



January 29, 2007

Minister Yani Rosenthal
Chairman of the Board, MCA-Honduras
Tegucigalpa, F.M.
HONDURAS, C.A.

RE: Third MCC Disbursement Request

Dear Minister Rosenthal,

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*”), (ii) the Disbursement Agreement, dated September 29, 2005, among MCC, the Government, acting through the Secretary of the Presidency, and MCA-Honduras (the “*Disbursement Agreement*”), and (iii) the MCC Disbursement Request dated December 8, 2006 (the “*Third Disbursement Request*”). Each capitalized term used but not defined herein shall have the meaning given to such term in, as applicable, the Compact or the Disbursement Agreement.

Reference is also made to the letter dated September 14, 2006, from MCA-Honduras to MCC and the letter dated September 25, 2006, from MCC to MCA-Honduras, pursuant to which, in accordance with Section 3.8 of the Disbursement Agreement, the Parties agreed to certain modifications to Schedule 1 to the Disbursement Agreement.

In connection with MCC’s review of the Third Disbursement Request, MCC assessed the extent to which applicable conditions precedent set forth in the Disbursement Agreement (including in Schedule 1 (as modified)) were timely satisfied by MCA-Honduras. Based on MCC’s review and assessment of the Third Disbursement Request and on recent conversations on this matter between representatives of MCC and MCA-Honduras, MCC has concluded that the Third Disbursement Request be approved on the following terms and conditions.

1. Amendment of Schedule 1 to the Disbursement Agreement

MCC hereby delivers to MCA-Honduras a revised version of Schedule 1. Subject to your countersignature below, the attached Schedule 1 shall be effective as of the date of this letter and shall replace in its entirety all prior versions of Schedule 1. Unless MCC otherwise provides in writing, the attached Schedule 1 shall be utilized by MCA-Honduras in connection with any future MCC Disbursement Requests. The Disbursement Agreement shall be deemed modified as of the date hereof solely to reflect the adoption of the attached Schedule 1. Pursuant to Section 3.7(c) of the Disbursement Agreement, those conditions precedent applicable to the Third Disbursement Request that were not timely satisfied by

MCA-Honduras shall be deferred solely to the extent and in the manner set forth in the attached Schedule 1.

2. Transportation Project

MCC received the final draft of the Road Maintenance Plan from you on December 14, 2006 including a letter of submission from Fondo Vial, the plan itself, and outlines of quarterly and annual reports on the execution of the plan. The submission of this plan satisfies the condition precedent to submit a road maintenance plan. However, as the budget for 2007 passed by the Honduran Congress did not contain the full \$45 million scheduled in the submitted Road Maintenance Plan, the condition precedent requiring the implementation of the Road Maintenance Plan has not been met.

Accordingly, MCC will not disburse funds for the Transportation Project during the current Disbursement Period. MCA-Honduras may make Re-Disbursements related to the Transportation Project from Working Capital only when MCC has received a letter of commitment from the Government that contains:

- i. a commitment to implement the Road Maintenance Plan recently submitted to MCC and to submit quarterly and annual reports to MCC on a schedule to be specified by the Government in the letter of commitment;
- ii. quarterly targets for budget execution for Fondo Vial in 2007; and
- iii. a commitment to increase the budget for the next three years as detailed in the Road Maintenance Plan recently submitted to MCC, which for the next three years are:

2007: \$45 million
2008: \$50 million
2009: \$55 million
2010: \$64 million.

3. Transfer of Funds

MCC will transfer funds to the MCA-Honduras account specified in the Disbursement Request according to the schedule contained in the attached Disbursement Request Response Form.

Except as expressly stated herein, nothing in this letter shall be deemed to (i) be a consent to any amendment, waiver or modification of any other term or condition of the Compact, the Disbursement Agreement or any other Supplemental Agreement, or (ii) prejudice any right or rights that MCC may now have or may have in the future under the Compact, the Disbursement Agreement or any other Supplemental Agreement.

If MCA-Honduras concurs with the matters set forth herein, please provide evidence of your acceptance by countersigning below and delivering the signed letter to my attention via facsimile or email, with an original to follow via courier.

Sincerely,

John Hewko
Principal Representative
Vice President, Operations

cc: William G. Anderson, Jr., Vice President and General Counsel

Acknowledged and Agreed by:

MCA-HONDURAS

By: _____

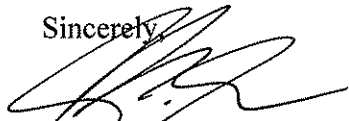
Name: _____

Title: _____

Date: _____

If MCA-Honduras concurs with the matters set forth herein, please provide evidence of your acceptance by countersigning below and delivering the signed letter to my attention via facsimile or email, with an original to follow via courier.

Sincerely,



John Hewko
Principal Representative
Vice President, Operations

cc: William G. Anderson, Jr., Vice President and General Counsel

Acknowledged and Agreed by:

MCA-HONDURAS

By: _____

Name: _____

Title: _____

Date: _____

Disbursement Agreement Schedule 1

Program / Project / Project Activity	Condition Precedent	CP must be met prior to (...) in order to disburse funds for the component in column 1	D1 Status	D2 Status	D3 Status	Notes
			22-Feb-06	26-Sep-06	1-Jan-07	
The Program, all Projects and all Project Activities	MCA-H has satisfied each of the conditions precedent set forth in §3.1 of the Disbursement Agreement, as applicable.	first disbursement	completed			
The Program, all Projects and all Project Activities	MCA-H has satisfied each of the conditions precedent set forth in §3.2 and §3.5 of the Disbursement Agreement, as applicable.	Each quarter after the first disbursement	n/a	met	met	
The Program, all Projects and all Project Activities	MCA-H has satisfied each of the conditions precedent set forth in §3.3 of the Disbursement Agreement, as applicable.	Semi-annual	n/a	met	met	
The Program, all Projects and all Project Activities	MCA-H has satisfied each of the conditions precedent set forth in §3.4 of the Disbursement Agreement, as applicable.	Annual	n/a	n/a	met	
The Program, all Projects and all Project Activities	The Bank has established necessary Permitted Accounts in the name of MCA-H and acceptable to MCC.	first disbursement	completed			
All Project Activities	MCA-H has duly hired each of the other Officers of MCA-H pursuant to employment agreements which MCA-H has duly executed and each is in full force and effect.	second Disbursement	n/a	completed		
All Project Activities	MCA-H has duly approved a bid challenge system acceptable to MCC.	second Disbursement	n/a	deferred	deferred	
All Project Activities	MCA-H and MCC each have duly approved the M&E Plan.	second Disbursement	n/a	completed		
All Project Activities	The GoH and MCC have executed the document contemplated in §2.3(e)(iv) of the Compact specifying how Taxes paid on MCC Funding are refunded to the Program.	second Disbursement	n/a	deferred	deferred	
All Project Activities	MCA-H has obtained, to MCC's satisfaction, the insurance and other actions related thereto that are required under Section 3.9 of the Compact and 3(d)(ii)(5) of Annex I of the Compact.	second Disbursement	n/a	completed		
All Project Activities	MCA-H has duly engaged a procurement supervisor pursuant to a Procurement Supervisor Agreement which MCA-H has duly executed and is in full force and effect.	second Disbursement	n/a	deferred	waived	
All Project Activities	MCC is satisfied that each component document of the Implementation Plan (including the Financial Plan, Fiscal Accountability Plan, Procurement Plan, Work Plans and M&E) is current and is being implemented to the satisfaction of MCC.	each quarter after D1	n/a	met	met	
All Project Activities	MCA-H performs, satisfactory to MCC, an environmental audit of all Project Activities.	9/28/2008	n/a	n/a	n/a	
All Project Activities	MCC is satisfied that, prior to disbursement of MCC Funding for a Project or a Project Activity, all Permits necessary to perform such Project or Project Activity have been obtained, including any required environmental permits and related public disclosure and consultation.	each quarter after D1	n/a	met	met	
All RD Project Activities	MCC is satisfied that the Government has maintained a clear policy stance against the adoption of any action that limits or otherwise alters the original terms of an obligation of any borrower to repay a properly documented loan obligation without the agreement of the lender.	each quarter	met	met	met	
All RD Project Activities	625 Program Farmers are harvesting high-value horticulture crops ¹	5/1/2008	n/a	n/a	n/a	
All RD Project Activities	3499 Program Farmers are harvesting high-value horticulture crops ¹	5/1/2009	n/a	n/a	n/a	
All RD Project Activities	7340 Program Farmers are harvesting high-value horticulture crops ¹	5/1/2010	n/a	n/a	n/a	
All RD Project Activities	Program Farmers are harvesting 950 hectares of high-value horticulture crops ¹	5/1/2008	n/a	n/a	n/a	
All RD Project Activities	Program Farmers are harvesting 5410 hectares of high-value horticulture crops	5/1/2009	n/a	n/a	n/a	
All RD Project Activities	Program Farmers are harvesting 11830 hectares of high-value horticulture crops ¹	5/1/2010	n/a	n/a	n/a	

Program / Project / Project Activity	Condition Precedent	CP must be met prior to (...) in order to disburse funds for the component in column 1	D1 Status	D2 Status	D3 Status	Notes
			22-Feb-06	26-Sep-06	1-Jan-07	
Farmer Training and Development Activity ("FTDA") - Schedule 1 to Annex I, Section 2(a)	MCA-Honduras engages the Farmer Training Coordinator pursuant to an agreement which MCA-H and MCC duly approve and is in full force and effect.	3/30/2006	n/a	completed		
FTDA	MCC approves the Program Farmer Selection methodology, which shall include a plan to ensure the involvement of female extension workers to facilitate outreach to, and training of, female farmers.	6/30/2006	n/a	completed		
FTDA	MCA-H has finalized, to MCC's satisfaction, the targets and indicators at the Farmer Training Project Activity level.	6/30/2006	n/a	completed		
FTDA	Continued compliance, to MCC satisfaction, with the Program Farmer Selection methodology, which shall include a plan to ensure the involvement of female extension workers to facilitate outreach to, and training of, female farmers.	each quarter after signing of FTDA Contract	n/a	met	met	
FTDA	Continued compliance, to MCC satisfaction, with environmental sustainability principles that include the proper selection, use, storage and disposal of pesticides.	each quarter after signing of FTDA Contract	n/a	met	met	
FTDA	960 business plans have been prepared in the prior year by Program Farmers with assistance of T.A. provider ¹	5/1/2007	n/a	n/a	n/a	
FTDA	1680 business plans have been prepared in the prior year by Program Farmers with assistance of T.A. provider ¹	5/1/2008	n/a	n/a	n/a	
FTDA	1920 business plans have been prepared in the prior year by Program Farmers with assistance of T.A. provider ¹	5/1/2009	n/a	n/a	n/a	
FTDA	1920 business plans have been prepared in the prior year by Program Farmers with assistance of T.A. provider ¹	5/1/2010	n/a	n/a	n/a	
Farmer Access to Credit ("Credit") Project Activity - Schedule 1 to Annex I, Section 2(b)	MCA-H holds a workshop acceptable to MCC with banks and micro-finance organizations to inform them on the preparation of the Credit work plan and RFP.	any utilization of \$6 million line of credit in activity budget	n/a	n/a	n/a	
Credit Project Activity	The GoH enacts the Law on Access to Credit (" <i>Ley para facilitar el Acceso al Crédito</i> ") and implementing regulations acceptable to MCC.	disbursement of funds to purchase Moveable Property Registry equipment	n/a	n/a	n/a	
Credit Project Activity	less than 4-6% of MCA-Honduras loan portfolio is at risk ^{1,2}	each disbursement following the issuance of loans in the Activity	n/a	n/a	n/a	
Farm to Market Roads Project Activity - Schedule 1 to Annex I, Section 2(c)	MCC approves each farm to market road that MCA-Honduras selects to be constructed or rehabilitated using MCC Funding.	each disbursement as applicable to relevant road segments	n/a	n/a	n/a	
Farm to Market Roads Project Activity	MCC is satisfied that MCA-H has completed the acquisition of rights of way for farm to market roads to be constructed with MCC Funding.	each disbursement as applicable to relevant road segments	n/a	n/a	n/a	
Farm to Market Roads Project Activity	MCC is satisfied with the final design of the farm to market roads to be constructed with MCC Funding.	each disbursement as applicable to relevant road segments	n/a	n/a	n/a	
Farm to Market Roads Project Activity	MCA-H complies with each resettlement plan, to the satisfaction of MCC.	each disbursement as applicable to relevant road segments	n/a	n/a	n/a	
Farm to Market Roads Project Activity	Continued compliance, satisfactory to MCC, with road-specific EMPs.	each disbursement as applicable to relevant road segments	n/a	n/a	n/a	
Farm to Market Roads Project Activity	MCA-H will have on file a report, acceptable to MCC, verifying that baseline data – to include relevant environmental baseline data as described in the EMP – has been gathered for that road.	each disbursement as applicable to relevant road segments	n/a	n/a	n/a	
Farm to Market Roads Project Activity	The ex-ante estimated travel time reduction used to justify the selection of roads are ex-post met or exceeded for 90% of roads.	each disbursement as applicable to relevant road segments	n/a	n/a	n/a	
Agricultural Public Goods Grant Facility ("Grant") Project Activity - Schedule 1 to Annex I, Section 2(d)	MCC has approved the formation, governance structure, staffing, compensation structure, operating plan and other material terms of the Grant Project.	disbursement of funds for Grant facility	n/a	n/a	n/a	

Program / Project / Project Activity	Condition Precedent	CP must be met prior to (...) in order to disburse funds for the component in column 1	D1 Status	D2 Status	D3 Status	Notes
			22-Feb-06	26-Sep-06	1-Jan-07	
All Transportation Project Activities	MCA-H has duly engaged a Transportation Project Manager pursuant to an agreement which the Board and MCC have duly approved and which is in full force and effect.	the start of any procurement or selection for supervision or construction in the transportation project	n/a	n/a	completed	
All Transportation Project Activities	MCA-H submits to MCC a plan: i) detailing measures to provide for road maintenance for the primary and secondary road network consistent with a commitment to properly maintain the roads in accordance with generally accepted technical standards, ii) defining the contents of annual maintenance reports, and iii) annual budget for 20 years (including costs and sources of funds) " Road Maintenance Plan ".	June 30, 2006 (Prior to Q4 Year 1)	n/a	deferred	completed	
All Transportation Project Activities	The GoH implements the Road Maintenance Plan.	each disbursement after the Road Maintenance Plan is approved	n/a	n/a	not met	
All Transportation Project Activities	The GoH enacts legislation acceptable to MCC on national road safety and enforcement.	signing of the contract with the Transportation Project Manager	n/a	completed		
All Transportation Project Activities	The GoH enacts implementing regulations acceptable to MCC that enables a weight control system on the national highway network to be properly built and operated.	issuance of RFP for weight control system	n/a	n/a	n/a	
All Transportation Project Activities	SOPTRAVI in consultation with MCA-H develops a Weight Control System Work Plan and supporting documentation acceptable to MCC for one or more contractors to build and operate the weight control system on the national highway network. This should include a timeline for construction, public awareness and information campaign, roles and responsibilities for enforcement, responsibility for maintenance, revenue flow, technical and financial audits.	prior to any disbursement for construction activities on CA-5	n/a	n/a	n/a	
All Transportation Project Activities	MCC is satisfied with the progress of the GoH in implementing the Weight Control Work Plan.	each disbursement after the TPM begins work	n/a	n/a	n/a	
All Transportation Project Activities	Less than 7% of vehicles are overweight on sections of highway adjacent to weigh stations. ¹	disbursement for 4th quarter of year 3 (June 30, 2008)	n/a	n/a	n/a	
Highway CA-5 Project Activity - Schedule 2 to Annex I, Section 2(a)	SOPTRAVI develops a plan acceptable to MCA-H and MCC to coordinate all donor-funded rehabilitation projects on the Highway CA-5	signing of any supervision or construction contracts for CA-5	n/a	completed		
Highway CA-5 Project Activity	MCA-H approves an environmental management plan acceptable to MCC	signing of any supervision or construction contracts for CA-5	n/a	n/a	n/a	
Highway CA-5 Project Activity	MCC is satisfied that all Permits for the construction of the North and South Sections of the CA-5 Highway are in order.	each disbursement for the relevant section	n/a	n/a	n/a	
Highway CA-5 Project Activity	MCC is satisfied that MCA-H has filed all applications required to obtain any other necessary Permits (e.g., to access borrow pits, etc.).	each disbursement for the relevant section	n/a	n/a	n/a	
Highway CA-5 Project Activity	MCA-H has submitted a resettlement action plan that meets MCC standards and is implementing it to the satisfaction of MCC.	each disbursement after construction on CA-5 begins	n/a	n/a	n/a	
Highway CA-5 Project Activity	Continued compliance, satisfactory to MCC, with environmental management plan.	each disbursement after construction on CA-5 begins	n/a	n/a	n/a	
Highway CA-5 Project Activity	The International Roughness Index is less than 2.0 m/km on the completed portions of the Highway CA-5 improved by MCC funding ¹	each disbursement after a section of CA-5 has been completed	n/a	n/a	n/a	

Program / Project / Project Activity	Condition Precedent	CP must be met prior to (...) in order to disburse funds for the component in column 1	D1 Status	D2 Status	D3 Status	Notes
			22-Feb-06	26-Sep-06	1-Jan-07	
Secondary Roads Project Activity - Schedule 2 to Annex I, Section 2(b)	MCC has approved the secondary roads that MCA-H has selected to be constructed/rehabilitated using MCC Funding.	each disbursement that requests funding for a relevant secondary road	n/a	n/a	n/a	
Secondary Roads Project Activity	MCC is satisfied that MCA-H has completed the acquisition of rights of way for secondary roads to be constructed.	each disbursement that requests funding for a relevant secondary road	n/a	n/a	n/a	
Secondary Roads Project Activity	Continued compliance, satisfactory to MCC, with road-specific EMPs.	each disbursement that requests funding for a relevant secondary road	n/a	n/a	n/a	
Secondary Roads Project Activity	MCA-H complies with each resettlement plan, to the satisfaction of MCC.	each disbursement that requests funding for a relevant secondary road	n/a	n/a	n/a	
Secondary Roads Project Activity	MCA-H will have on file a report, acceptable to MCC, verifying that baseline data – to include relevant environmental baseline data as described in the EMP – has been gathered for that road.	each disbursement that requests funding for a relevant secondary road	n/a	n/a	n/a	
Secondary Roads Project Activity	The International Roughness Index is less than 2.0 m/km on the completed portions of Secondary roads improved by MCC funding (for the first six months and 3.0 thereafter) ¹	each disbursement after a secondary road has been completed	n/a	n/a	n/a	

Notes:

1. Condition will be deemed to have been satisfied if results are within 10% of the stated numeric target.
2. The precise definition of this indicator will be established in the M&E Plan.

Key: met = CP was met

completed = CP was completed and no further action required

n/a. = the CP is not yet required to be met

def. = CP has not been met and will be deferred for this quarter.

waived = CP has been waived and no further action is required.

no met = CP has not been met and no MCC funding may be used for the Program, Project or Project Activity as indicated in the first column

**MCC RESPONSE TO MCA-HONDURAS
DISBURSEMENT REQUEST**

Country	Honduras	
Projects	Rural Development Transportation	
Compact Date/ Entry into Force Date	June 13, 2005 / September 29, 2005	
Compact Number	COM04HND05002	
Accountable Entity	MCA-Honduras	
Fiscal Agent	Honduran Ministry of Finance	
Request Date	December 8, 2006	
Response Date	January 25, 2007	
Disbursement Period Beginning Date	January 1, 2007	
Disbursement Period Ending Date	March 31, 2007	
Disbursement Number	3	
Currency	US Dollars	
Exchange Rate used to calculate U.S. Dollar equivalent of any local currency balance for purposes of this MCC Disbursement Request	18.9	
A. MCA-Honduras Disbursement Request Submitted to MCC:		
1. Total Forecasted Program Cash Requirements - (from Financial Report)	2,211,703	
2. Interest to be Returned to the US Government Next Period:	6,737	
3 Working Capital Balance:	500,000	
4. Total, (Lines 1 + 2 + 3)		\$ 2,718,440
5. Cash Balance at End of Current Period - (from Financial Report)		\$ 1,123,779
6. Disbursement Request From MCC (Lines 4 - 5)		\$ 1,594,660
7. a. Cash requirements for 1st Month of Next Period	\$ 291,921	
7. b. Cash requirements for 2nd Month of Next Period	\$ 865,613	
7. c. Cash requirements for 3rd Month of Next Period	\$ 437,126	
B. Compliance: As a Condition Precendent for disbursement of funds for the Transportation Project has not been met, MCC will not disburse funds requested by MCA-Honduras for the Transportation Project and MCA-Honduras may not use any Program resources for redisbursements for any expense associated with the Transportation Project until so notified in writing by MCC. The following are the MCA-Honduras reported cash requirements for the Transportation Project:		
8. a. 1st Month of Next Period	\$ 449,250	
8. b. 2nd Month of Next Period	\$ 429,500	
8. c. 3rd Month of Next Period	\$ -	
C. MCC Approved Disbursement and Installment Schedule		
9. a. Cash to be Disbursed for 1st Month of Next Period	\$ -	
9. b. Cash to be Disbursed for 2nd Month of Next Period	\$ 278,785	
9. c. Cash to be Disbursed for 3rd Month of Next Period	\$ 437,126	