Financing Agreement

(Rural Competitiveness Project)

between

REPUBLIC OF HONDURAS

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 17, 2008
FINANCING AGREEMENT

AGREEMENT dated September 17, 2008, entered into between REPUBLIC OF HONDURAS (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association). The Recipient and the Association 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 equivalent to eighteen million four hundred thousand Special Drawing Rights (SDR 18,400,000) (referred variously herein as Credit and Financing) to assist in financing the project described in Schedule 1 to this Agreement (the Project).

2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

2.05. The Payment Dates are May 15 and November 15 in each year.
2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

2.07. The Payment Currency is United States Dollars.

ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project through SAG and SEFIN in accordance with the provisions of Article IV of the General Conditions.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Events of Suspension consist of the following:

(a) (i) Key personnel in SAG shall have been replaced so as to affect, in the opinion of the Association, materially and adversely, the implementation of the Project.

(ii) The pay agent shall have failed to comply with any of its obligations under the Fiduciary Agency Agreement.

(iii) An RPO shall have failed to comply with any of its obligations under a Productive Grant Agreement to which it is a party.

(b) Notwithstanding the rights contained in Section 6.02 of the General Conditions, it is understood that if any of the events specified in paragraphs (a) (ii) or (a) (iii) of this Section shall have occurred, the Association may, by notice to the Recipient, choose to suspend in whole or in part the right of the Recipient to make withdrawals from the Credit Account for expenditures solely in respect of Part 2 of the Project or the concerned RPO, respectively.

4.02. The Co-financing Deadline for the effectiveness of the Co-financing Agreement is the date ninety (90) days after the Effective Date.
4.03. The Additional Event of Acceleration consists of the following, namely, that the event specified in paragraph (a) (i) of Section 4.01 of this Agreement occurs and is continuing for a period of 60 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 Operational Manual has been adopted by the Recipient, through SAG and SEFIN.

5.02. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than eighteen (18) months after the Association’s approval of the Credit which expire on December 17, 2009.

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 General de Crédito Público  
Avenida Cervantes  
Tegucigalpa, M.D.C.  
Honduras, C.A.

<table>
<thead>
<tr>
<th>Cable:</th>
<th>Telex:</th>
<th>Facsimile:</th>
</tr>
</thead>
<tbody>
<tr>
<td>HACIENDA</td>
<td>1308</td>
<td>(504) 237-4142</td>
</tr>
<tr>
<td>Tegucigalpa</td>
<td>FINANZAS HO</td>
<td>(504) 238-6995</td>
</tr>
</tbody>
</table>

- 3 -
6.03. The Association’s Address is:

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

Cable: INDEVAS
Telex: 248423 (MCI)
Facsimile: 1-202-477-6391

AGREED at Tegucigalpa, Honduras, as of the day and year first above written.

REPUBLIC OF HONDURAS

By /s/ Rebeca P. Santos
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Laura Frigenti
Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to contribute to increased productivity and competitiveness among organized rural small-scale producers of the Recipient’s territory through their participation in productive alliances.

The Project consists of the following parts:

Part 1: Support for Productive Alliances

Supporting pre-investment activities to: (i) promote, create and consolidate productive alliances among RPOs and commercial partners; (ii) identify potential business opportunities for the productive alliances, including, *inter alia*, opportunities with respect to basic grains; and (iii) convert the business opportunities into business plans. Such pre-investment activities include specifically the following:

A. (1) Elaborating and implementing communication strategies to facilitate the formation of productive alliances; and (2) supporting the formation of productive alliances.

B. (1) Providing technical support to RPOs to identify and develop viable business plans jointly with their respective commercial partners, including, *inter alia*, business plans with respect to basic grains; and (2) providing training to RPOs to strengthen their entrepreneurial capacities to collect and manage commercial information, export, administrate (bookkeeping and accounting), and identify business opportunities and partners.

C. (1) Providing training and certifying technical service providers to acquire the knowledge and skills for the preparation of business profiles and business plans; (2) promoting business opportunities with RPOs, including, *inter alia*, opportunities with respect to basic grains; and (3) providing training and technical assistance to improve management and develop innovative credit mechanisms in the rural economy, particularly targeting rural financial institutions.

D. Carrying out technical studies to accumulate knowledge in key areas of competitiveness, including market studies and analyses of new potential value chains.

Part 2: Productive Alliances

A. Providing Productive Grants to RPOs for the implementation of selected Productive Subprojects prepared in the context of business plans for productive alliances between RPOs and at least one agro-processor, wholesaler or other commercial partner, to be carried out in the Project Area, and which is to be co-financed by: (i) a counterpart
contribution in cash or in kind by the RPO; and (ii) co-financing by a PFI, all in the amounts and in accordance with the provisions set forth in the Operational Manual.

B. Establishing and maintaining a complementary guarantee fund to guarantee the loans made by the PFIs to RPOs for Productive Subprojects, in accordance with the provisions set forth in the Operational Manual.

Part 3: Project Management, Monitoring and Evaluation

Supporting SAG and SEFIN with the incremental costs associated with Project implementation, administration and monitoring, including the establishment of a participatory monitoring and evaluation system for the Project.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements.

1. The Recipient shall establish and maintain throughout Project implementation a steering committee responsible for Project oversight and coordination, comprised of representatives of SEFIN, SAG, SDP, INA, RPOs and the private sector (and any other institution in addition to or in substitution of the aforementioned, as approved by the Association and set forth in the Operational Manual), and which duties shall include:

   (a) approving Project annual operating plans;

   (b) ratifying the approval of the business plans by the evaluation committee referred to in Section I.D.2 (c) of Schedule 2 to this Agreement;

   (c) overseeing Project performance; and

   (d) suggesting necessary adjustments to Project implementation based on the results of the Project monitoring and evaluation system.

2. (a) (i) The Recipient, through SAG, shall establish and maintain throughout Project implementation, a Project coordination unit (PCU), with composition, functions and responsibilities acceptable to the Association.

   (ii) The Recipient shall ensure that the PCU is at all times during Project implementation headed by a coordinator and assisted by staff in adequate numbers (including inter alia, technical specialists, an administrator and regional field coordinators), all with qualifications and experience satisfactory to the Association.

(b) (i) The Recipient, through SEFIN, shall maintain throughout Project implementation a Project administration unit (UAP), with composition, functions and responsibilities acceptable to the Association.

   (ii) The Recipient shall ensure that the UAP is at all times during Project implementation staffed by personnel adequate in numbers (including inter alia, procurement and financial
management specialists), all with qualifications and experience satisfactory to the Association.

(c) The Recipient undertakes that, unless the Association may otherwise agree, PCU and UAP personnel shall only be hired based on professional criteria and shall only be replaced for reasons related to performance. The performance of PCU and UAP personnel shall be assessed once a year by an independent firm contracted under terms of reference satisfactory to the Association, which firm shall be hired by the Recipient no later than ninety (90) days after the Effective Date.

B. Implementation Documents

1. (a) The Recipient shall, through SAG and SEFIN, adopt a Project operational manual acceptable to the Association, therein setting forth rules, methods, guidelines and standard documents for the carrying out of the Project, including the following:

   (i) the detailed description of Project implementation activities, their sequencing and the prospective timetable and benchmarks in relation thereto; and (B) the detailed institutional arrangements in respect thereof, including, *inter alia*, the specific division of responsibilities between SAG (which will implement the technical aspects of the Project) and SEFIN (which will manage the fiduciary aspects of the Project);

   (ii) the Project’s administrative, accounting, auditing, reporting, financial, procurement and disbursement procedures, including all pertinent standard documents and model contracts in relation thereto;

   (iii) the criteria for: (A) the eligibility of RPOs; (B) the selection, approval, implementation, monitoring and evaluation of the Productive Subprojects, including, *inter alia*, the roles and responsibilities of the different actors involved in the Productive Subprojects; (C) the terms and conditions for Productive Grants, including *inter alia*, the arrangements for the management of funds disbursed for the implementation of Productive Subprojects; (D) the RPO counterpart contributions (in cash or in kind) and PFI co-financing requirements for a Productive Subproject to benefit from Credit financing; and (E) the model forms for business proposals, business plans and the Productive Grant Agreements;
(iv) the Environmental Management Plan and the Indigenous People’s Plan for the Project, and other safeguard procedures referred to in paragraph E of this Section I;

(v) the plan for the training and the capacity building activities under the Project;

(vi) the plan for the monitoring and supervision of the Project, including all environmental, economic and social aspects in relation thereto;

(vii) the plan to address governance issues and mitigate potential risks of corruption under the Project; and

(viii) the performance indicators for the Project.

(b) The Recipient, through SAG and SEFIN, shall carry out the Project in accordance with the Operational Manual.

(c) The Operational Manual may be amended from time to time with the prior approval of the Association. In the case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

C. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

D. Sub-projects

1. The Recipient, through SAG and SEFIN, shall enter into an agreement, satisfactory to the Association, with each eligible RPO, therein setting forth the respective obligations of the parties thereunder, notably with respect to the preparation and implementation of the respective Productive Subproject.

2. The Recipient, through SAG and SEFIN, shall make a Productive Grant to the eligible RPO pursuant to the respective Productive Grant Agreement, in accordance with the eligibility and procedures set forth in the Operational Manual and which shall include the following:

(a) Subject to the provisions of paragraph (d) (i) hereunder, the Productive Grants from SAG and SEFIN to RPOs shall be made on a non-reimbursable basis.
(b) The Productive Grants shall be made to RPOs to increase rural competitiveness in the context of productive alliances between RPOs and at least one agro-processor, wholesaler or other commercial partner, and provided that co-financing for the respective Productive Subproject has been secured by the respective RPO from a PFI in accordance with the provisions set forth in the Operational Manual.

(c) The business plans for Productive Subprojects shall be approved by an evaluation committee, satisfactory to the Association, composed of: (i) a value chain specialist; (ii) environmental and social specialists; and (iii) three or four outside experts, all selected and contracted by SAG and SEFIN on an ad hoc basis, depending on types of productive alliances proposed and their respective value chains, and in accordance with terms of reference set forth in the Operational Manual. Final decisions made by this evaluation committee shall be ratified by the steering committee referred to in Section I.A.1 of Schedule 2 to this Agreement and made publicly available.

(d) The Recipient, through SAG and SEFIN, shall obtain rights adequate to protect its interests and those of the Association, including the right to:

(i) suspend or terminate the right of an RPO to use the proceeds of the Productive Grant, or obtain a refund of all or any part of the amount of a Productive Grant then withdrawn, upon the RPO's failure to perform any of its obligations under the Productive Grant Agreement concerned; and

(ii) require each RPO to:

(A) carry out the relevant Productive Subproject with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association, including in accordance with the Operational Manual and the provisions of the Anti-Corruption Guidelines applicable to recipients of credit proceeds other than the Recipient;

(B) provide, promptly as needed, the resources required for the purpose, including without limitation, a counterpart contribution in cash or in kind in accordance with the provisions set forth in the Operational Manual;

(C) maintain in good standing the loan agreement with the PFI which co-finances the Productive Subproject or secure an equivalent alternative source of co-financing;
(D) procure the goods, works and services to be financed out of the Productive Grant in accordance with the provisions of this Agreement;

(E) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association, the progress of the Productive Subproject and the achievement of its objectives;

(F) (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the relevant Productive Subproject; and (2) at the Association’s or Recipient’s request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements so audited to the Recipient and the Association;

(G) enable the Recipient and the Association to inspect the relevant Productive Subproject, its operation and any relevant records and documents; and

(H) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing.

3. The Recipient, through SAG and SEFIN, shall exercise its rights under each Productive Grant Agreement in such a manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, not assign, amend, terminate, abrogate, waive or fail to enforce any Productive Grant Agreement or any provision thereof.

E. Safeguards

1. The Recipient, through SAG, shall ensure that the RPOs carry out the Productive Subprojects in accordance with the Environmental Management Plan and the IPP prepared for the Project.
2. The Recipient undertakes that, unless the Association shall otherwise agree:

(a) (i) no transformation or degradation of Critical Natural Habitats shall take place as a consequence of Project implementation, including Productive Subprojects; (ii) no activities involving the clearing or logging of natural forests shall be carried out as part of the Project; and (iii) any activities within existing protected areas shall be consistent with the written management plans for those areas (if they exist) and also with the written consent of the protected area management authority, prior to the approval of a Productive Subproject for Credit financing;

(b) any Productive Subprojects involving the culture of non-native fish species shall take place only in the vicinity of those rivers, lakes, or other bodies of water where such non-native species were already present prior to 2007;

(c) all proposals for Productive Subprojects shall be screened for any pesticide use, and the restrictions and procedures set forth in the EMP and the Operational Manual with regard to pesticide use shall be observed;

(d) the procedures set forth in the OM in the event any “chance finds” of archeologically or culturally significant resources are encountered during implementation shall be observed; and

(e) no physical or economic involuntary resettlement (as interpreted in accordance with the Association’s Operational Policy 4.12) shall take place as a consequence of Project implementation, including Productive Subprojects.

F. Other Implementation Arrangements.

1. No later than 90 days after the Effective Date, the Recipient, through SAG and SEFIN, shall select, in accordance with the provisions of Section III of Schedule 2 to this Agreement and pursuant to terms of reference previously agreed with the Association, and thereafter use throughout Project implementation for purposes of Part 2 of the Project, a pay agent acceptable to the Association.

2. The Recipient shall maintain throughout Project implementation, a credit guarantee fund satisfactory to the Association, set up with the Recipient’s own resources in an estimated amount of $5 million equivalent, to be used exclusively to guarantee loans made by PFIIs under the Project, all in accordance with the structure and procedures set forth in the Operational Manual.
Section II.  Project Monitoring, Reporting and Evaluation

A.  Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the Performance Indicators. Each Project Report shall cover the period of one semester, and shall be furnished to the Association not later than forty-five days after the end of the period covered by such report.

B.  Financial Management, Financial Reports and Audits

1. The Recipient, through SEFIN, shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. The Recipient, through SEFIN, shall prepare and furnish to the Association, as part of the Project Reports, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Association.

3. The Recipient, through SEFIN, shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

4. No later than 90 days after the Effective Date, the Recipient, through SEFIN, shall have carried out the action plan agreed with the Association dated April 8, 2008 for the strengthening of SEFIN’s financial management for the Project.

Section III.  Procurement

A.  General


   (a) All goods, works and services (other than consultants’ services) required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
(b) Without any limitations to any other provisions set forth in this Section or in the Procurement Guidelines, the following shall expressly govern the procurement of goods, works and services (other than consultant services) under this Section:

(i) Contracts shall be awarded to the lowest evaluated bid in accordance with criteria set forth in the bidding documents, and without taking into account, in the evaluation, the financial cost of foreign exchange components.

(ii) Foreign bidders shall not, as a condition for submitting bids, be required to: (A) be registered in the Recipient’s territory; (B) have a representative in the Recipient’s territory; (C) be associated with suppliers or contractors of the Recipient’s territory; and (D) certify that, in their country of origin, suppliers or contractors of the Recipient’s territory are allowed to participate in competitive bidding procedures under equal conditions with other bidders.

(iii) Contracts shall not be divided for the sole purpose of reducing contract amounts.

2. Consultants’ Services.

(a) All consultants’ services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.

(b) Without limitation to any other provisions set forth in this Section or the Consultant Guidelines, the following shall expressly govern the procurement of consultants’ services under this Section:

(i) foreign consultants shall be permitted to participate in the selection process even if there is availability of consultants of the Recipient’s territory for the services being procured; and

(ii) foreign consultants shall not be required to be registered with associations of the Recipient’s territory or to be associated with consulting firms of the Recipient’s territory as a condition for participating in any selection process.

3. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of
particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Works and Non-Consultant Services

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods, works and services (other than consultants’ services) shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. Other Methods of Procurement of Goods, Works and Non-Consultant Services. The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and services (other than consultants’ services). The Procurement Plan shall specify the circumstances under which such methods may be used:

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) National Competitive Bidding</td>
</tr>
<tr>
<td>(b) Shopping</td>
</tr>
<tr>
<td>(c) Direct Contracting</td>
</tr>
</tbody>
</table>

C. Particular Methods of Procurement of Consultants’ Services

1. Quality- and Cost-based Selection. Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. Other Methods of Procurement of Consultants’ Services. The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used:

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Quality-based Selection</td>
</tr>
<tr>
<td>(b) Selection under a Fixed Budget</td>
</tr>
<tr>
<td>(c) Least Cost Selection</td>
</tr>
<tr>
<td>(d) Selection based on Consultants’ Qualifications</td>
</tr>
<tr>
<td>(e) Single-source Selection</td>
</tr>
<tr>
<td>(f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines</td>
</tr>
<tr>
<td>for the Selection of Individual Consultants</td>
</tr>
<tr>
<td>(g) Sole Source Procedures for the Selection of Individual Consultants</td>
</tr>
</tbody>
</table>
D. **Review by the Association of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association.

**Section IV. Withdrawal of the Proceeds of the Financing**

**A. General**

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (Category), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, consultant’s services, Training and Operating Costs for Part 1 of the Project</td>
<td>4,600,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Goods, works and services for Productive Subprojects under Part 2.A of the Project</td>
<td>11,800,000</td>
<td>100% except for those costs covered by the RPO’s counterpart contribution and the costs covered by the PFI co-financing according to the provisions set forth in the Operational Manual</td>
</tr>
<tr>
<td>(3) Administrative fee for the pay agent referred to in Section I.F.1 of Schedule 2 to this Agreement</td>
<td>300,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Goods, consultant’s services, Training and Operating Costs for Part 3 of the Project</td>
<td>1,400,000</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Unallocated</td>
<td>300,000</td>
<td></td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>18,400,000</td>
<td></td>
</tr>
</tbody>
</table>

B. **Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made in respect of:

   (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed $1,500,000 equivalent may be made for payments made prior to this date.
but on or after November 1, 2007 (but in no case more than one year from the date of this Agreement), for Eligible Expenditures; or

(b) payments made for expenditures covered by Category 2 in the table in paragraph 1 above, unless a Productive Grant Agreement for the carrying out of a Productive Subproject, and including adequate environmental mitigation measures in relation with its implementation, shall have been entered into between the Recipient, through SAG and SEFIN, and an RPO, all in accordance with the criteria, procedures, terms and conditions set forth in the Operational Manual.

2. The Closing Date is November 30, 2015.
SCHEDULE 3

Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each May 15 and November 15, commencing November 15, 2018 to and including May 15, 2028:</td>
<td>5%</td>
</tr>
</tbody>
</table>

* 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


2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


4. “Co-financing” means an amount of four million United States Dollars ($4,000,000), to be provided by the Co-financier to assist in financing the Project.


6. “Critical Natural Habitats” means: (i) existing protected areas in the Recipient’s territory (including those listed in the Recipient’s Environmental Impact Assessment Report for the Project dated October 26, 2007); (ii) officially proposed protected areas in the Recipient’s territory; and (iii) other natural areas in the Recipient’s territory which meet the criteria set forth in Annex A of the Association’s Operational Policy 4.04.

7. “EMP” or “Environmental Management Plan” means the Recipient’s plan for the management of environmental aspects of the Project which is included in the Recipient’s Environmental Impact Assessment Report for the Project dated October 26, 2007, and is set forth in the OM, as may be amended from time to time with the prior approval of the Association.

8. “Fiduciary Agency Agreement” means the agreement to be entered into between the Recipient, through SAG and SEFIN, and an agent pursuant to Section I.F.1 of Schedule 2 to this Agreement, as the same may be amended from time to time with the prior approval of the Association.

9. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006), with the modifications set forth in Section II of this Appendix.

11. “IPP” or “Indigenous People’s Plan” means the Recipient’s Indigenous People’s Plan for the Project dated October 29, 2007, as may be amended from time to time with the prior approval of the Association.

12. “Operating Costs” means in respect of Categories (1) and (4) in the table in Section IV.A.2 of Schedule 2 to this Agreement, the incremental expenses incurred on account of Project implementation, including office equipment and supplies, vehicle operation and maintenance, communication and insurance costs, office administration costs, utilities, travel, per diem and supervision costs and salaries of locally contracted employees.

13. “OM” or “Operational Manual” means a manual for Project implementation as referred to in Section I.B.1 of Schedule 2 to this Agreement.

14. “PCU” means the Project coordination unit within SAG referred to in Section I.A.2 (a) of Schedule 2 to this Agreement.

15. “PFI” means a private financial institution such as a commercial bank, a credit and savings cooperative and a private institution of financial development which has committed to co-finance a Productive Subproject.


17. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated April 8, 2008 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

18. “Productive Grant” means a transfer of resources proposed to be made out of the proceeds of the Credit to an RPO under Part 2 of the Project, subject to the specific terms and conditions set forth in the Operational Manual and the relevant Productive Grant Agreement between the Recipient, through SAG and SEFIN, and the RPO concerned.

19. “Productive Grant Agreement” means an agreement between the Recipient, through SAG and SEFIN, and an RPO as referred to in Section I.D.1 of Schedule 2 to this Agreement.

20. “Productive Subproject” means a specific income enhancing set of activities to be carried out by a RPO utilizing the proceeds of a Productive Grant made under Part 2 of the Project.
“Project Area” means the area consisting of the Recipient’s departments of Comayagua, Copán, Intibucá, La Paz, Lempira, Ocotepeque and Santa Bárbara and any other department which may be acceptable to the Association in addition to, or in substitution of, the above departments.

“RPO” means Rural Producer Organization, a group of rural citizens organized into a legally-constituted private association for the common interest of improving their productivity, competitiveness and market orientation and which, upon meeting all the criteria set forth in the Operational Manual, is found eligible under the Project to receive a Productive Grant on behalf of its members for the carrying out of a Productive Subproject.

“SAG” means Secretaría de Estado en el Despacho de Agricultura y Ganadería, the Recipient’s Ministry of Agriculture and Livestock.

“SDP” means Secretaría de Estado en el Despacho de la Presidencia de la República, the Recipient’s Office of the President.

“SEFIN” means Secretaría de Estado en el Despacho de Finanzas, the Recipient’s Ministry of Finance.

“Training” means, in respect of categories (1) and (4) in the table in Section IV.A.2 of Schedule 2 to the Agreement: (i) reasonable travel, room, board and per diem expenditures incurred by trainers and trainees in connection with their training and by non-consultant training facilitators; (ii) course fees; (iii) training facility rentals; and (iv) training material preparation, acquisition, reproduction and distribution expenses not otherwise covered under said Section IV.A.2 of Schedule 2 to this Agreement.

“UAP” means the Project administration unit within SEFIN referred to in Section I.A.2 (b) of Schedule 2 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the General Conditions for Credits and Grants of the Association, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. Paragraph (b) of Section 3.03 is hereby deleted in its entirety.