) Consultant's services under Part 1.A. 2, 3. A, 3.B.2, and 4 of the Project	4,170,000	100%
(2) Consultants' services and non-consultant services under Part 3.C of the Project	750,000	85%
(3) Goods and works under Parts 2, 3.A and 4 of the Project	5,020,000	90%
(4) (a) Goods, works, consultants' services, non-consultant services, and Training under Parts 1.B and 1.C of the Project; (b) (i) land acquisition, and (ii) Resettlement Cash Compensation under Parts 1.B, 1.C and 2 of the Project	6,940,000	100% except for those costs covered by the counterpart contribution by Eligible Municipalities cited in Section I.D.1 (a) (ii) (B) of Schedule 2 of this Agreement.
(5) Severance payments under Part 3.B.1 of the Project	2,370,000	90%
(6) Operating Costs under Parts 3.A and 4 of the Project	350,000	90%
(7) Training and non-consultant services under Parts 3.A and 4 of the Project	200,000	100%
TOTAL AMOUNT	19,800,000	