June 30, 2011

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

Re: Republic of Honduras: Strengthening Municipal Territorial Planning Capacity as part of the Honduras Land Administration Program (PATH)
SFLAC Grant No. TF099664

Dear Sir:

In response to the request for financial assistance made on behalf of the Republic of Honduras (“Recipient”), I am pleased to inform you that the International Development Association (“World Bank”), acting as administrator of grant funds provided by Spain (“Donor”) under the Spanish Fund for Latin America and the Caribbean (“SFLAC”), proposes to extend to the Recipient, a grant in an amount not to exceed three hundred eighty thousand United States Dollars (US$380,000) (“Grant”) on the terms and conditions set forth or referred to in this letter agreement, which includes the attached Annex (“Agreement”), to assist in the financing of the project described in the Annex (“Project”). This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the Recipient may withdraw the Grant proceeds subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.

Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. This Agreement shall become effective in accordance with the provisions of Section IV of this Agreement, provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within 90 days after the date of
signature of this Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.

Very truly yours,

INTERNATIONAL DEVELOPMENT ASSOCIATION

By p.p. Trina Haque
C. Felipe Jaramillo
Director
Central America
Latin America and the Caribbean Region

AGREED:
REPUBLIC OF HONDURAS

By: /s/ William Chong Wong
Authorized Representative

Name: William Chong Wong
Title: Minister of Finance
Date: July 13, 2011

Enclosures:


(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006.
Article I

Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank Out of Various Funds dated July 31, 2010 (“Standard Conditions”) constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement and the following terms have the following meanings:

(a) “AECID” means Agencia Española de Cooperación Internacional, the Spanish Agency for International Cooperation, a public law entity under the Ministry of Foreign Affairs and Cooperation through the Secretary of State for International Cooperation, established by Law 23/1998 as the management authority of the Spanish policy of international cooperation for development, whose objective is the promotion, management and implementation of public policies of international development cooperation aimed at combating poverty and achieving sustainable human development in developing countries.

(b) “Associated Program” means the proposed Second Land Administration Project to be financed by the World Bank and carried out by the Recipient, which objective is to provide the population in the area of the Associated Program with improved, decentralized land administration services, including better access to, and more accurate information on, property records and transactions.


(d) “Municipality” means an autonomous entity established pursuant to the Recipient’s Decree No. 134-90 dated October 29, 1990, the Recipient’s Ley de Municipalidades, published in the Recipient’s Official Gazette on
November 19, 1990, as said Decree may have been amended to the date of this Agreement, and including the regulations adopted pursuant to the Recipient’s Accord No. 1893 of February 29, 1993, as said regulations may have been amended to the date of this Agreement.

(e) “Operational Manual” means the Recipient’s manual for the Associated Program dated June 9, 2011, as such manual may be amended from time to time with the prior written consent of the World Bank.

(f) “PATH” means the program designed to establish a national property rights system (Sistema Nacional de Administración de la Propiedad) under a single entity that will be fully integrated and decentralized, whereby information on land use will be collected and registered within links to geographical and legal information on public and private property (real estate, movable assets, commercial rights and intellectual property rights), and data will be collected in an efficient and timely manner and declaring the Recipient’s commitment to the execution of such program, as set forth or referred to in the letter dated November 26, 2003, from the Recipient to the World Bank, which letter was updated by a complementary letter dated June 8, 2011, from the Recipient to the World Bank.

(g) “PCU” means the unit established within the IP and to be maintained by IP during the Project in accordance with paragraph 2.03 (a) of this Agreement.

(h) “Pilot Municipality” means a Selected Municipality which has been further selected to participate in the Project according to the criteria set forth in the Operational Manual.

(i) “Procurement Plan” means the Recipient’s procurement plan for the Project as referred to in paragraph 2.07 (a) (iii) of this Agreement.

(j) “Selected Municipality” means a Municipality, which has been selected to participate in the Associated Program, according to the criteria set forth in the Operational Manual.

(k) “Subsidiary Agreement” means the agreement referred to in Section 2.03 (c) of this Agreement.

Article II
Project Execution

2.01. Project Objectives and Description. The objective of the Project is to improve local governance by supporting the Recipient’s decentralization strategy with the development of municipal territorial planning capacity within PATH’s framework. The Project consists of the following parts:

Part 1: Design the Governance Capacity Building Program for Municipalities
(a) Designing the training modules for the governance capacity building program for Municipalities.

(b) Conducting a technical review of the training modules designed under Part 1 (a) of the Project to ensure that such training modules are didactic for its targeted audience (i.e., Municipalities).

(c) Carrying out consultations with focus groups consisting of relevant stakeholders to assess the effectiveness and appropriateness of the training modules designed under Part 1 (a) of the Project.

Part 2: Pilot the Governance Capacity Building Program in at least Four Pilot Municipalities

(a) Adapting the training modules for the governance capacity building program to the needs of each of the Pilot Municipalities.

(b) Conducting governance capacity building program workshops in four Pilot Municipalities using the training modules adapted to their respective needs.

Part 3: Grant Administration, Evaluation, and Knowledge Dissemination

(a) Carrying out Grant administration activities, including, *inter alia*: (i) one external audit; and (ii) carrying out the management and administration of the Project, including the financing of Operating Costs.

(b) Carrying out evaluation activities, including, *inter alia*, evaluating the governance capacity building program conducted in Pilot Municipalities by: (i) designing a monitoring and evaluation plan; and (ii) evaluating the training conducted in Pilot Municipalities.

(c) Carrying out knowledge dissemination activities, including, *inter alia*, documenting and disseminating experiences and lessons learned from: (i) the governance capacity building program carried out in Pilot Municipalities; and (ii) one capacity building pilot activity carried out by AECID.

2.02. Project Execution Generally. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause IP (“Project Implementing Entity”) to carry out the Project in accordance with: (a) the provisions of Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 (“Anti-Corruption Guidelines”); (c) this Article II; (d) the Subsidiary Agreement; and (e) the Procurement Plan.
2.03. **Institutional and Other Arrangements.** For the purposes of carrying out the Project the Recipient shall:

(a) cause the IP to maintain, during Project implementation, a Project coordination unit (“PCU”), with functions, staffing and responsibilities satisfactory to the World Bank and set forth in the Operational Manual, including but not limited to, a national coordinator, a procurement officer, a financial officer, a monitoring and evaluation officer, a communications officer, a social specialist, and an environmental specialist.

(b) cause the IP to undertake that, unless the World Bank may otherwise agree, the PCU personnel shall only be hired based on professional criteria and shall only be replaced for reasons related to performance.

(c) make the proceeds of the Grant available to the IP under a subsidiary agreement to be entered into between the Recipient and IP (the “Subsidiary Agreement”), which Subsidiary Agreement shall be on terms and conditions satisfactory to the World Bank, including, *inter alia*, the following provisions:

   (i) the obligation of the Recipient to provide to the IP the funds, facilities, services and other resources necessary to enable the IP to carry out the Project, including promptly transferring to IP the proceeds of the Grant, on a grant basis, to finance the carrying out of the Project with due diligence and efficiency; and

   (ii) the obligation of IP to:

   (A) carry out the Project in accordance with the provisions of paragraph 2.02 of this Agreement;

   (B) maintain the PCU, until completion of the Project, as provided in paragraph 2.03 (a) of this Agreement;

   (C) undertake the hiring of its personnel as provided in paragraph 2.03 (b) of this Agreement;

   (D) maintain policies and procedures adequate to enable the Recipient to monitor and evaluate the Project in accordance with paragraph 2.05 of this Agreement;

   (E) comply with its financial management and procurement obligations in accordance with the provisions of paragraphs 2.06 and 2.07 of this Agreement respectively; and

   (F) take, and/or cause to be taken, all necessary actions to enable the Recipient to comply with its obligations under this Agreement.
(d) exercise its rights and carry out its obligations under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the World Bank and to accomplish the purposes of the Grant; and except as the World Bank shall otherwise agree, not amend, assign, abrogate, suspend, terminate, waive or fail to enforce the Subsidiary Agreement or its provisions thereof. In the event of any inconsistency between the provisions of the Subsidiary Agreement and the provisions of this Agreement, the provisions of this Agreement shall prevail.

(e) cause IP to consult the World Bank and AECID to identify the capacity building pilot activity carried out by AECID, and solely financed through AECID in accordance with AECID’s own rules, to be documented and have its lessons learned disseminated as part of Part 3 (c) (ii) of the Project.

2.04. Donor Visibility and Visit.

(a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donor’s support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, take all measures required on its part to enable the representatives of the Donor to visit any part of the Recipient’s territory for purposes related to the Project.

2.05. Project Monitoring, Reporting and Evaluation.

(a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators acceptable to the World Bank, which indicators shall be included in the Operational Manual. Each Project Report shall cover the period of six calendar months, or any other such period as may be agreed in writing with the World Bank, and shall be furnished to the World Bank not later than forty-five (45) calendar days after the end of the period covered by such report.

(b) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than three months after the Closing Date. In order to assist the Recipient in preparing the Completion Report, the Recipient shall employ consultants in accordance with the provisions of paragraph 2.07 of this Agreement.

2.06. Financial Management.
(a) The Recipient shall ensure, and shall cause IP to ensure, that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure, and shall cause IP to ensure, that interim unaudited financial reports for the Project are prepared and furnished to the World Bank as part of the Project Report not later than 45 days after the end of each calendar semester, covering the semester, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have, and shall cause IP to have, its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such 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 World Bank not later than six months after the end of such period.

2.07. **Procurement.**

(a) **General.** All goods, non-consulting services and consultants’ services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I of the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Procurement Guidelines”), in the case of goods, and non-consulting services;

(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Consultant Guidelines”) in the case of consultants’ services;

(iii) the provisions of this paragraph, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines (“Procurement Plan”);

(iv) without any limitations to any other provisions set forth in this paragraph 2.07 or in the Procurement Guidelines, the following shall expressly govern the procurement of goods and non-consulting services under this paragraph:
(A) 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.

(B) Foreign bidders shall not, as a condition for submitting bids, be required to:

(1) be registered in the Recipient’s territory;

(2) have a representative in the Recipient’s territory;

(3) be associated with suppliers or contractors of the Recipient’s territory; or

(4) 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.

(v) without limitation to any other provisions set forth in this paragraph 2.07 or the Consultant Guidelines, the following shall expressly govern the procurement of consultants’ services under this paragraph:

(A) 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

(B) 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.

(b) Definitions. The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

(c) Particular Methods of Procurement of Goods and Non-consulting Services.

(i) International Competitive Bidding. Except as otherwise provided in subparagraph (ii) below, goods and non-consulting
services shall be procured under contracts awarded on the basis of International Competitive Bidding.

(ii) **Other Methods of Procurement of Goods and Non-consulting Services.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and non-consulting 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>

(d) **Particular Methods of Procurement of Consultants’ Services.**

(i) **Quality and Cost-based Selection.** Except as otherwise provided in subparagraph (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

(ii) **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) Least Cost Selection</td>
</tr>
<tr>
<td>(b) Selection based on Consultants’ Qualifications</td>
</tr>
<tr>
<td>(c) Quality-based Selection</td>
</tr>
<tr>
<td>(d) Selection under a Fixed Budget</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 for the Selection of Individual Consultants</td>
</tr>
<tr>
<td>(g) Sole Source Procedures for the Selection of Individual Consultants</td>
</tr>
</tbody>
</table>

(e) **Review by the World Bank of Procurement Decisions.** The Procurement Plan shall set forth those contracts which shall be subject to the World Bank’s Prior Review. All other contracts shall be subject to Post Review by the World Bank.

**Article III**  
**Withdrawal of Grant Proceeds**
3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may 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 World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant 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 Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods</td>
<td>128,300</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Consultants’ Services</td>
<td>126,900</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Operating costs</td>
<td>8,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Training</td>
<td>116,800</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>380,000</td>
<td>---</td>
</tr>
</tbody>
</table>

For purposes of this paragraph, the terms:

(a) “Operating Costs” means reasonable expenditures incurred by the Recipient which would not have been incurred absent the Project, for the maintenance and leasing of vehicles and equipment, fuel, office supplies and other consumables, insurance, office rent, internet connection costs, utilities and travel, transportation and accommodations, and salaries of incremental PCU staff.

(b) “Training” means expenditures (other than for consultants’ services), solely as required for the Project, incurred for: (i) reasonable travel, room, board and *per diem* expenditures incurred by trainers and trainees; (ii) training facility and equipment rentals; and (iii) training material preparation, acquisition, reproduction and distribution expenses not otherwise covered under this paragraph.
3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is July 31, 2012, or such other date that the Bank shall establish by notice to the Recipient; however, said Closing Date shall not be later than six months after the Associated Program is declared effective.

**Article IV**  
**Effectiveness; Termination**

4.01. **Effectiveness.** This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the conditions specified below have been satisfied:

   (a) this Agreement has been countersigned by the Recipient and delivered to the World Bank; and

   (b) the Subsidiary Agreement referred to in paragraph 2.03 (c) of this Agreement has been executed on behalf of the Recipient and IP and a copy of such executed agreement has been received by the World Bank.

4.02. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to paragraph 4.01 of this Agreement (“Effective Date”). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this paragraph until such event (or events) has (or have) ceased to exist.

4.03. **Termination for Lack of Implementation or Disbursement.** This Agreement and all obligations of the parties under it shall terminate if: (a) the Grant has not been signed before November 2, 2011; (b) it has not been implemented or has not disbursed any funds after 6 months of its signature; (c) the Associated Program has been dropped, in which case signed contracts may be paid with SFLAC Secretariat’s approval; and/or (d) the SFLAC Secretariat has determined that there is lack of progress in the implementation of this Project, unless the World Bank, after consideration of the reason for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.

**Article V**  
**Recipient’s Representative; Addresses**
5.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is its Minister of Finance.

5.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

*Secretaría de Estado en el Despacho de Finanzas*
3era. Calle, 5ta. Ave.
Centro de Tegucigalpa,
Fte. a Quinchón León
Tegucigalpa, Honduras

Cable: HACIENDA  Facsimile: (504) 237-4142

5.03. **World Bank’s Address.** The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

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

Cable: INDEVAS  Telex: 248423 (MCI) or 64145 (MCI)  Facsimile: 1-202-477-6391