December 7, 2011

His Excellency
Mr. William Chong Wong
Minister of Finance
Ave. Cervantes, Barrio El Jazmín, Edificio SEFIN
Tegucigalpa, M.D.C.
Honduras

Re: IDA Credit 5020–HN (HONDURAS Improving Public Sector Performance Project)
Additional Instructions: Disbursement Letter

Excellency,

I refer to the Financing Agreement (“Agreement”) between the International Development Association (“the Association”), and the Republic of Honduras (the “Recipient”) for the above-referenced project, dated December 7, 2011. The Agreement provides that the Association may issue additional instructions regarding the withdrawal of the proceeds of IDA Credit 5020-HN (“Financing”). This letter (“Disbursement Letter”), as revised from time to time, constitutes the additional instructions.

The attached World Bank Disbursement Guidelines for Projects, dated May 1, 2006, (“Disbursement Guidelines”) (Attachment 1), are an integral part of the Disbursement Letter. The manner in which the provisions in the Disbursement Guidelines apply to the Financing is specified below. Sections and subsections in parentheses below refer to the relevant sections and subsections in the Disbursement Guidelines and, unless otherwise defined in this letter, the capitalized terms used have the meanings ascribed to them in the Disbursement Guidelines.

I. Disbursement Arrangements

(i) Disbursement Methods (section 2). The following Disbursement Methods may be used under the Financing:

- Reimbursement
- Advances
- Direct Payment

(ii) Disbursement Deadline Date (subsection 3.7). The Disbursement Deadline Date is 4 months after the Closing Date specified in the Financing Agreement. Any changes to this date will be notified by the Association.

(iii) Disbursement Conditions (subsection 3.8). Please refer to the Disbursement Condition(s) in Schedule 2, Section IV (B) of the Financing Agreement.
II. Withdrawal of Credit Proceeds

(i) Authorized Signatures (subsection 3.1).
A letter in the Form attached (Attachment 2) should be furnished to the Association at the address indicated below providing the name(s) and specimen signature(s) of the official(s) authorized to sign Applications:

The World Bank
1818 H Street, N.W.
Washington, DC 20433
United States of America
Attention: C. Felipe Jaramillo, Director, Central America, Latin America and the Caribbean Region

(ii) Applications (subsections 3.2 - 3.3). Please provide completed and signed applications for withdrawal, together with supporting documents, to the address indicated below:

Banco Mundial
Sector Comercial Norte
Quadra 02, Lote A
Edificio Corporate Finance Center
7º andar
70712-900 Brasilia, D.F.
Brazil
Attention: Loan Department

(iii) Electronic Delivery (subsection 3.4) The Association may permit the Recipient to electronically deliver to the World Bank Applications (with supporting documents) through the Association’s Client Connection, web-based portal. The option to deliver Applications to the Association by electronic means may be effected if: (a) the Recipient has designated in writing, pursuant to the terms of subparagraph (i) of this Section, its officials who are authorized to sign and deliver Applications and to receive secure identification devices (“Tokens”) from the Association for the purpose of delivering such Applications by electronic means; and (b) all such officials designated by the Recipient have registered as users of Client Connection. If the Association agrees, the Association will provide the Recipient with Tokens for the designated officials. Following which, the designated officials may deliver Applications electronically by completing Form 2380, which is accessible through Client Connection (https://clientconnection.worldbank.org). The Recipient may continue to exercise the option of preparing and delivering Applications in paper form. The Association reserves the right and may, in its sole discretion, temporarily or permanently disallow the electronic delivery of Applications by the Recipient.

(iv) Terms and Conditions of Use of Tokens to Process Applications. By designating officials to accept Tokens and by choosing to deliver the Applications electronically, the Recipient confirms through the authorized signatory letter its agreement to: (a) abide by the Terms and
Conditions of Use of Secure Identification Devices in connection with Use of Electronic Means to Process Applications and Supporting Documentation (“Terms and Conditions of Use of Tokens”) provided in Attachment 3; and (b) to deliver the Terms and Conditions of Use of Tokens to each such official and to cause such official to abide by those terms and conditions.

(v) Minimum Value of Applications (subsection 3.5). The Minimum Value of Applications for Direct Payment US$500,000, and for Reimbursement is US$200,000.

(vi) Advances (sections 5 and 6) to UAP-SEFIN

• **Type of Designated Account (subsection 5.3):** Segregated.

• **Currency of Designated Account (subsection 5.4):** US Dollars.

• **Financial Institution at which the Designated Account Will Be Opened (subsection 5.5):** Banco Central de Honduras.

• **Ceiling (subsection 6.1):** US$1,500,000.

III. Reporting on Use of Credit Proceeds

(i) Supporting Documentation (section 4). Supporting documentation should be provided with each application for withdrawal as set out below:

• **For requests for Direct Payment:** records evidencing eligible expenditures, e.g., copies of receipts, supplier invoices.

• **For requests for Reimbursement:**
  - Summary Statements in the form attached (Attachment 4) with records evidencing eligible expenditures (e.g., copies of receipts, supplier invoices) for payments made under contracts for:
    - Goods and Consultant firms costing US$100,000 equivalent per contract or more;
    - Minor Works and Individual consultants and Non-Consultant Services costing US$40,000 equivalent or more;
    - Training costing US$20,000 or more; and,
  - Statement of Expenditure in the form attached (Attachment 5) for payments, that do not exceed the thresholds established above.

• **For reporting eligible expenditures paid from the Designated Account:**
  - Summary Statements in the form attached (Attachment 4) with records evidencing eligible expenditures (e.g., copies of receipts, supplier invoices) for payments made under contracts for:
    - Goods and Consultant firms costing US$100,000 equivalent per contract or more;
Minor Works and Individual consultants and Non-Consultant Services costing US$40,000 equivalent or more;
Training costing US$20,000 or more; and,
- Statement of Expenditure in the form attached (Attachment 5) for payments, that do not exceed the thresholds established above; and,
- Designated Account Activity Statement in the form attached (Attachment 6) with a copy of the Designated Account Bank Statement.

(ii) Frequency of Reporting Eligible Expenditures Paid from the Designated Account (subsection 6.3): Quarterly.

IV. Other Disbursement Instructions

Retroactive Financing – will be available to finance payments made prior to the date of the legal agreement up to an aggregate amount not to exceed SDR 650,000 equivalent for payments made on or after August 1, 2011, but no more than 12 months prior to the date of the legal agreement for Eligible Expenditures under the Project in categories 1 through 5.

V. Other Important Information


If you have not already done so, the Association recommends that you register as a user of the Client Connection website (https://clientconnection.worldbank.org). From this website you will be able to download Applications, monitor the near real-time status of the Financing, and retrieve related policy, financial, and procurement information. For more information about the website and registration arrangements, please contact the Association by email at <clientconnection@worldbank.org>.

If you have any queries in relation to the above, please contact the World Bank Loan Department by sending an email to loa-lcr@worldbank.org and naming the project and Financing number in the subject line.

Yours sincerely,

/s/ C. Felipe Jaramillo
Director
Central America
Latin America and the Caribbean Region
Attachments
2. Form for Authorized Signatures
3. Terms and Conditions of Use of Tokens
4. Sample Summary Statement (SS)
5. Sample Statement of Expenditure (SOE)
6. Designated Account Activity Statement

Cc with copies: Sra. María Antonieta Guillen de Bográn,
Designada Presidencial Encargada de la Secretaría de Estado en el Despacho
Presidencial

Lic. Orfidia Isabel Pastora
Director General
Dirección General de Crédito Público,
Secretaría de Finanzas

Deysi Mejía
Coordinadora General
Unidad Administradora de Proyecto (UAP)
Secretaría de Finanzas
DL Prepared by: Patricia Hoyes, Senior Finance Officer

Cleared with and cc: Jimena Garrota, Country Lawyer
   Carolina Rendon, Task Team Leader