

FINANCE

**Agreement Between the
UNITED STATES OF AMERICA
and HONDURAS**

with

Memorandum of Understanding

Signed June 27 and 28, 1990

and

Agreement Amending and Extending

Memorandum of Understanding

Effected by Exchange of Administrative Messages

November 30 and December 13, 1990



NOTE BY THE DEPARTMENT OF STATE

Pursuant to Public Law 89—497, approved July 8, 1966
(80 Stat. 271; 1 U.S.C. 113)—

“ . . .the Treaties and Other International Acts Series issued under the authority of the Secretary of State shall be competent evidence . . . of the treaties, international agreements other than treaties, and proclamations by the President of such treaties and international agreements other than treaties, as the case may be, therein contained, in all the courts of law and equity and of maritime jurisdiction, and in all the tribunals and public offices of the United States, and of the several States, without any further proof or authentication thereof.”

HONDURAS

Finance

*Agreement with memorandum of understanding
signed June 27 and 28, 1990;*

Entered into force June 28, 1990.

*And agreement amending and extending
memorandum of understanding.*

*Effected by exchange of administrative messages
November 30 and December 13, 1990;*

Entered into force December 13, 1990.

SWAP AGREEMENT AMONG THE UNITED STATES
TREASURY, THE GOVERNMENT OF HONDURAS,
AND THE CENTRAL BANK OF HONDURAS

I. To provide the Republic of Honduras with near-term support for its economic adjustment efforts, (a) the United States Treasury Department (the "Treasury"), (b) the Central Bank of Venezuela, and (c) the Banco de Mexico (collectively the "Cooperating Monetary Institutions") are prepared to provide a short-term credit facility to the Central Bank of Honduras (the "Bank"), acting on behalf of the Government of the Republic of Honduras (the "Government"), aggregating not more than one hundred and forty-seven million, three hundred thousand United States dollars (U.S.\$147,300,000) (the "Multilateral Facility"), the share of the Treasury being not more than eighty-two million, three hundred thousand United States dollars (U.S.\$82,300,000).

II. The United States Treasury Exchange Stabilization Fund, with the Federal Reserve Bank of New York (the "FRBNY") acting as fiscal agent, hereby agrees to extend to the Bank, acting on behalf of the Government, a drawing facility in an amount up to eighty-two million, three hundred thousand United States dollars (U.S.\$82,300,000) on a covered basis in the form of a Honduran lempiras/United States dollars swap. This facility will be available for a single drawing on two business days' notice (New York). The amount of the drawing under this agreement shall be the same as the Treasury commitment under the Multilateral Facility, as set forth in Schedule A of the Memorandum of Understanding among the Government, the Bank, and the Cooperating Monetary Institutions of June 27, 1990 (the "Memorandum of Understanding"). The amount drawn under this agreement, together with interest accrued thereon, shall be liquidated not later than November 30, 1990. This agreement is subject to, and incorporates by reference, the terms and conditions set forth in the Memorandum of Understanding.

III. The drawing under this agreement will be used by the Government and the Bank in conjunction with foreign exchange operations to clear arrears with the international financial institutions. The rate of exchange applied to the drawing under this agreement shall be applied to its liquidation. This rate shall be based upon the spot rate as agreed between the Bank and the FRBNY, acting as fiscal agent of the United States Treasury Exchange Stabilization Fund, at the time the drawing is made.

IV. The proceeds of the drawing under this agreement will be employed as follows:

A. Pursuant to paragraph 6(i) of the Memorandum of Understanding, the United States dollars are to be credited to the Clearing Account of the Bank at the FRBNY

(the "Clearing Account"), for application by the FRBNY to the clearing of Honduras' arrears.


B. The Honduran lempiras counterpart of the drawing by the Bank is to be credited to a special account in the name of "Federal Reserve Bank of New York as Fiscal Agent of the United States, Special Account No. 2" on the books of the Bank in accordance with instructions given to the Bank by authenticated telecommunication. The Honduran lempiras in this account will earn interest at a rate based upon the average equivalent coupon-issue yield at the auction of the latest issue of three-month United States Treasury bills preceding the date of the drawing. The average yield, expressed in percent, will be stated in two decimal places, and, if such decimal is not a multiple of .05, it will be adjusted to the next higher multiple of .05 (the "Adjusted Yield"). Interest will be calculated on the actual number of days in the year, i.e., 365 days. Such return shall be converted into United States dollars at the time of repayment of the amount being repaid, calculated at the rate of exchange described in paragraph III above. Such balance may be withdrawn by the United States Treasury on two business days' (Tegucigalpa) notice.

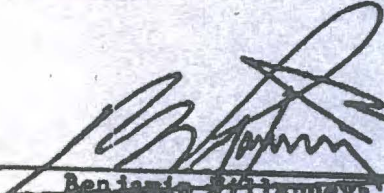
V. The Government hereby unconditionally guarantees the full performance by the Bank of all obligations, duties, and liabilities of the Bank under this agreement.

VI. This agreement is executed in two counterparts, each of which when so executed shall be deemed to be an original, and all of which taken together shall constitute one and the same agreement.

United States Treasury
Exchange Stabilization
Fund

Government of
the Republic
of Honduras

By: 
John Niehuss
Acting Assistant Secretary
(International Affairs)

By: 
Benjamin Vilanueva
Minister of Finance and Public
Credit

June 28, 1990

Central Bank of Honduras

By: 
Ricardo Maduro Joest
President

June 27, 1990

MEMORANDUM OF UNDERSTANDING

(1) The Facility

(i) This Memorandum of Understanding sets forth the mutual understandings of the Government of Honduras (the "Government"), the Central Bank of Honduras (the "Central Bank"), the United States Department of the Treasury (the "Treasury"), the Banco de Mexico, and the Central Bank of Venezuela as to the provision of near-term support for the economic adjustment efforts of the Government in order to enable the Government to clear its arrears to international financial institutions (the "Facility"). The Treasury, the Banco de Mexico, and the Central Bank of Venezuela shall hereafter individually be referred to as a "Cooperating Monetary Institution" and collectively as the "Cooperating Monetary Institutions."

(ii) The Cooperating Monetary Institutions are providing the Facility through the Federal Reserve Bank of New York (the "FRBNY") in light of

(a) contributions of U.S.\$10.8 million and U.S.\$40 million, respectively, from the Government and the U.S. Agency for International Development (together the "Contributions") towards clearing Honduras' arrears to the International Monetary Fund (the "Fund"), the International Bank for Reconstruction and Development (the "World Bank"), and the Inter-American Development Bank (the "IDB")(these arrears being referred to collectively as the "Arrears"), such Contributions having been credited to the account especially established by the Central Bank for the clearing of Arrears at the FRBNY (the "Clearing

Account"), which Contributions together with the funds available under the Facility, and the expected disbursement described in sub-paragraph (b) below, are expected to be sufficient to clear the Arrears;

(b) a single disbursement from the Japanese Overseas Economic Cooperation Fund (the "OECF"), under a co-financing arrangement, that is expected to be disbursed in Japanese yen and converted into U.S. dollars, in an amount expected to be approximately U.S.\$48 million, prior to the proposed World Bank Executive Board meeting to consider the SAL referred to in subparagraph (d) below (the "OECF Disbursement");

(c) the expected approval by the Executive Board of the Fund about mid-July 1990 of a Stand-by Arrangement (the "Stand-by Arrangement") that is expected to permit Honduras to make purchases from the Fund of up to SDR 30.50 million, of which the first purchase of up to SDR 16.95 million is expected to be made before end-July 1990 (the "First Fund Purchase") and the second purchase of up to SDR 4.3 million is expected to be made before end-November 1990 (the "Second Fund Purchase");

(d) disbursements from the World Bank under (x) the second tranche of Structural Adjustment Loan 2990-HO, which tranche is expected to be approved by the Executive Board of the World Bank on July 3, 1990, with an aggregate amount of U.S.\$25 million expected to be disbursed on July 5, 1990 (the "SAL") (y) the Second Structural Adjustment Loan that is expected to be approved by the Executive Board of the World Bank by early September 1990 in an aggregate amount of U.S.\$90 million, of which the first tranche disbursement is expected to be made available by end-September 1990 in an aggregate amount of U.S.\$45 million (this tranche disbursement being referred to as the "SAL-II"), and (z) the Fourth Agricultural Credit Project Loan 2991-HO, approved by the Executive Board of the World Bank in 1988 in an aggregate amount equivalent to U.S.\$25 million, of

which U.S.\$10 million is expected to be made available by end-July 1990 (the "Agricultural Project Loan")(the SAL, the SAL-II, and the Agricultural Project Loan being referred to collectively as the "World Bank Loans"); in addition Honduras expects to receive disbursements under other World Bank loans, including a possible energy sector loan, after November 30, 1990;

(e) disbursements from the IDB under (x) Agriculture Sector Loan H00082, that is expected to be approved by the Board of Executive Directors of the IDB by end-September 1990 in an aggregate amount of U.S.\$50 million, of which an aggregate amount of up to U.S.\$30 million is to be made available by end-October 1990 (the "IDB Agriculture Sector Loan"), and (y) various project loans, which have already been approved by the Board of Executive Directors of the IDB, under which disbursements are currently suspended until arrears have been cleared, and under which disbursements of approximately U.S.\$5.6 million are expected to be made by end-July 1990, a further U.S.\$4.4 million by end-October 1990, a further U.S.\$10.4 million by end-November, and a further U.S.\$1.4 million by early December 1990 (the "IDB Project Loans")(the IDB Project Loans and the IDB Agriculture Sector Loan being referred to collectively as the "IDB Loans"); and

(f) the agreement by the Government and the Central Bank to apply the proceeds of any purchases under the Stand-by Arrangement and disbursements under the World Bank Loans and IDB Loans in repayment of this Facility, and in any event to repay the Facility in full not later than November 30, 1990 (the "Maturity Date").

(2) The Separate Agreements

To implement this Memorandum of Understanding each Cooperating Monetary Institution shall enter into a separate agreement with the Government and/or the Central Bank (the "Separate Agreement"

and collectively, the "Separate Agreements"). The terms and conditions of each Separate Agreement shall be consistent with the provisions of this Memorandum of Understanding, and shall govern the respective rights and obligations of the parties thereto.

(3) Commitments of the Cooperating Monetary Institutions

The total amounts of the commitments made by each of the Cooperating Monetary Institutions under their respective Separate Agreements to the Facility are set out in Schedule A to this Memorandum of Understanding (individually to be referred to as the "Treasury Commitment", the "Banco de Mexico Commitment", and the "Central Bank of Venezuela Commitment", collectively to be referred to as the "Commitments").

(4) Funding of the Drawing on the Facility

(i) The aggregate amount of the Facility shall be U.S.\$147.3 million, which shall be made available in a single drawing to the Central Bank, acting on behalf of the Government, by the Cooperating Monetary Institutions at the Federal Reserve Bank of New York (the "FRBNY") subject to the terms and conditions of this Memorandum of Understanding.

(ii) To permit the drawing under the Facility requested by the Central Bank, acting on behalf of the Government, pursuant to paragraph (5) to be effected, each of the Cooperating Monetary Institutions shall, one New York business day prior to the requested value date of the drawing, in an authenticated telecommunication received by and in a form acceptable to the FRBNY, irrevocably authorize and instruct the FRBNY to debit its account on the books of the FRBNY in the amount of its commitment as set forth in Schedule A and, if funds in its account are not sufficient, to liquidate investments the FRBNY holds for it, and to transfer such amount for the benefit of the Central Bank,

acting on behalf of the Government, to the Clearing Account on the FRBNY's books. (In respect to the Central Bank of Venezuela Commitment, the Central Bank of Venezuela's gold custody account at the FRBNY may not be debited or liquidated to fund its commitment.) The FRBNY shall effect such transfer only if it has received similar irrevocable authorizations and instructions from each of the Cooperating Monetary Institutions with funds in each of their accounts, or investments held at the FRBNY that may be liquidated, sufficient to cover the respective amounts to be transferred.

(5) Notice for the Drawing under the Facility

Subject to the conditions precedent set out in paragraph (6) below, the Central Bank, acting on behalf of the Government, may request the drawing on the Facility for a value date not later than June 29, 1990, by giving two New York business days' notice by authenticated telecommunication to the FRBNY and to each of the Cooperating Monetary Institutions in a form acceptable to each of them.

(6) Crediting of the Drawing and Conditions Precedent

(i) For the drawing made under the Facility pursuant to paragraph (5), and subject to compliance with the conditions precedent specified in subparagraph (ii) of this paragraph, the FRBNY shall debit the accounts of the Cooperating Monetary Institutions, as appropriate, subject to the receipt of appropriate instructions referred to in paragraph (4)(ii) above that it is able to execute.

(ii) The following conditions precedent shall apply to the drawing on the Facility:

(a) The FRBNY has notified the Cooperating Monetary Institutions by authenticated telecommunication that it has

received Contributions totalling U.S.\$50.8 million in the Clearing Account;

(b) The FRBNY shall have received a copy of a letter addressed by the Managing Director of the Fund to the Cooperating Monetary Institutions, in the form set forth in Schedule B, concerning the eligibility of Honduras to make purchases under the Stand-by Arrangement for an aggregate amount equivalent to SDR 21.25 million by November 30, 1990;

(c) The FRBNY shall have received a copy of the irrevocable instructions and other communications of the appropriate authorities of Honduras to the Fund specified in paragraph (9)(ii) below, in the form set forth in Schedule C, specifying that the proceeds of purchases under the Stand-by Arrangement or any other purchases from the Fund by Honduras are to be transferred directly by the Fund to the special account established by the Central Bank at the FRBNY for repayment of the Facility (the "Special Funds Account");

(d) The FRBNY shall have received a copy of a letter from the World Bank to the Treasury and the Banco de Mexico, in the form set forth in Schedule D, concerning the eligibility of Honduras to receive disbursements under the World Bank Loans for an aggregate amount equivalent to approximately U.S.\$70 million before end-September 1990;

(e) The FRBNY shall have received a copy of the irrevocable instructions and other communications of the appropriate authorities of Honduras to the World Bank, in the form set forth in Schedule E, as well as a letter from the World Bank acknowledging such instructions, in the form set forth in Schedule F, as specified in paragraph 9(iii) below, that disbursements under the World Bank Loans are to be transferred directly by the World Bank to the Special Funds Account;

(f) The FRBNY shall have received a copy of a letter addressed by the President of the IDB to the Central Bank of Venezuela, in the form set forth in Schedule G, concerning the eligibility of Honduras to receive disbursements under the IDB Loans for an aggregate amount of U.S.\$51.8 million;

(g) The FRBNY shall have received a copy of the irrevocable instructions and other communications of the appropriate authorities of Honduras to the IDB, in the form set forth in Schedule H, as well as a letter from the IDB acknowledging such instructions, in the form set forth in Schedule I, as specified in paragraph 9(iv) below, that the disbursements under the IDB Loans are to be transferred directly by the IDB to the Special Funds Account;

(h) The FRBNY shall have received a copy of a letter addressed by the OECF to the Central Bank and the Government, in the form set forth in Schedule J, concerning the eligibility of Honduras to receive proceeds of the OECF Disbursement of approximately U.S.\$48 million not later than July 2, 1990;

(i) Concerning the OECF Disbursement, the FRBNY shall have received a copy of the irrevocable instructions and other communications of the appropriate authorities of Honduras to the Bank of Tokyo, in the form set forth in Schedule K, as well as a letter from the Bank of Tokyo acknowledging such instructions, in the form set forth in Schedule L, as specified in paragraph 9(v) below, that the proceeds of the OECF Disbursement are to be used to purchase U.S. dollars and then such U.S. dollars are to be transferred directly to the Clearing Account;

(j) The Central Bank shall have obtained such additional documentation as may be required by any of the Cooperating Monetary Institutions, including the document in the form of Schedule M referred to in paragraph 10(ii) below, and shall have provided copies of such additional documentation to the FRBNY;

and

(k) The Central Bank shall have irrevocably instructed the FRBNY by authenticated telecommunication, in a form acceptable to the FRBNY, that the proceeds of the drawing under the Facility and the OECF Disbursement shall be credited to the Clearing Account to be applied by the FRBNY first to pari passu payment of Honduras' arrears to the Fund and the World Bank, and second to payment of Honduras' arrears to the IDB. The FRBNY shall confirm payments of such Arrears to the Cooperating Monetary Institutions as it receives notices by authenticated telecommunication from the Fund, the World Bank, and the IDB that such Arrears have been paid.

(7) Repayment Schedule

(i) The Central Bank, acting on behalf of the Government, shall repay the drawing made pursuant to paragraphs (5) and (6), including accrued and unpaid interest on the amounts being repaid, as set out below:

(a) On each date on which the proceeds are made available to the appropriate Honduran authorities of (x) any purchases from the Fund under the Stand-by Arrangement, or (y) any disbursements from the World Bank under the World Bank Loans, or (z) any disbursements from the IDB under the IDB Loans, such proceeds shall be applied immediately in repayment of the Facility in accordance with the procedures set forth in paragraphs (8) and (9) below; and

(b) On the Maturity Date, any outstanding balance under the Facility shall be repaid by the Central Bank, acting on behalf of the Government.

(ii) The Central Bank, acting on behalf of the Government, shall have the right, at any time, on giving two New York business

days' notice by authenticated telecommunication to the FRBNY and to each of the Cooperating Monetary Institutions, to reimburse in advance all or part of the drawing made under the Facility, including interest thereon, in accordance with the procedures set forth in paragraphs (8) and (9) below and subject to compliance with any requirement under the Separate Agreements for a related interest rate adjustment.

(iii) Prior to any repayment under this paragraph, the Central Bank, acting on behalf of the Government, shall provide the FRBNY, in a form acceptable to the FRBNY, with a schedule of interest payments due on the date of each such repayment to each of the Cooperating Monetary Institutions pursuant to the Separate Agreements.

(8) Repayment Procedures

(i) The Central Bank, acting on behalf of the Government, shall make all repayments of the drawing, plus accrued and unpaid interest, on the Facility through the Central Bank's Special Funds Account at the FRBNY. The FRBNY shall distribute such repayments to the Cooperating Monetary Institutions as set forth below:

(a) With respect to the purchases under the First Fund Purchase and disbursements under the SAL, the FRBNY shall apply the proceeds in repayment of the Treasury Commitment, including interest thereon;

(b) With respect to the purchases under the Second Fund Purchase and disbursements under the Agricultural Project Loan, the FRBNY shall apply the proceeds in repayment of the Banco de México Commitment, including interest thereon;

(c) With respect to the disbursements under the IDB Loans, the FRBNY shall apply the proceeds in repayment of the Central

Bank of Venezuela Commitment, including interest thereon; and

(d) With respect to the disbursements under the SAL-II, the FRBNY shall apply seven-ninths of each disbursement in repayment of the Treasury Commitment, including interest thereon, and two-ninths of each disbursement in repayment of the Banco de Mexico Commitment, including interest thereon.

(e) With respect to repayments under the Facility from the proceeds of any other source of repayment made available to the FRBNY, including, but not limited to, repayments resulting from the debit of any other account or liquidation of any investments of the Central Bank at the FRBNY in accordance with subparagraph (ii) below, the FRBNY shall distribute such proceeds pari passu to the Cooperating Monetary Institutions in proportion to the Commitments. At the same time as each repayment of principal is made by the Central Bank through the FRBNY, accrued and unpaid interest on the amount of principal repaid shall be paid at the rates specified in the respective Separate Agreements. In the event that any one or two of the Commitments, including interest, is repaid in full before the other(s), all further proceeds which would otherwise be directed to the repaid Commitment(s) under subparagraphs (a), (b), (c), or (d) above shall be directed either (x) to repay pari passu the unpaid Commitments, if there are two unpaid Commitments, or (y) to repay the Commitment which has not been repaid in full. (The procedures set out in this subparagraph (i) are hereinafter referred to as "Repayment Procedures.")

(ii) The Central Bank irrevocably authorizes and instructs the FRBNY to debit the Special Funds Account in the amounts of each repayment of the Facility, plus interest accrued on such amounts, on the repayment dates specified in paragraph (7); provided, however, that, before the Maturity Date, the Special Funds Account shall be debited in repayment of the Facility only on such date or dates that the aggregate amounts of principal, and

interest earned thereon, in the Special Funds Account are equal to or greater than U.S.\$5 million. Funds deposited into the Special Funds Account that are not immediately applied to repay the Facility may be invested, at the request of the Central Bank, in the repurchase agreement pool of the FRBNY, and such investments plus interest earned thereon shall be deemed for purposes of this Memorandum of Understanding to be part of the Special Funds Account. For purposes of repayment in accordance with this paragraph, interest earned on deposits in the Special Funds Account representing proceeds to be applied to repay the Treasury Commitment, the Banco de Mexico Commitment, or the Central Bank of Venezuela Commitment, in accordance with subparagraphs (i)(a), (i)(b), (i)(c), and (i)(d) above, shall be attributed pari passu to such deposits. If on or after the Maturity Date the funds in the Special Funds Account are not sufficient to effect full repayment of the Facility, including interest, the Central Bank irrevocably authorizes and instructs the FRBNY to debit any other account of the Central Bank with the FRBNY and, if necessary, to liquidate investments the FRBNY holds for the Central Bank, and transfer such amounts to the Special Funds Account for pari-passu sharing among all the Cooperating Monetary Institutions that have not been fully repaid. The Central Bank authorizes funds in this Special Funds Account to be applied first to payment of accrued and unpaid interest and then to the repayment of outstanding principal by transferring such amounts to the accounts of the Cooperating Monetary Institutions on the books of the FRBNY in accordance with the Repayment Procedures.

(iii) In the event that any of the Cooperating Monetary Institutions receives a repayment or satisfaction of a claim arising under a Separate Agreement, which exceeds the amount necessary to repay the commitment, including interest on such commitment, of that Cooperating Monetary Institution as set forth in Schedule A to this Memorandum of Understanding, the excess amount shall be transferred by it to the FRBNY for deposit

in the Special Funds Account for pari passu distribution between the other Cooperating Monetary Institutions in accordance with the Repayment Procedures.

(9) Instructions on Purchases from the Fund and Disbursements from the World Bank, the IDB, and the OECF

(i) As a condition precedent to the drawing under this Facility, the appropriate Honduran authorities shall give the instructions set forth under subparagraphs (ii), (iii), (iv), (v) and (vi) below, which instructions shall not be revoked until the FRBNY certifies on behalf of the Cooperating Monetary Institutions in an authenticated telecommunication to the Central Bank that the instructions may be terminated because the Facility has been repaid in full, including interest.

(ii) With respect to the proceeds made available to Honduras from purchases under the Stand-by Arrangement or any other purchases from the Fund by Honduras, prior to repayment of the Facility in full, including interest, the appropriate Honduran authorities shall irrevocably instruct the Fund, in the form set forth in Schedule C, to transfer such proceeds directly to the FRBNY for deposit into the Special Funds Account and shall, as required by the Fund, provide any confirmations of such irrevocable instructions at the time of any purchase under the Stand-by Arrangement or any other purchases from the Fund by Honduras. A copy of the letter of instructions in the form set forth in Schedule C shall be provided to the FRBNY in accordance with paragraph (6)(ii)(c) above as a condition precedent to the drawing under the Facility.

(iii) With respect to the disbursements from the World Bank under the World Bank Loans, the appropriate Honduran authorities shall irrevocably instruct the World Bank, in the form set forth in Schedule E, to deposit such disbursements into the Special Funds Account. In addition, the Central Bank shall provide to

the FRBNY a copy of a letter addressed to the Government and the Central Bank by the World Bank, in the form set forth in Schedule F, in which the World Bank (a) takes note that the proceeds of the disbursements by the World Bank under the World Bank Loans will be applied in repayment of the Facility, (b) confirms that the World Bank will carry out instructions by the Honduran authorities to pay the proceeds of such disbursements to the Special Funds Account, and (c) notes that such instructions may not be terminated until the World Bank has received from the Central Bank a copy of a notification from the FRBNY to that effect on behalf of the Cooperating Monetary Institutions. Copies of the letters in the form set forth in Schedules E and F shall be provided to the FRBNY in accordance with paragraphs (6)(ii)(e) above as conditions precedent to the drawing under the Facility.

(iv) With respect to disbursements from the IDB under the IDB Loans, the appropriate Honduran authorities shall irrevocably instruct the IDB, in the form set forth in Schedule H, to deposit such disbursements into the Special Funds Account. The Central Bank also shall provide to the FRBNY a copy of a letter addressed to the Government and the Central Bank by the IDB, in the form set forth in Schedule I, in which the IDB (a) takes note that the proceeds of the disbursements by the IDB under the IDB Loans will be applied in repayment of the Facility, (b) confirms that the IDB will carry out instructions by the Honduran authorities to pay the proceeds of such disbursements to the Special Funds Account, and (c) notes that such instructions may not be terminated until the IDB has received from the Central Bank a copy of a notification from the FRBNY to that effect on behalf of the Cooperating Monetary Institutions. Copies of the letters in the form set forth in Schedules H and I shall be provided to the FRBNY in accordance with paragraph (6)(ii)(g) above as conditions precedent to the drawing under the Facility.

(v) With respect to the OECF Disbursement, the appropriate

Honduran authorities shall irrevocably instruct the Bank of Tokyo, in the form set forth in Schedule K, to purchase U.S. dollars with the proceeds of the OECF Disbursement and to deposit such U.S. dollars into the Clearing Account. The Central Bank also shall provide to the FRBNY a copy of a letter addressed to the Government and the Central Bank by the Bank of Tokyo, in the form set forth in Schedule L, in which the Bank of Tokyo (a) takes note that these proceeds will be used to purchase U.S. dollars and such U.S. dollars will be deposited in the Clearing Account, and (b) confirms that the Bank of Tokyo will carry out instructions by the Honduran authorities to pay the U.S. dollars so purchased into the Clearing Account. Copies of the letters in the form set forth in Schedules K and L shall be provided to the FRBNY in accordance with paragraph (6)(ii)(i) above as conditions precedent to the drawing under the Facility.

(vi) The Central Bank hereby irrevocably agrees to the use of the funds deposited into the Special Funds Account for repayments provided for in paragraph (7) above and in accordance with the Repayment Procedures. If the Facility, including accrued interest, has not been repaid in full on the Maturity Date, then the Central Bank will deposit into the Special Funds Account sufficient additional funds to repay the Facility in full, including interest. If the Facility, including accrued interest, has still not been repaid in full, the FRBNY is irrevocably authorized and instructed to debit the Special Funds Account and disburse the funds so debited in pari passu repayment of the Facility in accordance with paragraph (8) above as and when additional funds are received in the Special Funds Account from the Fund, the World Bank, and the IDB, or from any other source, and is irrevocably authorized and instructed to debit any other account and liquidate any investments of the Central Bank at the FRBNY in accordance with paragraph (8)(ii) above. After repayment in full of the Facility, including interest, the Facility shall terminate, and only then shall the Central Bank be entitled to draw on funds in the Special Funds Account.

(10) Authority of the Government and the Central Bank

(i) The Government and the Central Bank warrant that they have full power and authority to enter into and perform their obligations under this Memorandum of Understanding and the Separate Agreements and have taken all necessary corporate or other actions to authorize the performance of the terms and conditions thereof.

(ii) The Government has agreed in writing, in the form set forth in Schedule M, (x) to take whatever actions, and provide any other support, necessary to facilitate the Central Bank's performance under this Memorandum of Understanding and under the Separate Agreements and (y) to take all actions necessary on its part to apply for all purchases from the Fund and all disbursements under the World Bank Loans, the IDB Loans, and the OECF Disbursement for which it is eligible. The document in the form set forth in Schedule M shall be provided to the FRBNY in accordance with paragraph (6)(ii)(j) above as a condition precedent to the drawing under the Facility.

(11) Rules Applicable to the FRBNY

In carrying out its functions, the FRBNY shall have the authority to interpret and act under the irrevocable authorizations and instructions received by it hereunder and any notifications or other communications that the parties hereto shall send or transmit to the FRBNY, in such manner as the FRBNY, in its sole judgment, deems reasonable. In making any calculations of the drawings and repayments provided for under this Memorandum of Understanding and the Separate Agreements, the FRBNY shall have the authority to make rounding adjustments to any amounts determined on the basis of the proportionate share of each Cooperating Monetary Institution to the total of such Commitments in Schedule A so that total drawings and repayments under the Facility equal the Commitments of each of the Cooperating

Monetary Institutions in accordance with the terms and conditions of this Memorandum of Understanding. No compensation shall be due from the Central Bank or the Government for services rendered by the FRBNY under the authorizations and instructions in this Memorandum of Understanding. In carrying out its functions under this Memorandum of Understanding, the FRBNY shall be liable only for its failure to exercise reasonable care.

(12) Amendment

This Memorandum of Understanding may be amended by the consent in writing, including consent by authenticated telecommunication, of all the parties to such Memorandum.

(13) Entry into Effect

(i) By transmitting an authenticated telecommunication to the FRBNY containing the word "Ocelot" and its name, each Cooperating Monetary Institution (a) indicates its consent to the terms of this Memorandum of Understanding and (b) confirms that its Separate Agreement with the Government and/or the Central Bank has been executed.

(ii) By transmitting an authenticated telecommunication to the FRBNY containing the word "Jaguar" and its name, the Central Bank (a) indicates its and the Government's consent to the terms of this Memorandum of Understanding, (b) confirms that all of the Separate Agreements with the Cooperating Monetary Institutions have been executed, and (c) irrevocably authorizes and instructs the FRBNY to establish the Special Funds Account and to effect repayment of the Facility in accordance with this Memorandum of Understanding.

(iii) All notices referred to in subparagraphs (i) and (ii) of this paragraph shall hereinafter be referred to as the "Notices".

(iv) This Memorandum of Understanding and all of the Separate Agreements shall take effect when the FRBNY advises the Cooperating Monetary Institutions and the Central Bank by authenticated telecommunication that it has received all of the Notices required by this paragraph (13). No message shall be effective to alter the terms of such Notices.

SCHEDULE A

AMOUNTS OF COMMITMENT OF COOPERATING MONETARY INSTITUTIONS

(millions of U.S. dollars)

| | |
|--|--------|
| United States Department of the Treasury | 82.30 |
| Central Bank of Venezuela | 40.00 |
| Banco de Mexico | 25.00 |
| TOTAL | 147.30 |

SCHEDULE B

June --, 1990

Dear Sirs:

I wish to inform you that the staff has reached understandings with the Minister of Finance of Honduras and the ^{President} ~~Governor~~ of the Bank of Honduras on a Memorandum of Economic and Financial Policies of Honduras. The authorities have indicated that they are requesting on behalf of Honduras that the Fund grant a Stand-By Arrangement in an amount equivalent to SDR ^{30.50} million for a period of twelve months, in support of the objectives and policies stated in the Memorandum. It is intended that this request would be considered by the Executive Board, on the basis of my recommendation, on or about July ²⁵, 1990, subject to the clearance of overdue financial obligations to the Fund. Upon approval by the Executive Board of this arrangement, an initial disbursement of SDR ^{16.25} million is expected to take place on or about July ³¹, 1990. A second purchase of SDR ^{14.3} million under the arrangement would take place in November subject to observance of performance criteria.

Given the objectives and policies for 1990-91 as set forth in the Memorandum, I am prepared to recommend that the Executive Board approve the requested arrangement from the Fund after the termination by the Executive Board of the declaration of ineligibility of Honduras to use the Fund's general resources, which is expected to take place following the settlement by Honduras of its overdue financial obligations to the Fund.



INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

CABLE ADDRESS
INTERFUND

DEPUTY MANAGING DIRECTOR

June 27, 1990

Dear Sir:

I wish to inform you that the staff has reached understandings with the Minister of Finance of Honduras and the President of the Central Bank of Honduras on a Memorandum of Economic and Financial Policies of Honduras. The authorities have indicated that they are requesting on behalf of Honduras that the Fund grant a one-year stand-by arrangement in an amount equivalent to SDR 30.50 million, in support of the objectives and policies stated in the Memorandum. It is intended that this request would be considered by the Executive Board, on the basis of my recommendation, on or about July 25, 1990, subject to the clearance of overdue financial obligations to the Fund. Upon approval by the Executive Board of this arrangement, an initial disbursement of SDR 16.95 million is expected to take place on or about July 31, 1990. A second purchase of SDR 4.30 million under the arrangement would take place in November subject to observance of performance criteria.

Given the objectives and policies for 1990-91 as set forth in the Memorandum, I am prepared to recommend that the Executive Board approve the requested arrangement from the Fund after the termination by the Executive Board of the declaration of ineligibility of Honduras to use the Fund's general resources, which is expected to take place following the settlement by Honduras of its overdue financial obligations to the Fund.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Erb".

Richard D. Erb
Acting Chairman of the Executive Board
and
Acting Managing Director

Hon. Nicholas F. Brady
Secretary of the Treasury
Department of the Treasury
15th Street and Pennsylvania Ave., N.W.
Washington, D. C. 20220

SCHEDULE C

FORM OF INSTRUCTIONS TO
THE INTERNATIONAL MONETARY FUND

[DATE]

The Treasurer's Department
International Monetary Fund
Washington, DC 20431

Re: Stand-by Arrangement and Other Sources of
IMF Financing for Honduras

Dear Sirs:

The Government of Honduras ("Honduras") hereby authorizes and instructs the International Monetary Fund (the "IMF") to arrange on Honduras' behalf that the proceeds of all purchases made by Honduras under the Stand-by Arrangement (the "Stand-by Arrangement") or any other purchases from the IMF by Honduras, be either provided in, or converted into, U.S. dollars, and deposited into the Special Funds Account (the "Special Funds Account") of the Central Bank of Honduras (the "Central Bank") with the Federal Reserve Bank of New York (the "FRBNY").

For your information, the Central Bank has separately given the FRBNY an irrevocable instruction that all of the funds deposited in the Special Funds Account will be used to repay a drawing made by the Central Bank, acting on behalf of Honduras under a short-term credit facility (the "Facility") that the U.S. Department of the Treasury, the Central Bank of Venezuela, and the Banco de Mexico (the "Cooperating Monetary Institutions") have agreed to establish for the purpose of providing near-term support for the economic adjustment efforts of Honduras. The aggregate amount of the drawing by Honduras under the Facility may amount to as much as U.S. dollars 147.3 million. Honduras and the Central Bank have committed to the Cooperating Monetary Institutions that the instructions to the IMF shall not be revoked or modified by Honduras, the Central Bank, or any other Honduran institution until the Facility is repaid in full, including accrued and unpaid interest, and the IMF has received from the Central Bank a copy of a notification by the FRBNY to the Central Bank to that effect.

Honduras and the Central Bank have agreed to provide any confirmations of such instructions contained herein as are required by the IMF at the time of any purchases from the IMF

which are referred to herein.

Honduras and the Central Bank acknowledge that your action on this request and authorization will be taken in conformity with the relevant provisions of the Fund Arrangement or any other IMF facility or arrangement made available to Honduras, and confirms that such action shall not be construed in any way as a waiver of any right which the IMF may have under the Fund Arrangement or under any other IMF facility or arrangement made available to Honduras.

The Central Bank is providing a copy of the executed original of this letter to the FRBNY.

Sincerely yours,

For the Government of Honduras

By

Benjamin Villanueva
Minister of Finance and Public
Credit

For the Central Bank of Honduras

By

Ricardo Maduro Joest
President



SECRETARIA DE HACIENDA Y CREDITO PUBLICO

REPUBLICA DE HONDURAS

Tegucigalpa, D. C., 28 de junio de 1990.

No.

*The Treasurer's Department
International Monetary Fund
Washington, D.C. 20431*

*Re: Stand-by Arrangement and Other Sources of
IMF Financing for Honduras*

Dear Sirs:

The Government of Honduras ("Honduras") hereby authorizes and instructs the International Monetary Fund (the "IMF") to arrange on Honduras' behalf that the proceeds of all purchases made by Honduras under the Stand-by Arrangement (the "Stand-by Arrangement") or any other purchases from the IMF by Honduras, be either provided in, or converted into, U.S. dollars, and deposited into the Special Funds Account (the "Special Funds Account") of the Central Bank of Honduras (the "Central Bank") with the Federal Reserve Bank of New York (the "FRBNY").

For your information, the Central Bank has separately given the FRBNY an irrevocable instruction that all of the funds deposited in the Special Funds Account will be used to repay a drawing made by the Central Bank, acting on behalf of Honduras under a short-term credit facility (the "Facility") that the U.S. Department of the Treasury, the Central Bank of Venezuela, and the Banco de Mexico (the "Cooperating Monetary Institutions") have agreed to establish for the purpose of providing near-term support for the economic adjustment efforts of Honduras. The aggregate amount of the drawing by Honduras under the Facility may amount to as much as U.S. dollars 147.3 million. Honduras and the Central Bank have committed to the Cooperating Monetary Institutions that the instructions to the IMF shall not be revoked or modified by Honduras, the Central Bank, or any other Honduran institution until the Facility is repaid in full, including accrued and unpaid interest, and the IMF has received from the Central Bank a copy of a notification by the FRBNY to the Central Bank to that effect.

Honduras and the Central Bank have agreed to provide any confirmations of such instructions contained herein as are required by the IMF at the time of any purchases from the IMF which are referred to herein.



SECRETARIA DE HACIENDA Y CREDITO PUBLICO

REPUBLICA DE HONDURAS

Tegucigalpa, D. C., 28 de junio de 1990.

No. 2

Honduras and the Central Bank acknowledge that your action on this request and authorization will be taken in conformity with the relevant provisions of the Fund Arrangement or any other IMF facility or arrangement made available to Honduras, and confirms that such action shall not be construed in any way as a waiver of any right which the IMF may have under the Fund Arrangement or under any other IMF facility or arrangement made available to Honduras.

The Central Bank is providing a copy of the executed original of this letter to the FRBNY.

Sincerely yours,

For the Government of Honduras

By 

*Benjamin Villanueva
Minister of Finance and Public
Credit*

For the Central Bank of Honduras

By 

*Ricardo Maduro Joest
President*

(D)

D R A F T

June 25, 1990

WORLD BANK COMFORT LETTER

June __, 1990

United States Department of
the Treasury

Banco de Mexico

Dear Sirs:

We refer to the policy-based World Bank loans listed in the Attachment hereto (the "World Bank Policy Loans"). This is to confirm that, with respect to the proposed Second Structural Adjustment Loan, the management of the World Bank has circulated to the Executive Directors of the World Bank a notice of the intention to negotiate the loan documents for such loan. Assuming successful conclusion of the negotiations in late July and satisfaction of certain other conditions for Board presentation, the proposed Second Structural Adjustment Loan is tentatively scheduled for consideration by the Executive Directors of the World Bank in September. Further processing of the proposed Second Structural Adjustment Loan would be delayed, however, if overdue loan service payments to the World Bank from the Republic of Honduras, totalling about US\$152.6 million equivalent, are not paid by June 28, 1990.

The Borrower has informed the World Bank that it expects to submit withdrawal applications for loan proceeds under the World Bank Policy Loans

in an aggregate amount equivalent to approximately U.S. \$70 million requesting reimbursement for import invoices so as to enable them to withdraw loan proceeds in such amount during the period beginning on July 1, 1990 and ending on September 30, 1990. The Borrower's expectation appears to be reasonable, subject to submission in a timely manner of all documentation required by the loan agreements for withdrawal of such proceeds and subject, in the case of the proposed Second Structural Adjustment Loan, to approval of the loan by the Executive Directors and satisfaction of all conditions precedent for disbursement of such loan and, in the case of the Structural Adjustment Loan, to approval by the Executive Directors of the release of the second tranche of that loan following payment by the Republic of Honduras of the overdue loan service payments referred to in the first paragraph of this letter.

The statements contained in this letter are not to be construed as a waiver of any right which the World Bank may have under the loan and project agreements relating to the loans or under the World Bank's General Conditions Applicable to Loan and Guarantee Agreements.

Very truly yours,

Rainer B. Steckhan
Director, Country Department II
Latin America and the Caribbean
Regional Office

Attachment

cc: The Federal Reserve Bank of New York

June 27, 1990

United States Department of
the Treasury

Banco de Mexico

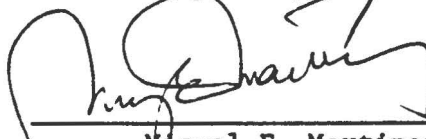
Dear Sirs:

We refer to the policy-based World Bank loans listed in the Attachment hereto (the "World Bank Policy Loans"). This is to confirm that, with respect to the proposed Second Structural Adjustment Loan, the management of the World Bank has circulated to the Executive Directors of the World Bank a notice of the intention to negotiate the loan documents for such loan. Assuming successful conclusion of the negotiations in late July and satisfaction of certain other conditions for Board presentation, the proposed Second Structural Adjustment Loan is tentatively scheduled for consideration by the Executive Directors of the World Bank in September. Further processing of the proposed Second Structural Adjustment Loan would be delayed, however, if overdue loan service payments to the World Bank from the Republic of Honduras, totalling about US\$152.6 million equivalent, are not paid by June 28, 1990.

The Republic of Honduras (the "Borrower") has informed the World Bank that it expects to submit withdrawal applications for loan proceeds under the World Bank Policy Loans in an aggregate amount equivalent to approximately U.S. \$70 million requesting reimbursement for import invoices so as to enable them to withdraw loan proceeds in such amount during the period beginning on July 1, 1990 and ending on September 30, 1990. The Borrower's expectation appears to be reasonable, subject to submission in a timely manner of all documentation required by the loan agreements for withdrawal of such proceeds and subject, in the case of the proposed Second Structural Adjustment Loan, to approval of the loan by the Executive Directors and satisfaction of all conditions precedent for disbursement of such loan and, in the case of the Structural Adjustment Loan, to approval by the Executive Directors of the release of the second tranche of that loan following payment by the Republic of Honduras of the overdue loan service payments referred to in the first paragraph of this letter.

The statements contained in this letter are not to be construed as a waiver of any right which the World Bank may have under the loan and project agreements relating to the loans or under the World Bank's General Conditions Applicable to Loan and Guarantee Agreements.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Miguel E. Martinez', written over a horizontal line.

Miguel E. Martinez
Acting Director, Country Department II
Latin America and the Caribbean
Regional Office

Attachment

cc: The Federal Reserve Bank of New York

ATTACHMENT
WORLD BANK LOANS

Policy-Based Loans

Loan No.

Structural Adjustment Loan

2990

Proposed Second Structural
Adjustment Loan

Project Loan

Loan No.

Fourth Agricultural Credit

2991

(E)

D R A F T

June 25, 1990

LETTER FROM HONDURAS

International Bank: for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433

Attention: Director, Country Department II
Latin America and the Caribbean Regional Office

Re: Loan Disbursements

Dear Sirs:

We refer to the loans listed in the Attachment hereto (the "World Bank Loans") and hereby instruct the World Bank to deposit in the Special Funds Account (the "Special Funds Account") of the Banco Central de Honduras at the Federal Reserve Bank of New York (the "FRBNY"), all of the proceeds of withdrawals under each of the World Bank Loans that in each case are made or may be made by the World Bank to us for the reimbursement of expenditures incurred in or during the execution of the projects or programs financed under the World Bank Loans, if and when we become entitled to any such withdrawals under the terms and conditions of the World Bank Loans subject to the following:

(a) This instruction is applicable to proceeds of withdrawal applications under the World Bank Loans approved by the World Bank after the date of this letter until receipt by the World Bank of the notification referred to in paragraph (c) below.

(b) Deposits in the Special Funds Account shall be made in United States dollars. For this purpose, the World Bank is hereby instructed to use the proceeds of any such withdrawals under the World Bank Loans to purchase dollars under such terms and conditions as the World Bank shall determine.

(c) The Republic of Honduras and Banco Central de Honduras have agreed with the United States Department of the Treasury, Banco de Mexico and the Central Bank of Venezuela that this instruction, which has as its objective putting in place administrative arrangements to provide for the fulfillment of the obligations of the Republic of Honduras and Banco Central de Honduras under an agreement with the United States Department of the Treasury, Banco de Mexico and the Central Bank of Venezuela, shall be irrevocable until the World Bank receives from Banco Central de Honduras a copy of the notification from the FRBNY to Banco Central de Honduras to the effect that the instruction to make deposits to the Special Funds Account may be terminated.

We are not aware of any third party claims upon the proceeds of the World Bank Loans to be deposited in the Special Funds Account.

We acknowledge that your action on this instruction will be taken in conformity with the relevant provisions of the respective loan and project agreements for the World Bank Loans, and such action shall not be construed in any way as a waiver of any right which the World Bank may have under such agreements or under the World Bank General Conditions Applicable to Loan and Guarantee Agreements.

We are providing copies of our letter to you and your reply to the FRBNY.

Sincerely yours,

REPUBLIC OF HONDURAS

By: _____

Confirmed by:
BANCO CENTRAL DE HONDURAS

By: _____

ATTACHMENT
WORLD BANK LOANS

| <u>Loan Name</u> | <u>Loan No.</u> | <u>Expected Amounts of Proceeds by Date *</u> (in millions of dollars) | | |
|--|-----------------|---|----------------|----------------|
| | | <u>7/31/90</u> | <u>8/31/90</u> | <u>9/30/90</u> |
| <u>Policy-Based Loans</u> | | | | |
| Structural Adjustment Loan | 2990 | 25 | | |
| Proposed Second Structural Adjustment Loan | | | | 45 |
| <u>Project Loan</u> | | | | |
| Fourth Agricultural Credit | 2991 | 10 | | |
| ----- Cumulative Subtotal of All Proceeds of Policy-Based Loans | | | | 70.0 |
| ----- Cumulative Subtotal of All Proceeds of Project Loan | | | | 10.0 |
| ----- Grand Total of All World Bank Loans: | | | | 80.0 |

*/ The amounts expected under the policy-based and project loans include only those disbursements in reimbursement of expenditures incurred in or during the execution of the projects or programs financed under the World Bank Loans.



SECRETARIA DE HACIENDA Y CREDITO PUBLICO

REPUBLICA DE HONDURAS

Tegucigalpa, D. C., 28 de junio de 1990

No.

International Bank for
Reconstruction and Development
1818 H Street, N.V.
Washington, D. C. 20433

Attention: Director, Country Department II
Latin America and the Caribbean Regional Office

Re: Loan Disbursements

Dear Sirs:

We refer to the loans listed in the Attachment hereto (the "World Bank Loans") and hereby instruct the World Bank to deposit in the Special Funds Account (the "Special Funds Account") of the Banco Central de Honduras at the Federal Reserve Bank of New York (the "FRBN"), all of the proceeds of withdrawals under each of the World Bank Loans that in each case are made or may be made by the World Bank to us for the reimbursement of expenditures incurred in or during the execution of the projects or programs financed under the World Bank Loans, if and when we become entitled to any such withdrawals under the terms and conditions of the World Bank Loans subject to the following:

(a) This instruction is applicable to proceeds of withdrawal applications under the World Bank Loans approved by the World Bank after the date of this letter until receipt by the World Bank of the notification referred to in paragraph (c) below.

(b) Deposits in the Special Funds Account shall be made in United States dollars. For this purpose, the World Bank is hereby instructed to use the proceeds of any such withdrawals under the World Bank Loans to purchase dollars under such terms and conditions as the World Bank shall determine.

(c) The Republic of Honduras and Banco Central de Honduras have agreed with the United States Department of the Treasury, Banco de México and the Central Bank of Venezuela that this instruction, which has as its objective putting in place administrative arrangements to provide for the fulfillment of the obligations of the Republic of Honduras and Banco Central de Honduras under an agreement with the United States Department of the

SECRETARIA DE HACIENDA Y CREDITO PUBLICO

REPUBLICA DE HONDURAS

Tegucigalpa, D. C., 28 de junio de 1990 No.2.

Treasury, Banco de México and the Central Bank of Venezuela, shall be irrevocable until the World Bank receives from Banco Central de Honduras a copy of the notification from the FRBNY to Banco Central de Honduras to the effect that the instruction to make deposits to the Special Funds Account may be terminated.

We are not aware of any third party claims upon the proceeds of the world Bank Loans to be deposited in the Special Funds Account.

We acknowledge that your action on this instruction will be taken in conformity with the relevant provisions of the respective loan and project agreements for the World Bank Loans, and such action shall not be construed in any way as a waiver of any right which the World Bank may have under such agreements or under the World Bank General Conditions Applicable to Loan and Guarantee Agreements.

We are providing copies of our letter to you and your reply to the FRBNY.

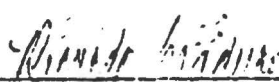
Sincerely yours,

REPUBLIC OF HONDURAS

BY: 

~~BENJAMIN VILLANUEVA~~
Minister of Finance
and Public Credit

Confirmed by:
BANCO CENTRAL DE HONDURAS

By: 
RICARDO MADURO JOEST
President

**ATTACHMENT
WORLD BANK LOANS**

| <u>Loan Name</u> | <u>Loan No.</u> | <u>Expended Amounts of Proceeds by Date</u> (in millions of dollars) | | |
|---|-----------------|---|----------------|----------------|
| | | <u>7/31/90</u> | <u>8/31/90</u> | <u>9/30/90</u> |
| <u>Policy-Based Loans</u> | | | | |
| Structural Adjustment Loan | 2990 | 25 | | |
| Proposed Second Structural Adjustment Loan | | | | 45 |
| <u>Project Loan</u> | | | | |
| Fourth Agricultural Credit | 2991 | 10 | | |
| <hr/> | | | | |
| Cumulative Subtotal of All Proceeds of Policy-Based Loans | | | | 70.0 |
| <hr/> | | | | |
| Cumulative Subtotal of All Proceeds of Project Loan | | | | 10.0 |
| <hr/> | | | | |
| Grand Total of All World Bank Loans | | | | 80.0 |

***/ The amounts expected under the policy-based and project loans include only those disbursements in reimbursement of expenditures incurred in or during the execution of the projects or programs financed under the World Bank Loans.**

(F)

D R A F T

June 25, 1990

WORLD BANK REPLY TO LETTER FROM HONDURAS

June __, 1990

Mr. _____
Minister of Finance and Public Credit
Government of Honduras

Mr. _____
President
Banco Central de Honduras

Dear Sirs:

(1) This letter acknowledges receipt of the instruction, which is in the form attached as Appendix I, from the Republic of Honduras (the "Borrower") to pay the proceeds of withdrawal applications approved after the date of this letter that are made or may be made to the Borrower from the International Bank for Reconstruction and Development (the "World Bank") under the loans listed in Appendix II hereto (the "World Bank Loans") for the reimbursement of expenditures incurred in or during the execution of the projects or programs financed under the World Bank Loans to the Special Funds Account (the "Special Funds Account") of the Banco Central de Honduras (the "Central Bank") established for this purpose at the Federal Reserve Bank of New York (the "FRBNY").

(2) We hereby confirm that, subject to prior receipt of all necessary documentation and evidence under the World Bank Loans that withdrawal requirements have been fully complied with, the World Bank will carry out the disbursement instruction referred to in paragraph (1). In this

connection, we have been informed that the Republic of Honduras and Banco Central de Honduras have agreed with the United States Department of the Treasury, Banco de Mexico and the Central Bank of Venezuela that the foregoing instruction shall be irrevocable until the World Bank receives from Banco Central de Honduras a copy of a notification from the FRBNY to Banco Central de Honduras to the effect that the instruction to make deposits to the Special Funds Account may be terminated.

(3) Our action on this instruction will be taken in conformity with the relevant provisions of the respective loan and project agreements for the World Bank Loans and shall not be construed in any way as a waiver of any right which the World Bank may have under such agreements or under the World Bank's General Conditions Applicable to Loan and Guarantee Agreements.

(4) The World Bank is not aware of any third party claims by suppliers and contractors upon the proceeds of the World Bank Loans that are to be deposited in the Special Funds Account.

Sincerely yours,

Rainer B. Steckhan
Director, Country Department II
Latin America and the Caribbean
Regional Office

ATTACHMENT I
WORLD BANK LOANS

Policy-Based Loans

Loan No.

Structural Adjustment Loan

2990

Proposed Second Structural
Adjustment Loan

Project Loan

Loan No.

Fourth Agricultural Credit

2991

June 28, 1990

Mr. Benjamin Villanueva
Minister of Finance and Public Credit
Government of Honduras

Mr. Ricardo Maduro Joest
President
Banco Central de Honduras

Dear Sirs:

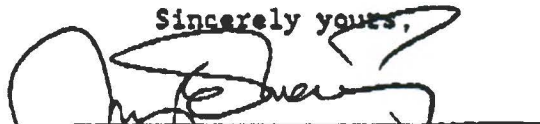
(1) This letter acknowledges receipt of the instruction, which is in the form attached as Appendix I, from the Republic of Honduras (the "Borrower") to pay the proceeds of withdrawal applications approved after the date of this letter that are made or may be made to the Borrower from the International Bank for Reconstruction and Development (the "World Bank") under the loans listed in Appendix II hereto (the "World Bank Loans") for the reimbursement of expenditures incurred in or during the execution of the projects or programs financed under the World Bank Loans to the Special Funds Account (the "Special Funds Account") of the Banco Central de Honduras (the "Central Bank") established for this purpose at the Federal Reserve Bank of New York (the "FRBNY").

(2) We hereby confirm that, subject to prior receipt of all necessary documentation and evidence under the World Bank Loans that withdrawal requirements have been fully complied with, the World Bank will carry out the disbursement instruction referred to in paragraph (1). In this connection, we have been informed that the Republic of Honduras and Banco Central de Honduras have agreed with the United States Department of the Treasury, Banco de Mexico and the Central Bank of Venezuela that the foregoing instruction shall be irrevocable until the World Bank receives from Banco Central de Honduras a copy of a notification from the FRBNY to Banco Central de Honduras to the effect that the instruction to make deposits to the Special Funds Account may be terminated.

(3) Our action on this instruction will be taken in conformity with the relevant provisions of the respective loan and project agreements for the World Bank Loans and shall not be construed in any way as a waiver of any right which the World Bank may have under such agreements or under the World Bank's General Conditions Applicable to Loan and Guarantee Agreements.

(4) The World Bank is not aware of any third party claims by suppliers and contractors upon the proceeds of the World Bank Loans that are to be deposited in the Special Funds Account.

Sincerely yours,

A handwritten signature in dark ink, appearing to read 'Miguel E. Martinez', is written over a horizontal line. The signature is stylized and somewhat cursive.

Miguel E. Martinez
Acting Director, Country Department II
Latin America and the Caribbean
Regional Office

SECRETARIA DE HACIENDA Y CREDITO PUBLICO

REPUBLICA DE HONDURAS

Tegucigalpa, D. C., 28 de junio de 1990

No. _____

International Bank for
Reconstruction and Development
1818 H Street, N.V.
Washington, D. C. 20433

Attention: Director, Country Department II
Latin America and the Caribbean Regional Office

Re: Loan Disbursements

Dear Sirs:

We refer to the loans listed in the Attachment hereto (the "World Bank Loans") and hereby instruct the World Bank to deposit in the Special Funds Account (the "Special Funds Account") of the Banco Central de Honduras at the Federal Reserve Bank of New York (the "FRBNY"), all of the proceeds of withdrawals under each of the World Bank Loans that in each case are made or may be made by the World Bank to us for the reimbursement of expenditures incurred in or during the execution of the projects or programs financed under the World Bank Loans, if and when we become entitled to any such withdrawals under the terms and conditions of the World Bank Loans subject to the following:

(a) This instruction is applicable to proceeds of withdrawal applications under the World Bank Loans approved by the World Bank after the date of this letter until receipt by the World Bank of the notification referred to in paragraph (c) below.

(b) Deposits in the Special Funds Account shall be made in United States dollars. For this purpose, the World Bank is hereby instructed to use the proceeds of any such withdrawals under the World Bank Loans to purchase dollars under such terms and conditions as the World Bank shall determine.

(c) The Republic of Honduras and Banco Central de Honduras have agreed with the United States Department of the Treasury, Banco de México and the Central Bank of Venezuela that this instruction, which has as its objective putting in place administrative arrangements to provide for the fulfillment of the obligations of the Republic of Honduras and Banco Central de Honduras under an agreement with the United States Department of the

SECRETARIA DE HACIENDA Y CREDITO PUBLICO

REPUBLICA DE HONDURAS

Terrestre, D. C. 28 de junio de 1990

No. 2

Treasury, Banco de México and the Central Bank of Venezuela, shall be irrevocable until the World Bank receives from Banco Central de Honduras a copy of the notification from the FRBNY to Banco Central de Honduras to the effect that the instruction to make deposits to the Special Funds Account may be terminated.

We are not aware of any third party claims upon the proceeds of the world Bank Loans to be deposited in the Special Funds Account.

We acknowledge that your action on this instruction will be taken in conformity with the relevant provisions of the respective loan and project agreements for the World Bank Loans, and such action shall not be construed in any way as a waiver of any right which the World Bank may have under such agreements or under the World Bank General Conditions Applicable to Loan and Guarantee Agreements.

We are providing copies of our letter to you and your reply to the FRBNY.


Sincerely yours,

REPUBLIC OF HONDURAS

By: 

~~BENJAMIN MALLANUEVA~~
Minister of Finance
and Public Credit

Confirmed by:
BANCO CENTRAL DE HONDURAS

By: 
~~RICARDO MADURO JOEST~~
President

**ATTACHMENT
WORLD BANK LOANS**

| <u>Loan Name</u> | <u>Loan No.</u> | <u>Expended Amounts of Proceeds by Date</u> (In millions of dollars) | | |
|---|-----------------|---|----------------|----------------|
| | | <u>7/31/90</u> | <u>8/31/90</u> | <u>9/30/90</u> |
| <u>Policy-Based Loans</u> | | | | |
| Structural Adjustment Loan | 2990 | 25 | | |
| Proposed Second Structural Adjustment Loan | | | | 45 |
| <u>Project Loan</u> | | | | |
| Fourth Agricultural Credit | 2991 | 10 | | |
| <hr/> | | | | |
| Cumulative Subtotal of All Proceeds of Policy-Based Loans | | | | 70.0 |
| <hr/> | | | | |
| Cumulative Subtotal of All Proceeds of Project Loan | | | | 10.0 |
| <hr/> | | | | |
| Grand Total of All World Bank Loans | | | | 80.0 |

***/ The amounts expected under the policy-based and project loans include only those disbursements in reimbursement of expenditures incurred in or during the execution of the projects or programs financed under the World Bank Loans.**

WORLD BANK LOANS

| <u>Policy-Based Loans</u> | <u>Loan No.</u> |
|---|-----------------|
| Structural Adjustment Loan | 2990 |
| Proposed Second Structural Adjustment Loan | |
| | |
| <u>Project Loan</u> | <u>Loan No.</u> |
| Fourth Agricultural Credit | 2991 |

SCHEDULE 5



BANCO INTERAMERICANO DE DESARROLLO
WASHINGTON, D. C. 20577

DIRECCION CABLEGRAFICA
INTAMBANC

PRESIDENTE

22 de junio de 1990

Señor Doctor
Pedro R. Tínocho, hijo
Presidente
Banco Central de Venezuela
Caracas, Venezuela

Estimado doctor Tínocho:

Ha tomado conocimiento de la decisión de su Directorio en relación a la solicitud del Gobierno de Honduras para la participación de su estimado país, en el esfuerzo solidario de varios países amigos en facilitar la regularización de las relaciones entre Honduras y los organismos multilaterales de crédito.

Entiendo que su Directorio autorizó la participación de su país en la forma de un crédito de corto plazo por la suma de US\$ 25 millones que podría ser incrementado en un monto de hasta US\$ 15 millones en la medida que se reciban seguridades adicionales en relación con los desembolsos que el Banco Interamericano de Desarrollo espera efectuar en el plazo de los próximos 180 días.

Como es de su conocimiento, en comunicación del 20 de junio de 1990, el Banco informó al Gobierno de Honduras que, sobre la base de las negociaciones que han tenido lugar entre el Banco Mundial, nuestra institución y el Gabinete Económico de Honduras, podemos afirmar que el desembolso de un primer tramo del préstamo Sectorial Agrícola del BID alcanzaría la suma de US\$ 30 millones.

Asimismo, en dicha comunicación se anticipaba que la revisión de los préstamos del BID actualmente en ejecución indicaba que se podrían generar desembolsos por un monto superior a los US\$ 10 millones originalmente estimados. Me complace informarle en esta oportunidad que, habiendo concluido el análisis detallado de la ejecución de los préstamos vigentes y su más probable evolución en el futuro inmediato, los desembolsos correspondientes a dichos préstamos que el BID podría efectuar durante los próximos 180 días alcanzan la suma de US\$ 21.6 millones.

Por lo tanto, con el primer tramo del préstamo Sectorial Agrícola y los desembolsos correspondientes a los proyectos en ejecución, el Banco anticipa desembolsar US\$ 51.6 millones, cifra que supera lo solicitado por el gobierno de Honduras.

Sin otro particular, saludo a usted con mi más distinguida consideración.



Enrique W. Iglesias

SCHEDULE H

FORM OF INTER-AMERICAN DEVELOPMENT BANK IRREVOCABLE INSTRUCTIONS

Enrique V. Iglesias
President
Inter-American Development Bank
1300 New York Avenue, N.W.
Washington, D.C. 20577

Dear Sirs:

(1) We refer to the Inter-American Development Bank (the "IDB") loans to the Government of Honduras ("Honduras") listed in Annex A (the "IDB Loans"), which Annex sets forth the amounts to be disbursed in foreign exchange to cover local currency expenditures, as well as the amounts to be disbursed under the IDB Agriculture Sector Loan H00082, (individually a "Disbursement", collectively the "Disbursements"). The IDB Agriculture Sector Loan H00082 is expected to be approved by the Board of Executive Directors of the IDB by end-September 1990 in an aggregate amount of U.S.\$50 million, of which an aggregate amount of up to U.S.\$30 million is expected to be made available by end-October 1990. (In addition to the Disbursements, the IDB will be disbursing foreign exchange for the direct importation of goods and services under the IDB Loans.) Honduras hereby irrevocably instructs the IDB to deposit the proceeds of any Disbursement to which Honduras may be entitled under the IDB Loans to an account of the Central Bank of Honduras (the "Central Bank") with the Federal Reserve Bank of New York (the "FRBNY"), known as the "Special Funds Account", subject to the following:

(a) Deposits in the Special Funds Account shall be made in United States dollars. For this purpose, the IDB is hereby instructed to use the proceeds under the IDB Loans to purchase United States dollars under such terms and conditions as the IDB shall determine.

(b) The Central Bank and Honduras have agreed with the United States Department of the Treasury, the Banco de Mexico, and the Central Bank of Venezuela (the "Cooperating Monetary Institutions") that this instruction, which has as its objective putting in place administrative arrangements to provide for the fulfillment of the obligations of the Central Bank and Honduras under an agreement with the Cooperating Monetary Institutions, shall be irrevocable until the IDB receives from the Central Bank a copy of the notification from the FRBNY to the Central Bank to the effect that the instruction to make deposits to the Special Funds Account may be terminated.

(2) Furthermore, following each Disbursement (other than any Disbursement under the Agriculture Sector Loan H00082), Honduras will provide prompt notification to the IDB that Honduras has made available to the account of the project listed in Annex A, for which such project such Disbursement would have been made, an amount equivalent in Honduran lempiras to the United States dollars amount of such Disbursement by the IDB, in order to allow for such project to be carried out as contractually agreed upon between the IDB and Honduras.

(3) We are not aware of any third party claims upon the proceeds of Disbursements to be deposited in the Special Funds Account.

(4) We are providing a copy of this letter and your reply to the FRBNY.

Sincerely yours,

Benjamin Villanueva
Minister of Finance
and Public Credit
Honduras

Confirmation by the Central
Bank of Honduras

Ricardo Maduro Joest
President

Annex A: List of IDB Loans

DISBURSEMENT AMOUNTS UNDER HONDURAN LOANS FROM THE IDB

| <u>Loan Name</u> | <u>Loan No.</u> | <u>Expected Amounts of Proceeds by Date</u> | | | |
|---|-----------------|---|----------------|-----------------|-----------------|
| | | (in thousands of dollars) | | | |
| | | <u>July</u> | <u>October</u> | <u>November</u> | <u>December</u> |
| La Paz-Intibuca Rural Development | 798/SF | 1800 | | 500 | |
| Animal Health | 162/IC | 300 | | | |
| Preinvestment (feasibility studies) | 776/SF | | | | |
| Municipal Development | 820/SF | | | | 1200 |
| Hospital Startup | 791/SF | 400 | | | |
| Vocational Education | 692/SF | | | | |
| Road Rehabilitation | 821/SF | | | | |
| Road Rehabilitation | 558/OC | | 1500 | 4500 | |
| Secondary/Access Rds | 205/IC | | | | |
| Secondary/Access Rds | 790/SF | 100 | | | |
| La Ceiba/Saba/Corocito highway improvement | 783/SF | | | | 200 |
| La Ceiba/Saba/Corocito highway improvement | 175/IC | | 500 | | |
| Water-4 cities | 763/SF | | 2400 | | |
| Rural Water | 779/SF | 3000 | | 2400 | |
| Tegucigalpa Water | 799/SF | | | 3000 | |
| TOTALS: | | <u>5600</u> | <u>4400</u> | <u>10400</u> | <u>1400</u> |

Also, the IDB will be providing to Honduras disbursements under the IDB Agriculture Sector Loan E00082, that is expected to be approved by the Board of Executive Directors of the IDB by end-September 1990, in an aggregate amount of U.S.\$50 million, of which an aggregate amount of up to U.S.\$30 million is expected to be made available by end-October 1990.

Note: In addition to the above amounts, the IDB will be disbursing foreign exchange for the direct importation of goods and services under these loans.



SECRETARIA DE HACIENDA Y CREDITO PUBLICO

REPUBLICA DE HONDURAS

Tegucigalpa, D. C.,

No.

Mr. Enrique V. Iglesias
President
Inter-American Development Bank
1300 New York Avenue, N.W.
Washington, D.C. 20577

Dear Sirs:

(1) We refer to the Inter-American Development Bank (the "IDB") loans to the Government of Honduras ("Honduras") listed in Annex A (the "IDB Loans"), which Annex sets forth the amounts to be disbursed in foreign exchange to cover local currency expenditures as well as the amounts to be disbursed under the IDB Agriculture Sector Loan H00082, (individually a "Disbursement", collectively the "Disbursements"). The IDB Agriculture Sector loan H00082 is expected to be approved by the Board of Executive Directors of the IDB by end-September 1990, in an aggregate amount of US\$ 50 million, of which an aggregate amount of up to US\$ 30 million is expected to be made available by end-October 1990. (In addition to the Disbursements, the IDB will be disbursing foreign exchange for the direct importation of goods and services under the IDB Loans). Honduras hereby irrevocable instructs the IDB to deposit the proceeds of any Disbursement to which Honduras may be entitled under the IDB Loans to an account of the Central Bank of Honduras (the "Central Bank") with the Federal Reserve Bank of New York (the "FRBNY"), known as the "Special Funds Account", subject to the following:

(a) Deposits in the Special Funds Account shall be made in United States dollars. For this purpose, the IDB is hereby instructed to use the proceeds under the IDB Loans to purchase United States dollars under such terms and conditions as the IDB shall determine.

(b) The Central Bank and Honduras have agreed with the United States Department of the Treasury, the Banco de Mexico, and the Central Bank of Venezuela (the "Cooperating Monetary Institutions") that this instruction, which has as its objective putting in place administrative arrangements to provide for the fulfillment of the obligations of the Central Bank and Honduras under an agreement with the Cooperating Monetary Institutions, shall be irrevocable until the IDB receives from the Central Bank a copy of the notification from the FRBNY to the Central Bank to the effect that the instruction to make deposits to the Special Funds Account may be terminated.

(2) Furthermore, following each Disbursement (other than any Disbursement under the Agriculture Sector Loan H00082), Honduras will provide prompt notification to the IDB that Honduras has made available to the account of the project listed in Annex A, for which such



SECRETARIA DE HACIENDA Y CREDITO PUBLICO

REPUBLICA DE HONDURAS

Tegucigalpa. D. C.

Nº.....

Disbursement would have been made, an amount equivalent in Honduran lempiras to the United States dollars amount of such Disbursement by the IDB to the Special Funds Account, in order to allow for such project to be carried out as contractually agreed upon between the IDB and Honduras.

(3) We are not aware of any third party claims upon the proceeds of Disbursements to be deposited in the Special Funds Account.

(4) We are providing copy of this letter and your reply to the FRBNY.

Sincerely yours,



[Handwritten Signature]
BENJAMIN VILLANUEVA
Minister of Finance
and Public Credit
Honduras.

Confirmation by the Central
Bank of Honduras

[Handwritten Signature]

RICARDO MADURO JOEST
President

Annex A: List of IDB Loans.



SECRETARIA DE HACIENDA Y CREDITO PUBLICO

REPUBLICA DE HONDURAS

Tegucigalpa, D. C.,

No.....

DISEURSEMENT AMOUNTS UNDER HONDURAN LOANS FROM THE IDB

| <u>Loan Name</u> | <u>Loan No.</u> | <u>Expected amounts of Proceeds by Date</u> (in thousands of dollars) | | | |
|---|-----------------|--|----------------|-----------------|-----------------|
| | | <u>July</u> | <u>October</u> | <u>November</u> | <u>December</u> |
| La Paz-Intibuca Rural Development | 798/SF | 1800 | | 500 | |
| Animal Health | 162/IC | 300 | | | |
| Preinvestment (feasibility studies) | 776/SF | | | | |
| Municipal Development | 820/SF | | | | 1200 |
| Hospital Improvement | 791/SF | 400 | | | |
| Vacational Education | 692/SF | | | | |
| Road Rehabilitation | 821/SF | | | | |
| Road Rehabilitation | 558/OC | | 1500 | 4500 | |
| Secondary/Access Rds | 205/IC | | | | |
| Secondary/Access Rds | 790/SF | 100 | | | |
| La Ceiba/Saba/Corocito highway improvement | 783/SF | | | | 200 |
| La Ceiba/Saba/Corocito highway improvement | 175/IC | | 500 | | |
| Water-4 cities | 763/SF | | 2400 | | |
| Rural Water | 779/SF | 3000 | | 2400 | |
| Tegucigalpa Water | 799/SF | | | 3000 | |
| TOTALS: | | <u>5600</u> | <u>4400</u> | <u>10400</u> | <u>1400</u> |

Also, the IDB will be providing to Honduras disbursements under the IDB Agriculture Sector Loan H00082, that is expected to be approved by the Board of Executive Directors of the IDB by end-September 1990, in an aggregate amount of U.S.\$50 million, of which an aggregate amount of up to U.S.\$30 million is expected to be made available by end-October 1990.

NOTE: In addition to the above amounts, the IDB will be disbursing foreign exchange for the direct importation of goods and services under these loans.

SCHEDULE I

IDB REPLY TO LETTER FROM HONDURAS

June __, 1990

Mr. Benjamin Villanueva
Minister of Finance and Public Credit
Government of Honduras

Mr. Ricardo Maduro Joest
President
Central Bank of Honduras

Dear Sirs:

(1) This letter acknowledges receipt of the instruction, which is in the form attached as Appendix I, from the Republic of Honduras (the "Borrower"), to pay to the Special Funds Account (the "Special Funds Account"), established by the Central Bank of Honduras at the Federal Reserve Bank of New York (the "FRBNY"), the proceeds of disbursement requests that are made or may be made by the Borrower to the Inter-American Development Bank (the "IDB") for amounts to be disbursed in foreign exchange to reimburse local currency expenditures, as well as the amounts to be disbursed under the IDB Agriculture Sector Loan H00082, (individually a "Disbursement", collectively the "Disbursements"), incurred in or during the execution of the projects or programs financed under the IDB loans listed in Appendix II (the "IDB Loans"). These Disbursements include disbursements under the IDB Agriculture Sector Loan H00082, that is expected to be approved by the Board of Executive Directors of the IDB by end-September 1990 in an aggregate amount of U.S.\$50 million, of which an aggregate amount of up to U.S.\$30 million is expected to be made available by end-October 1990. In addition to the Disbursements, the IDB will be disbursing foreign exchange for the direct importation of goods and services under the IDB Loans.

(2) We hereby confirm that, subject to prior receipt of all necessary documentation and evidence under the IDB Loans that disbursement requirements have been fully complied with, the IDB will carry out the disbursement instruction referred to in paragraph (1). In this connection, we have been informed that the Republic of Honduras and the Central Bank of Honduras have agreed with the United States Department of the Treasury, the Central Bank of Venezuela, and the Banco de Mexico that the foregoing instruction shall be irrevocable until the IDB receives from the Central Bank of Honduras a copy of the notification from the FRBNY to the Central Bank of Honduras to the effect that the instruction to make deposits to the Special Funds Account may be

terminated.

(3) Furthermore, we take note that, following each Disbursement (other than any Disbursement under the Agriculture Sector Loan H00082), Honduras will provide prompt notification to the IDB that Honduras has made available to the account of the project, listed in Annex A, for which such Disbursement would have been made, an amount equivalent in Honduran lempiras to the United States dollars amount of such Disbursement by the IDB to the Special Funds Account in order to allow for such project to be carried out as contractually agreed upon between the IDB and Honduras.

(4) Our action on this instruction will be taken in conformity with the relevant provisions of the respective loan agreements for the IDB Loans and shall not be construed in any way as a waiver of any right which the IDB may have under such agreements.

(5) The IDB is not aware of any third party claims by suppliers and contractors upon the proceeds of the Disbursements that are to be deposited in the Special Funds Account.

Sincerely yours,

Joel A. Riley
Deputy Manager,
Region II
Operations Department

Appendix 1: Schedule H
Appendix 2: Annex A to Schedule H



WASHINGTON, D.C. 20517
CABLE: INTAMBANC

June 28, 1990

Mr. Benjamin Villanueva
Minister of Finance and Public Credit
Government of Honduras

Mr. Ricardo Maduro Joest
President
Central Bank of Honduras

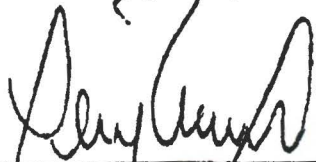
Dear Sirs:

- (1) This letter acknowledges receipt of the instruction, which is in the form attached as Appendix I, from the Republic of Honduras (the "Borrower") to pay to the Special Funds Account (the "Special Funds Account") established by the Central Bank of Honduras at the Federal Reserve Bank of New York (the "FRBNY"), the proceeds of disbursement requests that are made or may be made by the Borrower to the Inter-American Development Bank (the "IDB") for amounts to be disbursed in foreign exchange to cover local currency expenditures, as well as the amounts to be disbursed under the IDB Agriculture Sector Loan H00082, (individually a "Disbursement", collectively the "Disbursements") incurred in or during the execution of the projects or programs financed under the IDB loans listed in Appendix II (the "IDB Loans"). These Disbursements include disbursements under the IDB Agriculture Sector Loan H00082, that is expected to be approved by the Board of Executive Directors of the IDB by end-September 1990 in an aggregate amount of US\$50 million, of which an aggregate amount of up to US\$30 million is expected to be made available by end-October 1990. In addition to the Disbursements, the IDB will be disbursing foreign exchange for the direct importation of goods and services under the IDB loans.
- (2) We hereby confirm that, subject to prior receipt of all necessary documentation and evidence under the IDB Loans that disbursement requirements have been fully complied with, the IDB will carry out the disbursement instruction referred to in paragraph (1). In this connection, we have been informed that the Republic of Honduras and the Central Bank of Honduras have agreed with the United States Department of the Treasury, the Central Bank of Venezuela, and the Banco de Mexico that the foregoing instruction shall be irrevocable until the IDB receives from the Central Bank of Honduras a copy of the notification from the FRBNY to the

Central Bank of Honduras to the effect that the instruction to make deposits to the Special Funds Account may be terminated.

- (3) Furthermore, we take note that, following each Disbursement (other than any disbursement under the Agriculture Sector Loan H00032) Honduras will provide prompt notification to the IDB that Honduras has made available to the accounts of the project, listed in Appendix II, for which such Disbursement would have been made, an amount equivalent in Honduran lempiras to the United States dollars amount of such Disbursement by the IDB to the Special Funds Account, in order to allow for such project to be carried out as contractually agreed upon between the IDB and Honduras.
- (4) Our action on this instruction will be taken in conformity with the relevant provisions of the respective loan agreements for the IDB loans and shall not be construed in any way as a waiver of any right which the IDB may have under such agreements.
- (5) The IDB is not aware of any third party claims by suppliers and contractors upon the proceeds of the Disbursements that are to be deposited in the Special Funds Account.

Sincerely yours,



Joel Riley
Deputy Manager,
Region II
Operations Department

- Appendix I: Schedule F
- Appendix II: Annex A to Schedule E

SCHEDULE H

FORM OF INTER-AMERICAN DEVELOPMENT BANK IRREVOCABLE INSTRUCTIONS

Mr. Enrique V. Iglesias
President
Inter-American Development Bank
1300 New York Avenue, N.W.
Washington, D.C. 20577

Dear Sirs:

(1) We refer to the Inter-American Development Bank (the "IDB") loans to the Government of Honduras ("Honduras") listed in Annex A (the "IDB Loans"), which annex sets forth the amounts to be disbursed in foreign exchange to cover local currency expenditures, as well as the amounts to be disbursed under the IDB Agriculture Sector Loan H00082, (individually a "Disbursement, collectively the "Disbursements"). The IDB Agriculture Sector Loan H00082 is expected to be approved by the Board of Executive Directors of the IDB by end-September 1990 in an aggregate amount of US\$50 million, of which an aggregate amount of up to US\$30 million is expected to be made available by end-October 1990. (In addition to the Disbursements, the IDB will be disbursing foreign exchange for the direct importation of goods and services under the IDB Loans). Honduras hereby irrevocably instructs the IDB to deposit the proceeds of any Disbursement to which Honduras may be entitled under the IDB Loans to an account of the Central Bank of Honduras (the "Central Bank") with the Federal Reserve Bank of New York (the "FRBNY"), known as the "Special Funds Account", subject to the following:

- (a) Deposits in the Special Funds Account shall be made in United States dollars. For this purpose, the IDB is hereby instructed to use the proceeds under the IDB Loans to purchase United States dollars under such terms and conditions as the IDB shall determine.
- (b) The Central Bank and Honduras have agreed with the United States Department of the Treasury, the Banco de Mexico, and the Central Bank of Venezuela (the "Cooperating Monetary Institutions") that this instruction, which has as its objective putting in place administrative arrangements to provide for the fulfillment of the obligations of the Central Bank and Honduras under an agreement with the Cooperating Monetary Institutions, shall be irrevocable until the IDB receives from the Central Bank a copy of the notification from the FRBNY to the Central Bank to the effect

-2-

that the instruction to make deposits to the Special Funds Account may be terminated.

- (2) Furthermore, following each Disbursement (other than any Disbursement under the Agriculture Sector Loan H00082), Honduras will provide prompt notification to the IDB that Honduras has made available to the account of the project listed in Annex A, for which such Disbursement would have been made, an amount equivalent in Honduran lempiras to the United States dollars amount of such Disbursement by the IDB to the Special Funds Account, in order to allow for such project to be carried out as contractually agreed upon between the IDB and Honduras.
- (3) We are not aware of any third party claims upon the proceeds of Disbursements to be deposited in the Special Funds Account.
- (4) We are providing a copy of this letter and your reply to the FRBNY.

Sincerely yours,

Benjamin Villanueva
Minister of Finance and Public Credit
Honduras

Confirmation by the Central
Bank of Honduras

Ricardo Maduro Joest
President

Annex A: List of IDB Loans

ANNEX A

| <u>Loan Name</u> | <u>Loan No.</u> | <u>Expected Amounts of Proceeds by Date</u> | | | |
|---|-----------------|---|----------------|-----------------|-----------------|
| | | <u>July</u> | <u>October</u> | <u>November</u> | <u>December</u> |
| La Paz-Intibuca Rural Development | 798/SF | 1800 | | 500 | |
| Animal Health | 162/IC | 300 | | | |
| Preinvestment (feasibility studies) | 776/SF | | | | |
| Municipal Development | 820/SF | | | | 1200 |
| Hospital Improvement | 791/SF | 400 | | | |
| Vocacional Education | 692/SF | | | | |
| Road Rehabilitation | 821/SF | | | | |
| Road Rehabilitation | 558/OC | | 1500 | 4500 | |
| Secondary/Access Rds | 205/IC | | | | |
| Secondary/Access Rds | 790/SF | 100 | | | |
| La Ceiba/Saba Corocito highway improvement | 783/SF | | | | 200 |
| La Ceiba/Saba Corocito highway improvement | 175/IC | | 500 | | |
| Urban Water | 763/SF | | 2400 | | |
| Rural Water | 779/SF | 3000 | | 2400 | |
| Tegicugaipa Water | 799/SF | | | 3000 | |
| TOTALS | | 5600 | 4400 | 10400 | 1400 |

Also, the IDB will be providing to Honduras disbursements under the IDB Agriculture Sector Loan H00082, that is expected to be approved by the Board of Executive Directors of the IDB by end-September 1990, in an

aggregate amount of US\$50 million, of which an aggregate amount of up to US\$30 million is expected to be made available by end-October 1990.

NOTE: In addition to the above amounts, the IEB will be disbursing foreign exchange for the direct importation of goods and services under these loans.

SCHEDULE J

LETTER FROM OECF TO GOVERNMENT OF HONDURAS AND CENTRAL BANK

[DATE]

Mr. Benjamin Villanueva
Minister of Finance and Public Credit

Mr. Ricardo Maduro Joest
President, Central Bank of Honduras

Dear Sirs:

We refer to Loan Agreement (L/A No. HO-C1) dated June 4, 1990 between the Overseas Economic Cooperation Fund (OECF) and the Government of the Republic of Honduras concerning a Structural Adjustment Loan (SAL).

As to your request for the disbursement, sent June 5, 1990, Honduras will be eligible to receive the proceeds of the Loan, in the amount of \$ 7,625 million, not later than July 2, 1990, provided that its arrears to ~~the International Monetary Fund and~~ the World Bank are cleared on or before June [28], 1990, and the World Bank notifies the OECF of its intention to disburse the second tranche of the World Bank SAL by no later than July 5, 1990.

Sincerely yours,

[Appropriate OECF official]

cc. Federal Reserve Bank of New York (Attention: Mr. George Ryan)
(FAX # in USA: 212-720-1227)

THE OVERSEAS ECONOMIC COOPERATION FUND

TAKESASHI GODO BUILDING
4-1, OHTEMACHI 1-CHOME, CHIYODA-KU, TOKYO 100
JAPAN

CABLE ADDRESS
"COOPERATION FUND" TOKYO

TELEX
CALL NO. 38770. 38882. 38883
A.A.S. COOPFUND TOKYO

June 27, 1990
Ref. No. FLII-3/90-74

Mr. Benjamin Villanueva
Minister of Finance and Public Credit


Mr. Ricardo Maduro Joest
President, Central Bank of Honduras

Dear Sirs:

We refer to Loan Agreement (L/A NO. HO-C1) dated June 4, 1990 between the Overseas Economic Cooperation Fund (OECF) and the Government of the Republic of Honduras concerning a Structural Adjustment Loan (SAL).

As to your request for the disbursement, sent June 5, 1990, Honduras will be eligible to receive the proceeds of the Loan, in the amount of ¥7,625 million, not later than July 2, 1990, provided that its arrears to the World Bank are cleared on or before June 28, 1990, and the World Bank notifies the OECF of its intention to disburse the second tranche of the World Bank SAL by no later than July 5, 1990.

Sincerely yours,


Shuhei Seyama
Director, 3rd Division
Loan Department III

cc: Federal Reserve Bank of New York (Attention: Mr. George Ryan)
(Fax # in USA: 212-720-1227)

SCHEDULE K

FORM OF INSTRUCTIONS FROM THE CENTRAL BANK OF HONDURAS
AND THE GOVERNMENT OF HONDURAS
TO THE BANK OF TOKYO

[Date]

Bank of Tokyo
Tokyo, Japan

Attention:

We refer to the proceeds of disbursements from the Japanese Overseas Economic Cooperation Fund (the "OECF") equalling approximately U.S. \$48 million that will be disbursed into our account with you before July 2, 1990 (the "Disbursements").

We hereby unconditionally and irrevocably authorize and direct you to use the proceeds of such Disbursements to purchase U.S. dollars and to transfer immediately all of such U.S. dollars purchased to our account known as the Banco Central de Honduras -- Clearing Account with the Federal Reserve Bank of New York, New York ("FRBNY").

We hereby confirm that these instructions may not be revoked or altered until such time as you have received from the FRBNY a written confirmation releasing you from such instructions.

Please acknowledge receipt of the foregoing instructions and consent to the procedures set forth above by signing the form of consent attached hereto in three copies, which should be sent to the FRBNY and to ourselves.

Very truly yours,

GOVERNMENT OF HONDURAS

By _____

CENTRAL BANK OF HONDURAS

By _____

Annex: Form of Consent (Schedule L)

SCHEDULE L

FORM OF CONSENT OF THE BANK OF TOKYO
[DATE]

Federal Reserve Bank of New York
New York, New York

Ministry of Finance and Public Credit
Government of Honduras

Central Bank of Honduras

Dear Sirs:

We hereby acknowledge receipt of the unconditional and irrevocable authorization and direction from the Central Bank of Honduras and the Government of Honduras instructing us to accept for you all amounts that are disbursed by the Japanese Overseas Economic Cooperation Fund (the "OECF") before July 2, 1990 into your account with us (the "Disbursements") and to use the proceeds of such Disbursements to purchase U.S. dollars and to transfer immediately all of such U.S. dollars purchased to the Federal Reserve Bank of New York, New York (the "FRBNY") for credit to the Banco Central de Honduras -- Clearing Account of the Central Bank of Honduras.

We have taken note that these instructions may not be revoked or altered until such time as we have received a written confirmation from the FRBNY releasing us from such instructions.

Recognizing that the FRBNY is acting for the Cooperating Monetary Institutions, which include the United States Department of the Treasury, the Banco de Mexico, and the Central Bank of Venezuela and which have established a short-term credit facility in favor of the Government of Honduras and the Central Bank of Honduras in reliance in part on this undertaking, we hereby unconditionally and irrevocably agree to comply with the above-described procedures. As long as these procedures remain in force, we hereby irrevocably agree not to exercise any rights which we might have with respect to the Disbursements including, but not limited to, any right of set off which we may have.

Very truly yours,

THE BANK OF TOKYO

By _____

THE BANK OF TOKYO, LTD.
REPRESENTATIVE OFFICE IN WASHINGTON, D.C.
1825 K STREET, N.W., WASHINGTON, D.C. 20006

TELEPHONE: (202) 463-0477

CABLE ADDRESS: "TOHBANK"

June 28, 1990

Federal Reserve Bank of New York
New York, NY

Central Bank of Honduras

Dear Sirs:

We hereby acknowledge receipt of the unconditional and irrevocable authorization and direction from the Central Bank of Honduras instructing us to accept for you all amounts that are disbursed by the Japanese Overseas Economic Cooperation Fund (the "OECF") before July 2, 1990 into your account with us ("Disbursements") and to use the proceeds of such Disbursements to purchase U.S. dollars and to transfer immediately all of such U.S. dollars purchased to the Federal Reserve Bank of New York, New York ("FRBNY") for credit to the Banco Central de Honduras-Clearing Account of the Central Bank of Honduras.

We have taken note that these instructions may not be revoked or altered until such time as we have received a written confirmation from the FRBNY releasing us from such instructions.

Recognizing that the FRBNY is acting for the Cooperating Monetary Institutions, which include the United States Department of the Treasury, the Banco de Mexico, and the Central Bank of Venezuela and which have established a short-term credit facility in favor of the Central Bank of Honduras in reliance in part on this undertaking, we hereby unconditionally and irrevocably agree to comply with the above-described procedures. As long as these procedures remain in force, we hereby irrevocably agree not to exercise any rights which we might have with respect to the Disbursements including, but not limited to, any right of set off which we may have.

Very truly yours,

The Bank of Tokyo, Ltd.



Mutsuo Hatano
Chief Representative

THE BANK OF TOKYO, LTD.
REPRESENTATIVE OFFICE IN WASHINGTON, D.C.
1825 K STREET, N.W., WASHINGTON, D.C. 20006

TELEPHONE: (202) 463-0477

CABLE ADDRESS: "TOHBANK"

June 28, 1990

Federal Reserve Bank of New York
New York, NY

Central Bank of Honduras

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Very truly yours,

The Bank of Tokyo, Ltd.

By 
Mutsuo Hatano
Chief Representative

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LETTER FROM THE GOVERNMENT OF HONDURAS
TO THE CENTRAL BANK

[DATE]

Ricardo Maduro Joest
President
Central Bank of Honduras

Dear Sirs:

We refer to the Memorandum of Understanding dated June ____, 1990, (the "Memorandum of Understanding"), among the Government of Honduras (the "Government"), the Central Bank of Honduras (the "Central Bank") and the Cooperating Monetary Institutions, and the Separate Agreements (the "Separate Agreements") under which the Cooperating Monetary Institutions have agreed to provide near-term support for the economic adjustment efforts of the Republic of Honduras in the aggregate amount of U.S.\$147.3 million. Pursuant to paragraph (10)(ii) of the Memorandum of Understanding, we hereby warrant that the Government has agreed to take all actions, and to provide any other support necessary to facilitate the Central Bank's performance under the Memorandum of Understanding and each of the Separate Agreements. We also hereby warrant that the Government will take all actions necessary on its part to apply for all purchases or disbursements for which it is eligible (i) under the Stand-by Arrangement, and under any other arrangement with the International Monetary Fund, (ii) under the expected World Bank Structural Adjustment Loan, the Second Structural Adjustment Loan, and the Agricultural Project Loan, (iii) under the expected Agricultural Project Loan and various other project loans to be provided by the Inter-American Development Bank, and (iv) the loan, L/A No. HO-C1, to be provided by the Japanese OECF.

Sincerely,

GOVERNMENT OF HONDURAS

By Benjamin Villanueva
Minister of Finance
and Public Credit



SECRETARIA DE HACIENDA Y CREDITO PUBLICO

REPUBLICA DE HONDURAS

Tegucigalpa, D. C.. June 28, 1990

Nº.....

RICARDO MADURO JOEST
President
Central Bank of Honduras

Dear Sir:

We refer to the Memorandum of Understanding dated June 27 1990, (the "Memorandum of Understanding"), among the Government of Honduras (the "Government"), the Central Bank of Honduras (the "Central Bank") and the Cooperating Monetary Institutions, and the Separate Agreements (the "Separate Agreements") under which the Cooperating Monetary Institutions have agreed to provide near-term support for the economic adjustment efforts of the Republic of Honduras in the aggregate amount of U.S.\$147.3 million. Pursuant to paragraph (10) (ii) of the Memorandum of Understanding, we hereby warrant that the Government has agreed to take all actions, and to provide any other support necessary to facilitate the Central Bank's performance under the Memorandum of Understanding and each of the Separate Agreements. We also hereby warrant that the Government will take all actions necessary on its part to apply for all purchases or disbursements for which it is eligible (i) under the Stand-by Arrangement, and under any other arrangement with the International Monetary Fund, (ii) under the expected World Bank Structural Adjustment Loan, the Second Structural Adjustment Loan, and the Agricultural Project Loan, (iii) under the expected Agricultural Project Loan and various other project loans to be provided by the Inter-American Development Bank, and (iv) the Loan, L/I No.HO-C1, to be provided by the Japanese OECF.

Sincerely,

GOVERNMENT OF HONDURAS

By 

BENJAMIN VILLANUEVA

MINISTER OF FINANCE

ADMINISTRATIVE MESSAGES - OUTGOING

UNITED STATES

| REQUESTING DEPARTMENT | PACS CODE | SUBJECT (MAX. 12 CHAR.) | DATE |
|-----------------------|---|-------------------------|----------|
| FOREIGN RELATIONS | 398403 | HONDURAS | 12/13/90 |
| 1 | TREASURY - JAMES M. LISTER -OS/IMO | | |
| 2 | THE FEDERAL RESERVE BANK OF NEW YORK (THE "FRBNY") HAS | | |
| 3 | RECEIVED FROM EACH OF THE UNITED STATES DEPARTMENT OF THE | | |
| 4 | TREASURY, THE BANCO DE MEXICO, THE CENTRAL BANK OF VENEZUELA, | | |
| 5 | AND THE CENTRAL BANK OF HONDURAS, ACTING FOR ITSELF AND FOR THE | | |
| 6 | GOVERNMENT OF HONDURAS, PURSUANT TO PARAGRAPH (12) OF THE | | |
| 7 | MEMORANDUM OF UNDERSTANDING DATED JUNE 27, 1990 AMONG EACH OF | | |
| 8 | THEM (THE "MOU"), ITS AGREEMENT TO THE FOLLOWING (THE | | |
| 9 | "AMENDMENT"): | | |
| 10 | NOTWITHSTANDING ANY OTHER PROVISIONS OF THE MOU TO THE | | |
| 11 | CONTRARY, THE FIRST U.S. \$45 MILLION OF DISBURSEMENTS | | |
| 12 | UNDER THE IDB LOANS, AS DEFINED IN SUBPARAGRAPH (1) | | |
| 13 | (ii) (e) OF THE MOU, DEPOSITED INTO THE SPECIAL FUNDS | | |
| 14 | ACCOUNTS AS DEFINED IN SUBPARAGRAPH (6) (ii) (c) OF | | |
| 15 | THE MOU, SHALL BE APPLIED BY THE FEDERAL RESERVE BANK | | |
| 16 | OF NEW YORK (THE "FRBNY"), FIRST, IN REPAYMENT OF THE | | |
| 17 | CENTRAL BANK OF VENEZUELA COMMITMENT AS DEFINED IN | | |
| 18 | PARAGRAPH (3) OF THE MOU, INCLUDING INTEREST THEREON, | | |
| 19 | AND, SECOND, ANY PROCEEDS OF SUCH DISBURSEMENTS THAT | | |
| 20 | REMAIN AFTER THE CENTRAL BANK OF VENEZUELA COMMITMENT | | |
| 21 | HAS BEEN FULLY REPAID, INCLUDING INTEREST THEREON, | | |
| 22 | SHALL BE TRANSFERRED BY THE FRBNY TO THE ACCOUNT KNOWN | | |
| 23 | AS "THE INTERNATIONAL BANK FOR RECONSTRUCTION AND | | |
| 24 | CONTINUED ON PAGE 2 | | |
| 25 | | | |

ADMINISTRATIVE MESSAGES - OUTGOING

| REQUESTING DEPARTMENT | FACS CODE | SUBJECT (MAX. 72 CHAR.) | DATE |
|-----------------------|-----------|-------------------------|----------------------|
| FOREIGN RELATIONS | 398403 | HONDURAS | 12/15/90 12/22/90 |

| | |
|----|--|
| 1 | -2- |
| 2 | DEVELOPMENT ACCOUNT A-GENERAL* AT THE FRBNY. |
| 3 | THE AMENDMENT IS NOW IN EFFECT. |
| 4 | FEDERAL RESERVE BANK OF NEW YORK |
| 5 | |
| 6 | <i>George W. Ryan</i> |
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UNITED STATES

DEPARTMENT OF THE TREASURY WASH DC

FEDERAL RESERVE BANK OF NEW YORK

ATTENTION: GEORGE RYAN, VICE PRESIDENT

UNCLAS

QQQQ

SUBJ: EXTENSION OF MATURITY DATE OF BRIDGE LOAN FOR
HONDURAS

1. PURSUANT TO PARAGRAPH (12) OF THE MEMORANDUM OF UNDERSTANDING OF JUNE 27, 1990, AMONG THE GOVERNMENT OF HONDURAS, THE CENTRAL BANK OF HONDURAS, THE UNITED STATES DEPARTMENT OF THE TREASURY, THE BANCO DE MEXICO, AND THE CENTRAL BANK OF VENEZUELA (THE "MOU"), THE UNITED STATES DEPARTMENT OF THE TREASURY AGREES THAT THE "MATURITY DATE" IN SUBPARAGRAPH (1) (ii) (f) OF THE MOU SHALL BE EXTENDED FROM NOVEMBER 30, 1990 TO DECEMBER 28, 1990.

JAMES M. LISTER

DIRECTOR, FOREIGN EXCHANGE OPERATIONS

NNNN

IMO/JAMES LISTER, DIRECTOR 566-2773
FOREIGN EXCHANGE OPERATIONS

CONCURRENCE: GI/DAVID JOY *DPJ*

IMO/JMLISTER, DIRECTOR 566-2773

