

**No. 16253**

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**UNITED STATES OF AMERICA  
and  
HONDURAS**

**Loan Agreement for hurricane rural reconstruction and recovery (with annex). Signed at Tegucigalpa on 19 February 1975**

*Authentic texts: Spanish and English.*

*Registered by the United States of America on 27 January 1978.*

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**ÉTATS-UNIS D'AMÉRIQUE  
et  
HONDURAS**

**Accord de prêt relatif à l'exécution d'un programme de reconstruction et de relèvement dans les zones rurales dévastées par un cyclone (avec annexe). Signé à Tegucigalpa le 19 février 1975**

*Textes authentiques : espagnol et anglais.*

*Enregistré par les États-Unis d'Amérique le 27 janvier 1978.*

# LOAN AGREEMENT<sup>1</sup> — ALLIANCE FOR PROGRESS — BETWEEN THE REPUBLIC OF HONDURAS AND THE UNITED STATES OF AMERICA FOR HURRICANE RURAL RECONSTRUCTION AND RECOVERY

Agency for International Development

Loan Nos. 522-T-026, 522-V-027, 522-W-028

Tegucigalpa, Honduras, 19 February 1975

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<sup>1</sup> Came into force on 19 February 1975 in accordance with section 9.07.

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## ALLIANCE FOR PROGRESS — LOAN AGREEMENT

LOAN AGREEMENT, in furtherance of the Alliance for Progress, dated the 19th day of February, 1975, between the GOVERNMENT OF THE REPUBLIC OF HONDURAS ("Borrower") and the UNITED STATES OF AMERICA, acting through the AGENCY FOR INTERNATIONAL DEVELOPMENT ("A.I.D.").

### Article I. THE LOAN

Section 1.01. *The Loan.* A.I.D. agrees to lend to Borrower in furtherance of the Alliance for Progress and pursuant to the Foreign Assistance Act of 1961, as amended, an amount not to exceed fifteen million United States dollars (\$15,000,000) ("Loan") to assist Borrower in carrying out the Program referred to in section 1.02 ("Program"). The Loan shall be used exclusively to finance the United States dollar costs ("Dollar Costs") and Honduran Lempira costs ("Lempira Costs") of goods and services required for the Program.

The Loan funds shall be apportioned among the following designated Activities as follows: not to exceed twelve million five hundred thousand United States dollars (\$12,500,000) of Loan Funds which will be transferred by the Borrower to the Banco Nacional de Fomento (BNF) for utilization for Farm Credit and Marketing; not to exceed one million five hundred thousand United States dollars (\$1,500,000) of Loan funds may be utilized for Primary School Reconstruction; and not to exceed one million United States dollars (\$1,000,000) of Loan funds which will be transferred by the Borrower to the National Housing Institute (INVA) for utilization for Rural Shelter Reconstruction. The aggregate amount of disbursement under the Loan is hereinafter referred to as "Principal".

Section 1.02. *The Program.* The Program is designed to assist in financing Borrower's Program for the Recovery and Reconstruction of Honduras from the effects of Hurricane "Fifi". The Program will be administered by the Banco Nacional de Fomento ("BNF"), the Ministry of Public Education, and the National Housing Institute (INVA) ("Executing Agencies").

The Program is more fully described in Annex I, attached hereto, which Annex may be modified in writing, within the scope of the Program as set forth in this section, by Implementation Letters issued by the authorized representatives of A.I.D. and approved by the authorized representative of Borrower.

*Article II. TERMS OF REPAYMENT, INTEREST  
AND PAYMENT PROCEDURES*

Section 2.01. *Interest.* Borrower shall pay to A.I.D. interest which shall accrue at the rate of two percent (2%) per annum for ten (10) years following the date of the first disbursement hereunder and at the rate of three percent (3%) per annum thereafter on the outstanding balance of Principal and on any due and unpaid interest. Interest on the outstanding balance of Principal shall accrue from the date of each respective disbursement as such date is defined in section 7.04, and shall be payable semi-annually. Interest on any due and unpaid interest shall accrue from the due date of such interest. Interest shall be computed on the basis of a 365-day year. The first payment of interest shall be due and payable no later than six (6) months after the first disbursement hereunder, on a date to be specified by A.I.D.

Section 2.02. *Repayment.* Borrower shall repay to A.I.D. the Principal within forty (40) years from the date of the first disbursement hereunder in sixty-one (61) approximately equal semi-annual installments of Principal and interest. The first installment of Principal shall be payable nine and one-half (9½) years after the date on which the first interest payment is due in accordance with section 2.01. A.I.D. shall provide Borrower with an amortization schedule in accordance with this section after the final disbursement under the Loan.

Section 2.03. *Application, currency and place of payment.* All payment of interest and Principal hereunder shall be made in United States dollars and shall be applied first to the payment of interest due and then to the repayment of Principal. Except as A.I.D. may otherwise specify in writing, all such payments shall be made to the Agency for International Development, Washington, D.C. 20523, U.S.A., ATTENTION: CASHIER; and shall be deemed made when received by the Office of the Cashier.

Section 2.04. *Prepayment.* Upon payment of all interest and refunds then due, Borrower may prepay, without penalty, all or any part of the Principal. Any such prepayment shall be applied to the installments of Principal in the inverse order of their maturity.

Section 2.05. *Renegotiation of the terms of the Loan.* In light of the undertakings of the United States of America and the other signatories of the Act of Bogotá<sup>1</sup> and the Charter of Punta del Este<sup>2</sup> to forge an Alliance for Progress, Borrower agrees to negotiate with A.I.D., at such time or times as A.I.D. may agree upon, an acceleration of repayment of the Loan in the event that the capacity of Borrower to service a more rapid liquidation of its obligation hereunder should improve in light of the internal and external economic and financial position and prospects of the Republic of Honduras, taking into consideration the relative capital requirements of the Republic of Honduras and the other signatories of the Act of Bogotá and the Charter of Punta del Este.

*Article III. CONDITIONS PRECEDENT TO DISBURSEMENT*

Section 3.01. *Conditions precedent to initial disbursement.* Prior to the first disbursement or to the issuance of the first Commitment Document under the Loan, Borrower shall furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- (a) an opinion of the Procurador General of the Republic of Honduras or of other counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by and executed on behalf of Borrower and that it constitutes a valid and legally binding obligation of Borrower in accordance with all of its terms; and

<sup>1</sup> Department of State Bulletin, 3 October 1960.

<sup>2</sup> Ibid., 11 September 1961.

- (b) a statement of the names of the persons holding or acting in the Office of Borrower specified in section 9.02, and a specimen signature of each person specified in such statement.

Section 3.02. *Conditions precedent to disbursement for the Farm Credit Activity.* Prior to the first disbursement or the issuance of the first commitment document under the Loan to finance any part of the Farm Credit Activity, Borrower shall submit to A.I.D. in form and substance satisfactory to A.I.D.:

1. a time-phased plan for the use of Activity resources (financial, administrative and technical), which plan shall:
  - (a) give preference to the use of Activity resources in hurricane-affected areas; and
  - (b) specify the policies and procedures governing the use of said resources.
2. a standard agricultural credit loan agreement to be used by the BNF and credit recipients, which agreement shall include *inter alia*:
  - (a) a provision for the sale of the collateralized grain crop to the BNF at a price sufficient to constitute an incentive for the production of grains; and
  - (b) a provision for the reduction of delinquent loan balances due to the BNF on previous production credits.

Section 3.03. *Condition precedent to disbursement for the Grain Marketing Activity.* Prior to the first disbursement or the issuance of the first commitment document under the Loan to finance any part of the Grain Marketing Activity, borrower shall submit to A.I.D. in form and substance satisfactory to A.I.D., a plan for grain buying operations to be conducted by BNF in connection with this Activity. Such plan shall include pricing policies to be adopted by BNF in carrying out the Activity during calendar year 1975.

Section 3.04. *Conditions precedent to disbursement for the Primary School Reconstruction Activity.* Prior to the first disbursement or the issuance of the first commitment document under the Loan to finance any part of the Primary School Reconstruction Activity, Borrower shall submit to A.I.D. in form and substance satisfactory to A.I.D.:

- (a) an executed agreement with a firm or organization, approved by Borrower and A.I.D. for implementation of the Activity; and
- (b) a time-phased plan covering the execution of the Activity.

Section 3.05. *Conditions precedent to disbursement for the Rural Shelter Reconstruction Activity.* Prior to the first disbursement or the issuance of the first commitment document under the Loan to finance any part of the Rural Shelter Reconstruction Activity, other than for technical assistance, Borrower shall submit to A.I.D. in form and substance satisfactory to A.I.D.:

- (a) a time-phased plan for implementation of the Activity;
- (b) the policies and procedures governing all financing pursuant to this Activity;
- (c) evidence that INVA has established a Special Fund for the purpose of carrying out this Activity and that Borrower has agreed to credit all funds disbursed by A.I.D. under the Loan for this Activity to such Special Fund;
- (d) evidence that INVA has established within its organizational framework an accounting procedure for this Special Fund and has assigned staff which shall have the responsibility to carry out the objectives of this Activity; and
- (e) a plan covering the proposed use of mortgage repayments credited to the Special Fund.

Section 3.06. *Terminal date for meeting conditions precedent to initial disbursement.* If all of the conditions specified in section 3.01 shall not have been met within thirty (30) days from the date of this Agreement, or such later date as Borrower and A.I.D. may agree to in writing, A.I.D. at its option may terminate this Agreement by giving written notice to the Borrower. Upon the giving of such notice this Agreement and all obligations of the parties hereunder shall terminate.

Section 3.07. *Terminal date for meeting conditions precedent to disbursement for designated activities.* If any of the conditions specified in sections 3.02, 3.03, 3.04, and 3.05 shall not have been met within sixty (60) days from the date of the Agreement, or such later date as Borrower and A.I.D. may agree to in writing, A.I.D. at its option may terminate any activity for which said Conditions as above specified have not been met and reduce the Loan by the amount herein allocated for such activity by giving written notice to the Borrower. Such notice shall specify the effective date of the exercise of such option by A.I.D.

Section 3.08. *Notification of meeting conditions precedent to disbursement.* A.I.D. shall notify the Borrower, upon determination by A.I.D., that the Conditions Precedent to Disbursement specified in sections 3.01, 3.02, 3.03, 3.04 and 3.05 have been met.

#### Article IV. GENERAL COVENANTS AND WARRANTIES

Section 4.01. *Execution of the Program.* (a) The Program will be carried out at all times with due diligence and efficiency, and in conformity with sound engineering, construction, financial, administrative and technical practices. In this connection, Borrower shall employ suitably qualified and experienced consultants to assist in the execution of the Program and suitably qualified and competent construction contractors to carry out the construction portion of the Program.

(b) Borrower shall cause the Program to be carried out in conformity with all of the plans, specifications, contracts, schedules, and other Program documents, and modifications thereto, approved by A.I.D. pursuant to this Agreement.

Section 4.02. *Funds and other resources to be provided by Borrower.* Borrower shall provide promptly as needed all funds, in addition to the Loan, and all other resources required for the punctual and effective carrying out of the Program.

Section 4.03. *Continuing consultation.* Borrower and A.I.D. shall cooperate fully to assure that the purposes of the Loan will be accomplished. To this end, Borrower and A.I.D. shall from time to time, at the request of either party, exchange views through their representatives with regard to the progress of the Program, the performance by Borrower of its obligations under this Agreement, the performance of the consultants, contractors, and suppliers engaged on the Program and the matters relating to the Program. The effect of the Program upon the natural environment shall be taken into consideration prior to and during the implementation of the Program, and Borrower and A.I.D. shall cooperate to minimize any harmful effects upon the natural environment.

Section 4.04. *Management.* Borrower shall provide qualified and experienced management for the Program, and it shall train such staff as may be appropriate for the execution of the Program.

Section 4.05. *Operations and maintenance.* Borrower shall operate, maintain, and repair the components of the Program in conformity with sound engineering, financial, administrative, and technical practices and in such manner as to insure the continuing and successful achievement of the purpose of the Program.

Section 4.06. *Taxation.* This Agreement, the Loan, and any evidence of indebtedness issued in connection herewith shall be free from, and the Principal and interest shall be paid without deduction for and free from, any taxation or fees imposed under

the laws in effect within Honduras. With the exception of income taxation of citizens of Honduras and permanent residents of Honduras, to the extent that: (a) any contractor, including any personal services contractor or consulting firm, or any personnel of such a contractor financed hereunder, and any property or transactions relating to such contracts; and (b) any commodity procurement transaction financed hereunder, are not otherwise exempt from identifiable taxes, tariffs, duties, and other levies imposed under laws in effect in Honduras, Borrower shall to the extent prescribed in and pursuant to Implementation Letters pay or reimburse the same under section 4.02 of this Agreement with funds other than those provided under the Loan, and from funds other than those already committed to the Program by Borrower.

Section 4.07. *Utilization of goods and services.* Except as Borrower and A.I.D. may otherwise agree in writing, no goods or services financed under the Loan shall be used to promote or assist any foreign aid project or activity associated with or financed by any country not included in Code 935 of the A.I.D. *Geographic Code Book* as in effect at the time of such use.

Section 4.08. *Disclosure of material facts and circumstances.* Borrower represents and warrants that all facts and circumstances which it has disclosed to A.I.D. or caused to be disclosed to A.I.D. in the course of obtaining the Loan are accurate and complete and that it has disclosed to A.I.D. accurately and completely, all facts and circumstances that might materially affect the Program and the discharge of its obligations under this Agreement. The Borrower shall promptly inform A.I.D. of any facts and circumstances that may hereafter arise which might materially affect, or which it is reasonable to believe might materially affect, the Program or the discharge of the Borrower's obligations under this Agreement.

Section 4.09. *Commissions, fees, and other payments.* (a) Borrower warrants and covenants that in connection with obtaining the Loan or taking any action under or with respect to this Agreement, it has not paid, and will not pay or agree to pay, nor to the best of its knowledge has there been paid nor will there be paid or agree to be paid by any other person or entity, commissions, fees, or other payments of any kind, except as regular compensation to Borrower's full-time officers and employees or as compensation for bona fide professional, technical, or comparable services. Borrower shall promptly report to A.I.D. any payment or agreement to pay for such bona fide professional, technical, or comparable services to which it is a party or of which it has knowledge (indicating whether such payment has been made or is to be made on a contingent basis), and if the amount of any such payment is deemed unreasonable by A.I.D., the same shall be adjusted in a manner satisfactory to A.I.D.

(b) Borrower warrants and covenants that no benefits have been or will be received by Borrower or any official of Borrower in connection with the procurement of goods and services financed hereunder, except fees, taxes, or similar payments legally established in Honduras.

Section 4.10. *Maintenance and audit of records.* Borrower shall maintain, or cause to be maintained, in accordance with sound accounting principles and practices consistently applied, books and records relating both to the Program and to this Agreement. Such books and records shall, without limitation, be adequate to show:

- (a) the receipt and use of goods and services acquired with funds disbursed pursuant to this Agreement;
- (b) the nature and extent of solicitations of prospective suppliers of goods and services acquired;
- (c) the basis of the award of contracts and orders to successful bidders; and
- (d) the progress of the Program.

Such books and records shall be regularly audited, in accordance with sound auditing standards, for such period and at such intervals as A.I.D. may request, and shall be maintained for five years after the date of the last disbursement made by A.I.D. or until all sums due A.I.D. under this Agreement have been paid, whichever date shall first occur.

Section 4.11. *Reports.* Borrower shall furnish to A.I.D. such information and reports relating to the Loan and to the Program as A.I.D. may request.

Section 4.12. *Inspections.* The authorized representatives of A.I.D. shall have the right at all reasonable times to inspect Program activities, the utilization of all goods and services financed under the Loan, and Borrower's books, records, and other documents relating to the Program. Borrower shall cooperate with A.I.D. to facilitate such inspections and shall permit representatives of A.I.D. to visit any part of Honduras for any purpose relating to the Loan.

Section 4.13. *Technical assistance.* Borrower shall retain or otherwise provide in form and substance satisfactory to Borrower and A.I.D., for the duration of the Program, such technical assistance as may be necessary to ensure satisfactory implementation of the Program.

#### Article V. SPECIAL COVENANTS

Section 5.01. *Evaluation of the Program.* Borrower covenants that within six months next succeeding the execution of this Agreement, it will conduct jointly with A.I.D. and the Executing Agencies a review and evaluation of all of the Loan-financed Activities referred to herein in section 1.02.

Section 5.02. *Grain Stabilization Fund.* Borrower shall cause the Grain Stabilization Revolving Fund established pursuant to the terms and conditions of the Loan Agreements relating to A.I.D. Loan Nos. 522-L-021 and 522-T-025 to be maintained at that level comprising total contributions thereto from referenced Loans and the contribution of this Loan as specified in Annex I of this Agreement and from BNF as established pursuant to sections 3.01 (e) and 6.04 of A.I.D. Loan Agreement No. 522-L-021 and section 5.03 of the A.I.D. Loan Agreement No. 522-T-025. If at any time said Fund should fall below said level, Borrower covenants to contribute forthwith to such Fund sufficient funds from its own resources to restore such Fund to its established level as aforesaid.

Section 5.03. *Lines of credit — Central Bank of Honduras.* Borrower covenants that during the disbursement period of the Loan, it will utilize financing from the Central Bank of Honduras in amounts that will permit the Central Bank to continue making available to the BNF existing lines of credit equivalent to four million five hundred thousand United States dollars (\$4,500,000) for the financing of basic grains and other agricultural products and the rehabilitation of small farmers, and that such lines of credit will be the local currency counterpart to the Loan for the purposes of carrying out these agricultural activities.

Section 5.04. *Special Fund.* Borrower covenants that the Special Fund established by INVA pursuant to section 3.05 (c) herein will be maintained and utilized continuously throughout the life of the Program for its intended purposes and that all funds disbursed by A.I.D. for the Rural Shelter Reconstruction Activity will be credited to said Special Fund.

Section 5.05. *Mortgages financed with Loan funds.* Unless A.I.D. agrees otherwise in writing, Borrower covenants that all mortgages financed with Loan funds under the Rural Shelter Reconstruction Activity shall:

1. Have originated subsequent to the date of this Agreement;



2. Cover shelter units having a sales price not in excess of four hundred United States dollars (\$400) per unit; and
3. Permit INVA to issue bonds utilizing the mortgage portfolio generated by the Special Fund as security therefor.

Section 5.06. *Mortgage repayment fund.* Borrower covenants that throughout the life of the Program all funds received by Borrower or INVA from repayments of mortgages financed with Loan funds pursuant to the Rural Shelter Reconstruction Activity shall be credited to the Special Fund utilized in accordance with the plan referred to herein in section 3.05 (d).

Section 5.07. *Interim financing.* Borrower covenants that in implementing the Rural Shelter Reconstruction Activity it shall permit INVA to utilize Loan funds directly for interim financing to facilitate the reconstruction of individual and cluster shelter units; or it shall advance Loan funds to organizations approved by Borrower and A.I.D. For the purposes aforesaid, subject, however, to INVA's coordination and supervision of shelter units so financed.

Section 5.08. *Technical assistance for the Rural Shelter Reconstruction Activity.* Borrower covenants that in implementing the Rural Shelter Reconstruction Activity Loan funds in an amount not in excess of forty thousand United States dollars (\$40,000) shall be utilized for technical services in accordance with a written contract therefor, which said contract shall be subject to the prior written approval of Borrower and A.I.D.

#### Article VI. PROCUREMENT

Section 6.01. *Eligible procurement outside Central America.* Except as Borrower and A.I.D. may otherwise agree in writing, and except as provided in sub-section 6.08 (c) with respect to marine insurance, disbursements made pursuant to section 7.01 shall be used exclusively to finance the procurement for the Program of goods and services having their source and origin in countries included in Code 941 of the A.I.D. *Geographic Code Book* as in effect at the time orders are placed or contracts are entered into for such goods and services, except for the countries of Central America ("Eligible Goods and Services"). All ocean shipping financed under the Loan shall have both its source and origin in countries included in Code 941 of the A.I.D. *Geographic Code Book* as in effect at the time of shipment, except for countries of Central America.

Section 6.02. *Eligible procurement from Central America.* Except as Borrower and A.I.D. may otherwise agree in writing, disbursements made pursuant to section 7.02 shall be used exclusively to finance the procurement for the Program of goods and services having both their source and origin in countries of Central America.

Section 6.03. *Eligibility date.* Except as Borrower and A.I.D. may otherwise agree in writing, no goods or services may be financed under the Loan which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of this Agreement.

Section 6.04. *Goods and services not financed under the Loan.* Goods and services procured for the Program, but not financed under the Loan, shall have their source and origin in countries included in Code 935 of the A.I.D. *Geographic Code Book* as in effect at the time orders are placed for such goods and services.

Section 6.05. *Implementation of procurement requirements.* The definitions applicable to the eligibility requirements of sections 6.01, 6.02 and 6.04 will be set forth in detail in Implementation Letters.

Section 6.06. *Plans, specifications and contracts.* (a) Except as Borrower and A.I.D. may otherwise agree in writing, Borrower shall furnish to A.I.D. promptly upon preparation all plans, specifications, construction schedules, bid documents and contracts or other arrangements directly relating to and financed with funds of the Program.

(b) Except as Borrower and A.I.D. may otherwise agree in writing, all documents furnished pursuant to subsection (a) above shall be approved by A.I.D. in writing.

(c) All bid documents and documents related to the solicitation of proposals concerning goods and services financed under the Loan shall be approved by Borrower and A.I.D. in writing prior to their issuance. All plans, specifications and other documents relating to goods and services financed under the Loan shall be in terms of United States technical standards and measurements, except as A.I.D. may otherwise agree in writing.

(d) The following contracts financed under the Loan shall be approved by A.I.D. in writing prior to their execution:

- (i) contracts for engineering, consultant and other professional services;
- (ii) contracts for construction services;
- (iii) contracts for such other services as A.I.D. may specify; and
- (iv) contracts for equipment and other commodities.

In the case of any of the above contracts for services, A.I.D. shall also approve in writing the contractor and such contractor personnel as A.I.D. may wish to approve. Material modifications in any of such contracts and changes in any of such personnel shall also be approved by A.I.D. in writing prior to their becoming effective.

(e) Consulting firms (including management consultants) used by Borrower for the Program and financed under the Program, as well as the scope of their services and any of their personnel assigned to the Program, and all construction contractors used by Borrower for the Program, shall have prior approval of A.I.D.

Section 6.07. *Reasonable price.* No more than reasonable prices shall be paid for any goods or services financed, in whole or in part, under the Loan. Such items shall be procured on a fair and, except for professional services, on a competitive basis in accordance with procedures prescribed in Implementation Letters.

Section 6.08. *Shipping and insurance.* (a) Eligible Goods financed under the Loan shall be transported to Honduras on flag carriers of any country included in Code 935 of the A.I.D. *Geographic Code Book* as in effect at the time of shipment.

(b) At least fifty percent (50%) of the gross tonnage of all Eligible Goods financed under the Loan (computed separately for dry bulk carriers, dry cargo liners, and tankers) which shall be transported on ocean vessels, shall be transported on privately owned United States flag commercial vessels unless A.I.D. shall determine that such vessels are not available at fair and reasonable rates for United States flag commercial vessels. In addition, at least fifty percent (50%) of the gross freight revenue generated by all shipments financed under the Loan and transported on dry cargo liners shall be paid to or for the benefit of privately owned United States flag commercial vessels, unless A.I.D. shall determine that such vessels are not available at fair and reasonable rates for United States flag commercial vessels. No goods financed under the Loan may be transported on any ocean vessel (or aircraft) (i) which A.I.D., in a notice to Borrower, has designated as ineligible to carry A.I.D. financed goods or (ii) which has been chartered for the carriage of A.I.D. financed goods unless such charter has been approved by A.I.D.

(c) Marine insurance on Eligible Goods may be financed under the Loan with disbursements made pursuant to section 7.01 provided: (i) such insurance is placed at the lowest available competitive rate in countries of Central America or in a country included in Code 941 of the A.I.D. *Geographic Code Book* as in effect at the time of placement thereof; and (ii) claims thereunder are payable in a freely convertible currency. If in connection with the placement of marine insurance on shipments financed under United States legislation authorizing assistance to other nations, Honduras by statute, decree, rule, or regulation favors any marine insurance company of any country over any marine insurance company authorized to do business in any state of the United States of America, Eligible Goods financed under the Loan shall during the continuance of such

discrimination be insured against marine risk in the United States of America with a company or companies authorized to do a marine insurance business in any state of the United States of America.

(d) Borrower shall insure, or cause to be insured, all Eligible Goods financed under the Loan against risks incident to their transit to the point of their use in the Program. Such insurance shall be issued upon terms and conditions consistent with sound commercial practice, shall insure the full value of the goods, and shall be payable in the currency in which such goods were financed or in any freely convertible currency. Any indemnification received by Borrower under such insurance shall be used to replace or repair any material damage or any loss of the goods insured or shall be used to reimburse Borrower for the replacement or repair of such goods. Any such replacements shall have their source and origin in countries of Central America or in countries included in Code 941 of the A.I.D. *Geographic Code Book* as in effect at the time orders are placed or contracts are entered into for such replacements, and shall be otherwise subject to the provisions of this Agreement.

Section 6.09. *Notification to potential suppliers.* In order that all United States firms shall have the opportunity to participate in furnishing goods and services to be financed under the Loan, Borrower shall furnish to A.I.D. such information with regard thereto, and at such times, as A.I.D. may request in Implementation Letters.

Section 6.10. *United States Government-owned excess property.* Borrower, where consistent with Program objectives, shall utilize with respect to goods financed under the Loan to which Borrower or its Executing Agencies take title at the time of procurement such reconditioned United States Government-Owned Excess Property as may be available within a reasonable period of time. Borrower shall seek assistance from A.I.D. and A.I.D. will assist Borrower in ascertaining the availability of and in obtaining such Excess Property. A.I.D. will make arrangements for any necessary inspection of such property by the Borrower, or its representative. The costs of inspection and of acquisition, and all charges incident to the transfer to the Borrower or its Executing Agencies of such excess property, may be financed under the Loan. Prior to the procurement of any goods other than Excess Property financed under the Loan and after having sought such A.I.D. assistance, Borrower shall indicate to A.I.D. in writing, on the basis of information then available to it, either that such goods cannot be made available from reconditioned United States Government-owned excess property on a timely basis, or that the goods that can be made available are not technically and economically suitable for use in the Program.

Section 6.11. *Information and marking.* Borrower shall give publicity to the Loan and the Program as a program of United States aid in furtherance of the Alliance for Progress and mark goods financed under the Loan as prescribed in Implementation Letters.

Section 6.12. *Employment of non-eligible nationals under construction contracts.* The employment of personnel to perform services under any construction contract financed under the Loan shall be subject to certain requirements with respect to nationals of other than countries of Central America and countries included in Code 941 of the A.I.D. *Geographic Code Book* as in effect at the time the construction contract is entered into. These requirements will be prescribed in Implementation Letters.

#### Article VII. DISBURSEMENTS

Section 7.01. *Disbursements for United States dollar costs.* Upon satisfaction of Conditions Precedent Borrower may, from time to time, request A.I.D. to issue Letters of Commitment for specified amounts to one or more United States Banks, satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, through the use of Letters of Credit or otherwise, for

dollar costs of goods and services procured for the Program in accordance with the terms and conditions of this Agreement. Payment by a bank to a contractor or supplier will be made by the bank upon presentation of such supporting documentation as A.I.D. may prescribe in Letters of Commitment and Implementation Letters. Banking charges incurred in connection with Letters of Commitment and Letters of Credit shall be for the account of Borrower and may be financed under the Loan.

Section 7.02. *Disbursement for lempira costs.* Upon satisfaction of Conditions Precedent, Borrower may, from time to time, request disbursement by A.I.D. of lempiras for lempira costs of goods and services procured for the Program in accordance with the terms and conditions of this Agreement by submitting to A.I.D. such supporting documentation as A.I.D. may prescribe in Implementation Letters. A.I.D. shall make such disbursements from lempiras owned by the United States Government and obtained by A.I.D. with United States dollars. The United States dollar equivalent of the lempiras made available hereunder will be the amount of United States dollars required by A.I.D. to obtain the lempiras.

Section 7.03. *Other forms of disbursements.* Disbursements of the Loan may also be made through such other means as Borrower and A.I.D. may agree to in writing.

Section 7.04. *Date of disbursement.* Disbursements by A.I.D. shall be deemed to occur (a) in the case of disbursements pursuant to section 7.01, on the date on which A.I.D. makes a disbursement to Borrower, its designee, or a banking institution pursuant to a Letter of Commitment and (b) in the case of disbursement pursuant to section 7.02, on the date on which A.I.D. disburses lempiras to the Borrower or its designee.

Section 7.05. *Terminal date for disbursement.* Except as A.I.D. may otherwise agree in writing, no Letter of Commitment or other commitment documents or amendments thereto shall be issued in response to requests received by A.I.D. after twelve (12) months next succeeding the date conditions precedent to initial disbursement as specified in section 3.01 have been met, and no disbursement shall be made against documentation received by A.I.D. or any bank described in section 7.01 after fifteen (15) months next succeeding the date all conditions precedent to initial disbursement specified in section 3.01 have been met. A.I.D. at its option may at any time or times after said latter date reduce the Loan by all or any part thereof for which documentation was not received by such date.

#### Article VIII. CANCELLATION AND SUSPENSION

Section 8.01. *Cancellation by Borrower.* Borrower may, with the prior written consent of A.I.D., by written notice to A.I.D., cancel any part of the Loan (i) which, prior to the giving of such notice A.I.D. has not disbursed or committed itself to disburse, or (ii) which has not then been utilized through the issuance of irrevocable Letters of Credit.

Section 8.02. *Events of default; acceleration.* If any one or more of the following events ("Events of Default") shall occur:

- (a) Borrower shall have failed to pay when due any interest or installment of Principal required under this Agreement;
- (b) Borrower shall have failed to comply with any other provision of this Agreement, including, but without limitation [to], the obligation to carry out the Program with due diligence and efficiency; or
- (c) Borrower shall have failed to pay when due any interest or any installment of Principal or any other payment required under any other loan agreement, any guaranty agreement, or any other agreement between Borrower or any of its agencies and A.I.D. or any of its predecessor agencies; then A.I.D. may, at its option, give to Borrower notice that all or any part of the unrepaid Principal shall be due and

payable sixty (60) days thereafter and, unless the Event of Default is cured within such sixty (60) days:

- (i) such unrepaid Principal and any accrued interest hereunder shall be due and payable immediately; and
- (ii) the amount of any further disbursements made under the outstanding irrevocable Letters of Credit or otherwise shall become due and payable as soon as made.

Section 8.03. *Suspension of disbursement.* In the event that at any time:

- (a) an Event of Default has occurred;
- (b) an event occurs that A.I.D. determined to be an extraordinary situation that makes it improbable either that the purpose of the Loan will be attained or that Borrower will be able to perform its obligation under this Agreement;
- (c) any disbursement by A.I.D. would be in violation of the legislation governing A.I.D.; or
- (d) Borrower or any of its agencies shall have failed to pay when due any interest or any installment or Principal or any other payment required under any loan agreement, any guaranty agreement or any other agreement between Borrower or any of its agencies and the Government of the United States or any of its agencies; or
- (e) satisfactory progress is not being made in carrying out all or part of the Program according to the terms of this Agreement; then A.I.D. may at its option:
  - (i) suspend or cancel outstanding commitment documents to the extent that they have not been utilized through the issuance of irrevocable Letters of Credit or through bank payments made other than under irrevocable Letters of Credit, in which event A.I.D. shall give notice to Borrower promptly thereafter;
  - (ii) decline to make disbursements other than under outstanding commitment documents;
  - (iii) decline to issue additional commitment documents;
  - (iv) at A.I.D. expense, direct that title to goods financed under the Loan shall be transferred to A.I.D. if the goods are from a source outside Honduras, are in a deliverable state, and have not been offloaded in ports of entry of Honduras. Any disbursement made or to be made under the Loan with respect to such transferred goods shall be deducted from Principal.

Section 8.04. *Cancellation by A.I.D.* Following any suspension of disbursements pursuant to section 8.03, if the cause or causes for such suspension of disbursement shall not have been eliminated or corrected within sixty (60) days from the date of such suspension, A.I.D. may, at its option, at any time or times thereafter, cancel all or any part of the Loan that is not then either disbursed or subject to irrevocable Letters of Credit.

Section 8.05. *Continued effectiveness of Agreement.* Notwithstanding any cancellation, suspension of disbursement or acceleration of repayment, the provisions of this Agreement shall continue in full force and effect until the payment in full of all Principal and any accrued interest hereunder.

Section 8.06. *Refunds.* (a) In case of any disbursement not supported by valid documentation or not made or used in accordance with the terms of this Agreement, A.I.D., notwithstanding the availability or exercise of any of the other remedies provided for under this Agreement, may require Borrower to refund such amount in United States dollars to A.I.D. within thirty (30) days after receipt of a request therefor. Such amount shall be made available first for the cost of goods and services procured for the Program

hereunder, to the extent justified; the remainder, if any, shall be applied to the installments of Principal in the inverse order of their maturity, and the amount of the Loan shall be reduced by the amount of such remainder. Notwithstanding any other provision in this Agreement, A.I.D.'s right to require a refund with respect to any disbursement under the Loan shall continue for five years following the date of such disbursement.

(b) In the event that A.I.D. receives a refund from any contractor, supplier, or banking institution, or from any other third party connected with the Loan, with respect to goods or services financed under the Loan and such refund relates to an unreasonable price for goods or services, or to goods that did not conform to specifications, or to services that were inadequate, A.I.D. shall first make such refund available for the cost of goods and services procured for the Program hereunder, to the extent justified, the remainder to be applied to the installments of Principal in the inverse order of their maturity and the amount of the Loan shall be reduced by the amount of such remainder.

Section 8.07. *Expenses of collections.* All reasonable costs incurred by A.I.D., other than salaries of its staff, in connection with the collection of any refund or in connection with amounts due A.I.D. by reason of the occurrence of any of the events specified in section 8.02 may be charged to Borrower and reimbursed to A.I.D. in such manner as A.I.D. may specify.

Section 8.08. *Nonwaiver of remedies.* No delay in exercising or omission to exercise any right, power, or remedy accruing to A.I.D. under this Agreement shall be construed as a waiver of any such rights, powers or remedies.

#### Article IX. MISCELLANEOUS

Section 9.01. *Communications.* Any notice, request, document or other communication given, made, or sent by Borrower or A.I.D. pursuant to this Agreement shall be in writing or by telegram, cable or radiogram and shall be deemed to have been duly given, made, or sent to the party to which it is addressed when it shall be delivered to such party by hand or by mail, telegram, cable or radiogram at the following addresses:

To Borrower:

Mail address

Ministerio de Hacienda y Crédito Público  
Tegucigalpa, D.C., Honduras, C.A.

Cable address

Hacienda  
Tegucigalpa, D.C., Honduras, C.A.

To A.I.D.:

Mail address

Agency for International Development (A.I.D.)  
c/o American Embassy  
Tegucigalpa, D.C., Honduras, C.A.

Cable Address

USAID/Honduras  
c/o American Embassy  
Tegucigalpa, D.C., Honduras, C.A.

Other addresses may be substituted for the above upon giving of notice. All notices, requests, communications, and documents submitted to A.I.D. hereunder shall be in Spanish or English as agreed in writing between Borrower and A.I.D.

Section 9.02. *Representatives.* For all purposes relative to this Agreement, Borrower will be represented by the individuals holding or acting in the office or offices listed below:

- a) Ministry of Finance and Public Credit;
- b) Ministry of Public Education;
- c) Presidency of the Banco Nacional de Fomento; and
- d) General Management of INVA.

A.I.D. shall be represented by the individual holding or acting in the office of the Director, USAID Mission to Honduras.

Such individuals shall have the authority to designate additional representatives by written notice. In the event of any replacement or other designation of a representative hereunder, Borrower shall submit a statement of the representative's name and specimen signature in form and substance satisfactory to A.I.D. Until receipt by A.I.D. of written notice of revocation of the authority of any of the duly authorized representatives of Borrower designated pursuant to this Section, it may accept the signature of any such representative or representatives on any instrument as conclusive evidence that any action effected by such instrument is duly authorized.

Section 9.03. *Implementation Letters.* A.I.D. shall from time to time issue Implementation Letters that will confirm various approvals and set forth the procedures applicable hereunder in connection with the implementation of this Agreement.

Section 9.04. *Promissory notes.* At such time or times as A.I.D. may request, Borrower shall issue promissory notes or such other evidences of indebtedness with respect to the Loan, in such form, containing such terms and supported by such legal opinions as A.I.D. may reasonably request.

Section 9.05. *Termination upon full payment.* Upon payment in full of the Principal and of any accrued interest, this Agreement and all obligations of Borrower and A.I.D. under this Loan Agreement shall terminate.

Section 9.06. *Language.* This Agreement is signed in both Spanish and English in two versions; however, for purposes of resolutions of differences in interpretation, the English version shall prevail.

Section 9.07. *Effective date.* This Agreement shall enter into effect on the date and year indicated at the beginning of this Agreement.

EN FE DE LO CUAL, el Prestatario y los Estados Unidos de América, cada cual actuando a través de su representante debidamente autorizado, celebran el presente Convenio en la fecha y año indicados al principio del mismo.

IN WITNESS WHEREOF, Borrower and the United States of America, each acting through its respective duly authorized representatives, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

La República de Honduras<sup>1</sup>

[Signed — Signé]  
General de Brigada  
OSWALDO LÓPEZ ARELLANO  
Jefe de Estado

[Signed — Signé]

Lic. MANUEL ACOSTA BONILLA  
Ministro de Hacienda y Crédito  
Público

Los Estados Unidos de América<sup>2</sup>

[Signed — Signé]  
PHILLIP V. SANCHEZ  
Embajador

[Signed — Signé]  
FRANK B. KIMBALL  
Director de la A.I.D. en Honduras

<sup>1</sup> The Republic of Honduras — la République du Honduras.

<sup>2</sup> The United States of America — les Etats-Unis d'Amérique.