

(c) Reform the civil procedures code to make all new lawsuits more transparent and expeditious by making them oral and public.

ANNEX II

FINANCIAL PLAN SUMMARY

This Annex II to the Compact (the "*Financial Plan Annex*") summarizes the Multi-Year Financial Plan for the Program. Each capitalized term in this Financial Plan Annex shall have the same meaning given such term elsewhere in this Compact.

- 1. General.** A Multi-Year Financial Plan Summary is attached hereto as Exhibit A. By such time as specified in the Disbursement Agreement, MCA-Honduras will adopt, subject to MCC approval, a Multi-Year Financial Plan that includes, in addition to the multi-year summary of anticipated estimated MCC Funding and the Government's contribution of funds and resources, an estimated draw-down rate for the first year of the Compact based on the achievement of performance milestones, as appropriate, and the satisfaction or waiver of conditions precedent. Each year, at least 30 days prior to the anniversary of the Entry Into Force, the Parties shall mutually agree in writing to a Spending Plan for the upcoming year of the Program, which shall include a more detailed plan for such year, taking into account the status of the Program at such time and making any necessary adjustments to the Multi-Year Financial Plan.
- 2. Implementation and Oversight.** The Financial Plan shall be implemented by MCA-Honduras, consistent with the approval and oversight rights of MCC and the Government as provided in this Compact, the Governance Agreement and the Disbursement Agreement.
- 3. Estimated Contributions of the Parties.** The Multi-Year Financial Plan Summary, attached hereto as Exhibit A, identifies the estimated annual contribution of MCC Funding for Program administration and each Project. The Government's contribution of resources to Program administration and each Project shall consist of (i) "in-kind" contributions in the form of *Government Responsibilities and any other obligations and responsibilities of the Government* identified in the Compact, including contributions identified in the notes to the Multi-Year Financial Plan Summary; and (ii) such other contributions or amounts as may be identified in relevant Supplemental Agreements between the Parties or as may otherwise be agreed by the Parties; *provided, in no event shall the Government's contribution of resources be less than 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.*
- 4. Modifications.** The Parties recognize that the anticipated distribution of MCC Funding between and among the various Program activities and Project Activities will likely require adjustment from time to time during the Compact Term. In order to preserve flexibility in the administration of the Program, the Parties may, upon agreement of the Parties in writing and without amending the Compact, change the designations and allocations of funds between Program administration and a Project, between one Project and another Project, between different activities within a Project, or between a Project identified as of the entry into force of this Compact and a new Project, without amending the Compact; *provided, however, that such reallocation (i) is consistent with the Objectives, (ii) does not cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1(a) of this Compact, and (iii) does not*

cause the Government's responsibilities or overall contribution of resources to be less than specified in Section 2.2(a) of this Compact, this Annex II or elsewhere in the Compact.

5. Conditions Precedent; Sequencing. MCC Funding will be disbursed in tranches. The obligation of MCC to approve MCC Disbursements and Material Re-Disbursements for the Program and each Project is subject to satisfactory progress in achieving the Objectives and on the fulfillment or waiver of any conditions precedent specified in the Disbursement Agreement for the relevant Program activity or Project Activity. The sequencing of Project Activities and other aspects of how the Parties intend the Projects to be implemented will be set forth in the Implementation Plan, including Work Plans for the applicable Project, and MCC Disbursements and Re-Disbursements will be disbursed consistent with that sequencing.

EXHIBIT A: MULTI-YEAR FINANCIAL PLAN SUMMARY

Re-Disbursements Funded Directly from MCC Disbursements						
Component	Year 1	Year 2	Year 3	Year 4	Year 5¹	Total
1. Rural Development Project²						
(a) Farmer Training and Development ³	1,525 ⁴	4,722	10,548	10,242	377	27,415
(b) Farmer Access to Credit ⁵	2,860	8,160	1,277	1,217	258	13,773
(c) Farm to Market Roads ⁶		6,450	15,050			21,500
(d) Agricultural Public Goods Grant Facility ⁷		3,000	3,000	2,000		8,000
Rural Development Project Manager	270	304	324	304	304	1,509
Sub-Total	4,656	22,636	30,200	13,764	939	72,195
2. Transportation Project⁸						
(a) Highway CA-5 ⁹	15,705	35,157	36,278	9,272		96,412
(b) Secondary Roads ¹⁰			5,320	15,960		21,280
(c) Weight Control System ¹¹	2,219	248	2,263			4,730
Transportation Project Manager	742	846	846	846		3,279
Sub-Total	18,666	36,250	44,706	26,078		125,700
3. Monitoring and Evaluation¹²	1,623	578	1,320	143	1,320	4,983
Sub-Total	1,623	578	1,320	143	1,320	4,983
4. Program Administration and Control						
(a) Program administration	2,389	1,952	1,952	1,793	1,181	9,268
(b) Audit	327	824	1,049	572	83	2,855
Sub-Total	2,715	2,777	3,001	2,365	1,264	12,122
Source of Funds:						
MCC CONTRIBUTION¹³	27,659	62,240	79,227	42,350	3,523	215,000
Re-Disbursements Funded from Loan Repayment (Financial Institutions to MCA-Honduras)						
Component	Year 1	Year 2	Year 3	Year 4	Year 5¹	Total
1. Rural Development Project²						
(a) Farmer Training and Development ³					3,000	3,000
(b) Farmer Access to Credit ⁵					2,000	2,000
(c) Farm to Market Roads ⁶						
(d) Agricultural Public Goods Grant Facility ⁷				1,000		1,000
Sub-Total				1,000	5,000	6,000
Source of Funds:						
Repayment of Loans (Farmer Access to Credit)				1,000	5,000	6,000

EXHIBIT A: MULTI-YEAR FINANCIAL PLAN SUMMARY (Notes)

¹ Although most Project Activities will take place from Year 1 through Year 4, the five-year Compact Term will allow additional time to ensure that Project Activities are completed. Monitoring and Evaluation will continue after the completion of the Project Activities.

² The Government will provide in-kind contributions in the form of staff time and resources from Secretary of Agriculture ("SAG"), Secretary of Public Works, Transportation and Housing ("SOPTRAVI"), Secretary of National Resources and Environment ("SERNA"), Honduran Social Investment Fund ("FHIS"), and National Commission of Banks and Insurance ("CNBS") to work towards the expected results of this Project. All of these contributions will be more specifically set forth in the relevant components of the Implementation Plan or relevant Supplemental Agreement between the Parties.

³ The Government has provided in-kind contributions in the form of SAG staff time and responses used for developing this Project Activity and will provide in-kind contributions in the form of SAG staff time and resources to work towards the expected results of this Project Activity, which contributions will be more specifically set forth in the relevant components of the Implementation Plan or relevant Supplemental Agreement between the Parties.

⁴ Amounts shown are U.S. Dollars in thousands.

⁵ The Government will provide in-kind contributions in the form of CNBS, Ministry of Finance and Central Bank staff time and resources to work towards the expected results for this Project Activity, which contributions will be more specifically set forth in the relevant components of the Implementation Plan or relevant Supplemental Agreement between the Parties.

⁶ These amounts will be disbursed only upon satisfaction of (i) agreements executed with municipalities to pay 20% of the cost of selected roads and to permanently maintain them, (ii) completion of full design studies, (iii) obtaining requisite approvals by the rural road advisory committee and others, and (iv) other conditions set out in the Disbursement Agreement. The Government will provide in-kind contributions in the form of staff time and resources from FHIS to work towards the expected results of this Project Activity, which contributions will be more specifically set forth in the relevant components of the Implementation Plan or relevant Supplemental Agreement between the Parties.

⁷ These amounts will be disbursed only upon satisfaction of (i) obtaining requisite approvals by the Grant Committee and others, and (ii) other conditions set out in the Disbursement Agreement.

⁸ The Government will provide in-kind contributions in the form of staff time and resources from SOPTRAVI and SERNA to work towards the expected results of this Project. All of these contributions will be more specifically set forth in the relevant components of the Implementation Plan or relevant Supplemental Agreement between the Parties.

⁹ These amounts will be disbursed only upon satisfaction of (i) completion of a detailed Project management plan and coordination plan by MCA-Honduras in conjunction with Transportation Project Manager, and (ii) other conditions set out in the Disbursement Agreement.

¹⁰ These amounts will be disbursed only upon satisfaction of (i) completion of a detailed Project management plan and coordination plan by MCA-Honduras in conjunction with Transportation Project Manager, and (ii) other conditions set out in the Disbursement Agreement. The amounts in Year 4 will be disbursed only upon satisfaction of a detailed vehicle weight control plan and other conditions set out in the Disbursement Agreement.

¹¹ These amounts will be disbursed only upon satisfaction of (i) completion of a detailed vehicle weight control plan, and (ii) other conditions set out in the Disbursement Agreement.

¹² The Government will provide in-kind contributions in the form of SAG, SOPTRAVI, FHIS and INE staff time and resources towards data collection and other monitoring and evaluation functions, which contributions will be more specifically set forth in the relevant components of the Implementation Plan or relevant Supplemental Agreement between the Parties.

¹³ The Government will pursue legislative and policy reforms to improve its level of performance under the policy criteria identified in Section 607 of the Millennium Challenge Act of 2003, including by enacting new anti-trust, civil service and civil procedure legislation.

ANNEX III

DESCRIPTION OF THE M&E PLAN

This Annex III to the Compact (the "*M&E Annex*") generally describes the components of the M&E Plan for the Program. Each capitalized term in this Annex III shall have the same meaning given such term elsewhere in this Compact.

1. Overview.

The Parties shall implement an M&E Plan that specifies (i) how the implementation of the Program and progress toward the achievement of the Objectives and Compact Goal will be monitored ("*Monitoring Component*"), (ii) a process and timeline for the assessment of planned, ongoing, or completed Project Activities to determine their efficiency, effectiveness, impact and sustainability ("*Evaluation Component*"), and (iii) other components described below. Information regarding the Program's performance, including the M&E Plan, and any amendments or modifications thereto, and periodic reports, will be made publicly available on the MCA-Honduras Website and elsewhere.

2. Monitoring Component.

To monitor the implementation of the Program and progress toward the achievement of the Objectives and Compact Goal, the Monitoring Component shall define the Indicators (defined below), the party responsible for reporting each Indicator to MCA-Honduras, and the method by which the reported data will be validated.

(a) **Indicators:** The M&E Plan shall measure the results of the Program using objective data ("*Indicators*"). Each Indicator will have one or more expected results that specify the expected value and the expected time by which that result will be achieved ("*Targets*"). The M&E Plan will measure and report four types of Indicators. First, the Compact Goal Indicator ("*Goal Indicator*") will measure the impact of the Program on the incomes of Hondurans who participate or are covered by the Program (collectively, "*Beneficiaries*"). Second, Objective Indicators (each, an "*Objective Indicator*") will measure the final results of the Projects in order to monitor their success in meeting the Objectives. Third, Outcome Indicators (each, an "*Outcome Indicator*") will measure the intermediate results of goods and services delivered under the Project in order to provide an early measure of the likely impact of the Projects on the Objectives. Fourth, Project Activity Indicators (each, an "*Activity Indicator*") will measure the delivery of key goods and services in order to monitor the pace of Project Activity execution. For each Outcome, Objective and Goal Indicator, the M&E Plan will define a strategy for validating the value of such Indicator prior to being affected by the Program ("*Baseline*"). All Indicators will be disaggregated by gender, income level and age, to the extent practicable.

(i) **Compact Goal Indicator.** The Project Activities undertaken in connection with the Program are expected to increase the incomes of Beneficiaries. The increase in income accrued to a group of Beneficiaries as a result of one or more Project Activities over a period of time constitutes a benefit stream ("*Benefit Stream*"). The M&E Plan shall contain one Goal Indicator, listed in the table below, which is the change in the income of

Beneficiaries attributable to the Program. The Goal Indicator will be calculated as the sum of the Benefit Streams. MCA-Honduras, with approval from MCC, must define a methodology for estimating a Benefit Stream prior to the disbursement of funds for any Project Activity that may influence that Benefit Stream. Such a methodology would measure the difference between the actual income of Beneficiaries and the estimated value of what their income would have been without the Program.

Compact Goal							
Increased Economic Growth and Reduced Poverty							
Indicator	Year 1	Year 2	Year 3	Year 4	Year 5	Year 20	PV ¹
Increase in income of Beneficiaries (annual US\$ millions) (disaggregated by income level, gender and age, where appropriate.)	\$1.9	\$5.9	\$12.9	\$43.5	\$69.0	\$158.4	\$538.3
Measured by							
Benefits of Highway CA-5 upgrade: ² <i>Beneficiaries: Users of Highway CA-5 and employees of business that use road.</i>	\$1.9	\$5.5	\$4.7	\$15.3	\$19.4	\$30.0	\$133.9
Benefits of secondary road paving: ³ <i>Beneficiaries: Users of paved secondary roads and employees of business that use those roads.</i>	\$0.0	\$0.0	\$1.5	\$4.0	\$6.6	\$14.8	\$55.4
Increase in farm income resulting from Rural Development Project: ⁴ <i>Beneficiaries: Program Farmers</i>	\$0.0	\$0.2	\$2.5	\$10.2	\$18.5	\$60.1	\$172.9
Increase in employment income resulting from Rural Development Project: ⁵ <i>Beneficiaries: Employees of Program Farmers</i>	\$0.0	\$0.2	\$2.1	\$8.8	\$16.0	\$51.9	\$149.4
Benefit of Farm to Market Roads: ⁶ <i>Beneficiaries: Communities surrounding Farm to Market Roads.</i>	\$0.0	\$0.0	\$1.7	\$4.1	\$7.1	\$0.1	\$18.0
Benefits of Agricultural Public Goods Grant Facility: ⁷ <i>Beneficiaries: Users of public goods</i>	\$0.0	\$0.0	\$0.5	\$1.0	\$1.4	\$1.4	\$8.7

Notes to Compact Goal Table:

1) PV: Present Value of Benefit Streams calculated for 20 year period with 10% discount rate.

2) For the Highway CA-5, the Benefit Stream includes wages to local labor, savings due to reduced vehicle operating costs and travel time.

3) For secondary road paving, the Benefit Stream includes savings due to reduced vehicle operating costs and travel time.

4) For increase in farm income, the Benefit Stream is calculated as net profits per hectare of a typical horticulture crop (US\$ 1203) minus the net profits per hectare of basic grain production (US\$500) * number of hectares harvesting this typical horticulture crop. A typical horticulture crop is defined as the 25th percentile, in terms of costs and net profits, of a basket of 15 horticulture crops suitable for Honduras.

5) For increase in employment income, the Benefit Stream is calculated as the labor costs per hectare associated with a typical horticulture crop (US \$ 608) * number of hectares harvesting this typical horticulture crop.

6) For Farm to Market Roads, the Benefit Stream is calculated based on the costs accrued in each year and the imputed value of benefits (assuming 25% depreciation per year) necessary to guarantee a 15% rate of return. Only roads that yield at least this rate of return will be funded.

7) For Agricultural Public Goods Fund, the Benefit Stream is calculated based on the costs accrued in each year and the imputed value of benefits necessary to guarantee a 15% rate of return. Only projects that yield at least this rate of return will be funded.

Outcome and Objective Indicators. The M&E Plan shall contain the Objective and Outcome Indicators listed in the table below. MCA-Honduras, with prior approval from MCC, may only add Objective and Outcome Indicators or refine the Targets of existing Objective and Outcome Indicators prior to the disbursement of funds for any Project Activity that may influence that Indicator.

Agricultural Objective						
Objective Level Indicators	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5
# of Program Farmers harvesting high-value horticulture crops at year end	0	--	625	3,499	7,340	8,255
# of hectares harvesting high-value horticulture crops at year end	0	--	950	5,410	11,830	14,400
Outcome Level Indicators	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5
# of business plans prepared by Program Farmers with assistance of T.A. provider (total for year)	0	170	1340	3980	3310	0
Value of loans to Program Farmers ² (year end US\$ mil.)	TBD ³	1.9	10.8	23.7	28.8	31.8
% of MCA-Honduras loan portfolio at risk ⁴	0	4-6%	4-6%	4-6%	4-6%	4-6%
# Liens registered	0	0	TBD	TBD	TBD	TBD

Notes to Agricultural Objective Table:

- 1) Baseline data for each Indicator will be verified prior to undertaking any activity that affects the value of such Indicator.
- 2) Data should be disaggregated by type of collateral (if any), documentation required and tenor of loan.
- 3) There were \$148 million in loans outstanding to the agricultural sector in Honduras in Sept 2004.
- 4) This indicator will be calculated as an average of the previous four quarters.

Transportation Objective						
Objective Level Indicators	Baseline		Year 5		Year 10	
Freight shipment cost from Tegucigalpa to Puerto Cortes ¹	\$6.37 /ton		\$ 5.78/ton		\$ 5.78/ton	
Farm gate price of goods	TBD ²		TBD		TBD	
Average daily traffic volume ³	T1.	8,374	T1.	9,447	T1.	11,550
	T2.	5,411	T2.	6,104	T2.	7,462
	T3.	6,732	T3.	7,594	T3.	9,284
	Secondary Roads	676	Secondary Roads	887	Secondary Roads	1,115
	Rural Roads: TBD ⁴		Rural Roads: TBD		Rural Roads: TBD	
Outcome Level Indicators	Baseline		Year 5		Year 10	
Cost per journey (Travel time) ⁵			25% reduction from baseline			
Cost per journey (International roughness index) ⁶	T1.	4.7	T1.	1.9	T1.	2.2
	T2.	4.4	T2.	2.0	T2.	2.4
	T3.	4.0	T3.	2.0	T3.	2.4
	Secondary Roads	13.6	Secondary Roads	2.5	Secondary Roads	2.8
Proportion of overweight vehicles on main highway network	23%		7%			

Notes to Transportation Objective Table:

- 1) Baseline Freight shipment cost is from the Inter-American Development Bank, (HO-0207 Table III-2). Costs and prices will be reported in constant U.S. Dollars.
- 2) Farm-gate prices will depend on type of crop grown and will be confirmed by implementing entity(ies) as part of reporting requirements.
- 3) T1, T2, and T3 represent different sections of the highway being upgraded.
- 4) This information will be a requirement of the Rural Roads proposals submitted to the Program. Information will be verified as part of the Rural Roads selection process, prior to disbursement of Project funds.
- 5) Rural Roads.
- 6) Highway and Secondary Roads.

(ii) **Activity Indicators.** Prior to the disbursement of MCC Funding for any Project Activity, the Implementing Entity of that Project Activity must propose a set of Activity Indicators that is approved by its Project Manager, MCA-Honduras and MCC. The M&E Plan shall be amended to reflect the addition of such Indicators. The table below shows a notional list of Activity Indicators that the M&E Plan may contain.

Rural Development Project						
Activity Level Indicators	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Farmer Training and Development						
Hours of technical assistance delivered to Program Farmers (thousands)	10	80	330	420	170	1,010
Farmer Access to Credit						
Funds lent by MCA-Honduras to financial institutions (\$US mil.) ¹		\$6		-\$1	-\$5	\$0
Hours of technical assistance to financial institutions ²		4,800	4,800	4,800		14,400
Lien Registry equipment installed		yes				
Farm to Market Roads						
Kilometers of Farm to Market Road upgraded		300	500	700		1,500
Agricultural Public Goods Grant Facility³						

Transportation Project			
Activity Level Indicators	Year 1	Year 4	Total
Highway CA-5			
Kilometers of highway upgraded	61	48	109
Secondary Roads			
Kilometers of secondary road upgraded	38	53	91
Vehicle Weight Control			
Number of weight stations built	3	5	8

Notes to Activity Indicator Table:

- 1) Negative sign indicates funds repaid to MCA-Honduras Program Account.
- 2) Hours of banking technical assistance to financial institutions assumes: 3 staff * 8 hours/day * 200 days/year.
- 3) Activity Indicators will be determined by grant recipients.

(b) **Data Collection and Reporting.** The M&E Plan shall establish guidelines for data collection and a reporting framework, including a schedule of Project Activities and responsible parties. Prior to any Re-Disbursements with respect to a Project Activity, the baseline data or report, as applicable and as specified in the Disbursement Agreement, with respect to such Project Activity must be completed in form and substance satisfactory to MCC. With respect to any data or reports received by MCA-Honduras, MCA-Honduras shall promptly deliver such reports to MCC along with any other related documents, as specified in this Annex III or as may be requested from time to time by MCC.

(c) **Performance Assessments.** The PMU shall conduct regular Performance Assessments to inform MCA-Honduras, Project Managers and the MCC of progress under the Program and to alert these parties to any problems. These assessments will report the actual results compared to the Targets on the Indicators referenced in the Monitoring Component,

explain deviations between these actual results and Targets, and in general, serve as a management tool for implementation of the Program.

(d) **Data Quality Reviews.** From time to time, as determined in the M&E Plan or as otherwise requested by MCC, the quality of the data gathered through the M&E Plan shall 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.

3. Evaluation Component.

The Program shall be evaluated on the extent to which the interventions contributed to the Compact Goal. The Evaluation Component shall contain a process and timeline for analyzing data in order to assess planned, ongoing, or completed Project Activities to determine their efficiency, effectiveness, impact and sustainability. The Evaluation Component shall contain two types of reports, a Final Evaluation and Ad Hoc Evaluations and be finalized before any MCC Disbursement or Re-Disbursement for specific Project Activities.

(a) **Final Evaluation.** MCA-Honduras, with the prior approval of MCC, shall engage an independent evaluator to conduct an evaluation at the completion of the Program ("*Final Evaluation*"). The Final Evaluation must at a minimum (i) evaluate the efficiency and effectiveness of the Project Activities, (ii) estimate, in a statistically valid way, the casual relationship between the Projects and the Compact Goal, (iii) analyze the reasons why the Compact Goal was or was not achieved, (iv) identify positive and negative unintended results of the Program, (v) provide lessons learned that may be applied to similar projects, and (vi) assess the likelihood that results will be sustained over time.

(b) **Ad Hoc Evaluations.** Either MCC or MCA-Honduras may request ad hoc evaluations of Projects, Project Activities or the Program as a whole prior to the expiration of the Compact. If MCA-Honduras engages an evaluator, the evaluator will be an externally contracted independent source selected by MCA-Honduras, subject to the approval of MCC, following a tender in accordance with the Procurement Guidelines, and otherwise in accordance with any relevant Implementation Letter or Supplemental Agreement. The cost of an independent evaluation may be paid from MCC Funding. If MCA-Honduras requires an interim independent evaluation at the request of the Government for any reason, including for the purpose of contesting an MCC determination with respect to a Project or to seek funding from other donors, no MCC Funding or MCA-Honduras resources may be applied to such evaluation, without MCC's prior written approval.

4. Other Components of the M&E Plan.

In addition to the Monitoring and Evaluation Components, the M&E Plan shall include the following components for the Program and each Project and Project Activity, including, where appropriate, roles and responsibilities of the relevant parties and Providers:

(a) **Costs.** A detailed cost estimate for all components of the M&E Plan shall be set forth in the M&E Plan.

(b) **Assumptions and Risks.** The M&E Plan shall identify any assumptions and risks external to the Program that underlie the accomplishment of the Objectives and Outcomes; provided, however, such assumptions and risks shall not excuse performance of the Parties, unless otherwise expressly agreed to in writing by the Parties.

(c) **Modifications:** Notwithstanding anything to the contrary in the Compact, including the requirements of this M&E Annex, the Parties may modify or amend the M&E Plan or any component thereof, including those elements described herein, without amending the Compact; provided, any such modification or amendment of the M&E Plan has been approved by MCC and is otherwise consistent with the requirements of this Compact and any relevant Supplemental Agreement between the Parties.