

(i) That the Government has completed all of its domestic requirements for this Compact to be fully enforceable under Honduran law;

(ii) As to the incumbency and specimen signature of the Principal Representative and each Additional Representative executing any document delivered pursuant to this Section 4.1 on behalf of the Government; and

(iii) That attached thereto are true, accurate and complete copies of any decree, legislation, regulation or other governmental document relating to its domestic requirements for this Compact to enter into force, which MCC may post on its website or otherwise make publicly available.

(e) MCC shall deliver a letter signed and dated by the Principal Representative of MCC certifying that MCC has completed its domestic requirements for this Compact to enter into force.

Section 4.2 Conditions Precedent to MCC Disbursements or Re-Disbursements. Prior to, and as condition precedent to, any MCC Disbursement or Re-Disbursement, the Government shall satisfy, or ensure the satisfaction of, any applicable conditions precedent in the Disbursement Agreement.

## ARTICLE V.

### FINAL CLAUSES

Section 5.1 Communications. Unless otherwise expressly stated in this Compact or otherwise agreed in writing by the Parties, any notice, certificate, request, report, document or other communication required, permitted, or submitted by either Party to the other under this Compact shall be: (a) in writing; (b) in English; and (c) deemed duly given: (i) upon personal delivery to the Party to be notified; (ii) when sent by confirmed facsimile or electronic mail, if sent during normal business hours of the recipient Party, if not, then on the next business day; or (iii) two (2) business day after deposit with an internationally recognized overnight courier, specifying next day delivery, with written verification of receipt to the Party to be notified at the address indicated below, or at such other address as such Party may designate:

To MCC:

Millennium Challenge Corporation

Attention: Vice President for Country Relations

(with a copy to the Vice President and General Counsel)

875 15<sup>th</sup> Street, N.W.

Washington, D.C. 20005

United States of America

Facsimile: (202) 521-3700

Email: [VPCountryRelations@mcc.gov](mailto:VPCountryRelations@mcc.gov) (Vice President for Country Relations);

[VPGeneralCounsel@mcc.gov](mailto:VPGeneralCounsel@mcc.gov) (Vice President and General Counsel)

To the Government:

Minister of the Presidency  
Casa Presidencial  
Tegucigalpa, F.M.  
Honduras, C.A.

Notwithstanding the foregoing, any audit report delivered pursuant to Section 3.8, if delivered by facsimile or electronic mail, shall be followed by an original in overnight express mail. This Section 5.1 shall not apply to the exchange of letters contemplated in Section 1.3 or any amendments under Section 5.3.

Section 5.2 Representatives. Unless otherwise agreed in writing by the Parties, for all purposes relevant to this Compact, the Government shall be represented by the individual holding the position of, or acting as, the Minister of the Presidency of the Republic of Honduras, and MCC shall be represented by the individual holding the position of, or acting as, Vice President for Country Relations (each, a "*Principal Representative*"), each of whom, by written notice, may designate one or more additional representatives (each, an "*Additional Representative*") for all purposes other than signing amendments to this Compact. The names of the Principal Representative and any Additional Representative of each of the Parties shall be provided, with specimen signatures, to the other Party, and the Parties may accept as duly authorized any instrument signed by such representatives relating to the implementation of this Compact, until receipt of written notice of revocation of their authority. A Party may change its Principal Representative to a new representative of equivalent or higher rank upon written notice to the other Party, which notice shall include the specimen signature of the new Principal Representative.

Section 5.3 Amendments. The Parties may amend this Compact only by a written agreement signed by the Principal Representatives of the Parties.

Section 5.4 Termination; Suspension.

(a) Subject to Section 2.5 and paragraphs (e) through (h) of this Section 5.4, either Party may terminate this Compact in its entirety by giving the other Party thirty (30) days' written notice.

(b) Notwithstanding any other provision of this Compact, including Section 2.1, or any Supplemental Agreement between the Parties, MCC may suspend or terminate MCC Funding, in whole or in part, and any obligation or sub-obligation related thereto, upon giving the Government written notice, if MCC determines that:

(i) Any use or proposed use of MCC Funding or Program Assets or continued implementation of the Compact would be in violation of applicable law or U.S. Government policy, whether now or hereafter in effect;

(ii) The Government, any Provider, or any other third party receiving MCC Funding or using Program Assets is engaged in activities that are contrary to the national security interests of the United States;

(iii) The Government has committed an act or an event has occurred that would render the Republic of 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;

(iv) The Government has engaged in a pattern of actions or omissions inconsistent with the MCA Eligibility Criteria, or there has occurred a significant decline in the performance of the Republic of Honduras on one or more of the eligibility indicators contained therein;

(v) The Government or any Provider, in MCC's sole opinion, has materially breached one or more of its assurances or any other covenants, obligations or responsibilities under this Compact or any Supplemental Agreement;

(vi) An audit, review, report or any other document or other evidence reveals that actual expenditures for the Program or any Project or Project Activity were greater than the projected expenditure for such activities identified in the applicable Spending Plan or are projected to be greater than projected expenditures for such activities;

(vii) If the Government (A) materially reduces the allocation in its national budget or any other Government budget of the normal and expected resources that the Government would have otherwise received or budgeted, from external or domestic sources, for the activities contemplated herein, (B) fails to contribute or provide the amount, level, type and quality of resources required to effectively carry out the Government Responsibilities or any other responsibilities or obligations of the Government under or in furtherance of this Compact, or (C) fails to pay any of its obligations as required under this Compact or any Supplemental Agreement, including such obligations which are required to be paid solely out of national funds;

(viii) If the Government, any Provider, or any other third party receiving MCC Funding or using Program Assets, or any of their respective directors, officers, employees, Affiliates, contractors, representatives or agents, is found to have been convicted of a narcotics offense or to have been engaged in drug trafficking;

(ix) Any MCC Funding or Program Assets are applied, directly or indirectly, to the provision of resources and support to, individuals and organizations associated with terrorism, sex trafficking or prostitution;

(x) An event or condition of any character has occurred that, in MCC's sole opinion: (A) materially and adversely affects, or is likely to materially and adversely affect, the ability of the Government or any other party to effectively implement, or ensure the effective implementation of, the Program or any Project or to otherwise carry out its responsibilities or obligations under or in furtherance of this Compact or any Supplemental Agreement or to perform its obligations under or in furtherance of this Compact or any Supplemental Agreement or to exercise its rights thereunder; (B) makes it improbable that the Objectives will be achieved during the Compact Term; (C) materially and adversely affects the Program Assets or any Permitted Account; or (D) constitutes misconduct injurious to MCC, or the commission of an act constituting fraud or a felony, by the Government, MCA-Honduras, any other Government

Affiliate or Provider, or any officer, director, employee, agent, representative, contractor, grantee, subcontractor or sub-grantee thereof;

(xi) The Government, MCA-Honduras or any Provider has taken any action or omission or engaged in any activity in violation of, or inconsistent with, the requirements of this Compact or any Supplemental Agreement to which the Government, MCA-Honduras or any Provider is a party; or

(xii) There has occurred, in MCC's sole opinion, a failure to meet a condition precedent or series of conditions precedent or any other requirements or conditions to MCC Disbursement as set out in and in accordance with any Supplemental Agreement between the Parties.

(c) MCC may reinstate any suspended or terminated MCC Funding under this Compact or any Supplemental Agreement if MCC determines, in its sole discretion, that the Government or other relevant party has demonstrated a commitment to correcting each condition for which MCC Funding was suspended or terminated.

(d) The authority to suspend or terminate this Compact or any MCC Funding under this Section 5.4 includes the authority to suspend or terminate any obligations or sub-obligations relating to MCC Funding under any Supplemental Agreement without any liability to MCC whatsoever.

(e) All MCC Funding shall terminate upon expiration or termination of the Compact Term; *provided, however*, reasonable expenditures for goods, services and works that are properly incurred under or in furtherance of this Compact before expiration or termination of the Compact Term may be paid from MCC Funding, provided that the request for such payment is properly submitted within sixty (60) days after such expiration or termination.

(f) Except for payments which the Parties are committed to make under noncancelable commitments entered into with third parties before such suspension or termination, the suspension or termination of this Compact or any Supplemental Agreement, in whole or in part, shall suspend, for the period of the suspension, or terminate, or ensure the suspension or termination of, as applicable, any obligation or sub-obligation of the Parties to provide financial or other resources under this Compact or any Supplemental Agreement, or to the suspended or terminated portion of this Compact or such Supplemental Agreement, as applicable. In the event of such suspension or termination, the Government shall use its best efforts to suspend or terminate, or ensure the suspension or termination of, as applicable, all such noncancelable commitments related to the suspended or terminated MCC Funding. Any portion of this Compact or any such Supplemental Agreement that is not suspended or terminated shall remain in full force and effect.

(g) Upon the full or partial suspension or termination of this Compact or any MCC Funding, MCC may, at its expense, direct that title to Program Assets be transferred to MCC if such Program Assets are in a deliverable state; *provided*, for any Program Asset(s) partially purchased or funded, directly or indirectly, by MCC Funding, the Government shall reimburse to a U.S. Government account designated by MCC the cash equivalent of the portion of the value of such Program Asset(s).

(h) Prior to the expiration of this Compact or upon the termination of this Compact, the Parties shall consult in good faith with a view to reaching an agreement in writing on (i) the post-Compact Term treatment of MCA-Honduras, (ii) the process for ensuring the refunds of MCC Disbursements that have not yet been released from a Permitted Account through a valid Re-Disbursement or otherwise committed in accordance with Section 5.4(e) or (iii) any other matter related to the winding up of the Program and this Compact.

Section 5.5 Privileges and Immunities; Bilateral Agreement.

(a) MCC is an agency of the Government of the United States of America and its personnel assigned to the Republic of Honduras will be notified pursuant to the Vienna Convention on Diplomatic Relations as members of the mission of the Embassy of the United States of America. The Government shall ensure that any personnel of MCC so notified, including individuals detailed to or contracted by MCC, and the members of the families of such personnel, while such personnel are performing duties in the Republic of Honduras, shall enjoy the privileges and immunities that are enjoyed by a member of the United States Foreign Service, or the family of a member of the United States Foreign Service so notified, as appropriate, of comparable rank and salary of such personnel, if such personnel or the members of the families of such personnel are not a national of, or permanently resident in, the Republic of Honduras.

(b) All MCC Funding shall be considered United States assistance furnished under the Bilateral Agreement, as amended from time to time.

Section 5.6 Attachments. Any annex, schedule, exhibit, table, appendix or other attachment expressly attached hereto (collectively, the "Attachments") is incorporated herein by reference and shall constitute an integral part of this Compact.

Section 5.7 Inconsistencies.

(a) Conflicts or inconsistencies between any parts of this Compact shall be resolved by applying the following descending order of precedence:

(i) Articles I through V

(ii) Any Attachments

(b) In the event of any conflict or inconsistency between this Compact and any Supplemental Agreement between the Parties, the terms of this Compact shall prevail. In the event of any conflict or inconsistency between any Supplemental Agreement between the Parties and any other Supplemental Agreement, the terms of the Supplemental Agreement between the Parties shall prevail. In the event of any conflict or inconsistency between Supplemental Agreements between any parties, the terms of a more recently executed Supplemental Agreement between such parties shall take precedence over a previously executed Supplemental Agreement between such parties. In the event of any inconsistency between a Supplemental Agreement between the Parties and any component of the Implementation Plan, the terms of the relevant Supplemental Agreement shall prevail.

Section 5.8 Indemnification. The Government shall indemnify and hold MCC and any MCC officer, director, employee, Affiliate, contractor, agent or representative (each of MCC and any

such persons, an "*MCC Indemnified Party*") harmless from and against, and shall compensate, reimburse and pay such MCC Indemnified Party for, any liability or other damages which (i) are directly or indirectly suffered or incurred by such MCC Indemnified Party or to which any MCC Indemnified Party may otherwise become subject, regardless of whether or not such damages relate to any third-party claim, and (ii) arise from or as a result of the negligence or willful misconduct of the Government, MCA-Honduras or any other Government Affiliate, directly or indirectly, connected with, any activities (including acts or omissions) undertaken in furtherance of this Compact; *provided, however*, the Government shall apply national funds to satisfy its obligations under this Section 5.8 and no MCC Funding, Accrued Interest, or Program Asset may be applied by the Government in satisfaction of its obligations under this Section 5.8.

Section 5.9 Headings. The Section and Subsection headings used in this Compact are included for convenience only and are not to be considered in construing or interpreting this Compact.

Section 5.10 Interpretation; Definitions.

(a) Any reference to the term "including" in this Compact shall be deemed to mean "including without limitation" except as expressly provided otherwise.

(b) Any reference to activities undertaken "in furtherance of this Compact" or similar language shall include activities undertaken by the Government, any Provider or any other third party receiving MCC Funding involved in carrying out the purposes of this Compact or any Supplemental Agreement, including their officers, directors, employees, Affiliates, contractors, grantees, sub-contractors, sub-grantees, agents and representatives, whether pursuant to the terms of this Compact, any Supplemental Agreement or otherwise.

(c) References to "day" or "days" shall be calendar days unless provided otherwise.

(d) The term "*U.S. Government*" shall mean any branch, agency, bureau, government corporation, government chartered entity or other body of the Federal government of the United States.

(e) The term "*Affiliate*" of a party is a person or entity that controls, is controlled by, or is under the same control as the party in question, whether by ownership or by voting, financial or other power or means of influence.

(f) The term "*Government Affiliate*" is an Affiliate, ministry, bureau, department, agency, government corporation or any other entity chartered or established by the Government.

References to any Affiliate or Government Affiliate herein shall include any of their respective directors, officers, employees, affiliates, contractors, grantees, sub-contractors, sub-grantees, representatives, and agents.

(g) Any references to "Supplemental Agreement between the Parties" shall mean any agreement between MCC on the one hand, and the Government or any Government Affiliate on the other hand.

Section 5.11 Signatures. Other than a signature to this Compact or an amendment to this Compact pursuant to Section 5.3, a signature delivered by facsimile or electronic mail in accordance with Section 5.1 shall be deemed an original signature, and the Parties hereby waive any objection to such signature or to the validity of the underlying document, certificate, notice, instrument or agreement on the basis of the signature's legal effect, validity or enforceability solely because it is in facsimile or electronic form. Such signature shall be accepted by the receiving Party as an original signature and shall be binding on the Party delivering such signature.

Section 5.12 Designation. MCC may designate any Affiliate, agent, or representative to implement, in whole or in part, its obligations, and exercise any of its rights, under this Compact or any Supplemental Agreement between the Parties.

Section 5.13 Survival. Any Government Responsibilities, covenants or obligations or other responsibilities to be performed by the Government after the Compact Term shall survive the termination or expiration of this Compact and expire in accordance with their respective terms. Notwithstanding the termination or expiration of this Compact, the following provisions shall remain in force: Sections 2.2, 2.3, 2.5, 3.2, 3.3, 3.4, 3.5, 3.8, 3.9 (for one year), 3.12, 5.1, 5.2, 5.4(d), 5.4(e) (for sixty days), 5.4(f), 5.4(g), 5.4(h), 5.5, 5.6, 5.7, 5.8, 5.9, 5.10, 5.11, 5.12, this Section 5.13, 5.14, and 5.15.

Section 5.14 Consultation. Either Party may, at any time, request consultations relating to the interpretation or implementation of this Compact or any Supplemental Agreement between the Parties. Such consultations shall begin at the earliest possible date. The request for consultations shall designate a representative for the requesting Party with the authority to enter consultations and the other Party shall endeavor to designate a representative of equal or comparable rank. If such representatives are unable to resolve the matter within 20 days from the commencement of the consultations then each Party shall forward the consultation to the Principal Representative or such other representative of comparable or higher rank. The consultations shall last no longer than 45 days from date of commencement. If the matter is not resolved within such time period, either Party may terminate this Compact pursuant to Section 5.4(a). The Parties shall enter any such consultations guided by the principle of achieving the Compact Goal in a timely and cost-effective manner.

Section 5.15 MCC Status. MCC is a United States government corporation acting on behalf of the United States Government in the implementation of this Compact. As such, MCC has no liability under this Compact, is immune from any action or proceeding arising under or relating to this Compact and the Government hereby waives and releases all claims related to any such liability. In matters arising under or relating to this Compact, MCC is not subject to the jurisdiction of the courts or other body of Honduras.

Section 5.16 Language. This Compact is prepared in English and in the event of any ambiguity or conflict between this official English version and any other version translated into any language for the convenience of the Parties, this official English version shall prevail.

Section 5.17 Publicity, Information and Marking. The Parties shall give appropriate publicity to this Compact as a program to which the United States, through MCC, has contributed, including by posting this Compact, and any amendments thereto, on the MCC website and the

MCA-Honduras Website, identifying Program activity sites, and marking Program Assets; *provided*, any announcement, press release or statement regarding MCC or the fact that MCC is funding the Program or any other publicity materials referencing MCC, including the publicity described in this Section 5.17, shall be subject to prior approval by MCC and shall be consistent with any instructions provided by MCC from time to time in relevant Implementation Letters. Upon the termination or expiration of this Compact, MCC may request the removal of, and the Government shall, upon such request, remove, or cause the removal of, any such markings and any references to MCC in any publicity materials or on the MCA-Honduras Website.

**[SIGNATURE PAGE BEGINS ON THE NEXT PAGE.]**

IN WITNESS WHEREOF, the undersigned duly authorized by their respective governments, have signed this Compact this 13<sup>th</sup> day of June, 2005 and this Compact shall enter into force in accordance with Section 1.3.

Done at Washington, D.C., in the English language.

FOR THE MILLENNIUM CHALLENGE CORPORATION, ON BEHALF OF THE UNITED STATES OF AMERICA

FOR THE GOVERNMENT OF THE REPUBLIC OF HONDURAS



Name: Paul V. Applegarth  
Title: Chief Executive Officer

Name: Luis Cosenza Jiménez  
Title: Minister of the Presidency

**EXHIBIT A**  
**COMPENDIUM OF DEFINED TERMS**

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 Exhibit A and the definitions elsewhere in the text of this Compact, the definition elsewhere in this Compact shall prevail over the definition in this Exhibit A.

*Accrued Interest* is any interest or other earnings on MCC Funding that accrues or is earned.

*Act* means the Millennium Challenge Act of 2003.

*Activity Indicator* means an Indicator that measures the delivery of key goods and services in order to monitor the pace of Project Activity execution.

*Additional Representative* is a representative as may be designated, by written notice, by the Principal Representative of the Government or by MCC for all purposes other than signing amendments to this Compact.

*Affiliate* means a person or entity that controls, is controlled by, or is under the same control as the party in question, whether by ownership or by voting, financial or other power or means of influence.

*Agribusiness Assistance* means the market-oriented technical assistance that the Agribusiness Service Providers will provide to farmers.

*Agribusiness Service Providers* are those service providers that MCC will fund to provide farmer training and development under the Rural Development Project.

*Agricultural Objective* is an Objective of this Compact to increase the productivity and business skills of Honduran farmers who operate small- and medium-size farms and their employees.

*Atlantic Corridor* is one of the main corridors of the International Network of Mesoamerican Highways that runs along the coast of the Atlantic Ocean.

*Attachments* are any annex, schedule, exhibit, table, appendix or other attachment expressly attached to this Compact.

*Auditor* is the person or entity that MCA-Honduras shall engage to carry out the Government's audit responsibilities as provided in Sections 3.8(d-f) of this Compact.

*Auditor/Reviewer Agreement* is a Material Agreement that MCA-Honduras will enter into with each Auditor or Reviewer, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Auditor or Reviewer with respect to the audit, review or evaluation.

*Bank(s)* means any bank holding an account referenced in Section 4(d) of Annex I.

*Bank Agreement* is a Material Agreement that MCA-Honduras will enter into with each Bank, satisfactory to MCC, that sets forth the signatory authority, access rights, anti-money laundering and anti-terrorist financing provisions, and other terms related to the Permitted Account.

*Baseline* means the value of an Indicator prior to it being affected by the Program.

*Beneficiaries* are the Hondurans who participate in the Program or are covered by the Program.

*Benefit Stream* means the increase in income accrued to a group of Beneficiaries as a result of one or more Project Activities over a period of time.

*Bilateral Agreement* means the General Agreement for Economic Cooperation between the Government of the United States of America and the Government of Honduras, dated May 27, 1961, as amended from time to time.

*Board means the independent Board of Directors of MCA-Honduras, which shall oversee MCA-Honduras's responsibilities and obligations under this Compact.*

*CABEI means the Central American Bank for Economic Integration.*

*Chairman is the individual who will act as the Chairman of the Board.*

*CIDA means the Canadian International Development Agency.*

*Civil Board Members are the two Civil Observers who are chosen from time to time to serve as voting members on the Board.*

*Civil Observer means those representatives appointed by Honduran civil society organizations to serve as Observers to the Board.*

*Compact means the agreement made by and between the United States of America, acting through the Millennium Challenge Corporation, and the Government of the Republic of Honduras.*

*Compact Goal means the achievement of the Objectives to advance economic growth and poverty reduction in Honduras.*

*Compact Records are accounting books, records, documents and other evidence that the Government shall maintain, and shall use its best efforts to ensure that all Providers maintain, relating to this Compact adequate to show, to the satisfaction of MCC, without limitation, the use of all MCC Funding.*

*Compact Reports are any documents or reports delivered to MCC in satisfaction of the Government's reporting requirements under this Compact or any Supplemental Agreement between the Parties and certified by the Chairman and/or General Director of MCA-Honduras or other designated officer, as provided in applicable law and the Governance Regulations.*

*Compact Term means this Compact shall remain in force for five (5) years from the Entry into Force, unless earlier terminated.*

*Covered Provider means (i) any non-United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) USD \$300,000 or more of MCC Funding in any MCA-Honduras fiscal year or any other non-United States person or entity that receives, directly or indirectly, USD \$300,000 or more of MCC Funding from any Provider in such fiscal year or (ii) any United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) USD \$500,000 or more of MCC Funding in any MCA-Honduras fiscal year or any other United States party that receives, directly or indirectly, USD \$500,000 or more of MCC Funding from any Provider in such fiscal year.*

*Designated Rights and Responsibilities means the Government shall designate MCA-Honduras to implement the Government's Responsibilities and any other responsibilities or obligations of the Government and to exercise any rights of the Government under this Compact or any Supplemental Agreement between the Parties in accordance with the terms and conditions set forth in this Compact or such Supplemental Agreement.*

*Disbursement Agreement is a Supplemental Agreement that the Parties shall enter into prior to any MCC Disbursement or Re-Disbursement that (i) further specifies the terms and conditions of such MCC Disbursements and Re-Disbursements, (ii) is in a form and substance mutually satisfactory to the Parties, and (iii) is signed by the Principal Representative of each Party (or in the case of the Government, the principal representative of the applicable Government Affiliate).*

*Entry into Force means this Compact shall enter into force on the date of the last letter in an exchange of letters between the Principal Representatives of each Party confirming that all conditions set forth in Section 4.1 have been satisfied by the Government and MCC.*

*Environmental Guidelines* are the environmental guidelines delivered by MCC to the Government or posted by MCC on its website or otherwise made available, as amended from time to time.

*ESI Director* means the Environment and Social Impact Director within the PMU, who will ensure that environmental and social mitigation measures (including resettlement and gender issues) are followed for all Project Activities in accordance with the provisions set forth in this Compact and other documents.

*Evaluation Component* is the portion of the M&E Plan that specifies a process and timeline for the assessment of planned, ongoing, or completed Project Activities to determine their efficiency, effectiveness, impact and sustainability.

*Exempt Uses* means the application of Section 2.3(e) to exempt from any tax (i) any transaction, service, activity, contract, grant or other implementing agreement funded in whole or in part by MCC Funding; (ii) any supplies, equipment, materials, property or other goods (referred to herein collectively as "goods") or funds introduced into, acquired in, used or disposed of in, or imported into or exported from, the Republic of Honduras by MCC, or by any person or entity (including contractors and grantees) as part of, or in conjunction with, MCC Funding or the Program; (iii) any contractor, grantee, or other organization carrying out activities funded in whole or in part by MCC Funding; (iv) any employee of such organizations; and (v) any individual contractor or grantee carrying out activities funded in whole or in part by MCC Funding.

*FHIS* means the Minister of the Honduran Social Investment Fund, which is one of the Government ministries that will appoint a representative to serve as a non-voting Observer on the Board.

*Final Evaluation* means the evaluation that will be conducted at the completion of the Program by an independent evaluator engaged by MCA-Honduras, with the prior approval of MCC.

*Financial Plan* means collectively, the Multi-Year Financial Plan and each Spending Plan, each amendment, supplement or other change thereto.

*Financial Plan Annex* means Annex II of this Compact, which summarizes the Multi-Year Financial Plan for the Program.

*Fiscal Accountability Plan* is the plan that identifies the principles and mechanisms to ensure appropriate fiscal accountability for the use of MCC Funding provided under this Compact.

*Fiscal Agent* is the person or entity that MCA-Honduras shall engage, who shall be responsible for, among other things, the matters set forth in Annex I, Section 3(g).

*Fiscal Agent Agreement* is a Material Agreement that MCA-Honduras enters into with each Fiscal Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Fiscal Agent and other appropriate terms and conditions.

*General Director* means the individual who will act as General Director of MCA-Honduras.

*Goal Indicator* is an Indicator that measures the impact of the Program on the incomes of Beneficiaries.

*Governance Regulations* means the governance regulations promulgated in furtherance of the Compact and applicable law, which shall be in a form and substance satisfactory to MCC and which specify how MCA-Honduras shall be organized and what its roles and responsibilities are.

*Government* means the Government of the Republic of Honduras that is a Party to this Compact with MCC.

*Government Affiliate* is an Affiliate, ministry, bureau, department, agency, government corporation or any other entity chartered or established by the Government.

*Government Board Members* are the three Government voting members on the Board: (i) the Secretary of State of the Office of the Presidency of Honduras, (ii) the Secretary of State of the Office of Finances of Honduras, and (iii) the Secretary of State of the Office of Industry and Commerce.

*Government Observer(s)* are individuals who shall serve as non-voting observers to the Board, who are appointed by the following Government ministries: (i) SAG; (ii) SOPRAVI; (iii) FHIS and (iv) SERNA.

*Government Party* means (i) the Government, (ii) any Government Affiliate, or (iii) MCA-Honduras or any of their respective directors, officers, employees, Affiliates, contractors, representatives or agents.

*Government Responsibilities* means the Government shall have principal responsibility for oversight and management of the implementation of the Program (i) in accordance with the terms and conditions specified in this Compact and relevant Supplemental Agreements, (ii) in accordance with all applicable laws then in effect in Honduras, and (iii) in a timely and cost-effective manner and in conformity with sound technical, financial and management practices.

*Grant Committee* is a committee that shall provide oversight of the Agriculture Public Goods Grant Facility funded by MCC.

*Highway CA-5* is the Honduran portion of the Atlantic Corridor, which carries most of Honduras' import and export traffic from Puerto Cortes to the major production and consumption centers in and around the cities of San Pedro Sula, Comayagua and Tegucigalpa.

*IDB* means the Inter-American Development Bank.

*IFAD* means the International Fund for Agricultural Development.

*Implementation Letter* is a letter issued by MCC from time to time to furnish additional information or guidance to assist the Government in the implementation of this Compact.

*Implementation Plan* means the implementation framework and the plan for ensuring adequate governance, oversight, management, monitoring, evaluation and accountability for the use of MCC Funding and for the implementation of the Program and each Project, which are described in the Compact, relevant Supplemental Agreements and other documents and which consist of: (i) a Financial Plan, (ii) Fiscal Accountability Plan, (iii) Procurement Plan, (iv) Program and Project Work Plans, and (v) the M&E Plan.

*Implementing Entity* means the government agencies or nongovernmental agencies or other public- or private-sector entities or persons that MCA-Honduras may provide MCC funding to, directly or indirectly, through an Outside Project Manager, to implement and carry out Projects or any other activities to be carried out in furtherance of this Compact.

*Implementing Entity Agreement* is a Material Agreement that MCA-Honduras (or the appropriate Outside Project Manager) enters into with each Implementing Entity, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of such Implementing Entity and other appropriate terms and conditions.

*Indicators* are the objective data that the M&E Plan will use to measure the results of the Program and which are divided into four types: (i) Goal Indicator, (ii) Objective Indicator, (iii) Outcome Indicator, and (iv) Activity Indicator.

*Inspector General* shall mean the Inspector General of the United States Agency for International Development.

*Lien* means any lien, attachment, enforcement of judgment, pledge, or encumbrance of any kind.

*Local Account* means an interest-bearing local currency of Honduras bank account.

*M&E Annex* means Annex III of this Compact, which generally describes the components of the M&E Plan for the Program.

*M&E Plan* means the Monitoring and Evaluation Plan to measure and evaluate progress toward achievement of the Objectives of this Compact, a general description of which is set forth in Annex III.

*Material Agreement* is any agreement (i) between the Government and MCA-Honduras, (ii) between the Government, MCA-Honduras or other Government Affiliate, on the one hand, and any Provider or Affiliate of a Provider, on the other hand, which require such MCC approval under applicable law, the Governance Regulations, Procurement Agreement, Procurement Guidelines or any Supplemental Agreement, or (iii) in which the Government, MCA-Honduras or other Government Affiliate appoints, hires or engages any of the persons or entities listed in Annex I Section 3(c)(i)(3) in furtherance of this Compact and any amendments and supplements thereto.

*Material Re-Disbursement* means any Re-Disbursement that requires MCC approval under applicable law, the Governance Regulations, Procurement Agreement, Procurement Guidelines or any Supplemental Agreement.

*Material Terms of Reference* means the terms of reference for the procurement of goods or services that require MCC approval under applicable law, the Governance Regulations, the Procurement Guidelines or any Supplemental Agreement.

*MCA* means the Millennium Challenge Account, which is the account that provides MCC Funding to implement this Compact.

*MCA Eligibility Criteria* means the MCA selection criteria and methodology published by MCC pursuant to Section 607 of the Act from time to time.

*MCA-Honduras* is the legal entity established by the Government in a form mutually agreeable to the Parties, which shall be responsible for the oversight and management of the implementation of this Compact on behalf of the Government.

*MCA-Honduras Website* is the website that MCA-Honduras shall develop and maintain in a timely, accurate and appropriately comprehensive manner, to include postings of information and documents in English and Spanish relating to the Program and Projects.

*MCC* means the Millennium Challenge Corporation, which is the United States government corporation that is a Party to this Compact with the Government.

*MCC Disbursement* means the release of MCC Funding to a Permitted Account or through such other mechanism agreed by the Parties.

*MCC Disbursement Request* is the applicable request that the Government and MCA-Honduras will jointly submit for an MCC Disbursement as may be specified in the Disbursement Agreement.

*MCC Funding* means the amount of funding that MCC shall grant to the Government (USD \$215,000,000) during this Compact Term to enable the Government to implement the Program and achieve the Objectives.

*MCC Indemnified Party* means MCC and any MCC officer, director, employee, Affiliate, contractor, agent or representative, who the Government shall indemnify and hold harmless from and against and shall compensate, reimburse and pay for any liability or other damages which are stated in Section 5.8.

*MCC Representative* is an individual appointed by MCC who will serve as a non-voting observer to the Board.

*Monitoring Component* is the portion of the M&E Plan that specifies how the implementation of the Program and progress toward the achievement of the Objectives and Compact Goal will be monitored.

*Multi-Year Financial Plan* is a plan for the Program and for each Project that includes: (i) the multi-year summary of anticipated estimated MCC Funding and the Government's contribution of funds and resources, (ii) an estimated draw-down rate for the first year of this Compact based on the achievement of performance milestones and the satisfaction or waiver of conditions precedent, and (iii) a Spending Plan for the upcoming year of the Program.

*North Segment* is a 50 kilometer segment of Highway CA-5 between Taulabe and Comayagua.

*Objective(s)* are the objectives of this Compact that have been identified by the Parties, each of which is key to reducing poverty through economic growth in Honduras, i.e., the Agricultural Objective and the Transportation Objective.

*Objective Indicator* is an Indicator that measures the final results of the Projects in order to monitor their success in meeting the Objectives.

*Observers* are the non-voting observers to the Board.

*Officers* are the persons holding Project Director positions in the Program Management Unit.

*Outcome Indicator* is an Indicator that measures the intermediate results of goods and services delivered under a Project in order to provide an early measure of the likely impact of the Projects on the Objectives.

*Outside Project Managers* are the qualified entities that may be engaged by the PMU, or as instructed by the Board to be engaged, as necessary, for the proper and efficient day-to-day management of a Project.

*Pacific Corridor* is one of the main corridors of the International Network of Mesoamerican Highways that runs along the Pacific Ocean.

*Party* means (i) the United States, acting through MCC or (ii) the Government.

*Permitted Account(s)* are those accounts that the Government shall establish, or cause to be established, as may be agreed by the Parties in writing from time to time to receive MCC Disbursements.

*Pledge* means any (i) MCC Funding, (ii) any Program Assets, or (iii) any guarantee directly or indirectly of any indebtedness.

*PMU* means the Program Management Unit.

*PPP* means Plan Puebla-Panama, which is a plan to create a reliable Mesoamerican network of highways known as the International Network of Mesoamerican Highways.

*Principal Representative* means (i) for the Government, the individual holding the position of, or acting as, Minister of the Presidency of the Republic of Honduras; and (ii) for MCC, the individual holding the position of, or acting as, the Vice President for Country Relations.

*Procurement Agent* is the person or entity that MCA-Honduras shall engage to carry out and/or certify specified procurement activities in furtherance of this Compact on behalf of the Government, MCA-Honduras, any Outside Project Manager or Implementing Entity.

*Procurement Agent Agreement* is a Material Agreement that MCA-Honduras will enter into with the Procurement Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Procurement Agent with respect to the conduct, monitoring and review of procurements and other appropriate terms and conditions.

*Procurement Agreement* is a Supplemental Agreement between the Parties wherein the Government shall ensure that the procurement of all goods, services and works by the Government, MCA-Honduras or any other Provider in furtherance of this Compact shall be consistent with the Procurement Guidelines.

*Procurement Guidelines* are (i) the procurement standards and procedures of the World Bank, as codified in the "Guidelines: Procurement under IBRD Loans and IDA Credits, May 2004 (ISBN 0-8213-5829-4" (covering works and goods) and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers, May 2004" (covering consultants and technical assistance) and (ii) subject to any exceptions and other modifications specified by the procurement guidelines set forth in the Procurement Agreement, which MCC may modify by publication from time to time.

*Procurement Plan* is a plan adopted by MCA-Honduras, which shall forecast the upcoming eighteen month procurement activities and be updated every six months.

*Procurement Supervisor* is the person or entity that MCA-Honduras shall engage, if requested by MCC, to supervise specified procurement activities in furtherance of this Compact on behalf of the Government, MCA-Honduras, any Outside Project Manager or any Implementing Entity.

*Procurement Supervisor Agreement* is a Material Agreement that MCA-Honduras will enter into with the Procurement Supervisor, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Procurement Supervisor with respect to the conduct, monitoring and review of procurements and other appropriate terms and conditions.

*Program* is what the Parties will implement under this Compact using MCC Funding to advance Honduras's progress towards economic growth and poverty reduction.

*Program Annex* means the section of this Compact (Annex I) that generally describes the Program that MCC Funding will support in Honduras during the Compact Term and the results to be achieved from the investment of MCC Funding.

*Program Assets* means (i) MCC Funding, (ii) Accrued Interest, or (iii) any asset, good, or property (real, tangible, or intangible) purchased or financed in whole or in part by MCC Funding.

*Program Farmers* are the owners, operators and employees of small- and medium-size farms covered by the Program.

*Program Management Unit (PMU)* is the management team of MCA-Honduras, which shall report to the Board and have overall management responsibility for the implementation of this Compact.

*Project(s)* are the specific projects and the policy reforms and other activities that the Government will carry out, or cause to be carried out, using MCC Funding, in furtherance of this Compact to achieve the Objectives and the Compact Goal, i.e., the Rural Development Project and the Transportation Project.

*Project Activity* means the activities that will be undertaken in furtherance of each Project using MCC Funding, which are identified in the Schedules to Annex I.

*Project Director(s)* are the Rural Development Project Director and Transportation Project Director.

*Proposal* is the document submitted to MCC by the Government on August 20, 2004 to request MCA assistance.

*Provider* means (i) MCA-Honduras and any other Government Affiliate involved in any activities in furtherance of this Compact or (ii) any third party who receives at least USD \$50,000 in the aggregate of MCC Funding (other than employees of MCA-Honduras) during this Compact Term or such other amount as the Parties may agree in writing, whether directly from MCC, indirectly through Re-Disbursements, or otherwise.

*PRS* means the Honduran Poverty Reduction Strategy, which describes the macroeconomic, structural and social policies and programs needed to promote growth and reduce poverty.

*Re-Disbursement* is the release of MCC Funding from a Permitted Account.

*Reviewer* is an independent person or entity that MCA-Honduras shall engage to (i) conduct reviews of performance and compliance under this Compact pursuant to Section 3.8(f) of this Compact, who shall (A) conduct general reviews of performance or compliance, (B) conduct environmental audits, and (C) have the capacity to conduct data quality assessments in accordance with the M&E Plan, and/or (ii) assess performance as required under the M&E Plan.

*Road Fund* is the Honduran Fondo Vial that maintains the Honduran Highway system.

*Rural Development Project* is a Project of the Program (Schedule I to Annex I) that the Parties intend to implement in furtherance of the Agricultural Objective and Transportation Objective, which is designed to increase the productivity and improve the competitiveness of Program Farmers.

*SAG* means the Secretary of State of the Office of Agriculture and Livestock, which is one of the Government ministries that will appoint a representative to serve as a non-voting Observer on the Board.

*SERNA* means the Government's Secretary of State of the Office of Natural Resources and Environment, which is one of the Government ministries that will appoint a representative to serve as a non-voting Observer on the Board.

*SOPTRAVI* means the Government's Secretary of State of the Office of Public Works, Transportation and Housing, which is one of the Government ministries that will appoint a representative to serve as a non-voting Observer on the Board.

*South Segment* is a 59 kilometer segment of Highway CA-5 between Villa de San Antonio and Tegucigalpa.

*Spending Plan* is a financial plan that MCA-Honduras shall periodically deliver to MCC during this Compact Term, which will specify the annual and quarterly spending requirements for the Program and each Project, projected both on a commitment and cash requirement basis.

*Supplemental Agreement* is an agreement between (i) the Government (or any Government Affiliate) and MCC, (ii) MCC and/or the Government (or any Government Affiliate) and any third party, including any of the Providers or (iii) any third parties where neither MCC nor the Government is a party, before, on or after the Entry into Force, which details any funding, implementing and other arrangements in furtherance of this Compact.

*Supplemental Agreement between the Parties* means any agreement between MCC on the one hand, and the Government or any Government Affiliate on the other hand.

*Supplemental Agreement Term Sheets* means the term sheets that the Government (or mutually acceptable Government Affiliate) and MCC shall execute that set forth the material and principal terms and conditions of each of the Supplemental Agreements identified in Exhibit B.

*Target(s)* mean the expected results of the Indicators that specify the expected value and the expected time by which that result will be achieved.

*Tax(es)* means all taxes, tariffs, duties and other levies in Honduras.

*Transportation Objective* is an Objective of this Compact to reduce transportation costs between targeted production centers and national, regional and global markets.

*Transportation Project* is a Project of the Program (Schedule 2 to Annex I) in furtherance of the Transportation Objective, which is designed to reduce transportation costs between Honduran production centers and national, regional and global markets.

*U.S. Government* means the United States Government and refers to any branch, agency, bureau, government corporation, government chartered entity or other body of the Federal government of the United States.

*United States Dollars (USD)* means the currency of the United States of America.

*USAID* means the U.S. Agency for International Development.

*USDA* means the U.S. Department of Agriculture.

*Work Plans* are those plans MCA-Honduras shall adopt for the overall administration of the Program and each activity and shall set forth the details of each activity to be undertaken or funded by MCC Funding as well as the allocation of roles and responsibilities for specific Project activities, or other programmatic guidelines, performance requirements, targets, or other expectations for a Project.

**EXHIBIT B**  
**LIST OF SUPPLEMENTAL AGREEMENTS**

1. Governance Regulations
2. Fiscal Agent Agreement
3. Bank Agreement
4. Procurement Supervisor Agreement

## ANNEX I

### PROGRAM DESCRIPTION

This Annex I to the Compact (the "*Program Annex*") generally describes the Program that MCC Funding will support in Honduras during the Compact Term and the results to be achieved from the investment of MCC Funding. Prior to any MCC Disbursement or Re-Disbursement, including for the Projects described herein, the Parties shall enter into a Supplemental Agreement that (i) further specifies the terms and conditions of such MCC Disbursements and Re-Disbursements, (ii) is in a form and substance mutually satisfactory to the Parties, and (iii) is signed by the Principal Representative of each Party (or in the case of the Government, the principal representative of the applicable Government Affiliate (the "*Disbursement Agreement*").

Except as specifically provided herein, the Parties may amend this Program Annex only by written agreement signed by the Principal Representative of each Party. Each capitalized term in this Program Annex shall have the same meaning given such term elsewhere in this Compact. Unless otherwise expressly stated, each Section reference herein is to the relevant Section of the main body of the Compact.

#### **1. Background; Consultative Process.**

Following the devastation of Hurricane Mitch in 1998 and the subsequent reconstruction effort, Honduras now enjoys a window of opportunity to capitalize on the democratic reforms begun in the 1980s, the economic liberalization of the 1990s, and increasing regional integration, trade liberalization and the promise of The Dominican Republic-Central America-United States Free Trade Agreement. Honduras has begun to seize this opportunity and use its strategic location to generate economic growth, particularly in light manufacturing, non-traditional agriculture and tourism. However, Honduras needs to ensure that growth extends to the rural population, where most of its poverty is concentrated, by enhancing agricultural development and linking its large rural population to markets.

The Honduran Poverty Reduction Strategy ("*PRS*")<sup>1</sup> describes the macroeconomic, structural and social policies and programs needed to promote growth and reduce poverty. Among its priorities, the PRS seeks to improve agricultural productivity and access to markets. These two objectives of the PRS are essential to increasing exports, particularly in light manufacturing and non-traditional agriculture, which are the two sectors that have accounted for most of Honduras' recent economic growth and poverty reduction.

To reduce rural poverty, the PRS contemplates increasing production and improving the efficiency and competitiveness of rural producers by providing them with better access to market-support services throughout the production cycle (e.g., market research, production, post-harvest and processing technical assistance), financing (e.g., credit from traditional and non-

<sup>1</sup> The Honduran Poverty Reduction Strategy is articulated in the Poverty Reduction Strategy Paper developed in 2001, and a Poverty Reduction Strategy - Implementation Plan for 2004 - 2006 developed in 2004.

traditional financing sources), technology (e.g., on-farm irrigation systems), and infrastructure (e.g., building and maintaining rural roads, improving the efficiency of property registries).

The PRS also seeks to integrate the Honduran economy into channels of world trade by completing (i) the main Honduran highway artery that directly connects Puerto Cortes (Honduras' Atlantic port) to Puerto Cutuco (El Salvador's Pacific port), major production centers within Honduras, and the country's Central American trading partners, and (ii) the access roads that feed into this artery. The goal is to guarantee the access of national products to export markets under competitive conditions as a means to achieve a freer and more competitive flow of products and inputs on a national, regional and global basis.

The PRS consultative process was based on, among other things, dialogue with donors, meetings with over 3,500 representatives of civil society organizations from diverse economic groups and geographic areas in 13 cities, and workshops conducted in the main geographical regions of the country that included more than 650 participants. The Honduran Poverty Reduction Strategy Consultative Council, a representative group headed by a vice minister of the Honduran Presidency, headed this process. Implementation of the PRS involves extensive and on-going consultations with stakeholders to set priorities and monitor implementation.

In developing the MCC Proposal, the Government reviewed the PRS and other agreed upon national priorities and consulted with the donor community and civil society to determine which components of the PRS should be incorporated into the Proposal. The Government then solicited feedback on the Proposal from the public at large by posting the document on its PRS website ([www.sierp.hn](http://www.sierp.hn)) and publishing a summary of the Proposal in a major local newspaper. After submitting the Proposal to MCC, the Government held five high level meetings with civil society organizations and donors to gather more feedback, including participants' insights on obstacles to economic growth and poverty reduction in Honduras. This input informed the Government in the negotiation of the Program and contributed to several material changes to the Program, including the inclusion of civil society as voting members of the Board of Directors of MCA-Honduras. The Government then held three separate meetings with civil society organizations in March 2005, to explain how such feedback had caused the final MCC Program to differ from the original proposal. The Government plans to continue consultations with civil society and donors throughout the implementation of the Program. The civil society representatives who participate on the MCA-Honduras Board also will help ensure civil society oversight and input throughout the implementation process.

The Proposal itself focuses on, among other things, raising agricultural productivity and reducing transportation costs. MCC found that these two objectives are widely accepted as deep-rooted factors affecting economic growth and poverty reduction on a national level. The main projects that the Proposal identifies to achieve these objectives enjoy broad support from civil society and donors.

Following MCC's review of the Proposal, the consultative process and negotiations, the Parties identified certain mutually acceptable components of the Proposal and other components developed through such discussions that together constitute the Program. The Parties mutually agreed that the Program will focus on alleviating two key impediments to economic growth: high