

ADMINISTRATION AGREEMENT

between

THE NORDIC DEVELOPMENT FUND

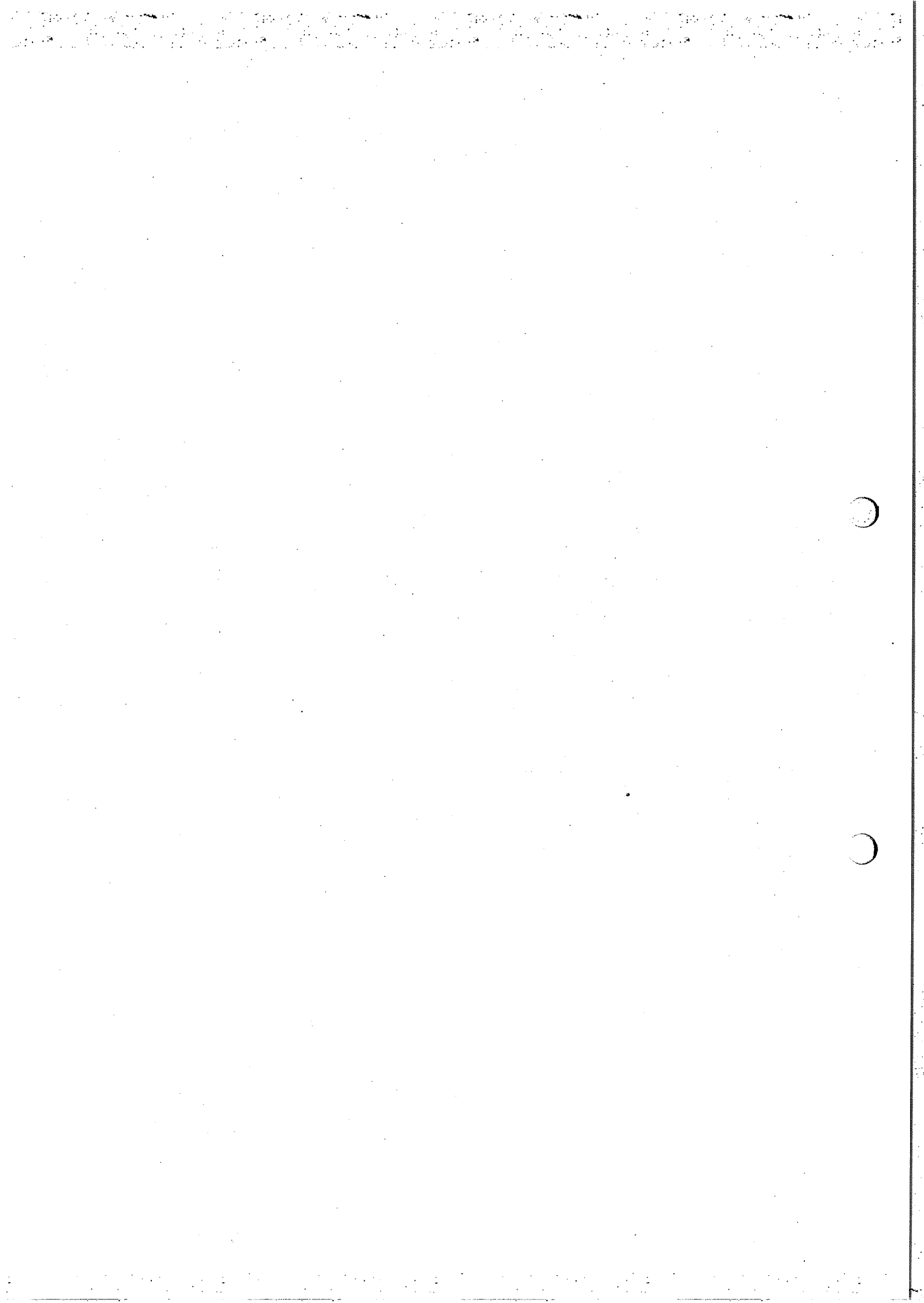
and

THE INTER-AMERICAN DEVELOPMENT BANK

regarding

**Project Specific Grant to the Inter-American Development Bank for
Project HO-X1030 titled, "Renewable Energy Development in the Bay
Islands"**

**Washington, D.C.
November 18, 2014**



THIS ADMINISTRATION AGREEMENT is entered into between the Nordic Development Fund ("**NDF**"), and the Inter-American Development Bank (the "**Bank**") (together referred to as the "**Parties**", and individually either of them, a "**Party**").

WHEREAS, the Bank has designed Project HO-X1030 titled, "Renewable Energy Development in the Bay Islands" (the "**Project**"), as described in the attached Project Document (the "**Project Document**");

WHEREAS, NDF has agreed to support the execution of the Project by providing a project specific grant contribution to be administered by the Bank; and

WHEREAS, the Bank is prepared to receive and administer the contribution funds to be made available by NDF.

NOW, THEREFORE, the Parties hereby agree as follows:

TRANSFER AND MANAGEMENT OF FUNDS

1. NDF will make available to the Bank a contribution of EUR500,000.00 (five hundred thousand Euros) (the "**Contribution**") to be administered by the Bank to finance the Project.
2. The Contribution will be solely for the purposes indicated in the Project Document, subject to Article 12 below. Any material deviations from the objectives and activities of the Project described in the Project Document will require NDF's written approval.
3. Following the signature of this Administration Agreement by the Parties, NDF shall, subject to Article 12 below, transfer the Contribution to the Bank in one single installment, upon the Bank's written request. The Contribution will be deposited in an account indicated by the Bank in writing. Upon receipt of such deposit, the Bank will convert the amount of the Contribution into United States dollars and will deposit them into an account held by the Bank in said currency for the administration of the Contribution (the "**Account**").
4. The Bank will administer the Contribution in accordance with the provisions of this Administration Agreement and the Bank's applicable policies and procedures, including those applicable for third party resources administered by the Bank. The Bank will exercise the same care in the discharge of its functions, as described in this Administration Agreement, as it exercises with respect to the administration and management of resources from other donors and will have no further liability to NDF in respect thereof.

5. a) The Contribution will be accounted for separately from the Bank's assets, and will be administered separately from other contributions received by the Bank, but may be commingled with other contributions from NDF.
 - b) The Bank may freely exchange the Contribution funds into other currencies as may facilitate their administration and disbursement. The Bank will not be responsible for foreign exchange risk in the receipt, conversion or administration of Contribution funds. Any adverse impacts of potential foreign currency fluctuations during the implementation period shall be discussed by the Parties and appropriate remedial measures and amendments shall be negotiated if necessary. Notwithstanding the foregoing, neither NDF nor the Bank shall be obliged to contribute any additional funds as a result of any foreign currency fluctuations.
 - c) Pending disbursement in connection with the Project, the Bank may at its discretion invest and reinvest the resources of the Contribution, following the Bank's investment policies, procedures and practices. Income earned from such investment and reinvestment shall be credited to the Account and returned to NDF, upon request from NDF or when the Account is closed, whichever occurs later.
6. To assist in the defrayment of the administrative costs in relation to the Contribution, the Bank will charge and retain a fee equal to five percent (5%) of the total amount of the Contribution, which may be withdrawn by the Bank from the Contribution, once the Contribution is converted into United States dollars. In addition, the Bank may also use the resources of the Contribution to cover the costs charged to the Bank related to the maintenance and transactions of the Account.

IMPLEMENTATION

7. The Bank's policies and procedures will be applicable to any relevant operational, financial and fiduciary aspects of the Project, including the procurement of goods, works, and consulting and other services, carried out with the Contribution, as required by the different components of the Project. Further, NDF accepts that:
 - a) the resources of the Contribution will be completely untied; and
 - b) the consultancy services financed with the Contribution may be provided and executed by companies, specialized institutions or individuals from any Bank member country.
8. The Bank shall inform NDF of any review missions undertaken by it related to the Contribution and provide to NDF a report setting out the main findings or results of such mission. The Bank shall invite NDF to join any Project review missions, including supervision missions and the mid-term review during the implementation of the Project and upon its completion. NDF shall be responsible for its own costs and obtaining any

official approvals that may be required with respect to participation in any Project review missions.

9. NDF will not be responsible for the activities of any person or third-party engaged by the Bank as a result of this Administration Agreement, nor will NDF be liable for any costs incurred by the Bank in terminating the engagement of any such person.

REPORTING AND AUDIT

10. The Bank shall provide NDF with:

- a) reports on implementation of the activities funded under the Contribution and other reports and information as NDF may reasonably request concerning the progress of the Project that the Bank can provide in its normal course of business, and ii) promptly, no later than six months following the completion of the Project, a final Project report;

- b) at least annually non-audited activity and financial reports of the Project, and, ii) promptly, and no later than six months from financial closure of the Project, a terminal financial report showing the receipts, income and expenditures under the Account and the remaining balance, if any (for the avoidance of doubt, the Bank will not provide audited financial statements for the Project); and

- c) should NDF require an external audit of the Account, NDF shall request the Bank for such an external audit in writing upon completion of the Project. The cost of this audit shall be charged against the Account, provided funds are available after settlement of all expenditures related to the Project. Alternately, upon agreement by NDF and the Bank the cost of such external audit shall be paid separately by NDF.

CONSULTATIONS, AMENDMENTS, TERMINATION AND DISPUTE SETTLEMENT

11. As soon as possible upon completion of the Project, the Bank shall return to NDF any remaining uncommitted Contribution funds, including, if applicable, any income from investment or reinvestment in accordance with Article 5(c) above, unless otherwise agreed to in writing by the Parties.
12. NDF acknowledges that the Bank's commitment to use the Contribution as contemplated herein shall be subject to the Bank's formalization of all internal approvals necessary for the Project and/or the Project Document, and the Bank acknowledges that NDF's disbursement in accordance with Article 3 above is subject to such internal approvals. Such internal approvals by the Bank include the approval of the Project Document, in the form attached hereto as Annex A. Once the Project Document has been approved, the IDB will furnish a copy of it to NDF, which will then be deemed incorporated into this Administration Agreement as Annex A. NDF accepts that the

final, approved version of the Project Document may vary from the attached Annex A, in which case the approved version will prevail, and no amendment to this Administration Agreement will be required.

13. The Bank shall endeavour to maximize opportunities to highlight the identity of NDF's contribution to the Project (e.g., through related signage, documentation and public information about the activities, including the use of NDF's logo), and invite NDF representatives to participate in key events related to the Project. NDF shall be responsible for its own costs with respect to any participation in such events, unless the NDF and the Bank agree otherwise in a case-by-case basis.
14. a) The Bank shall inform NDF promptly of any condition which significantly interferes, or threatens to interfere, with the performance by the Bank of its commitments under this Administration Agreement.
- b) The Bank shall notify and consult with NDF whenever the Bank identifies a major change of scope in relation to any activities financed under the Contribution. If any such changes occur, which in the opinion of the Bank or NDF impairs significantly the developmental value of the Project, NDF and the Bank shall consult on measures to resolve the problem and possible courses of action. In the event of such changes, NDF, however, may decide to terminate this Administration Agreement or agree with the Bank on an amendment thereof.
15. The offices responsible for coordination of all matters and receiving any notice or request in writing in connection with this Administration Agreement or the Project will be the following:

a) For the Bank:

Inter-American Development Bank
1300 New York Avenue, NW
Washington, D.C. 20577
UNITED STATES OF AMERICA
Attention: Chief, Grants and Co-financing Management Unit
Office of Outreach and Partnerships (ORP/GCM)
Tel.: ++ 202-623-2018
Fax: ++ 202-623-3489
E-mail: orp-gcm@iadb.org

b) For NDF:

Nordic Development Fund
P.O Box 185, Fabianinkatu 34FIN
00171 Helsinki
FINLAND
Attention: Managing Director

Tel.: ++ 358 618 002
Fax: ++ 358 9 622 1491
E-mail: info.ndf@ndf.fi

16. This Administration Agreement will come into force on the date of its signature by each of the Parties and shall remain in full force and effect until the date on which the Contribution has been fully disbursed by the Bank and all activities financed under the Contribution shall have been completed as set out in the Project Document.
17. If at any time either Party determines that the purposes of this Administration Agreement can no longer be effectively or appropriately carried out either Party may give notice of termination of this Administration Agreement. Such termination shall enter into effect three (3) months after notice has been received, subject to the settlement of any outstanding obligations made prior to the notice being received. In the event of termination by either Party, both Parties shall cooperate to ensure that all arrangements made hereunder are settled in a fair and orderly manner. Upon termination, the Bank shall return the Contribution funds to NDF in accordance with Article 11 above.
18. The Parties may amend any provision of this Administration Agreement in writing.
19. Subject to consultation with the other Party and their respective policies and procedures with respect to the disclosure of information, the Parties may make this Administration Agreement publicly available.
20. Nothing in this Administration Agreement may be construed as creating an agency relationship between the Parties.
21. The Parties acknowledge and agree that the Contribution constitutes the sole financing for the Project provided by NDF. The Administration Agreement will be considered joint financing for purposes of the provisions of the "Cooperation Agreement between the Nordic Development Fund and the Inter-American Development Bank for the Cofinancing of Programs and Projects", amended and restated as of January 26, 2010 (the "NDF-IDB Cofinancing Agreement"). For the avoidance of doubt, the provisions of NDF-IDB Cofinancing Agreement will apply to this Administration Agreement, except that in the event of conflict, the provisions of this Administration Agreement will prevail.

(The remainder of this page is intentionally left blank.)

22. The Parties will seek to settle amicably any disputes that may arise from or relate to this Administration Agreement.

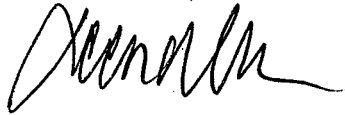
IN WITNESS WHEREOF, the Nordic Development Fund and the Inter-American Development Bank, each acting through its duly authorized representatives, have signed this Administration Agreement in two (2) original counterparts in the English language, in Washington, D.C., United States of America on this 18th day of November, 2014.

**NORDIC DEVELOPMENT
FUND**



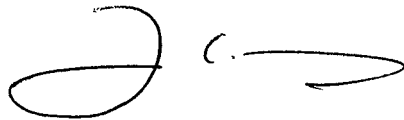
Pasi Hellman
Managing Director

**NORDIC DEVELOPMENT
FUND**



Leena Klossner
Deputy Director

**INTER-AMERICAN
DEVELOPMENT BANK**



Luis Alberto Moreno
President

TC Document

I. Basic Information for TC

<ul style="list-style-type: none"> ▪ Country/Region: ▪ TC Name: 	Honduras/CID Renewable Energy Development in the Bay Islands
<ul style="list-style-type: none"> ▪ TC Number: ▪ Team Leader/Members: 	HO-X1030 Carlos Jácome (ENE/CHO) Team Leader;; Edwin Malagón (INE/ ENE); Liliana López (INE/ENE); Kelvin Suero (FMP/CHO); Juan Carlos Martel (FMP/CHO); Ana Paz (CID/CHO); under the supervision of Ariel Yepez, a.i. Chief (INE/ENE) and Rep. Ian Walker (CID/CHO).
<ul style="list-style-type: none"> ▪ Indicate if: Operational Support, Client Support, or Research & Dissemination 	Client Support
<ul style="list-style-type: none"> ▪ Beneficiary (countries or entities which are the recipient of the technical assistance): 	Republic of Honduras, Secretary of Energy, Natural Resources and Environment - SERNA and Governmental General Coordination Secretary
<ul style="list-style-type: none"> ▪ Executing Agency and contact name 	The Inter-American Development Bank (IDB), through Energy Division (INE/ENE).
<ul style="list-style-type: none"> ▪ Donors providing funding: 	Nordic Development Fund (NDF)
<ul style="list-style-type: none"> ▪ IDB Funding Requested: 	625,000 USD ¹
<ul style="list-style-type: none"> ▪ Local counterpart funding, if any: 	0
<ul style="list-style-type: none"> ▪ Disbursement period (which includes Execution period): 	30 months
<ul style="list-style-type: none"> ▪ Required start date: 	December 2014.
<ul style="list-style-type: none"> ▪ Types of consultants 	Firm and Individual Consultants
<ul style="list-style-type: none"> ▪ Prepared by Unit: 	Energy Division (INE/ENE)
<ul style="list-style-type: none"> ▪ Unit of Disbursement Responsibility: 	Energy Division (INE/ENE)
<ul style="list-style-type: none"> ▪ TC Included in Country Strategy: 	Yes
<ul style="list-style-type: none"> ▪ TC included in CPD: 	Yes
<ul style="list-style-type: none"> ▪ GCI-9 Sector Priority: 	The TC is consistent with the following priorities: (b) Infrastructure for competitiveness and social welfare; (e) Protecting the environment, responding to climate change, promoting renewable energy, and enhancing food security. It also stipulates a preferential support to least developed countries of Latin America and the Caribbean. Small and vulnerable counties.

¹ These funds will be administered by the IDB through a non-reimbursable project-specific grant (PSG). The Nordic Development Fund (NDF) will contribute 500.000 Euros which is equivalent to USD 625,000, based upon the exchange rate as of November 17th, 2014.

Objectives and Justification of the TC

General Objective

- 1 The overall objective is this TC is to support the Government of Honduras and local authorities of the Bay Island to determine the renewable energy potential in Utila, Guanaja and Roatán and evaluate the feasibility of using these sources to supply energy now dominated by fossil fuels. The assessment will be used to prepare a strategy and investment plan in order to reduce gradually the use of fossil fuels in the Bay Islands.

Justification

- 2 Roatan, Utila and Guanaja, the so called Bay Islands, together with Copan Ruins are the most touristic places in Honduras. The Islands have been favored because of their rich environment and marine diversity crossed by the second largest coral reef in the world. Its isolation from the mainland has contributed to keep its sensitive environment. Nevertheless, in order to satisfy the energy needs of the inhabitants and to develop economic activities fossil fuels need to be imported, transported and handled. The continued use of fossil fuel poses a high risk of environmental accidents caused by oil spills; some oil spills from fossil fuels to be used in the transport sector and power generation have been reported.
- 3 According to the National Tourism Institute 200,000 tourist visit the Islands due to its natural beauty. Tourists visit the Islands flying with domestic flights from the mainland and foreign visitors visit the Islands from cruisers and direct flights from Europe and North America. These visits contribute the economy of the country but at the same time increase the demand on fossil fuel. Power generation in the three Islands is carried out 100% on thermal fossil fuel, using high speed diesel equipment with low efficiency. Considering the high cost of fossil fuel, transportation, storing and distribution inside the Islands the production cost of electricity varies between 45 to 65 ¢USD/kWh, more than three times in comparison to the mainland.
- 4 High cost of electricity becomes a serious barrier for competitiveness of the tourism industry in the Islands and has affected the development of infrastructure projects such as water supply and wastewater treatment these projects demand energy for their operations. In addition, high prices affect social welfare limiting the opportunity of vulnerable groups to electricity access. According to statistics of the Social Development Secretary the Islands have around of 60% inhabitants reported as being poor or extremely poor and some of the most vulnerable inhabitants are English speaking afro-descendent ethnic groups, a traditional indigenous group from the country. Due to logistic constrains linked with the high cost of producing electricity there is a group of people that do not have access to electricity and one of the main reasons is the high cost of electricity in such places.

- 2.5 Bay Islands as other Caribbean Islands have good wind resource. The wind map of the country reported by SWERA conducted by the National Renewable Energy Laboratory – NREL shown that Guanaja and Roatan places with excellent wind resource in the country. There is not available information of solar resource in the Bay Islands; nevertheless, it is a well-known fact there is good solar radiation in the Islands. There is not available information on hydroelectric and biomass potential. The present proposal will collect the necessary data on renewable energy potential in the Bay Islands in order to prepare a strategy and an investment plan for changing the energy matrix. The renewable energy potential would be harnessed to supply clean, local and cheaper energy sources in comparison with thermal energy.
- 2.6 Finally, there is an important consideration expressed by the authorities of the government of Honduras and the local government of the Islands aiming to reduce gradually the use of fossil fuels for power generation, increase access to electricity for the local population in the Islands, and make the Bay Islands a showcase for the use of renewable energy. This strong commitment from the Government is an important asset for the implementation of a renewable energy program.

2.7

III. Description of activities/components and budget

To achieve the objectives of the CT will undertake the following components:

- 3.1 ***Component 1: Renewable Energy Resource Assessment and feasibility studies:*** This component will evaluate technical aspects for developing different renewable energy projects (wind energy and solar PV). This includes wind and solar resource assessment, the execution of feasibility (technical, environmental, economic and financial) studies to determine the viability of the project including engineering, environmental and financial aspects and other fields related to the project.
- 3.2 ***Component 2: Renewable Energy Strategy & Investment Plan:*** Based on the information of component 1 a renewable energy strategy will be prepared and this will identify suitable proposals for the short, medium and long term in the different islands considering technical, environmental, institutional organization and economic considerations. The renewable energy proposal will be necessary to prepare the investment plan that will summarize the investment requirements for the project and technical details.
- 3.3 ***Component 3: Support to national and local authorities and project stakeholders.*** This component will provide support to the different decision makers involved in the project; especially considering the new legal framework with the participation of a new power sector regulator, the natural resource and environmental institutions, municipalities and tourism authorities. In addition it will include capacity building and training of the local staff involved in the collection and monitoring of the data.
- 3.4 ***Component 4: Supervision and dissemination.*** This component will provide support to finance a Project Management Unit that will work with the Renewable Energy

Department of the Ministry of Natural Resources and Environment (SERNA). The project will share experiences from other experiences on other Islands from the region such as Galapagos Islands, Alberto de Noronha of Brazil, Aruba and Bonaire.

Table 1. Indicative Results Matrix

Component	Product	Description
Component 1	Final Report	Wind and solar measurement campaign Feasibility studies
Component 2	Final Report	Renewable energy strategy Investment plan
Component 3	Final Report	Renewable energy policy impact assessment
Component 4	Final Report Workshops	Project management unit reports Dissemination

Table 2. Indicative Budget

Activity/ Component	Description	IDB/Fund Funding (USD)
Component 1	Renewable energy resource assessment Feasibility studies	300.000
Component 2	Renewable energy strategy Investment plan	137.500
Component 3	Support to national and local authorities and project stakeholders	31.250
Component 4	Project management unit	100.000
	Contingency	25.000
Fee 5%		31.250
TOTAL		625.000

The NDF expects to commit 500.000 Euros to this project, which is equivalent to USD 625.000. Final resources in USD will be dependent on the exchange rate of the date when the resources are received by the bank from NDF in Euros and converted into Dollars, pursuant to the terms of the arrangement to be entered between NDF and the Bank, as further detailed below. If a significant adverse movement in exchange rates reduce the amount of dollars contemplated in this budget from NDF's contribution and such amount cannot be covered by the contingency line item, the activities contemplated in the project will be decreased appropriately and the budget will be adjusted according by the project team.

Resources of this project to be received from NDF will be provided to the Bank through a Project Specific Grant (PSG). A PSG is administered by the Bank according to the "Report on COFABS, Ad-Hocs and CLFGS and a Proposal to Unify Them as Project Specific Grants (PSGs)" (Document SC-114). As contemplated in these procedures, and in the "Cooperation Agreement between Nordic Development Fund and the Inter-American Development Bank for the Cofinancing of Programs and Projects" dated as of October 2, 1994, amended and restated as of January 26, 2010 (Article IV, Section 6), the commitment from NDF will be established through a separate administration agreement. Under such agreement, the resources for this project will be administered by the Bank

and the Bank will charge an administrative fee of 5% of the contribution, which is duly identified in the budget of this project. The 5% administrative fee will be charged after the contribution has been converted into US dollars.

IV. Executing agency and execution structure

- 4.1 The Republic of Honduras has requested the Bank to hire the consultant to be financed under this project. This exceptional circumstance is justified due to the reform that is underway in the public sector of Honduras. The transition process in the energy sector makes it difficult to advance with the execution of this TC in a timeline that would guarantee the achievement of the objectives the TC. The Country Office Representation of IDB will coordinate with SERNA and the Governmental General Coordination Secretary.
- 4.2 The project team will be responsible for the preparation and submission to the donor of the project reporting in compliance with the stipulation of the Administration Agreement.
- 4.3 If at the end of project execution the project was closed with a positive uncommitted and unspent balance, the project team will be responsible for informing ORP/GCM to transfer the unspent balance as agreed to by the NDF and the Bank pursuant to the terms of the PSG Administration Agreement

V. Major issues

- 5.1 The main risks in the execution of this TC are: (i) adequate capacity of national staff and institutions to implement the project; (ii) difficulties in coordinating with different institutions involved, (ii) political willingness to promote changes. To mitigate these risks (i) the consultants provided in this TC will be hired by the IDB following the Bank's procurement policies to select the consultants; (ii) support to local institutions will be conducted by this project including the national and local stakeholders.

VI. Exceptions to Bank policy

- 6.1 Exceptions to any Bank policy are not expected for this TC.

VII. Environmental and Social Strategy

- 7.1 It is expected that during this phase of the project there will not be environmental and social risks associated with the implementation of technical cooperation

Required Annexes:

- Request from the client
- Terms of reference for consultancies: Component 1, Component 2, Component 3 and Component 4
- Procurement Plan

