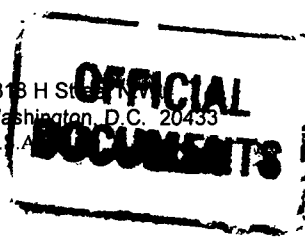


The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
Washington, D.C. 20433
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Cable Address: INTBAFRAD
Cable Address: INDEVAS

February 15, 2013

His Excellency
Wilfredo Cerrato
Ministry of Finance
Avenida Cervantes, Barrio El Jazmín, Edificio SEFIN
Tegucigalpa, M.D.C.
Honduras

Excellency:

**Re: IDA Financing 4774- HN (Social Protection Project)
Additional Instructions: Revised Disbursement Letter**

I refer to the Financing Agreement between the International Development Association (the "Association") and the Republic of Honduras (the "Recipient") for the above-referenced project, dated August 2, 2010. The Agreement provides that the Association may issue additional instructions regarding the withdrawal of the proceeds of IDA Credit 4774- HN ("Financing"). This letter ("Disbursement Letter"), as revised from time to time, constitutes the additional instructions.

This letter is the First Restatement of the Disbursement Letter dated August 2, 2010, for the above referenced project, restating Section II (vi) to transfer administration of DA-A from MOP to PRAF and Section IV to adjust related disbursement instructions. These changes are consistent with the official communication receive from the Recipient dated October 24, 2012. All other provisions and attachments of the Disbursement Letter dated August 2, 2010, except as amended, shall remain in force and effect.

The *World Bank Disbursement Guidelines for Projects*, dated May 1, 2006, ("Disbursement Guidelines") 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
- Advance
- Direct Payment

(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”); 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.

Minimum Value of Applications (subsection 3.5). The Minimum Value of Applications is US\$500,000.

(vi) Advances (sections 5 and 6) to PRAF for Category 1. (DA-A)

- **Type of Designated Account[s] (subsection 5.3):** Segregated
- **Currency of Designated Account[s] (subsection 5.4):** US Dollars
- **Financial Institution at which the Designated Account[s] Will Be Opened (subsection 5.5):** Banco Central de Honduras
- **Ceiling (subsection 6.1):** Based on forecast submitted with each customized SOE.

(vii) Advances (sections 5 and 6) to MOP for Category 2 & 3. (DA-B)

- **Type of Designated Account[s] (subsection 5.3):** Segregated
- **Currency of Designated Account[s] (subsection 5.4):** US Dollars
- **Financial Institution at which the Designated Account[s] Will Be Opened (subsection 5.5):** Banco Central de Honduras
- **Ceiling (subsection 6.1):** US\$1,000,000

III. Reporting on Use of Financing Proceeds

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

- **For requests for Reimbursement:**
 - Summary Statement in the form attached with records evidencing eligible expenditures (e.g., copies of receipts, supplier invoices) for payments made under contracts for:

- Goods and Consultant Firms costing US\$100,000.00 equivalent per contract or more;
 - Individual Consultants and Non-consultants services costing US\$40,000 equivalent or more;
 - Operating Costs and Training costing US\$20,000 or more;
 - Customized Statements of Expenditures in the form attached for Category 1 – Part B of the project with the documentation detailed in Section V of this letter; and,
 - Statement of Expenditure in the form attached for payments, that do not exceed the thresholds established above.
- ***For reporting eligible expenditures paid from the Designated Account (DA-A):***
 - See additional disbursement instructions in Section IV of this letter.
 - ***For reporting eligible expenditures paid from the Designated Account:***
 - Summary Statement in the form attached with records evidencing eligible expenditures (e.g., copies of receipts, supplier invoices) for payments made under contracts for:
 - Goods and Consultant Firms costing US\$100,000.00 equivalent per contract or more;
 - Individual Consultants and Non-consultants services costing US\$40,000 equivalent or more;
 - Operating Costs and Training costing US\$20,000 or more;
 - Statement of Expenditure in the form attached for payments, that do not exceed the thresholds established above; and,
 - Designated Account Activity Statement in the form attached with a copy of the Designated Account Bank Statement.
 - ***For requests for Direct Payment:*** records evidencing eligible expenditures, e.g., copies of receipts, supplier invoices

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

IV. Other Disbursement Instructions

Category 1 Grants – Conditional Cash Transfers

Category 1 will finance conditional cash transfers provided to eligible beneficiaries on a grant basis. Credit proceeds under Category 1 will be disbursed to a Designated Account (DA-A) used exclusively for this category as follows:

First Disbursement – Advance Request of US\$6,000,000 sufficient to cover the first conditional cash transfer payment.

Subsequent Disbursements – (i) customized SOE attached to this letter, (ii) results of the concurrent audit required under Section V, of Schedule 2 of the legal agreement, (iii) a forecast of the amount needed to make the next conditional cash transfer, and (iv) the DA-A activity statement with a copy of the corresponding bank statement.

In the case that the concurrent audit identifies instances of ineligible expenditures paid, the PRAF will be responsible for identifying those ineligible expenditures submitted in the customized SOE. These amounts will then appear in the DA-A activity statement as amounts questioned with the detailed amount and Justification of Expenditures number where the audit report identifies the ineligible expenditures. If the activity statement of the DA-A includes ineligible expenditures from more than one concurrent audit report, those amounts should be segregated by Withdrawal Application number. The PRAF will be responsible for resolving the ineligible expenditures by either (i) demonstrating the eligibility of the questioned amounts, (ii) presenting other cash transfers made with counterparts funds in lieu of ineligible expenditures, or (iii) refunding the amount to the DA-A. Any questioned amounts appearing in the DA-Activity statement will need to be resolved no later than the second Withdrawal Application submitted after the questioned amounts were first reported. In the case of ineligible expenditures are reporting in the last and second to last Withdrawal Applications, the amounts will need to be resolved no later than by the closing date of the project.

In that case the amounts transferred from the DA-A to the pay agent are not fully disbursed (ie. beneficiary doesn't collect payment) then the amounts remaining unpaid will be refunded back to the DA-A by the pay agent prior to receiving the next transfer. Note that these refunds should be documented in the DA-A activity statement submitted with each withdrawal application.

V. Other Important Information

For additional information on disbursement arrangements, please refer to the Disbursement Handbook available on the Association's public website at <https://www.worldbank.org> and its secure website "Client Connection" at <https://clientconnection.worldbank.org>. Print copies are available upon request.

From the Client Connection website, you will be able to prepare and deliver Applications, monitor the near real-time status of the Financing, and retrieve related policy, financial, and procurement 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 prepare and deliver Applications, monitor the near real-time status of the Financing, and retrieve related policy financial, and procurement information. All Recipient officials authorized to sign and deliver Applications by electronic means are required to register with Client Connection before electronic delivery can be effected. For more information about

(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 the Financing Agreement.

II. Withdrawal of Financing Proceeds

(i) Authorized Signatures (subsection 3.1).

An authorized signatory letter in the Form attached 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
Attention: C. Felipe Jaramillo, Country Director

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

Banco Mundial
Setor Comercial Norte
Quadra 02, Lote A
Edifício Corporative Financial Center
7º andar
70712-900, Brasília, D.F.
Brazil
Attention: Loan Department

(iii) Electronic Delivery (subsection 3.4) The Association may permit the Recipient to electronically deliver to the Association 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.

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 loan@worldbank.org and naming the project and loan number in the subject line.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'PH', written over a horizontal line.

Patricia Hoyes
Senior Finance Officer
World Bank Loan Department