Re: HONDURAS: Second Amendment to the Financing Agreement Credit No. 4466-HN (Second Road Rehabilitation and Improvement Project and the Financing Agreement Credit No. 4583-HN (Additional Financing for Second Road Rehabilitation and Improvement Project)

June 25, 2013

His Excellency
Mr. Wilfredo Cerrato
Minister of Finance
Secretaria de Estado en el Despacho de Finanzas
Avenida Cervantes, Barrio El Jazmín
Tegucigalpa, M.D.C.
Republic of Honduras

Dear Minister Cerrato:

Please refer to: (a) the Financing Agreement between the Republic of Honduras (the Recipient) and the International Development Association (the Association) dated October 13, 2008 (the Financing Agreement) as amended; and (b) the Financing Agreement between the Recipient and the Association, dated August 2, 2010, (the Additional Financing Agreement) with respect to the above-captioned Project. Capitalized terms used in this letter (Amendment Letter) and not defined herein have the meaning ascribed to them in the Financing Agreement and the Additional Financing Agreement respectively.

Pursuant to your letter dated May 16, 2013 to the Association wherein a request is made to amend the Financing Agreement and the Additional Financing Agreement, we are pleased to inform you that the Association hereby agrees to your request in the terms described below. Consequently, the Financing Agreement and the Additional Financing Agreement are hereby amended to read as follows:

A. Financing Agreement

1. Article 3.01 is amended to read as follows:

   "3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall: (a) carry out Parts A, C.1 and D.1 of the Project through SOPTRAVI; (b) cause the Road Fund to carry out Parts B, C.2 and D.2 of the Project; and (c) cause the Coordinating Authority to carry out Part E of the Project, all in accordance with the provisions of Article IV of the General Conditions."

2. Schedule 1 is amended to read as set forth in Annex 1 to this Amendment Letter.

3. Section III A.1 (a) of Schedule 2 is amended to read as follows:
“(a) All goods, works and services (other than consultants’ services) required for Parts A through D of 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.”

4. Section III A.2 (a) of Schedule 2 is amended to read as follows:

“(a) All consultants’ services required for Parts A through D of 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.”

5. The table included under Section IVA.2 of Schedule 2 to the Financing Agreement is amended to read as follows:

<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, works, consultant’s services, Training and Operating Costs for Parts A.3, A.5, C.1 and D.1 of the Project</td>
<td>17,954,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Goods, works, consultant’s services, Training and Operating Costs for Part A.4 of the Project</td>
<td>10,300,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Goods, works, consultant’s services, Training and Operating Costs for Parts B, C.2 and D.2 of the Project</td>
<td>1,116,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Project Preparation Advance</td>
<td>0</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Unallocated</td>
<td>230,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>29,600,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

6. The following definitions are added, placed in alphabetical order, (and the existing definitions are consequently renumbered to keep the alphabetical order) to read as follows:
“Coordinating Authority” means the entity or entities designated by the Borrower in the IRM Operations Manual and approved by the Association pursuant to Section I.H.1 (a) (i) of Schedule 2 of the Additional Financing Agreement to be responsible for coordinating the IRM Part of the Project;" 

“Eligible Emergency” means an event that has caused, or is likely to imminently cause, a major adverse economic and/or social impact to the Recipient, associated with a natural or man-made crisis or disaster.

“Emergency Expenditure” means any of the Eligible Expenditures set forth in the IRM Operations Manual in accordance with the provisions of Section I.F.1 (a) (ii) of Schedule 2 to this Agreement and required for the activities included in the IRM Part of the Project.

“IRM” means immediate response mechanism.

“IRM Operations Manual” means the Recipient’s manual referred to in Section I.F.1 (a) of Schedule 2 of this Agreement to be adopted by the Recipient for the IRM Part of the Project according to the provisions of said Section, as such manual may be amended from time to time with the prior written consent of the Association.

“IRM Part” means Part E of the Project.

“Operating Costs” means in respect of Categories (1), (2) and (3) in the table in Section IV.A.2 of Schedule 2 to this Agreement, the incremental expenses incurred on account of Project implementation of Part A through D, 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.

“Tropical Depression No. 16” means a weather system that crossed the Recipient’s northern part between the 14th and 18th of October 2008, causing heavy rains and severe floods resulting in death, displacement and damaged or destroyed infrastructure in 17 out of 18 departments in the Recipient’s territory.

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B. Additional Financing Agreement

1. Article 3.01 is amended to read as follows:

   “3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall: (a) carry out Parts A, C.1 and D.1 of the Project through SOPTRAVI; (b) cause the Road Fund to carry out Parts B, C.2 and D.2 of the Project; and (c) cause the Coordinating Authority to carry out Part E of the Project, all in accordance with the provisions of Article IV of the General Conditions.”

2. Schedule 1 is amended to read as set forth in Annex 1 to this Amendment Letter.

3. The following paragraph is added under Section 1 of Schedule 2 to read as follows:
“F. Implementation Arrangements for Part E of the Project (Immediate Response Mechanism)

1. In order to ensure the proper implementation of Part E of the Project (“IRM Part”), the Recipient shall take the following measures:

(a) prepare and furnish to the Association for its review and approval, an operations manual (“IRM Operations Manual”) which shall set forth detailed implementation arrangements for the IRM Part, including: (i) designation of terms of reference for, and resources to be allocated to, the entity to be responsible for coordinating and implementing the IRM Part (“Coordinating Authority”); (ii) specific activities which may be included in the IRM Part, Eligible Expenditures required therefore (“Emergency Expenditures”), and any procedures for such inclusion; (iii) financial management arrangements for the IRM Part; (iv) procurement methods and procedures for emergency expenditures (as amended by the Association) to be financed under the IRM Part; (v) documentation required for withdrawals of Emergency Expenditures; (vi) environmental and social safeguard management frameworks for the IRM Part, consistent with the Association’s policies on the matter; and (vii) any other arrangements necessary to ensure proper coordination and implementation of the IRM Part;

(b) afford the Association a reasonable opportunity to review the proposed IRM Operations Manual;

(c) promptly adopt the IRM Operations Manual for the IRM Part as shall have been approved by the Association;

(d) ensure that the IRM Part is carried out in accordance with the IRM Operations Manual; provided, however, that in the event of any inconsistency between the provisions of the IRM Operations Manual and this Agreement, the provisions of this Agreement shall prevail; and

(e) not amend, suspend, abrogate, repeal or waive any provision of the IRM Operations Manual without prior approval by the Association.

2. The Recipient shall, throughout the implementation of the IRM Part, maintain the Coordinating Authority, with adequate staff and resources satisfactory to the Association.

3. The Recipient shall undertake no activities under the IRM Part (and no activities shall be included in the IRM Part) unless and until the following conditions have been met in respect of said activities:

(a) the Recipient has determined that an Eligible Emergency has occurred, has furnished to the Association a request to include
said activities in the IRM Part in order to respond to said Eligible Emergency, and the Association has agreed with such determination, accepted said request and notified the Recipient thereof; and

(b) the Recipient has prepared and disclosed all safeguards instruments required for said activities, in accordance with the IRM Operations Manual, the Association has approved all such instruments, and the Recipient has implemented any actions which are required to be taken under said instruments.”

4. Section III A.1 (a) of Schedule 2 is amended to read as follows:

“(a) All goods, works and services (other than consultants’ services) required for Parts A through D of 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.”

5. Section III A.2 (a) of Schedule 2 is amended to read as follows:

“(a) All consultants’ services required for Parts A through D of 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.”

6. A new paragraph is added under Section III of Schedule 2 to read as follows:

“E. Procurement of Emergency Expenditures under the IRM Part of the Project

Notwithstanding any provision to the contrary in this Section, Emergency Expenditures required for the IRM Part of the Project shall be procured in accordance with the procurement methods and procedures set forth in the IRM Operations Manual.”

7. The table under Section IV A.2 of Schedule 2 is amended to read as follows:

<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) (a) Goods, works, consultant’s services, Training and Operating Costs for Parts A.8 and A.9 of the Project; and</td>
<td>6,614,000</td>
<td>100%</td>
</tr>
<tr>
<td>(b) [intentionally left blank]</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Category</td>
<td>Amount of the Financing Allocated (expressed in SDR)</td>
<td>Percentage of Expenditures to be Financed</td>
</tr>
<tr>
<td>----------</td>
<td>--------------------------------------------------</td>
<td>------------------------------------------</td>
</tr>
<tr>
<td>(2) (a) Goods, works, consultant's services, Training and Operating Costs for Part C.1(b)(i) of the Project; and (b) [intentionally left blank]</td>
<td>1,100,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Goods, works, consultant's services, Training and Operating Costs for Part D of the Project</td>
<td>0</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Unallocated</td>
<td>200,000</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Emergency Expenditures under Part E of the Project</td>
<td>0</td>
<td>100%</td>
</tr>
<tr>
<td>(6) Goods, works, consultant services, Training and Operating Costs for Parts A.4, A.5, C.1 and D.1 of the Project</td>
<td>5,746,000</td>
<td>100%</td>
</tr>
<tr>
<td>Cancelled as of August 9, 2011</td>
<td>3,140,000</td>
<td></td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>16,800,000</td>
<td></td>
</tr>
</tbody>
</table>

8. The definition included under paragraph 2 (b) of Section IV of Schedule 2 is amended to read as follows:

"(b) the term "Operating Costs" means the incremental expenses incurred on account of Project implementation of Parts A through D, 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 (none of which would have been incurred absent the Project)."

9. A new paragraph (b) is added to Section IV B.1 of Schedule 2 to read as follows:

"(b) under Category (5), for Emergency Expenditures under Part E of the Project, unless and until the Association is satisfied, and notified the Recipient of its satisfaction, that all of the following conditions have been met in respect of said activities:

(i) the Recipient has determined that an Eligible Emergency has occurred, has furnished to the Association a request to include said activities in the IRM Part in order to respond to said Eligible Emergency, and the Association has agreed with such
determination, accepted said request and notified the Recipient thereof;

(ii) the Recipient has prepared and disclosed all safeguards instruments required for said activities, and the Recipient has implemented any actions which are required to be taken under said instruments, all in accordance with the provisions of Section I.F.1(a)(vi) of this Schedule;

(iii) the Recipient's Coordinating Authority has adequate staff and resources, in accordance with the provisions of Section I.F.1(a)(i) of this Schedule, for the purposes of said activities; and

(iv) the Recipient has adopted the IRM Operations Manual in form, substance and manner acceptable to the Association and the provisions of the IRM Operations Manual remain - or have been updated in accordance with the provisions of Section I.F.1(c) of this Schedule so as to be appropriate for the inclusion and implementation of said activities under the IRM Part.”

10. The following definitions are added, placed in alphabetical order, (and the existing definitions are consequently renumbered to keep the alphabetical order) to read as follows:

“Coordinating Authority” means the entity or entities designated by the Borrower in the IRM Operations Manual and approved by the Association pursuant to Section I.H.1 (a) (i) of Schedule 2 of the Additional Financing Agreement to be responsible for coordinating the IRM Part of the Project;”

“Eligible Emergency” means an event that has caused, or is likely to imminently cause, a major adverse economic and/or social impact to the Recipient, associated with a natural or man-made crisis or disaster.

“Emergency Expenditure” means any of the Eligible Expenditures set forth in the IRM Operations Manual in accordance with the provisions of Section I.F.1 (a)(ii) of Schedule 2 to this Agreement and required for the activities included in the IRM Part of the Project.

“IRM” means immediate response mechanism.

“IRM Operations Manual” means the Recipient’s manual referred to in Section I.F.1 (a) of Schedule 2 of this Agreement to be adopted by the Recipient for the IRM Part of the Project according to the provisions of said Section, as such manual may be amended from time to time with the prior written consent of the Association.

“IRM Part” means Part E of the Project.”

Please confirm your agreement with the foregoing amendments by signing and dating this Amendment Letter in the spaces provided below. All other provisions of the Financing Agreement and the Additional Financing Agreement, except as amended through this
Amendment Letter shall remain in full force and effect. This Amendment Letter shall be executed in two counterparts, each of which shall be an original.

Upon confirmation, please return one fully executed original to us. The provisions set forth in this Amendment Letter shall become effective as of the date of this Amendment Letter, upon receipt by the Association of one fully executed original of this Amendment Letter.

Please be advised that the Association has established December 31, 2014 as the later date for purposes of Section IV.B.2 of the Financing and Additional Financing Agreements.

Please also note that the restructuring paper as approved by the Association on June 19, 2013 will be disclosed on its external website.

Sincerely,

INTERNATIONAL DEVELOPMENT ASSOCIATION

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

AGREED:

REPUBLIC OF HONDURAS

By: Authorized Representative
Name: Minister of Finance
Title: Date: September 02, 2013
cc: Juan Jose Bravo Moises, Executive Director, World Bank
     Maria Antonieta de Bográn, Presidential Designate, Secretary of the Presidency
     Hilda Hernández, Minister, Ministry of Social Development
     Roxana Araujo, Minister, Ministry of Health
     Felicito Ávila Ordoñez, Minister, Ministry of Labor and Social Security
     Evelyn Bautista, Vice-Minister, Ministry of Finance
     Marcela Aguilar, Portfolio Analyst, Ministry of Finance
Annex 1

SCHEDULE 1

Project Description

The objective of the Project is to improve the Recipient’s quality of road network and of road management through, inter alia: (i) improved governance and enhanced road management capacity in SOPTRAVI and the Road Fund; (ii) improvement of selected road corridors; (iii) extension in the scope of maintenance of the Recipient’s unpaved road network; and (iv) improvement of the Recipient’s capacity to respond promptly and effectively to an Eligible Emergency.

The Project consists of the following Parts:

Part A: Rehabilitation and Improvement of Selected Primary and Secondary Roads

1. [Intentionally left blank]

2. [Intentionally left blank]

3. Improvement and rehabilitation of about 60 kilometers of the La Esperanza – Camasca road which consists of: (a) rehabilitation and paving to improve the road design and operating conditions; (b) carrying out of realignment works, including earthworks; and (c) the rehabilitation and repair of bridges, drainage structures and shoulders.

4. Improvement and rehabilitation of about 47 kilometers of the Olanchito – San Lorenzo road which consists of: (a) paving of main road; and (b) the rehabilitation and repair of bridges, drainage structures and shoulders.

5. Improvement and rehabilitation of about 31 kilometers of the El Porvenir – Marale road which consists of: (a) the improvement of the pavement structure; and (b) the rehabilitation and repair of bridges, drainage structures and shoulders.

6. [Intentionally left blank]

7. Implementation of the social and environmental mitigation measures recommended by the ESMF as well as of improved road safety measures for Parts A.1 to A.6, A.8 and A.9 of the Project with respect to the works referred to therein.

8. Reconstruction of sections of the following primary roads damaged as a result of the Tropical Depression No. 16 (a) Tegucigalpa-Danli; (b) La Entrada – Copan Ruinas; and (c) Santa Rita – Yoro.

9. Reconstruction or replacement of bridges on the primary and secondary network damaged as a result of Tropical Depression No. 16.
Part B: Maintenance of Unpaved Road Networks by Micro-enterprises

Carrying out a pilot program on road routine maintenance by Micro-enterprises for about 310 kilometers of main roads selected by the Recipient in accordance with criteria acceptable to the Association including, *inter alia*, recently rehabilitated primary and secondary unpaved roads in the Recipient’s Departments of Copan, Ocotepeque, Colon and Olancho.

Part C: Implementation Support

1. (a) Provision of technical assistance and training to UEBM in the areas of road management, procurement and financial management; and (b) design and supervision of the civil works under Part A of the Project.

2. Provision of technical support for the start-up and establishment of new Micro-enterprises, as well as for supervision of the works to be carried out under Part B of the Project.

Part D: Institutional Strengthening

1. Institutional strengthening of SOPTRAVI through, *inter alia*, the provision of equipment, technical assistance and training in the following areas:

   (a) Strategic sector planning, including the development of: (i) the Strategic Sector Plan, following a participatory process; (ii) institutional and investment strategies for the extension and quality improvement of the road network; (iii) a monitoring and evaluation system for the Project; and (iv) a contract management system.

   (b) Human resource management, including the: (i) development of a training program; and (ii) the establishment of a training center.

   (c) Road management, including: (i) the preparation of a revised Road Maintenance Plan; and (ii) building technical capacity on the areas of road technical management, road safety aspects and social and environmental management within SOPTRAVI.

   (d) Governance and transparency, including: (i) provision of technical support and capacity building of SOPTRAVI; and (ii) development of programs between SOPTRAVI and other public agencies and civil society organizations to disseminate good practices and share knowledge with respect to the road infrastructure sector.

   (e) Information system modernization, including the provision of technical assistance for the modernization of the technology and information systems required for contract and financial management of the Project.

2. Institutional strengthening of the Road Fund through, *inter alia*, the provision of equipment, technical assistance and training for: (a) the development of a revised Road Maintenance Plan in collaboration with SOPTRAVI; (b) strengthening of road management in regard to the carrying out of maintenance programs, including their supervision, technical
standards and unit cost; and (c) its participation in the training program to be prepared by SOPTRAVI under Part D.1 (b)(ii) of the Project.

**Part E: IRM**

Provision of support to respond to an Eligible Emergency, as needed.