



**MILLENNIUM  
CHALLENGE  
CORPORATION**

REDUCING POVERTY THROUGH GROWTH

July 21, 2006

Yani Rosenthal  
Minister of the Presidency  
Chairman of the MCA-Honduras Board of Directors  
Edificio Ejecutivo, Blvd. Juan Pablo II  
Tegucigalpa, F.M.  
Honduras, C.A.

Martin Ochoa  
General Director  
MCA-Honduras  
Colonia Palmira  
Paseo Republica Argentina, Casa No. 354  
Tegucigalpa, F.M.  
Honduras, C.A.

RE: Implementation Letter for audit requirements, interest on past-due payments and modifications to the Procurement Agreement

Dear Minister Rosenthal and Mr. Ochoa,

Reference is hereby made to (i) the Millennium Challenge Compact, executed June 13, 2005 (the "**Compact**"), between the United States of America, acting through the Millennium Challenge Corporation ("**MCC**"), and the Government of the Republic of Honduras (the "**Government**"), and (ii) the Procurement Agreement, dated September 29, 2005, among MCC, the Government, acting through the Ministry of the Presidency, and MCA-Honduras (the "**Procurement Agreement**"). Capitalized terms used herein shall have the meaning given to such terms in the Compact and the Procurement Agreement.

Pursuant to Section 3.5 of the Compact, MCC may issue Implementation Letters to furnish additional information or guidance for the implementation of the Compact. Pursuant to Schedule 1 of the Procurement Agreement, MCC may, in its sole discretion, modify the Procurement Guidelines and the thresholds and no-objection requirements in Schedule 2. Accordingly, MCC issues this Implementation Letter (i) to provide guidance with respect to audit requirements under the Compact and interest on past-due payments under Supplemental Agreements between MCA-Honduras and its contractors and (ii) to modify certain provisions of the Procurement Agreement. The modifications to Schedule 2 to the Procurement Agreement are made in order to bring the Procurement Agreement into compliance with current MCC guidance on the appropriate procurement decisions and thresholds that should be subject to review by the independent Board of Directors of the entity receiving funding from MCC.

(1) With respect to the implementation of the audit requirements in Section 3.8(d)(i) of the Compact, MCC confirms that MCA-Honduras shall conduct a financial audit of all MCC Disbursements and Re-Disbursements on a semi-annual basis for the six- month periods ending June 30 and December 31 of each year during the Compact Term. The first audit shall cover the period from September 29, 2005 to June 30, 2006.

(2) With respect to Supplemental Agreements entered into by MCA-Honduras with contractors for the implementation of the Compact, MCC provides the following guidance with respect to the interest rate that should be applicable on past due payments by MCA-Honduras. The interest rate should compensate contractors for their additional financing cost incurred due to delinquent payment of valid invoices. The rate should be based on the contractors' cost of capital and should be at least equal to the Prime Rate + 200 basis points. For the avoidance of doubt, such interest on overdue payments shall be the responsibility of MCA-Honduras and no MCC Funding shall be used to make such interest payments.

(3) In the "Exceptions: Procurement of Works and Goods" section of the Procurement Guidelines (Schedule 1 to the Procurement Agreement), the bulleted paragraph commencing with the words "*International Competitive Bidding, Language, paragraph 2.15*" is hereby deleted in its entirety and replaced with the following:

- *International Competitive Bidding, Language, paragraph 2.15*: All advertisements and publications of awards for contracts at or above 50,000 USD, whether on the MCA-Honduras website, *dgMarket*, or *UN Development Business online* shall be published in English. Advertisements and publications of awards for contracts valued at less than 50,000 USD shall be published in English or in Spanish or both at the discretion of MCA-Honduras, *provided* that in the case of discrepancies, the English version will control. For all contracts at or above 100,000 USD, the documents soliciting qualifications and the Bidding Documents as well as the documents responding to these solicitations, including the bids, shall be prepared in English. All contracts at or above 100,000 USD shall be written in English and this language shall govern contractual relations between MCA-Honduras and the Provider. At the discretion of MCA-Honduras, the invitations and solicitation documents also may be prepared in the Spanish language. For contracts valued at less than 100,000 USD, any invitation or solicitation document and any responding documents may be prepared in English or Spanish language or both at the discretion of MCA-Honduras. However, contractors and suppliers shall not be permitted or required to sign contracts in two languages.

(4) In the "Exceptions: Procurement of Consultants and Consulting Services" section of the Procurement Guidelines (Schedule 1 to the Procurement Agreement), the two bulleted paragraphs commencing with the words "*Introduction, Language, paragraph 1.20*" and "*Introduction, Language, paragraph 1.21*" are hereby deleted in their entirety and replaced with the following:

- *Introduction, Language, paragraphs 1.20 and 1.21*: All advertisements and publications of awards for contracts at or above 30,000 USD, whether on the MCA-Honduras website,

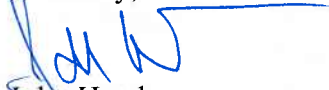
*dgMarket*, or *UN Development Business Online* shall be published in English. Advertisements and publications of awards for contracts valued less than 30,000 USD shall be published in English or in Spanish or both at the discretion of MCA-Honduras provided that in the case of discrepancies the English version will control. For contracts valued at or above 100,000 USD, the documents soliciting qualifications and proposals and the documents responding to the solicitations, including the technical and financial proposals, shall be prepared in English. All contracts at or above 100,000 USD shall be written in English and this language shall govern contractual relations between MCA-Honduras and the Provider. At the discretion of MCA-Honduras, the invitations and solicitation documents also may be prepared in the Spanish language. For contracts valued at less than 100,000USD, any invitation or solicitation document and any responding documents may be prepared in English or in the Spanish language or both at the discretion of MCA-Honduras. However, Consultants shall not be permitted or required to sign contracts in two languages.

(5) Schedule 2 of the Procurement Agreement is hereby deleted in its entirety and replaced with the attached revised Schedule 2.

Except as expressly set forth herein, nothing in this Implementation Letter shall be deemed to amend or modify any provision of the Compact, the Procurement Agreement or any other Supplemental Agreement.

This Implementation Letter shall be effective immediately. The modifications to the Procurement Guidelines in paragraphs (3) and (4) above shall be implemented by MCA-Honduras no later than 10 days after the date hereof.

Sincerely,



John Hewko  
Principal Representative  
Vice President for Operations

cc: Members of the Board of Directors of MCA-Honduras  
William G. Anderson, Jr., Vice President and General Counsel (Acting)

**SCHEDULE 2 – APPROVALS**

**REVIEW OF PROCUREMENT DECISIONS: Goods, Works and Non-Consultant Services**

Procurement Procedure or Method	Decision*	LEVEL OF REVIEW (Thresholds expressed in USD)		
		General Director	Board of Directors	MCC
<b>Pre-qualification</b>	<b>Pre-qualification documents and advertising procedures</b>	<b>All</b>	<b>None</b>	<b>Above 1,000,000</b>
	<b>Evaluation Report with proposed list of entities qualified</b>	<b>All</b>	<b>None</b>	<b>Above 500,000</b>
	<b>Handling of Protest</b>	<b>All</b>	<b>Quarterly record of decisions</b>	<b>All</b>
<b>Competitive Bidding (International and National)</b>	<b>Bidding Documents</b>	<b>All</b>	<b>None</b>	<b>Above 1,000,000 Goods Above 5,000,000 Works</b>
	<b>Extension of Bid Validity</b>	<b>All</b>	<b>None</b>	<b>Above 1,000,000</b>
	<b>Evaluation Report with proposed award</b>	<b>All</b>	<b>Above 250,000</b>	<b>Above 250,000</b>
	<b>Final Draft of Contract</b>	<b>All</b>	<b>Above 250,000</b>	<b>Above 250,000</b>
	<b>Handling of Protest</b>	<b>All</b>	<b>Quarterly record of decisions</b>	<b>All</b>
<b>Limited Bidding</b>	<b>Selection of limited bidding because only limited number of suppliers</b>	<b>All</b>	<b>None</b>	<b>Above 100,000</b>
	<b>Other justification</b>	<b>All</b>	<b>None</b>	<b>Above 50,000</b>
	<b>Shortlist</b>	<b>All</b>	<b>None</b>	<b>Above 100,000</b>
	<b>Bidding Documents</b>	<b>All</b>	<b>None</b>	<b>Above 500,000</b>
	<b>Extension of Bid Validity</b>	<b>All</b>	<b>None</b>	<b>Above 1,000,000</b>
	<b>Evaluation Report with proposed award</b>	<b>All</b>	<b>Above 1,000,000</b>	<b>Above 1,000,000</b>
	<b>Final Draft of Contract</b>	<b>All</b>	<b>Above 250,000</b>	<b>Above 250,000</b>
	<b>Handling of Protest</b>	<b>All</b>	<b>Quarterly record of decisions</b>	<b>All</b>

\* Within each "Procurement Procedure or Method," each separate "Decision" shown is an independent requirement, and all requisite approvals must be received for each such "Decision" before proceeding, sequentially from top to bottom, to the next "Decision" requirement.

**SCHEDULE 2 – APPROVALS**

<b>REVIEW OF PROCUREMENT DECISIONS: Goods, Works and Non-Consultant Services</b>				
<b>Procurement Procedure or Method</b>	<b>Decision*</b>	<b>LEVEL OF REVIEW</b> (Thresholds expressed in USD)		
		<b>General Director</b>	<b>Board of Directors</b>	<b>MCC</b>
<b>Shopping</b>	<b>Selection of Shopping because procurement is valued under 50,000</b>	<b>All</b>	<b>None</b>	<b>None</b>
	<b>Shortlist</b>	<b>Over 2,000</b>	<b>None</b>	<b>None</b>
	<b>Record of Purchases</b>	<b>Weekly</b>	<b>None</b>	<b>None</b>
	<b>Handling of Protest</b>	<b>All</b>	<b>Quarterly record of decisions</b>	<b>Quarterly record of decisions</b>
<b>Direct Contracting</b>	<b>Selection of Direct Contracting to add to or extend existing contract</b>	<b>All</b>	<b>None</b>	<b>Above 100,000</b>
	<b>Selection of Direct Contracting to be compatible with existing equipment</b>	<b>All</b>	<b>None</b>	<b>Above 50,000</b>
	<b>Selection of Direct Contracting because obtainable only from one source</b>	<b>All</b>	<b>None</b>	<b>Above 100,000</b>
	<b>Selection of Direct Contracting because procurement is valued under 2,000</b>	<b>None</b>	<b>None</b>	<b>None</b>
	<b>Selection of Direct Contracting on any other grounds</b>	<b>All</b>	<b>None</b>	<b>Above 50,000</b>
	<b>Final Draft of Contract</b>	<b>Over 2,000</b> (Under 2,000 review weekly report)	<b>Above 50,000</b>	<b>Above 50,000</b>
	<b>Handling of Protest in respect of selection of Direct Contracting</b>	<b>All</b>	<b>Quarterly record of decisions</b>	<b>All</b>
<b>Force Account</b>	<b>Selection of using equipment owned by or employees of Government of Honduras for performing works</b>	<b>All</b>	<b>None</b>	<b>All</b>
	<b>Final Draft of Contract</b>	<b>All</b>	<b>All</b>	<b>All</b>

