

EXECUTION VERSION

MILLENNIUM CHALLENGE ACCOUNT THRESHOLD PROGRAM

GRANT AGREEMENT

BETWEEN

**THE UNITED STATES OF AMERICA,
ACTING THROUGH THE MILLENNIUM CHALLENGE CORPORATION**

AND

**THE REPUBLIC OF HONDURAS,
ACTING THROUGH THE MINISTRY OF THE PRESIDENCY**

Dated August 28, 2013

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THRESHOLD PROGRAM GRANT AGREEMENT

This THRESHOLD PROGRAM GRANT AGREEMENT (this “*Agreement*”), dated August 28, 2013, is made between the United States of America, acting through the Millennium Challenge Corporation (“*MCC*”), and the Republic of Honduras (“*Honduras*”), acting through the Ministry of the Presidency (the “*Government*,” and, collectively with MCC, the “*Parties*” and each, individually, a “*Party*”).

RECITALS

WHEREAS, MCC has authorized a program to provide assistance under Section 616 of the Millennium Challenge Act of 2003, as amended, to selected candidate countries that have demonstrated a commitment to strengthening good governance, economic freedom and investments in people in order to assist such countries to become eligible for a Millennium Challenge Compact (the “*Threshold Program*”); and

WHEREAS, MCC has selected Honduras as eligible for the Threshold Program; and

WHEREAS, the Parties wish to implement the program described herein to achieve the goals and objectives described herein (as such program description and objectives may be amended from time to time in accordance with the terms hereof, the “*Program*”);

NOW, THEREFORE, the Parties agree as follows:

ARTICLE 1.

GOAL AND OBJECTIVES

Section 1.1 Program Goal. The goal of this Agreement is to assist Honduras to become eligible for a Millennium Challenge Compact by supporting the implementation of critical institutional and policy reforms that address binding constraints to economic growth in Honduras (the “*Program Goal*”). MCC’s assistance will be provided in a manner that strengthens good governance, economic freedom and investments in the people of Honduras.

Section 1.2 Program Objective. The objective of the Program (the “*Program Objective*”) is to increase the efficiency and transparency of the Government. The Program consists of the projects described in Annex I (each, a “*Project*” and collectively, the “*Projects*”).

Section 1.3 Project Objectives. The objective of each of the Projects (each, a “*Project Objective*” and collectively, the “*Project Objectives*”) is as follows:

(a) The objective of the Public Financial Management Project is to increase the efficiency and transparency of public financial management in Honduras by supporting activities designed to improve budget formulation and execution, planning, payment, procurement capacity and controls, audit capacity and civil society oversight.

(b) The objective of the Public-Private Partnerships Project is to improve the efficiency and transparency of public-private partnerships (“*PPPs*”) in Honduras by supporting

activities designed to increase the Government's capacity to develop, negotiate, implement and oversee PPPs.

ARTICLE 2.

PROGRAM FUNDING

Section 2.1 Program Funding.

(a) MCC hereby grants to the Government, subject to the terms of this Agreement, an amount not to exceed Fifteen Million Six Hundred and Fifty Thousand United States dollars (US\$15,650,000) (the "*Grant*") to support implementation of the Program, as such Program is described in greater detail in Annex I.

(b) The Government agrees that MCC may directly administer and manage a portion of the Grant in order to implement certain activities (the "*MCC-Administered Activities*") related to the Public Financial Management Project, as further described in Annex I.

(c) Other than the portion of the Grant to be utilized for the MCC-Administered Activities, the Grant will be disbursed from time to time (each, a "*Disbursement*") in accordance with the terms of this Agreement, including any conditions to disbursement contained in this Agreement.

(d) The Grant will be allocated as described in Annex III, or as otherwise agreed in accordance with this Agreement.

Section 2.2 Interest. Unless MCC agrees otherwise, the Government will pay or transfer to MCC, in accordance with this Agreement, any interest or other earnings that accrue on the Grant before such funding is used for a Program purpose.

Section 2.3 Government Resources; Budget.

(a) The Government will provide all funds and other resources, and will take all actions, that are necessary to carry out the Government's responsibilities and obligations under this Agreement.

(b) The Government will use its best efforts to ensure that the amount of the Grant that it receives or is projected to receive in each of its fiscal years is fully accounted for in its annual budget.

(c) Unless the Government discloses otherwise to MCC in writing, the Grant will be in addition to the resources that the Government would otherwise receive or budget for the activities implemented under the Program.

Section 2.4 Use of the Grant.

(a) The Government will ensure that the Grant and any assets or services funded by the Grant, in whole or in part, will be used solely in furtherance of this Agreement and the Program.

(b) The Government also will ensure that no Grant funding will be used for any purpose that would violate United States law or policy, as specified in this Agreement or as further notified to the Government in writing by MCC, including but not limited to the following purposes:

(i) for assistance to, or training of, the military, police, militia, national guard or other quasi-military organization or unit;

(ii) for any activity that is likely to cause a substantial loss of United States jobs or a substantial displacement of United States production;

(iii) to undertake, fund or otherwise support any activity that is likely to cause a significant environmental, health or safety hazard, as further described in the “Environmental and Social Assessment Guidelines” posted at www.mcc.gov (the “*MCC Website*”) or otherwise made available by MCC to the Government (“*MCC Environmental Guidelines*”) (to the extent applicable to the Threshold Program and as further instructed by MCC from time to time); or

(iv) to pay for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilizations as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations or to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning.

Section 2.5 Taxes.

(a) Unless the Parties agree otherwise, the Government will ensure that the Grant is free from the payment or imposition of any existing or future taxes, duties, levies, contributions or other similar charges (but not fees or charges for services that are generally applicable in Honduras, reasonable in amount and imposed on a non-discriminatory basis) (“*Taxes*”) of or in Honduras (including any such Taxes imposed by a national, regional, local or other governmental or taxing authority of or in Honduras). Specifically, and without limiting the generality of the foregoing, the Grant will be free from the payment of (i) any tariffs, customs duties, import taxes, export taxes and other similar charges on any goods, works or services introduced into Honduras in connection with the Program; (ii) sales tax, value-added tax, excise tax, property transfer tax and other similar charges on any transactions involving goods, works or services in connection with the Program; (iii) taxes and other similar charges on ownership, possession or use of any property in connection with the Program; and (iv) taxes and other similar charges on income, profits or gross receipts attributable to work performed in connection with the Program and related social security taxes and other similar charges on all natural or legal persons performing work in connection with the Program except (A) natural persons who are citizens or permanent residents of Honduras; and (B) legal persons formed under the laws of Honduras (but excluding the Accountable Entity and any other entity formed for the purpose of implementing the Government’s obligations hereunder).

(b) The Government and MCC may enter into one or more agreements setting forth the mechanisms that the Government will use to implement the tax exemption required by this

Section 2.5. Such mechanisms may include exemptions from the payment of Taxes that have been granted in accordance with applicable law, refund or reimbursement of Taxes by the Government to MCC, the Accountable Entity or to the taxpayer, or payment by the Government to the Accountable Entity or MCC, for the benefit of the Program, of an agreed amount representing any collectible Taxes on the items described in this Section 2.5.

(c) If a Tax has been paid contrary to the requirements of this Section 2.5, the Government will refund promptly to MCC (or to another party designated by MCC) the amount of such Tax in United States dollars or the currency of Honduras within thirty (30) days (or such other period as may be agreed in writing by the Parties) after the Government is notified in writing (whether by MCC or the Accountable Entity) that such Tax has been paid.

(d) The Grant, including any proceeds thereof or Program Assets, may not be applied by the Government in satisfaction of its obligations under this Section 2.5.

ARTICLE 3.

GOVERNMENT REPRESENTATIONS AND OBLIGATIONS

Section 3.1 Government Representations. The Government hereby represents to MCC that the information provided to MCC by or on behalf of the Government in the course of reaching this Agreement is true, correct, and complete in all material respects.

Section 3.2 Government Responsibilities.

(a) Principal Responsibility. The Government is responsible for overseeing and managing the implementation of the Program.

(b) Accountable Entity. The Government hereby designates the entity known as MCA-Honduras to implement the Program and to exercise and perform the Government's right and obligation to oversee, manage and implement the Program, including without limitation, managing the implementation of the Projects, allocating resources and managing procurements. Such entity will: (i) be referred to herein as the "**Accountable Entity**;" (ii) have the authority to bind the Government with regard to the Program (including, without limitation, the legal authority to execute contracts, grants, cooperative agreements or other, similar arrangements); and (iii) act in accordance with MCC's "Guidelines for Accountable Entities and Implementation Structures" provided by MCC or posted on the MCC Website (the "**MCC Governance Guidelines**") (to the extent applicable to the Threshold Program and as further instructed by MCC from time to time). The designation of the Accountable Entity contemplated by this Section 3.2(b) will not relieve the Government of any obligations or responsibilities hereunder or under any related agreement, for which the Government remains fully responsible. MCC hereby acknowledges and consents to the designation in this Section 3.2(b). With the prior written consent of MCC, the Government may designate one or more additional entities to implement the Program and to exercise and perform the Government's right and obligation to oversee, manage and implement the Program.

(c) Policy Performance. In addition to undertaking the specific policy, legal and regulatory reform commitments identified in Annex I, Annex II or elsewhere in this Agreement

(if any), the Government will seek to maintain and to improve its level of performance under the policy criteria identified in Section 607 of the Millennium Challenge Act of 2003, as amended.

(d) Program Assets. Unless MCC agrees otherwise, the Government will ensure that any Program Assets or services funded in whole or in part (directly or indirectly) by the Grant are used solely in furtherance of this Agreement and the Program.

(e) Achievement of Program Objective. The Government will take all necessary or appropriate steps to achieve the Program Objective and the Project Objectives prior to the Completion Date (including, without limitation, funding all costs that exceed the Grant and are required to carry out the terms hereof and achieve such objectives, except as MCC otherwise agrees).

(f) Intellectual Property. The Government grants to MCC a perpetual, irrevocable, royalty-free, worldwide, fully paid, assignable right and license to practice or have practiced on its behalf (including the right to produce, reproduce, publish, repurpose, use, store, modify or make available) any portion or portions of Intellectual Property as MCC sees fit in any medium, now known or hereafter developed, for any purpose whatsoever.

(g) Impoundment; Liens or Encumbrances. The Government will ensure that neither the Grant nor any asset acquired with Grant funding will be subject to any impoundment, rescission, sequestration, liquidation, lien, attachment, enforcement of judgment, pledge, or encumbrance of any kind (each a "*Lien*"), except with MCC's prior written approval. In the event any Lien is nonetheless imposed, the Government will promptly seek the release of such Lien and, if such Lien is imposed by a final non-appealable court order, will pay any amounts due in order to obtain such release; *provided, however*, that the Government will not apply any portion of the Grant funding or any other funds received from MCC (or assets acquired with funds provided by MCC) to satisfy any of its obligations under this Section 3.2(h).

(h) Insurance; Performance Guaranties. The Government will ensure to MCC's satisfaction that any assets acquired with Grant funding are insured and will arrange such other appropriate insurance to cover against risks or liabilities associated with the Program and the transactions contemplated thereby, including by requiring Providers or Covered Providers to obtain adequate insurance and to post adequate performance bonds or other guaranties. The Government or the Accountable Entity will be named as the payee (or an additional insured, as the case may be) on any such insurance and the beneficiary of any such guaranty or bonds. The Government will promptly notify MCC of the payment of any proceeds from claims paid under such insurance or guaranty, and will ensure that any such proceeds will be used to replace or repair any lost, stolen, or damaged assets acquired with Grant funding; *provided, however*, that, at MCC's election, such proceeds will be deposited in an account as designated by or as otherwise directed by MCC.

(i) Autonomy. The Government will ensure that (i) no decision of the Accountable Entity is modified, supplemented, unduly influenced, or rescinded by any governmental authority, except by a non-appealable judicial decision or as otherwise approved by MCC, and (ii) the authority of the Accountable Entity will not be expanded, restricted, or otherwise

modified, except in accordance with this Agreement or as otherwise agreed by the Parties in writing.

(j) Performance Liabilities. No Grant funding or any other funding received from MCC (or assets acquired with funds provided by MCC) may be used to pay any damages, including any indemnification-related payments, incurred or owed by the Government or the Accountable Entity under any agreement between the Government or the Accountable Entity, on the one hand, and any third party.

(k) Publicity. The Government will give appropriate publicity to this Agreement as a program to which the United States of America, through MCC, has contributed, including by posting this Agreement, in English, as MCC may request, on an agreed website, identifying the Grant activity sites and marking assets acquired with the Grant, all in accordance with MCC's "Standards for Global Marking" provided by MCC or posted on the MCC Website (the "**MCC Marking Standards**"); *provided, however*, that any press release or announcement regarding MCC or the fact that MCC is making the Grant or any other publicity materials referencing MCC will be subject to MCC's prior written approval. MCC may post this Agreement on the MCC Website. MCC may also freely use any information it receives in any report or document provided to it with respect to the Program, the Grant or this Agreement.

(l) Further Assurances. The Government will promptly do and perform such other and further acts, and take all necessary and appropriate actions, including using its best efforts to obtain all necessary approvals and consents to otherwise effectively carry out the obligations of the Government set forth in this Agreement.

ARTICLE 4.

IMPLEMENTATION FRAMEWORK

Section 4.1 Program Implementation Plan. The framework for implementation for the Program will be further elaborated in a set of documents, in form and substance approved by MCC, consisting of: (i) the Detailed Financial Plan; (ii) one or more Procurement Plans; (iii) a Work Plan; and (iv) an Audit Plan (each, an "**Implementation Plan Document**" and, collectively, the "**Implementation Plan**"). The Government will submit its proposed Implementation Plan for review and approval by MCC by the timeframes set forth in this Agreement and at least on an annual basis thereafter (or in such other interval as may be required by the Program Guidelines). MCC will review the proposed Implementation Plan and as necessary may request the Government to submit clarifications or adjustments. The Government will submit an updated Implementation Plan or updated Implementation Plan Document during any quarter in which significant changes or modifications are made to a Project or to the Program, or when the Government determines that the expected results, Targets and milestones for the specified year are not likely to be achieved; *provided, however*, that an updated Detailed Financial Plan will be submitted each quarter and an updated Procurement Plan will be submitted at least every six months. In such instances, the Government will submit to MCC for approval a proposed revised Implementation Plan or updated Implementation Plan Document (as applicable) on the same date as the next Disbursement Request is due. The Government will

ensure that the implementation of the Program is conducted in accordance with the Implementation Plan.

(a) Detailed Financial Plan. Unless MCC agrees otherwise, the Government will develop, adopt and implement a detailed financial plan (as approved by MCC) in accordance with the MCC Reporting Guidelines (to the extent applicable to the Threshold Program and as further instructed by MCC from time to time) (as supplemented or otherwise modified from time to time, the “**Detailed Financial Plan**”). The Detailed Financial Plan will set forth the funding requirements for each Activity of the Program (including administrative costs) and for each Project, broken down to the Activity level and projected both on a commitment and cash requirement basis. Annex III, attached hereto, sets forth the allocation of Grant funding for the Program. Annex III may be modified from time to time by agreement of the Parties in accordance with the terms of this Agreement.

(b) Procurement Plan. The Government will develop a procurement plan covering each procurement relating to the Program (each, a “**Procurement Plan**”), and submit such Procurement Plan to MCC for approval before commencing the relevant procurement. Each Procurement Plan will identify, among other things, the method of procurement for the goods, works, or services to be procured. The Government will ensure that all goods, works or services will be procured using the procurement method as approved in each Procurement Plan, and will comply with the method of procurement outlined in such Procurement Plan.

(c) Work Plan. The Government will develop, adopt and implement a work plan, in form and substance satisfactory to MCC, for the overall administration of the Program (the “**Work Plan**”). In addition, the Government will develop, adopt and implement such other work plans relating to the Projects and/or Activities as MCC may request from time to time.

(d) Audit Plan. The Government will develop, adopt and implement a plan, in accordance with the MCC Audit Guidelines (to the extent applicable to the Threshold Program and as further instructed by MCC from time to time), for the audit of the expenditures of the entities that are subject to audit pursuant to the MCC Audit Guidelines (the “**Audit Plan**”). The Audit Plan will be in form and substance satisfactory to MCC and will be developed no later than sixty (60) days before the end of the first period to be audited. Unless MCC agrees otherwise in writing, the Government will engage one or more auditors as contemplated in the MCC Audit Guidelines (each, an “**Auditor**”) to undertake the audits contemplated by the Audit Plan.

Section 4.2 Monitoring and Evaluation. The Government will develop, adopt and implement a monitoring and evaluation plan (the “**M&E Plan**”) that will serve as the primary governing document for monitoring and evaluation activities for the Program. The M&E Plan will be developed and updated in accordance with the “MCC Policy for Monitoring and Evaluation of Compacts and Threshold Programs” provided by MCC or posted on the MCC Website (the “**M&E Policy**”).

Section 4.3 Procurement and Grants.

(a) The Government will ensure that the procurement of all goods, works and services required to implement the Program will be consistent with the “MCC Program Procurement Guidelines” provided by MCC or posted on the MCC Website (the “**MCC Program Procurement Guidelines**”) (to the extent applicable to the Threshold Program and as further instructed in writing by MCC from time to time). The MCC Program Procurement Guidelines include, among others, the following requirements:

(i) open, fair and competitive procedures must be used in a transparent manner to solicit, award and administer contracts and to procure goods, works and services;

(ii) solicitations for goods, works and services must be based upon a clear and accurate description of the goods, works and services to be acquired;

(iii) contracts must be awarded only to qualified contractors that have the capability and willingness to perform the contracts in accordance with their terms on a cost effective and timely basis;

(iv) no more than a commercially reasonable price, as determined, for example, by a comparison of price quotations and market prices will be paid to procure goods, works and services.

(b) Unless MCC agrees otherwise, the Government will ensure that any grant issued in furtherance of the Program (each, a “**Program Grant**”) is awarded, implemented and managed pursuant to open, fair and competitive procedures administered in a transparent manner acceptable to MCC. In furtherance of this requirement, and prior to the issuance of any Program Grant, the Government and MCC will agree upon written procedures to govern the identification of potential recipients, including without limitation appropriate eligibility and selection criteria and award procedures.

Section 4.4 Fiscal Accountability. Unless MCC agrees otherwise, the Government will develop, adopt and implement a manual (as approved by MCC) setting forth the principles, mechanisms and procedures (the “**Fiscal Accountability Plan**”) that will be used to ensure appropriate fiscal accountability and compliance with the “Cost Principles for Government Affiliates Involved in MCC Compact Implementation” provided by MCC or posted on the MCC Website (the “**MCC Cost Principles**”) (to the extent applicable to the Threshold Program and as further instructed in writing by MCC from time to time) for the use of the Grant funding. The Fiscal Accountability Plan will include, among other things, requirements with respect to: (a) budgeting; (b) accounting; (c) cash management; (d) financial transactions (receipts and payments); (e) opening and managing Permitted Accounts; (f) personnel and payroll; (g) travel and vehicle use; (h) asset and inventory control; (i) audits; and (j) reporting. The Fiscal Accountability Plan will be revised periodically, subject to review and approval by MCC.

Section 4.5 Environmental, Gender and other Program Guidelines.

(a) Unless MCC agrees otherwise, the Government will ensure that activities undertaken, funded or otherwise supported in whole or in part (directly or indirectly) by Grant

funding comply with the MCC Environmental Guidelines (to the extent applicable to the Threshold Program and as further instructed in writing by MCC from time to time).

(b) Unless MCC agrees otherwise, the Government will ensure that activities undertaken, funded or otherwise supported in whole or in part (directly or indirectly) by Grant funding comply with the MCC Gender Policy and the MCC Gender Integration Guidelines and Operational Procedures (in each case, to the extent applicable to the Threshold Program and as further instructed in writing by MCC from time to time).

(c) Unless MCC agrees otherwise, the Government will ensure that activities undertaken, funded or otherwise supported in whole or in part (directly or indirectly) by Grant funding comply with the Program Guidelines (in each case, to the extent applicable to the Threshold Program and as further instructed by MCC from time to time).

Section 4.6 Reports.

(a) Periodic Reports. Unless MCC agrees otherwise, the Government will provide to MCC the periodic reports required by the “MCC Guidance on Quarterly MCA Disbursement Request and Reporting Package” provided by MCC or posted on the MCC Website (the “***MCC Reporting Guidelines***”) (as applicable to the Threshold Program and as further instructed in writing by MCC from time to time), in each case timely delivered and in form and substance satisfactory to MCC.

(b) Additional Reports. In addition to the reports required by Section 4.6(a), the Government will provide to MCC within thirty (30) days of a written request by MCC, or as otherwise agreed by the Parties in writing, such other reports or documents as MCC may request from time to time as related to any component of the Implementation Plan, the Fiscal Accountability Plan or in connection with any Activity or Disbursement.

Section 4.7 Records; Accounting; Providers; Access.

(a) Records. The Government will maintain, and will use its best efforts to ensure that the Accountable Entity and any Covered Providers maintain, accounting books, records, documents, and other evidence relating to the Program adequate to show, to MCC’s satisfaction, the use of all Grant funding (collectively, the “***Records***”). The Government will furnish or cause to be furnished to MCC upon MCC’s request originals or copies of all such Records.

(b) Accounting. The Government will maintain, and will use its best efforts to ensure that the Accountable Entity and any Covered Providers maintain, Records in accordance with generally accepted accounting principles prevailing in the United States, or at the Government’s option and with MCC’s prior written approval, other accounting principles, such as those (i) prescribed by the International Accounting Standards Board or (ii) then prevailing in Honduras. Records must be maintained for at least five (5) years after the end of the term of this Agreement or for such longer period, if any, required to resolve any litigation, claims or audit findings, or any statutory requirements.

(c) Providers. Unless MCC agrees otherwise, (i) a “***Provider***” is (A) any entity of the Government that receives or uses Grant funding or any other asset purchased with Grant funding

in carrying out activities in furtherance of this Agreement or (B) any third party that receives at least US\$50,000 in the aggregate of Grant funding (other than as salary or compensation as an employee of an entity of the Government) during the term of this Agreement; and (ii) a “**Covered Provider**” is (A) a non-United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) US\$300,000 or more of Grant funding in any Government fiscal year or any other non-United States person or entity that receives, directly or indirectly, US\$300,000 or more of Grant funding from any Provider in such fiscal year, or (B) any United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) US\$500,000 or more of Grant funding in any Government fiscal year or any other United States person or entity that receives, directly or indirectly, US\$500,000 or more of Grant funding from any Provider in such fiscal year.

(d) Access. Upon MCC’s request, the Government, at all reasonable times, will permit, or cause to be permitted, authorized representatives of MCC, the Inspector General of MCC (“**Inspector General**”), the United States Government Accountability Office, any auditor responsible for an audit contemplated herein or otherwise conducted in furtherance of this Agreement, and any agents or representatives engaged by MCC or the Government to conduct any assessment, review or evaluation of the Program, the opportunity to audit, review, evaluate or inspect facilities, assets and activities funded in whole or in part by Grant funding.

Section 4.8 Audits; Reviews.

(a) Government Audits. Unless MCC agrees otherwise, the Government will, on an annual basis (or on a more frequent basis if requested by MCC in writing), conduct, or cause to be conducted, financial audits of all disbursements of Grant funding covering the period from signing of this Agreement until the following December 31 and covering each twelve-month period thereafter ending December 31, until the Completion Date. In addition, upon MCC’s request, the Government will ensure that such audits are conducted by an independent auditor approved by MCC and named on the list of local auditors approved by the Inspector General or a United States–based certified public accounting firm selected in accordance with the *Guidelines for Financial Audits Contracted by the Millennium Challenge Corporation’s Accountable Entities* (the “**MCC Audit Guidelines**”) issued and revised from time to time by the Inspector General, which are posted on the MCC Website. Audits will be performed in accordance with the MCC Audit Guidelines and be subject to quality assurance oversight by the Inspector General. Each audit must be completed and the audit report delivered to MCC no later than 90 days after the applicable audit period, or such other period as the Parties may otherwise agree in writing.

(b) Audits of Other Entities. The Government will ensure that MCC-financed agreements between the Government or any Provider, on the one hand, and (i) a United States nonprofit organization, on the other hand, state that the United States nonprofit organization is subject to the applicable audit requirements contained in OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, issued by the United States Office of Management and Budget; (ii) a United States for-profit Covered Provider, on the other hand, state that the United States for-profit organization is subject to audit by the applicable United States Government agency, unless the Government and MCC agree otherwise in writing; and

(iii) a non-United States Covered Provider, on the other hand, state that the non-United States Covered Provider is subject to audit in accordance with the MCC Audit Guidelines.

(c) Corrective Actions. The Government will use its best efforts to ensure that each Covered Provider (i) takes, where necessary, appropriate and timely corrective actions in response to audits, (ii) considers whether the results of the Covered Provider's audit necessitates adjustment of the Government's records, and (iii) permits independent auditors to have access to its records and financial statements as necessary.

(d) Audit by MCC. MCC will have the right to arrange for audits of the Government's use of Grant funding.

Section 4.9 Required MCC Approvals. Each of the following transactions, agreements and documents will require MCC's prior written approval:

- (a) any Disbursement and each Disbursement Request;
- (b) the Implementation Plan (including each element or component thereof), the Fiscal Accountability Plan and the M&E Plan, and any modification of any of the foregoing;
- (c) agreements between the Government and the Accountable Entity, and agreements in which any of the following are appointed, hired or otherwise engaged (each of the foregoing, a "**Material Agreement**"):
 - (i) Auditor;
 - (ii) Bank;
 - (iii) a member of the Accountable Entity's board of directors (including any observer) or any Officer of the Accountable Entity (including agreements regarding compensation for any such person);
- (d) any modification, termination or suspension of a Material Agreement, or any action that would have equivalent effect;
- (e) any agreement or transaction of the Accountable Entity that is not arm's-length;
- (f) any pledge of any Grant funding or any Program Assets, or any incurrence of material indebtedness, or any guarantee, directly or indirectly of any indebtedness;
- (g) any decree, legislation, regulation, charter, contractual arrangement or other document establishing or governing (other than public laws of general application to all public institutions), or relating to the formation, organization or governance of, the Accountable Entity, and any amendment, supplement, modification, repeal or other alteration thereof or thereto (each, a "**Governing Document**");

(h) any disposition, in whole or in part, liquidation, dissolution, winding up, reorganization or other change of the Accountable Entity, including any revocation or modification of or supplement to any Governing Document related thereto;

(i) any change in character or location of any Permitted Account;

(j) (i) any change of any member of the Accountable Entity's board of directors, any observer, the chairperson of the board, the composition or size of the board or the filling of any vacant seat on the board, or the replacement of any observer; (ii) any change of any Officer of the Accountable Entity or in the composition or size of its management unit (other than positions that receive no Grant funding), and the filling of any vacant position of any Officer of the Accountable Entity;

(k) any decision by the Accountable Entity to engage, accept or manage any funds in addition to the Grant (including from any donor agencies or organizations) prior to the Completion Date, or to engage in any activities or undertake any duties or responsibilities other than those contemplated under this Agreement or any related agreement or document;

(l) any agreement, transaction, decision or other action or document for which MCC approval is required under any of the Program Guidelines, including the MCC Program Procurement Guidelines; and

(m) any decision to amend, supplement, replace, terminate or otherwise change any of the foregoing documents or arrangements.

Section 4.10 Implementation Letters. From time to time, MCC may provide guidance or instructions to the Government in writing on any matters relating to this Agreement, the Grant or implementation of the Program (each, an "**Implementation Letter**"). The Government will use such guidance or instructions in implementing the Program. The Parties may also issue jointly agreed-upon Implementation Letters to confirm and record their mutual understanding on aspects related to the implementation of this Agreement or other related agreements.

ARTICLE 5.

DISBURSEMENT OF GRANT FUNDING

Section 5.1 Disbursement Process.

(a) Disbursement Requests. The Government may request Disbursements of the Grant (other than the portion of the Grant to be utilized for the MCC-Administered Activities) by submitting a written request to MCC substantially in the form of the "Disbursement Request" provided by MCC or posted on the MCC Website (each, a "**Disbursement Request**"), duly completed, not later than 20 days (or such other period of time as may be agreed by MCC) prior to the commencement of each Disbursement Period. Unless MCC agrees otherwise, the Government may submit only one Disbursement Request for each calendar quarter (such quarter, or any other period of time as agreed by MCC, the "**Disbursement Period**").

(b) Approval of Disbursement Requests; Release of Proceeds.

(i) Upon receipt of a Disbursement Request, MCC will determine the appropriate aggregate amount of Disbursements permitted for the applicable Disbursement Period based on, among other things: (A) progress achieved under the Implementation Plan; (B) the amount of funds required to complete the activities described in the accompanying Disbursement Request during such Disbursement Period; and (C) the satisfaction, waiver, or deferral of the conditions precedent applicable to the requested Disbursements.

(ii) MCC may, in its sole discretion, reject any Disbursement Request completely, or reject or reduce the amount of any Disbursement requested thereunder, based on among other things: (A) any modification made to, for failure to achieve progress under, the Implementation Plan; or (B) if any condition precedent applicable to the requested Disbursements has not been satisfied, waived, or deferred.

(iii) Subject to MCC's approval of a Disbursement Request, the proceeds of the Disbursements approved thereunder may be transferred, at MCC's sole election: (A) to a Permitted Account; (B) directly to a third party as payment for goods, works, or services received by the Government or the Accountable Entity, as applicable, in accordance with MCC's common payment system (the "***Common Payment System***") or any alternate payment system approved by MCC; or (C) directly to an employee of the Accountable Entity (or to the Government, as reimbursement for authorized expenses of the Accountable Entity); *provided, however*, that any expenditure of such proceeds is authorized by the Government or the Accountable Entity, as applicable, and any related payment complies with the most recently approved Detailed Financial Plan and the standards and procedures set forth in the Fiscal Accountability Plan.

(iv) Unless MCC agrees otherwise, any Disbursement, or financial commitment involving Grant funding may be made, and a Disbursement Request may be submitted, only if the related expense is provided for in the Detailed Financial Plan and sufficient uncommitted funds exist in the Detailed Financial Plan for that object of expense and for the relevant Disbursement Period.

(c) Permitted Accounts.

(i) Any Grant funding to be disbursed to a bank account must be deposited in a bank account (the "***Local Account***") established by the Accountable Entity in the local currency of Honduras or United States dollars, as agreed by the Parties, at a financial institution acceptable to MCC. With prior MCC approval, the Accountable Entity may establish such other bank accounts as are needed for the purposes of implementing the Program (each such other bank account, together with the Local Account, a "***Permitted Account***"). Before any Grant funding is deposited into a Permitted Account, the Government will ensure that the Accountable Entity enters into an agreement, in form and substance satisfactory to MCC, with the financial institution approved by MCC to hold such Permitted Account (each a "***Bank***"), which sets forth the signatory authority, access rights, anti-money laundering and anti-terrorist financing provisions, and other terms related to such Permitted Account (each a "***Bank Agreement***"). The

terms and operation of the Permitted Accounts will be set forth in the Fiscal Accountability Plan and the Bank Agreement.

(ii) Unless MCC agrees otherwise, Grant funding held in a Permitted Account will accrue interest or other earnings in accordance with the applicable Bank Agreement. On a quarterly basis and upon the termination or expiration of this Agreement or the relevant Bank Agreement, the Government will ensure the transfer to MCC of any interest accrued on amounts held in a Permitted Account.

(iii) Unless MCC agrees otherwise, no other funds will be commingled in a Permitted Account other than funding from MCC and accrued interest thereon. MCC will have the right, among other things, to view any Permitted Account statements and activity directly on-line, and where such viewing is not feasible, the Government will provide copies of such statements to MCC upon its request.

(iv) Unless MCC agrees otherwise, if Grant funding is held in any Permitted Account other than the Local Account, the Government will ensure that such Grant funding will be denominated in United States dollars prior to release. To the extent that any amount of Grant funding held by the Bank in United States dollars must be exchanged into the currency of Honduras for any purpose, the Government will ensure that such exchange is consistent with the requirements of the Bank Agreement or as otherwise agreed in writing by the Parties.

Section 5.2 Conditions Precedent to the Initial Disbursement. Unless waived or deferred by MCC in writing, the conditions set forth in this Section 5.2 and the conditions set forth in Section 5.3 must have been met to MCC's satisfaction prior to the initial Disbursement of the Grant:

(a) Legal Opinion. The Government has delivered to MCC a signed legal opinion by counsel acceptable to MCC.

(b) Implementation Plan. The Government has developed and adopted the Implementation Plan Documents (other than the Work Plan).

(c) Permitted Account. To the extent that any portion of the Disbursement will be held in a Permitted Account, the Government has established the Local Account and any other required Permitted Account.

(d) Fiscal Accountability Plan. The Government has developed and adopted the Fiscal Accountability Plan (or an interim version).

(e) Officers. Each of the Officers has been selected and engaged by the Accountable Entity and approved by MCC or if an Officer has not been selected, the Government is actively engaged, to MCC's satisfaction, in recruiting for the vacant position.

Section 5.3 Conditions Precedent to Each Disbursement. Unless waived or deferred in writing by MCC, the following conditions must have been met to MCC's satisfaction prior to each Disbursement of the Grant (including the initial Disbursement of the Grant):

(a) Deliverables. The Government has delivered to MCC the following documents, in form and substance satisfactory to MCC:

(i) a completed Disbursement Request, together with the periodic reports required under Section 4.6 of this Agreement, covering the related Disbursement Period; and

(ii) a certificate from the Accountable Entity, dated as of the date of such Disbursement Request, substantially in the form provided by MCC.

(b) Other Conditions Precedent. MCC has determined in its sole discretion that:

(i) any applicable conditions precedent in Annex II have been duly satisfied, deferred or waived pursuant to the terms of this Agreement;

(ii) the Government's representations set forth in Section 3.1 of this Agreement are true and correct on and as of the date of such Disbursement Request as though made on and as of such date;

(iii) no material breach of any responsibility, covenant or obligation by the Government, the Accountable Entity or any other Government entity has occurred and is continuing under this Agreement or any related agreement or document;

(iv) the activities to be funded with such Disbursement will not violate any applicable law or regulation;

(v) the Implementation Plan Documents and Fiscal Accountability Plan are current and updated and are in form and substance satisfactory to MCC, and there has been progress satisfactory to MCC on the components of the Implementation Plan related to such Disbursement;

(vi) there has been progress satisfactory to MCC on the M&E Plan (including the Targets set forth therein, any related Baseline data collection requirements set forth therein or any applicable reporting requirements set forth therein for the relevant Disbursement Period);

(vii) there has been no material negative finding in any financial audit report delivered in accordance with this Agreement and the Audit Plan for the prior two quarters (or such other period as the Audit Plan may require);

(viii) any Taxes paid with Grant funding through the date ninety (90) days prior to the start of the applicable Disbursement Period have been reimbursed by the Government in full in accordance with Section 2.5; and

(ix) each of the Officers remains engaged, or if a position is vacant, the Government is actively engaged, to MCC's satisfaction, in recruiting a replacement.

ARTICLE 6.

COMPLETION DATE; TERMINATION AND SUSPENSION

Section 6.1. Completion Date. Unless the Parties agree otherwise, August 31, 2017, is the date by which the Parties estimate that all of the activities related to the implementation of the Program and the achievement of the Program Objective and the Project Objectives will be completed (the “**Completion Date**”). Unless MCC agrees otherwise, Grant funding may not be used for expenditures incurred after the Completion Date.

Section 6.2. Termination and Suspension; Expiration.

(a) Either Party may terminate this Agreement without cause in its entirety by giving the other Party 30 days’ written notice; *provided, however*, that notwithstanding such termination, this Agreement will continue to be effective with respect to any activity for which a Disbursement has already been issued or approved by MCC.

(b) MCC may, upon written notice to the Government, immediately suspend or terminate this Agreement or the Grant, in whole or in part, and any obligation related thereto, if MCC determines that any circumstance identified by MCC, as a basis for suspension or termination (whether in writing to the Government or by posting on the MCC Website) has occurred, which circumstances include but are not limited to the following:

(i) the Government fails to comply with its commitments under this Agreement or any other agreement or arrangement entered into by the Government in connection with this Agreement or the Program;

(ii) an event or series of events has occurred that MCC determines makes it improbable that the Program can be performed, that the Program Objective or Project Objectives will be achieved before the Completion Date or that the Government will be able to perform its obligations under this Agreement;

(iii) a use of the Grant or continued implementation of this Agreement would violate applicable law or United States Government policy, whether now or hereafter in effect;

(iv) the Government or any other person or entity receiving Grant funding or using assets acquired in whole or in part with Grant funding is engaged in activities that are contrary to the national security interests of the United States of America;

(v) an act has been committed or an omission or an event has occurred that would render Honduras ineligible to receive United States economic assistance under Part I of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2151 *et seq.*), by reason of the application of any provision of the Foreign Assistance Act of 1961 or any other provision of law;

(vi) the Government has engaged in a pattern of actions inconsistent with the criteria used to determine the eligibility of Honduras for assistance under the Threshold Program; and

(vii) a person or entity receiving Grant funding or using assets acquired in whole or in part with Grant funding is found to have been convicted of a narcotics offense or to have been engaged in drug trafficking.

(c) All Disbursements will cease upon expiration, suspension or termination of this Agreement; *provided, however*, that Grant funding may be used, in compliance with this Agreement, to pay for: (i) reasonable expenditures for goods, works or services that are properly incurred under or in furtherance of this Agreement before expiration, suspension or termination of this Agreement; and *provided, further*, that the request for such expenditures is submitted within 90 days after such expiration, suspension or termination; and (ii) reasonable expenditures (including administrative expenses) properly incurred in connection with the winding up of the Program within 120 days after the expiration, suspension or termination of this Agreement.

(d) Subject to Section 6.2(c), upon the expiration, suspension or termination of this Agreement: (i) any amounts of the Grant not disbursed by MCC will be automatically released from any obligation in connection with this Agreement without any action from the Government or MCC; and (ii) any amounts of the Grant disbursed by MCC to the Government but not expended before such expiration, suspension or termination of this Agreement, including any amounts in a Permitted Account, plus accrued interest thereon, will be returned to MCC within 30 days after the Government receives MCC's request for such return, and the Government will ensure that such amount will be returned promptly to such account(s) designated by MCC.

(e) At least one year prior to the expiration, or upon termination, of this Agreement, the Parties will consult in good faith with a view to reaching agreement in writing on (i) the treatment of the Accountable Entity after the Program, (ii) the process for ensuring the refunds of Disbursements that have not yet been released from a Permitted Account or committed in accordance with Sections 6.2(c) and (d), and (iii) any other matter related to the winding up of the Program, including the proper disposition of all Program Assets. If the Accountable Entity continues operations after the Completion Date, or following the termination of this Agreement, with sources of funding other than the Grant, the Accountable Entity will cease to use the name and logo that it used during implementation of the Program, except as otherwise agreed in writing by MCC.

(f) MCC and the Government recognize that the effects of the Program will be long-ranging and its impact may not be measurable for several years after the Completion Date. Accordingly, MCC and the Government agree to cooperatively monitor the results and evaluate the impacts of the Program in Honduras after the termination or expiration of this Agreement.

Section 6.3. Refunds. MCC may reinstate any suspended or terminated portion of the Grant under this Agreement if MCC determines that the Government, or other relevant person or entity, has committed to correct each condition for which the Grant was suspended or terminated.

(a) If any Grant funding, any interest or earnings thereon, or any asset acquired in whole or in part with Grant funding is used for any purpose in violation of the terms of this Agreement, then MCC may require the Government to repay to MCC in United States dollars the value of the misused portion of the Grant, interest, earnings or asset, plus interest within 30 days after the Government's receipt of MCC's request for repayment. The Government will not use

Grant funding, proceeds thereof or any other funds received from MCC (assets acquired with Grant funding or with any such other funds) to make such payment.

(b) Notwithstanding any other provision in this Agreement or any other existing agreement to the contrary, MCC's right under this Section 6.3 to obtain a refund will continue during the term of this Agreement and for a period of (i) five years thereafter or (ii) one year after MCC receives actual knowledge of such violation, whichever is later.

ARTICLE 7.

GOVERNING LAW; AMENDMENTS; GENERAL

Section 7.1 Governing Law. This Agreement is an international agreement and as such will be governed by the principles of international law.

Section 7.2 Consultations. Either Party may, at any time, request consultations relating to the interpretation or implementation of this Agreement. Such consultations will begin at the earliest possible date.

Section 7.3 Representatives. For all purposes relevant to implementation of this Agreement, the Government will be represented by the individual holding the position of, or acting as, the Minister of the Presidency, and MCC will be represented by the individual holding the position of, or acting as, the Vice President of the Department of Policy and Evaluation (each of the foregoing, a "**Principal Representative**"). Each Party, by written notice to the other Party, may designate one or more additional representatives (each, an "**Additional Representative**") for all purposes of this Agreement except for purposes of Section 7.7(a). A Party may change its Principal Representative to a new representative that holds a position of equal or higher authority upon written notice to the other Party.

Section 7.4 Communications. Any document or communication required or submitted by either Party to the other under this Agreement must be submitted in writing and, unless MCC agrees otherwise, in English, to such Party's Principal Representative, and, if applicable, to such Party's Additional Representative(s). For this purpose, the address of each Party is set forth below.

To MCC:

Millennium Challenge Corporation
Attention: Vice President, Department of Policy and Evaluation
(with a copy to the Vice President and General Counsel)
875 Fifteenth Street NW
Washington, DC 20005
United States of America
Facsimile: +1 (202) 521-3700
Telephone: +1 (202) 521-3600

Email: VPPolicyEvaluation@mcc.gov (Vice President, Department of Policy and Evaluation); (with a copy to VPGeneralCounsel@mcc.gov (Vice President and General Counsel))

To the Government:

Ministry of the Presidency
Attention: Minister of the Presidency
Edificio Ejecutivo Las Lomas, 2do piso
Tegucigalpa MDC; Honduras, C.A.
Facsimile: +504 22356608
Telephone: +504 22321611

Section 7.5 MCC Status. MCC is a United States government corporation acting on behalf of the United States Government in the implementation of this Agreement and the Program. MCC and the United States Government assume no liability for any claims or loss arising out of activities or omissions under this Agreement. The Government waives any and all claims against MCC or the United States Government or any current or former officer or employee of MCC or the United States Government for all loss, damage, injury, or death arising out of activities or omissions under this Agreement, and agrees that it will not bring any claim or legal proceeding of any kind against any of the above entities or persons for any such loss, damage, injury, or death. The Government agrees that MCC and the United States Government or any current or former officer or employee of MCC or the United States Government will be immune from the jurisdiction of all courts and tribunals of Honduras for any claim or loss arising out of activities or omissions under this Agreement.

Section 7.6 No Assurance of Future Assistance. Nothing contained in this Agreement will be construed as creating an obligation on the part of MCC to provide any further funding or assistance, other than the Grant, in relation to any other project or program in Honduras.

Section 7.7 Amendment.

(a) This Agreement may be amended by written agreement of the Parties. Such agreement will specify how it enters into force.

(b) Notwithstanding subsection (a) of this Section, the Parties agree that the Government and MCC may by written agreement which will enter into force upon signature (i) modify any Annex to this Agreement to, in particular, but without limitation, (A) suspend, terminate or modify any Activity described in Annex I or create a new Activity, (B) add, delete or waive any condition precedent described in Annex II, or (C) modify the designation or allocation of funds among the activities identified in Annex III; or (ii) extend the Completion Date; provided that, in each case, any such modification (A) is consistent in all material respects with the Program Objective and the Project Objectives, (B) does not cause the amount of the Grant to exceed the aggregate amount specified in Section 2.1(a), and (C) does not cause the Government's responsibilities or contribution of resources to be less than as specified in this

Agreement. Any such modification pursuant to this subsection (b) will not be deemed an amendment of this Agreement pursuant to subsection (a).

Section 7.8 Survival. The Government's obligations under Sections 2.4, 2.5, 3.2, 4.6, 6.2, 6.3, 7.1, and this Section 7.8 will survive the expiration, suspension, or termination of this Agreement.

Section 7.9 Definitions; Interpretation.

(a) Except as otherwise expressly provided herein, capitalized terms used in this Agreement will have the respective meanings given to such terms in Annex IV.

(b) Any reference to the term "including" in this Agreement will be deemed to mean "including, without limitation," except as expressly provided otherwise. Unless the context requires otherwise: (i) each definition of or reference to any agreement, instrument, law, regulation, policy, guideline, or similar document in this Agreement (or any other agreement entered into in connection with this Agreement), unless otherwise expressly set forth herein, will be construed as a reference to such agreement, instrument, law, regulation, policy, guideline, or similar document as it may, from time to time, be amended, revised, replaced, or extended, and will include any agreement, instrument, law, regulation, policy, guideline, or similar document issued under or otherwise applicable or related to such agreement, instrument, law, regulation, policy, guideline, or similar document; (ii) the words "herein," "hereof" and "hereunder," and words of similar import, will be construed to refer to this Agreement in its entirety and not to any particular provision hereof; (iii) all references herein to Articles, Sections, and Annexes will be construed to refer to the Articles and Sections of, and Annexes to, this Agreement, all of which form an integral part of this Agreement; (iv) any reference to the phrases "Unless MCC agrees otherwise" or "Unless the Parties agree otherwise" in this Agreement will be deemed to be followed by "in writing," except as expressly provided otherwise; (v) any approval right granted to MCC herein will only be satisfied upon the prior written approval of MCC.

Section 7.10 References to MCC Website. Each reference in this Agreement, or any other agreement entered into in connection with this Agreement, to a document or information available on, or notified by posting on, the MCC Website will be deemed a reference to such document or information as updated or substituted on the MCC Website by MCC from time to time.

Section 7.11 Signatures. Signatures to this Agreement and to any amendment to this Agreement (and to any other legally binding international agreement related to this Agreement) will be original signatures appearing on the same page or in an exchange of letters or diplomatic notes. With respect to all other documents arising out of this Agreement and amendments thereto, signatures may be delivered by facsimile or electronic mail and in counterparts and will be binding on the Party delivering such signature to the same extent as an original signature would be.

Section 7.12 Grant Reference. In all notices, requests, reports or correspondence in connection with Grant funding, the following number should appear on any such document as the grant reference: THR13HND13001.

ARTICLE 8.
ENTRY INTO FORCE

This Agreement will enter into force on the date of signature by the Parties.

SIGNATURE PAGE FOLLOWS ON NEXT PAGE.

IN WITNESS WHEREOF, the undersigned, duly authorized by their respective Governments have signed this Agreement.

FOR THE UNITED STATES OF AMERICA,
ACTING THROUGH THE MILLENNIUM
CHALLENGE CORPORATION

FOR THE REPUBLIC OF HONDURAS,
ACTING THROUGH THE MINISTRY OF
THE PRESIDENCY

/ s /

/ s /

Name: Sheila W. Herrling
Title: Vice President
Department of Policy and Evaluation

Name: María Antonieta Guillén
Title: Minister of the Presidency

Date: August 28, 2013

Date: August 28, 2013

ANNEX I

PROGRAM DESCRIPTION

Unless the Parties agree otherwise, the assistance provided under this Agreement will be utilized by the Government to support the following Program.

A. SUMMARY OF PROGRAM

The Program includes the following Projects and activities (each, an “*Activity*”):

1. Public Financial Management Project.

The objective of the Public Financial Management Project is to increase the efficiency and transparency of public financial management in Honduras by supporting activities designed to improve budget formulation and execution, planning, payments, procurement capacity and controls, audit and civil society oversight.

The proposed Activities under this Project include:

(a) Activity 1.1: Budget and Treasury Management.

This Activity is designed to strengthen budget formulation and execution in the executive and legislative branches by:

- Supporting technical assistance and training for the Ministry of Finance and line ministries to improve budget analysis and treasury management, including without limitation, budget forecasting, establishing adequate controls, strengthening the Treasury Single Account and payment prioritization; and
- Supporting technical assistance and training for the Congressional Budget Committee to improve congressional budget oversight capacity; improve congressional budget discipline by developing safeguards to ensure planned deficit targets are not breached; and provide better analysis and transparency regarding the cost implications of congressional mandates.

(b) Activity 1.2: Improving Procurement Capacity, Planning and Controls.

This Activity is designed to increase the transparency, accountability and quality of public procurement and service delivery by:

- Supporting technical assistance for the Regulatory Office of Contracting and Acquisitions of Honduras (“*ONCAE*”) and other Government entities to improve procurement transparency and controls by promoting compliance with existing national law and international agreements and, where needed, changing norms and/or current practices and providing training in areas such as sole source contracting, proper oversight of contract modifications and ensuring fund availability;

- Supporting the expansion of ONCAE’s online supply catalog (an application within Honduras’s e-procurement system, *HonduCompras*) to enable ministries to purchase goods and services at lower prices and with reduced administrative burden and fiduciary risk; and
- Increasing coordination between ONCAE and the *Tribunal Superior de Cuentas* to ensure that established procurement norms are properly audited to ensure compliance.

(c) Activity 1.3: Improving Capacity of the Tribunal Superior de Cuentas (“TSC”).

This Activity is designed to strengthen the capacity of the TSC in specialized auditing and to support audits of the new controls introduced under the Public Financial Management Project. Proposed interventions include:

- Support for specialized audit training, including without limitation training in management audits, forensic audits (in coordination with the Public Ministry) and procurement audits, as well as the potential provision of associated equipment. In each case, Grant funding will not be used for a training under this Activity until the TSC has established a plan acceptable to MCC for how such new skills will be utilized in future audits, detailing the timeline and staff for such audits; and
- Support for specific audits of new controls introduced, either under the Program or by the Government, in procurement, budget commitments, payments or other areas of public financial management.

(d) Activity 1.4: Grant Facility for Social Accountability.

This Activity is designed to increase demand for greater accountability and responsiveness from Honduran public officials and service providers with the ultimate objective of improving national and/or municipal government efficiency and/or effectiveness. To do so, the Activity will support grants to Honduran civil society organizations (“CSOs”) to undertake social accountability projects that assess the quality of spending and service delivery in order to increase government accountability. Unless otherwise agreed by MCC, it is anticipated that:

- Selected CSOs will receive financial support, training and external expertise to undertake a social accountability activity with the objective of improving the delivery of a specific national or municipal service. Because social accountability mechanisms are particularly effective when designed to give stronger voice to women and vulnerable groups, selected CSOs will be required to demonstrate how women and vulnerable groups will be involved; and
- The operating rules, selection and eligibility criteria, funding limitations and application procedures for the grant facility will be memorialized in a grants manual, which will be subject to MCC prior approval. However, the Parties agree that the grant facility will be managed by the Accountable Entity, subject to oversight by a grant committee consisting of three representatives from civil society, whose selection and compensation must be approved by MCC. In addition, all invitations to submit proposals will be publicly posted

and grants will be limited to no more than US\$150,000. Grant awards under the facility must be approved by a majority of the members of the grant committee, and in each case will be subject to MCC prior approval.

2. Public-Private Partnerships Project.

The objective of the Public-Private Partnerships Project is to improve the efficiency and transparency of PPPs in Honduras by supporting activities designed to increase the Government's capacity to develop, negotiate, implement and oversee PPPs.

The proposed Activities under this Project include:

(a) Activity 2.1: Develop Core PPP Capacity.

This Activity is designed to improve the capacity of, and procedures utilized by, Government agencies with key PPP responsibilities to develop and implement PPPs in accordance with best practice. Proposed interventions include:

- Support for the Commission for the Promotion of Public Private Partnerships (“*COALIANZA*”) to develop manuals and internal procedures needed to properly: (i) select, prioritize, structure and award PPP projects, and (ii) disseminate information about PPP projects in order to sustain public support and investor interest in PPPs; and
- Support for the Ministry of Finance to properly identify and manage fiscal risks in its PPP portfolio, including, without limitation, the development of internal procedures and manuals and implementation of related training.

(b) Activity 2.2: Design and Implementation of PPPs.

In order to institutionalize best practices and reinforce Activity 2.1, this Activity will support specific current and potential PPPs by:

- Providing specialized technical assistance for the Government regarding the administration of current PPPs, specifically, the logistical corridor and tourist corridor concessions, in accordance with best practice;
- Funding a study to identify and analyze options for structuring a new PPP related to Honduras' electricity sector. Subject to MCC approval of an action plan from the Government demonstrating the Government's commitment to proceeding with the new PPP recommended by the study, this Activity will also assist the Government in developing the selected PPP; and
- Assisting the Government with implementation of a proposed PPP between a Honduran nongovernmental organization, *Fundación para la Inversión y Desarrollo de Exportaciones* (“*FIDE*”), and the Government pursuant to which FIDE would provide e-government solutions sustained by user fees. Specifically, FIDE would develop and manage a single window for exports and would expand current efforts to use the global

eregulations.org, web-based e-Government system platform to make regulatory process transparent, consistent and efficient.

B. IMPLEMENTATION ARRANGEMENTS

The Program in Honduras will be implemented through a combination of the Accountable Entity (with MCC oversight) and direct MCC administration. The roles and responsibilities of the various entities involved in implementation are:

1. MCC.

MCC will take all appropriate actions to carry out its responsibilities in connection with this Agreement and the Program, including, without limitation, exercise of its approval rights. In addition, pursuant to Section 2.1(b) of this Agreement, MCC may directly administer a portion of the Grant to implement the MCC-Administered Activities. To do so, MCC may enter into contracts, grants, cooperative agreements or any other, similar arrangements with providers of goods and/or services in order to carry out the MCC-Administered Activities.

2. The Government and the Accountable Entity.

The Government will take all appropriate actions to carry out its responsibilities in connection with this Agreement and the Program. To do so, the Government has designated the Accountable Entity pursuant to Section 3.2(b) to implement the Program and to exercise and perform the Government's right and obligation to oversee, manage and implement the Program, including without limitation, managing the implementation of the Projects, allocating resources and managing procurements.

The Grant will support compensation for the following positions (each an "*Officer*" and collectively, "*Officers*") at the Accountable Entity:

- General Director;
- Legal Counsel;
- Finance and Administrative Director;
- Procurement Director or Specialist;
- M&E Director and M&E Specialist; and
- Threshold Program Director and Deputy Director or Specialist.

The Government will ensure that Government ministries, departments, agencies and entities cooperate with the Accountable Entity in the implementation of the Program. As needed, the Accountable Entity and such other Government ministries, departments, agencies and entities will enter into appropriate agreements to memorialize such cooperation and to assure the sustainability and maintenance of any Program Assets.

As needed, the Accountable Entity will enter into contracts, grants, cooperative agreements or any other, similar arrangements with providers of goods and/or services in order to carry out the Program.

C. MONITORING AND EVALUATION

1. General.

In accordance with this Agreement, MCC and the Government will formulate and agree to, and the Government will adopt and implement, an M&E Plan that specifies: (a) how progress toward the Program Goal, the Program Objective and the Project Objectives will be monitored (“*Monitoring Component*”); (b) a process and timeline for the monitoring of planned, ongoing or completed Activities to determine their efficiency and effectiveness; and (c) a methodology for assessment and rigorous evaluation of the outcomes and impact of the Program (“*Evaluation Component*”). The actual content and form of the M&E Plan will be agreed to by MCC and the Government in accordance with MCC’s M&E Policy. In addition, the M&E Plan may be modified from time to time as outlined in MCC’s M&E Policy with MCC approval and without requiring an amendment to this Agreement. Information regarding the Program’s performance, including the M&E Plan, and any amendments or modifications thereto, as well as progress and other reports, will be made publicly available.

The M&E Plan will be finalized within six months of the beginning of implementation, after Activity-level work plans have been developed and adopted. In any case, the M&E Plan must be finalized prior to the third Disbursement of the Grant.

In addition, MCC and the Government agree to monitor and evaluate the achievement of the Program Goal and Program Objective through the following key Program Goal indicators set forth in Table 1 below. The details for measuring and operationalizing these indicators, including the Baselines that are identified in Table 1 as “TBD,” will be included in the M&E Plan.

Table 1: Threshold Program Goal Indicators

Result Statement	Indicator	Definition	Unit	Baseline	Year 3 Target
Implementation of critical institutional and policy reforms that address binding constraints to economic growth in Honduras	Public expenditures and financial management assessment scores (as determined by the Public Expenditure and Financial Accountability Program (“PEFA”))	Continued improvement on subscores of the PEFA Public Expenditure and Financial Assessment	--	2012 PEFA subscores	Sustained improvement over Baseline
	Perceptions of corruption	Percent of stakeholders (including vendors to government) who cite corruption and lack of transparency as a significant problem within the targeted institutions and the Government. The M&E Plan will define questionnaire and stakeholders to sample for Project surveys.	Percent	To be determined (“TBD”)	Sustained improvement over Baseline
	Prompt payments	Value of delinquent payments at the end of the quarter disaggregated by delinquency (1, 30, 90, 180, 365 days)	U.S. dollars	TBD	Sustained reduction over Baseline
	Perceptions of Government effectiveness	Percent of stakeholders (including government employees) who cite improved focus and accountability for results and public financial management within targeted Government institutions. The M&E Plan will define questionnaire and stakeholders to sample for Project surveys.	Percent	TBD	Sustained improvement over Baseline

2. Program Logic.

The M&E plan will be built on a logic model which illustrates how the Program, Projects and Activities contribute to the Program Goal, the Program Objective and the Project objectives.

3. Monitoring Component.

The Government will be responsible for developing the M&E Plan, with support from MCC and, in most cases, the relevant implementing agencies or partners. To monitor progress toward the achievement of the impact and outcomes of the Program, the Monitoring Component of the M&E Plan will identify: (i) the Indicators (as defined below), (ii) the definitions of the Indicators, (iii) the sources and methods for data collection, (iv) the frequency for data collection, (v) the party or parties responsible for collecting and analyzing relevant data, and (vi) the timeline for reporting on each Indicator to MCC.

(a) Indicators.

The M&E Plan will measure the results of the Program using quantitative, objective and reliable data (each, an “**Indicator**”). Each Indicator will have benchmarks that specify the expected value and the expected time by which that result will be achieved (each, a “**Target**”). All Indicators will be disaggregated by gender and beneficiary types to the extent practicable. Subject to prior written approval from MCC, the Government may add Indicators or refine the definitions and Targets of existing Indicators.

The M&E Plan will also establish baselines that measure the situation prior to a development intervention, against which progress can be assessed or comparisons made (each, a “**Baseline**”). The Government will collect Baselines on the selected Indicators or verify already collected Baselines where applicable and as set forth in the M&E Plan.

(b) Data Collection and Reporting.

The M&E Plan will establish guidelines for data collection and reporting, and identify the responsible parties. Compliance with data collection and reporting timelines will be conditions for Disbursements for the relevant Activities. The M&E Plan will specify the data collection methodologies, procedures and analysis required for reporting on results at all levels. The M&E Plan will describe any interim MCC approvals for data collection, analysis, and reporting plans.

(c) Data Quality Reviews.

As determined in the M&E Plan, or as otherwise requested by MCC, the quality of the data gathered through the M&E Plan will be reviewed to ensure that data reported are as valid, reliable, and timely as resources will allow. The objective of any data quality review will be to verify the quality and the consistency of performance data across different implementation units and reporting institutions. Such data quality reviews also will serve to identify where those levels of quality are not possible, given the realities of data collection.

4. Evaluation Component.

The Evaluation Component of the M&E Plan will describe the purpose of the evaluation, methodology, timeline, required MCC approvals, and the process for collection and analysis of data for each evaluation. The results of all evaluations will be made publicly available in accordance with MCC's M&E Policy.

MCC will commission independent evaluations of the Program to examine the effectiveness and sustainability of the Projects. The evaluation section of the M&E Plan will outline key evaluation questions, and will focus its efforts on understanding the extent to which:

- Activities were undertaken and fully implemented;
- Activities led to outcomes;
- The likelihood that outcomes will be sustained over the short- and long-term; and
- Cost effectiveness of the Program activities, where feasible.

ANNEX II
CONDITIONS PRECEDENT TO DISBURSEMENTS

1. Prior to the second Disbursement of the Grant, the Government must have changed the legal name of MCA-Honduras to a name that has no relation to the MCC Compact or to MCC; provided, however, that the Accountable Entity may, subject to MCC approval in writing, use the name MCA-Honduras for activities related to the Program.

2. Prior to the third Disbursement of the Grant, the Government must have developed and adopted a Work Plan pursuant to Section 4.1(c), in form and substance acceptable to MCC.

3. Prior to third Disbursement of the Grant, the Government must have developed and adopted an M&E Plan pursuant to Section 4.2, in form and substance acceptable to MCC.

4. Prior to any Disbursement of the Grant that includes, in whole or in part, funding for specialized audit training under Activity 1.3 (Improving Capacity of the Tribunal Superior de Cuentas), the Government must have submitted a plan, in form and substance acceptable to MCC, describing how the new skills to be introduced by the specialized audit training will be utilized by the Government in future audits, including, without limitation, staffing and resource allocations and a detailed timeline for such future audits.

5. Prior to any Disbursement of the Grant that includes, in whole or in part, funding for Activity 1.4 (Grant Facility for Social Accountability), the Government must have adopted a grants manual, in form and substance acceptable to MCC, for the overall administration of the grants facility, including, without limitation, establishment of the grants committee, selection and eligibility criteria, funding limitations and application procedures. In addition, prior to any Disbursement of the Grant that includes, in whole or in part, funding for a specific Program Grant, the grants committee and MCC must have approved the proposed recipient of the Program Grant.

6. Prior to any Disbursement of the Grant that includes, in whole or in part, funding for the development of a new PPP project related to the electricity sector of Honduras under Activity 2.2 (Design and Implementation of PPPs), the Government must have submitted an action plan, in form and substance acceptable to MCC, demonstrating the Government's commitment to proceeding with the selected PPP project.

ANNEX III
ALLOCATION OF GRANT FUNDING

Honduras (US\$)	
Public Financial Management Project ¹	8,600,000
Activity 1.1 Budget and Treasury Management	4,200,000
Activity 1.2 Improving Procurement Capacity, Planning and Controls	3,000,000
Activity 1.3 Improving Capacity of the <i>Tribunal Superior de Cuentas</i>	1,000,000
Activity 1.4 Grant Facility for Social Accountability	400,000
Public-Private Partnerships Project	5,500,000
Activity 2.1 Develop Core PPP Capacity	1,500,000
Activity 2.2 Design and Implementation of PPPs	4,000,000
Program Administration and Monitoring and Evaluation	1,550,000
Program Administration	850,000
Monitoring and Evaluation	700,000
Total	15,650,000

¹ Pursuant to Section 2.1(b), MCC may administer and manage up to \$4,500,000 of this Project.

ANNEX IV

DEFINITIONS

The following compendium of capitalized terms that are used herein is provided for the convenience of the reader. To the extent that there is a conflict or inconsistency between the definitions in this Annex IV and the definitions elsewhere in the text of this Agreement, the definition elsewhere in this Agreement will prevail over the definition in this Annex IV.

Accountable Entity has the meaning provided in Section 3.2(b).

Activity has the meaning provided in Part A of Annex I.

Additional Representative has the meaning provided in Section 7.3.

Agreement has the meaning provided in the Preamble.

Audit Plan has the meaning provided in Section 4.1(d).

Auditor has the meaning provided in Section 4.1(d).

Bank has the meaning provided in Section 5.1(c)(i)

Bank Agreement has the meaning provided in Section 5.1(c)(i).

Baseline has the meaning provided in paragraph 3(a) of Part C of Annex I.

COALIANZA has the meaning provided in paragraph 2(a) of Part A of Annex I.

Common Payment System has the meaning provided in Section 5.1(b)(iii).

Completion Date has the meaning provided in Section 6.1.

Covered Provider has the meaning provided in Section 4.7(c).

CSOs has the meaning provided in paragraph 1(d) of Part A of Annex I.

Detailed Financial Plan has the meaning provided in Section 4.1(a).

Disbursement has the meaning provided in Section 2.1(c).

Disbursement Period has the meaning provided in Section 5.1(a).

Disbursement Request has the meaning provided in Section 5.1(a).

Evaluation Component has the meaning provided in paragraph 1 of Part C of Annex I.

FIDE has the meaning provided in paragraph 2(b) of Part A of Annex I.

Fiscal Accountability Plan has the meaning provided in Section 4.4.

Governing Document has the meaning provided in Section 4.9(g).

Government has the meaning provided in the Preamble.

Grant has the meaning provided in Section 2.1(a).

Honduras has the meaning provided in the Preamble.

Implementation Letter has the meaning provided in Section 4.10.

Implementation Plan has the meaning provided in Section 4.1.

Implementation Plan Document has the meaning provided in Section 4.1.

Indicator has the meaning provided in paragraph 3(a) of Part C of Annex I.

Inspector General has the meaning provided in Section 4.7(d).

Intellectual Property means all registered and unregistered trademarks, service marks, logos, names, trade names and all other trademark rights; all registered and unregistered copyrights; all patents, inventions, shop rights, know how, trade secrets, designs, drawings, art work, plans, prints, manuals, computer files, computer software, hard copy files, catalogues, specifications, and other proprietary technology and similar information; and all registrations for, and applications for registration of, any of the foregoing, that are financed, in whole or in part, using the Grant.

Lien has the meaning provided in Section 3.2(g).

Local Account has the meaning provided in Section 5.1(c)(i).

M&E Plan has the meaning provided in Section 4.2.

M&E Policy has the meaning provided in Section 4.2.

Material Agreement has the meaning provided in Section 4.9(c).

MCC has the meaning provided in the Preamble.

MCC-Administered Activities has the meaning provided in Section 2.1(b).

MCC Audit Guidelines has the meaning provided in Section 4.8(a).

MCC Cost Principles has the meaning provided in Section 4.4.

MCC Environmental Guidelines has the meaning provided in Section 2.4(b)(iii).

MCC Gender Integration Guidelines and Operational Procedures means MCC's Gender Integration Guidelines and Operational Procedures, as such may be posted on MCC's Website from time to time.

MCC Gender Policy means the MCC Gender Policy (including any guidance documents issued in connection with the guidelines) posted from time to time on the MCC Website or otherwise made available to the Government.

MCC Governance Guidelines has the meaning provided in Section 3.2(b).

MCC Marking Standards has the meaning provided in Section 3.2(k).

MCC Program Procurement Guidelines has the meaning provided in Section 4.3(a).

MCC Reporting Guidelines has the meaning provided in Section 4.6(a).

MCC Website has the meaning provided in Section 2.4(b)(iii).

Monitoring Component has the meaning provided in paragraph 1 of Part C of Annex I.

Officer or Officers has the meaning provided in paragraph 2 of Part B of Annex I.

ONCAE has the meaning provided in paragraph 1(b) of Part A of Annex I.

Party or Parties has the meaning provided in the Preamble.

Permitted Account has the meaning provided in Section 5.1(c)(i).

PPPs has the meaning provided in Section 1.3(b).

Principal Representative has the meaning provided in Section 7.3.

Procurement Plan has the meaning provided in Section 4.1(b).

Program has the meaning provided in the Recitals.

Program Asset means any assets, goods or property (real, tangible or intangible) purchased or financed in whole or in part (directly or indirectly) by the Grant, including any Intellectual Property.

Program Goal has the meaning provided in Section 1.1.

Program Grant has the meaning provided in Section 4.3(b).

Program Guidelines means collectively the MCC Audit Guidelines, the MCC Cost Principles, the MCC Environmental Guidelines, the MCC Gender Policy, the MCC Gender Integration Guidelines and Operational Procedures, the MCC Governance Guidelines, the MCC Marking Standards, the MCC Program Procurement Guidelines, the MCC Reporting Guidelines, the M&E Policy, (including any successor to any of the foregoing) and any other guidelines, policies or guidance papers relating to the administration of a Threshold Program, and, in each case, as from time to time published on the MCC Website.

Program Objective has the meaning provided in Section 1.2.

Project or Projects has the meaning provided in Section 1.2.

Project Objective or Project Objectives has the meaning provided in Section 1.3.

Provider has the meaning provided in Section 4.7(c).

Records has the meaning provided in Section 4.7(a).

***Target** has the meaning provided in paragraph 3(a) of Part C of Annex I.*

***Taxes** has the meaning provided in Section 2.5(a).*

***Threshold Program** has the meaning provided in the Recitals.*

***TSC** has the meaning provided in paragraph 1(c) of Part A of Annex I.*

***Work Plan** has the meaning provided in Section 4.1(c).*