CONFORMED COPY

CREDIT NUMBER 4335-HO

Financing Agreement

(Water and Sanitation Sector Modernization Project)

between

REPUBLIC OF HONDURAS

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 16, 2007
FINANCING AGREEMENT

AGREEMENT dated November 16, 2007, entered into between REPUBLIC OF HONDURAS (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to nineteen million eight hundred thousand Special Drawing Rights (SDR 19,800,000) (referred variously herein as Credit and Financing) to assist in financing the project described in Schedule 1 to this Agreement (the Project).

2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.

2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

2.05. The Payment Dates are May 15 and November 15 in each year.

2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
2.07. The Payment Currency is United States Dollars.

ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through the UAP, with the assistance of:

(a) the Eligible Municipalities, CONASA and ERSAPS for purposes of Part 1 of the Project;

(b) SANAA for purposes of Part 2 of the Project;

(c) CONASA, ERSAPS and SANAA for purposes of Part 3.A of the Project; and

(d) SANAA for purposes of Parts 3.B and 3.C of the Project;

all in accordance with the provisions of Article IV of the General Conditions.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. (a) The Additional Events of Suspension consist of the following:

(i) SANAA, ERSAPS or CONASA shall have failed to comply with any of their respective obligations under the Inter-institutional Agreement.

(ii) An Eligible Municipality shall have failed to comply with any of its obligations under a Municipality Agreement to which it is a party.

(iii) An Eligible Municipality shall have ceased to have legal control over a WSS service provider to which the WSS services were delegated under Part 1 of the Project; or a delegation of such services to an autonomous municipal service provider shall have been reversed.
(iv) The key personnel in SANAA, CONASA, or ERSAPS shall have been replaced so as to affect, in the opinion of the Association, materially and adversely, the implementation of the Project.

(v) The WSS Sector Framework Law or the WSS Regulations have been amended, suspended, abrogated, repealed, waived or not enforced so as to affect, in the opinion of the Association, materially and adversely, the implementation of the Project or the achievement of its objectives.

(vi) The Municipality Law has been amended, suspended, abrogated, repealed, waived or not enforced so as to affect, in the opinion of the Association, materially and adversely the ability of any Eligible Municipality to perform any of its obligations under any of the Municipality Agreements to which it is a party.

(b) Notwithstanding the rights contained in Section 6.02 of the General Conditions, it is understood that if any of the events specified in paragraphs (a) (ii) or (a) (iii) of this Section shall have occurred, the Association may, by notice to the Recipient, choose to suspend in whole or in part the right of the Recipient to make withdrawals from the Credit Account for expenditures solely in respect of the concerned Eligible Municipality.

4.02. The Additional Events of Acceleration consists of the following:

(a) Any event specified in paragraphs (a) (i) or (a) (iv) of Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Association to the Recipient.

(b) Any event specified in paragraphs (a) (v) or (a) (vi) of Section 4.01 of this Agreement occurs.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Conditions of Effectiveness consist of the following:

(a) The Inter-institutional Agreement has been executed on behalf of the Recipient, SANAA, ERSAPS and CONASA.
(b) The Operational Manual has been issued by the Recipient and found acceptable by the Association.

5.02. The Additional Legal Matter consists of the following, namely that the Inter-institutional Agreement has been duly authorized or ratified by the Recipient, SANAA, ERSAPS and CONASA and is legally binding upon the Recipient and SANAA, ERSAPS and CONASA in accordance with its terms.

5.03. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than (18) months after the Association’s approval of the Credit which expire on December 22, 2008.

5.04. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty years after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s Representative is its Minister of Finance.

6.02. The Recipient’s Address is:

Secretaría de Estado en el Despacho de Finanzas
Dirección General de Crédito Público
Avenida Cervantes
Tegucigalpa, M.D.C.
Honduras, C.A.

Cable: HACIENDA  Telex: 1308  Facsimile: (504) 237-4142
Tegucigalpa FINANZAS HO (504) 238-6995
6.03. The Association’s Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable: Telex: Facsimile:
INDEVAS 248423 (MCI) 1-202-477-6391
Washington, D.C.

AGREED at Tegucigalpa, Honduras, as of the day and year first above written.

REPUBLIC OF HONDURAS

By /s/ Hugo Castillo

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Jane Armitage

Authorized Representative

HONORARY WITNESS

/s/ José Manuel Zelaya Rosales
President of the Republic of Honduras
SCHEDULE 1

Project Description

The objectives of the Project are: (a) to improve the sustainability, efficiency, and reliability of the Recipient’s WSS services in Eligible Municipalities; and (b) to improve the performance of the Recipient’s national WSS sector institutions in the exercise of their respective roles in accordance with the WSS Sector Framework Law.

The Project consists of the following parts:

Part 1: Supporting Eligible Municipalities to Create Autonomous WSS Service Providers and to Invest in the Efficiency, Rehabilitation and Expansion of WSS Service Delivery

A. Provision of technical assistance to Eligible Municipalities to:

1. (a) Identify an appropriate management model for the delegation to autonomous service provider of WSS services; (b) prepare the legal, financial, technical and social instruments required to implement such model; (c) plan the transfer of WSS systems from SANAA to Eligible Municipalities and plan the creation of WSS service providers and related municipal WSS oversight and policy-making bodies; (d) plan the efficiency improvement investments under Part 1.B. of the Project; and (e) train the new WSS service providers in their new task.

2. Support their respective WSS service providers created under Part 1.A.1 of the Project to: (a) establish a business plan to enable them to implement their responsibilities under the respective municipal WSS policy; and (b) revise or prepare a master plan to improve efficiency, quality and coverage levels of the WSS service, including a financial and economic analysis.

3. Design and supervise the investments conducted under Part 1.C of the Project.

B. Provision of goods, works, services and training to Eligible Municipalities that have successfully identified and designed a management model under Part 1.A of the Project, to:

1. Transfer the WSS systems from SANAA to Eligible Municipalities, establish the autonomous WSS service provider and related municipal WSS oversight and policy-making bodies, and prepare the delegation of the WSS services to such provider.

2. Carry out technical and commercial efficiency improvement investments (such as leak detection, network sectorization, meter installation, billing and collection,
and reduction of non-revenue water), including design and supervision if required, within the investment ceilings set forth in the Operational Manual.

C. Provision of works to Eligible Municipalities that have successfully delegated their WSS services to autonomous service providers, for the expansion and/or rehabilitation of water supply, sanitation and wastewater treatment systems, all in accordance with the requirements and ceilings set forth in the Operational Manual.

Part 2: Tegucigalpa Non Revenue Water Reduction

Design, implementation, financing, supervision and evaluation of a performance-based service contract with a private company, acceptable to the Association, to reduce technical and commercial water losses in a limited geographical area of the Recipient’s Municipality of the Metropolitan District (AMDC-Álcalda Municipal del Distrito Central, or Tegucigalpa).

Part 3: Institutional Strengthening of National and Regional WSS Sector Institutions

A. 1. Strengthening of CONASA and SANAA through the provision of consultants’ services and goods for: (a) the creation of a specific unit attached directly to CONASA and housed in SANAA, to oversee the implementation of the PEMAPS (the PEMAPS unit); (b) the preparation of the policy and legal instruments to clarify CONASA’s and SANAA’s respective governance structure, mandate and financing, and the development of a sector financing policy aimed at guaranteeing the long-term sustainability of the sector; (c) a status review and update of the PEMAPS; (d) the development of CONASA’s new municipal WSS sector policy-making and planning roles; and (e) the carrying out of a communications strategy to support good governance and transparency in the Project.

2. Strengthening of ERSAPS through the provision of consultants’ services and goods to: (a) support the definition and implementation of new municipal WSS oversight units; and (b) enhance its capacity to gauge WSS services management models.


B. 1. Financing of severance payments for SANAA staff laid off in the course of decentralization of WSS services to the Eligible Municipalities.

2. Carrying out of a study on future staffing of SANAA, including: (a) the design of a broader retrenchment program that combines disciplinary staff reductions, addresses payroll fraud, and determines future retrenchment needs; and (b) data gathering on alternative employment found by staff affected by the current retrenchments, and on changes in staff employment totals in SANAA and other service providers.

C. Supporting preparatory activities for the transfer of the WSS service delivery from SANAA to the Recipient’s Municipality of the Metropolitan District (AMDC-
Alcaldía Municipal del Distrito Central, or Tegucigalpa), including activities such as updating inventories, installing consumer and asset management systems, and planning the transfer process.

Part 4: Project Management

A. Provision of technical assistance, equipment, training, travel and general operating costs, as necessary, to operate and strengthen the UAP to enable it to effectively implement, monitor and evaluate the Project.

B. Provision of audit services for purposes of Section II.B.3 of Schedule 2 to this Agreement.

C. Carrying out of Project management activities to guarantee compliance by each agency and entity involved in the Project with the Recipient’s Transparency Law (Ley de Transparencia y Acceso a la Información Pública, Decree No. 170-2006 dated November 22, 2006) and the Anti-Corruption Guidelines.

D. Strengthening of Recipient’s agencies involved in the implementation of the Project, through trainings and study tours, purchase of vehicles and equipment and upgrading of working environment.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements.

1. The Recipient shall establish and maintain, throughout Project implementation, the GIC with composition, functions and responsibilities satisfactory to the Association, including, without limitation, the responsibility to support and monitor the progress of the Project.

2. (a) The Recipient shall maintain, throughout Project implementation, the UAP, with composition, functions and responsibilities acceptable to the Association.

   (b) The Recipient shall ensure that the UAP is, at all times during Project implementation, headed by a coordinator and assisted by staff in adequate numbers, all with qualifications and experience satisfactory to the Association. The Recipient undertakes that, unless the Association may otherwise agree, UAP personnel shall only be hired based on professional criteria and shall only be replaced for reasons related to performance.

B. Inter-institutional Agreement

1. (a) To facilitate the carrying out of the Project, the Recipient, through SEFIN, shall enter into an agreement (the Inter-institutional Agreement) with SANAA, CONASA and ERSAPS, under terms and conditions approved by the Association, which shall include:

   (i) the provision to SANAA, CONASA, and/or ERSAPS, as the case may be, of the facilities, services and other resources required to enable such entities to participate in their respective Parts of the Project (pursuant to Section 3.01 of this Agreement and the roles assigned to each of them under the WSS Sector Framework Law and the WSS Regulations);

   (ii) the obligation of SANAA, CONASA and ERSAPS to: (A) assist the Recipient in the carrying out of their respective parts of the Project (pursuant to Section 3.01 of this Agreement, and the roles assigned to each of them under the WSS Sector Framework Law and the WSS Regulations) with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association, including
in accordance with the provisions of the Operational Manual and the Anti-Corruption Guidelines applicable to recipients of credit proceeds other than the Recipient; (B) provide, promptly as needed, any additional resources within their respective control required for the purpose; (C) assist the UAP to procure the goods, works and services to be financed out of the Credit in accordance with the provisions of this Agreement; (D) maintain policies and procedures adequate to enable them to monitor and evaluate, in accordance with the Performance Indicators, the progress of their respective parts of the Project and the achievement of its objectives; (E) enable the Recipient and the Association to inspect their respective part of the Project, its operation and any relevant records and documents; and (F) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing; and

(iii) the right of the Recipient to suspend or terminate the right of SANAA, ERSAPS and/or CONASA to benefit from the proceeds of the Financing upon their respective failure to perform any of their respective obligations under the Inter-institutional Agreement.

(b) The Recipient shall exercise its rights under the Inter-institutional Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate, waive or fail to enforce the Inter-institutional Agreement or any of its provisions.

C. Operational Manual

1. (a) The Recipient shall carry out the Project, and shall cause SANAA, ERSAPS, CONASA and the Eligible Municipalities to assist in the carrying out of the Project, in accordance with an operational manual (the Operational Manual), satisfactory to the Association, said manual to include, inter alia:

(i) the procedures for the carrying out, monitoring and evaluation of the Project (including the procurement, disbursement, financial management, social and environmental requirements thereof);

(ii) the composition, functions and responsibilities of the GIC and the UAP;

(iii) the criteria for selecting Eligible Municipalities;

(iv) the criteria for the approval, implementation, monitoring and evaluation of Subprojects, including, inter alia: (A) the typology
of potential Subprojects to be supported through the Credit as well as the “negative list” of ineligible activities; (B) the framework for environmental management outlining procedures and institutional arrangements to ensure adequate screening of each Subproject, identification of potential impacts and necessary mitigation measures, implementation of environmental measures and monitoring during Subproject execution and operation; (C) the amount of counterpart contribution, in cash or in kind required for each type of investment under a Subproject; (D) the ceiling on the cost of each type of investment financed out of the proceeds of the Credit; and (E) the capacity requirements to allow Eligible Municipalities to conduct procurement processes;

(v) the procedures to be followed in the event that any “chance finds” of archeologically or culturally significant resources are encountered during construction;

(vi) the FSEM and the IPDF; and

(vii) the indicators for Project monitoring and evaluation (the Performance Indicators).

(b) The Operational Manual may be amended from time to time with the prior approval of the Association. In the case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

D. Subprojects

1. (a) Prior to carrying out each Subproject, the Recipient, through SEFIN shall enter into an agreement (a Subproject Agreement) with the respective Eligible Municipality, under terms and conditions satisfactory to the Association, which shall include, inter alia:

(i) the provision to the Eligible Municipality of the facilities, services and other resources required to enable the Eligible Municipality to participate in the respective Subproject;

(ii) the obligation of the Eligible Municipality to: (A) cooperate in the carrying out of the respective Subproject with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association, including in accordance with the Operational Manual, and the provisions of the Anti-Corruption Guidelines applicable to
recipients of credit proceeds other than the Recipient; (B) provide or cause the WSS service providers to provide, as promptly as needed, the resources required for the purpose, including without limitation adequate human resources and the counterpart contribution required for each type of investment under a Subproject in the percentages set forth in the Operational Manual; (C) (1) if the Eligible Municipality meets the capacity requirements set forth in the Operational Manual, conduct the procurement processes for all goods, works, and services to be financed out of the Credit in accordance with the provisions of this Agreement, and direct the UAP to execute, jointly with it, the resulting contracts; and (2) if the Eligible Municipality does not meet such capacity requirements, cooperate with the UAP to ensure that all goods, works and services to be financed out of the Credit are procured in accordance with the provisions of this Agreement; (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association, the progress of the Subproject and the achievement of its objectives; (E) enable the Recipient and the Association to inspect the Subproject, its operation and any relevant records and documents; and (F) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing, including without limitation the information required by the Recipient to comply with its obligations under Section II.B of this Schedule; and

(iii) the right of the Recipient to suspend or terminate the right of the Eligible Municipality to participate in the Subproject and/or to benefit from the proceeds of the Credit, upon the Eligible Municipality’s failure to perform any of its obligations under the respective Subproject Agreement.

(b) The Recipient shall exercise its rights under the each Subproject Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, not to assign, amend, terminate, abrogate, waive or fail to enforce any Subproject Agreement or any provision thereof.

E. Safeguards

1. Without limitation to the provisions set forth in Section I.C.1 (a) of Schedule 2 to this Agreement, the Recipient undertakes that, unless the Association shall otherwise agree:
(a) no physical or economic involuntary resettlement (as interpreted in accordance with the Association’s Operational Policy 4.12 (OP 4.12)) shall take place as a consequence of Project implementation, including the Subprojects; and

(b) prior to the implementation of a Subproject in which the IPDF applies, it shall: (i) furnish to the Association for its approval, the indigenous peoples development plan prepared in accordance with the IPDF; and (ii) thereafter, carry out such indigenous peoples development plan in accordance with its terms.

F. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the Performance Indicators. Each Project Report shall cover the period of one semester, and shall be furnished to the Association not later than forty-five days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. The Recipient shall prepare and furnish to the Association, as part of the Project Reports, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

4. Within three months after the Effective Date, the Recipient shall execute the contract, satisfactory to the Association, for the provision of the independent financial audit referred to in Section II.B.3 of Schedule 2 to this Agreement.
Section III. Procurement

A. General


(a) All goods, works and services (other than consultants’ services) required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

(b) Without any limitations to any other provisions set forth in this Section or in the Procurement Guidelines, the following shall expressly govern the procurement of goods, works and services (other than consultant services) under this Section:

(i) Contracts shall be awarded to the lowest evaluated bid in accordance with criteria set forth in the bidding documents, and without taking into account, in the evaluation, the financial cost of foreign exchange components.

(ii) Foreign bidders shall not, as a condition for submitting bids, be required to: (A) be registered in the Recipient’s territory; (B) have a representative in the Recipient’s territory; (C) be associated with suppliers or contractors of the Recipient’s territory; and (D) certify that, in their country of origin, suppliers or contractors of the Recipient’s territory are allowed to participate in competitive bidding procedures under equal conditions with other bidders.

(iii) Contracts shall not be divided for the sole purpose of reducing contract amounts.

2. Consultants’ Services.

(a) All consultants’ services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.

(b) Without limitation to any other provisions set forth in this Section or the Consultant Guidelines, the following shall expressly govern the procurement of consultants’ services under this Section:
(i) foreign consultants shall be permitted to participate in the selection process even if there is availability of consultants of the Recipient’s territory for the services being procured; and

(ii) foreign consultants shall not be required to be registered with associations of the Recipient’s territory or to be associated with consulting firms of the Recipient’s territory as a condition for participating in any selection process.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

**B. Particular Methods of Procurement of Goods, Works and Non-Consultant Services**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and services (other than consultants’ services) shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods, Works and Non-Consultant Services.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and services (other than consultants’ services). The Procurement Plan shall specify the circumstances under which such methods may be used:

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) National Competitive Bidding</td>
</tr>
<tr>
<td>(b) Shopping</td>
</tr>
<tr>
<td>(c) Direct Contracting</td>
</tr>
</tbody>
</table>

**C. Particular Methods of Procurement of Consultants’ Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.
### Procurement Method

<table>
<thead>
<tr>
<th>(a) Quality-based Selection</th>
</tr>
</thead>
<tbody>
<tr>
<td>(b) Selection under a Fixed Budget</td>
</tr>
<tr>
<td>(c) Least Cost Selection</td>
</tr>
<tr>
<td>(d) Selection based on Consultants’ Qualifications</td>
</tr>
<tr>
<td>(e) Single-source Selection</td>
</tr>
<tr>
<td>(f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants</td>
</tr>
<tr>
<td>(g) Sole Source Procedures for the Selection of Individual Consultants</td>
</tr>
</tbody>
</table>

### D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association.

### Section IV. Withdrawal of the Proceeds of the Financing

#### A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (Category), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Consultants’ services under Parts 1.A, 2, 3.A, 3.B.2, and 4 of the Project</td>
<td>5,400,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Consultants’ services under Part 3.C of the Project</td>
<td>750,000</td>
<td>85%</td>
</tr>
<tr>
<td>(3) Goods and works under Parts 2, 3.A and 4 of the Project</td>
<td>2,400,000</td>
<td>90%</td>
</tr>
<tr>
<td>(4) Goods, works, consultants’ services, non-consultant services and Training under Parts 1.B and 1.C of the Project</td>
<td>8,900,000</td>
<td>100% except for those costs covered by the counterpart contribution by Eligible Municipalities cited in Section I.D.1 (a) (ii) (B) of Schedule 2 of this Agreement.</td>
</tr>
<tr>
<td>(5) Severance Payments under Part 3.B.1 of the Project</td>
<td>1,800,000</td>
<td>90%</td>
</tr>
<tr>
<td>(6) Operating Costs under Parts 3.A and 4 of the Project</td>
<td>350,000</td>
<td>90%</td>
</tr>
<tr>
<td>(7) Training and non-consultant services under Parts 3.A and 4 of the Project</td>
<td>200,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>19,800,000</strong></td>
<td></td>
</tr>
</tbody>
</table>
3. For the purposes of this Section:

   (a) the term “Training” means: (i) reasonable travel, room, board and per
diem expenditures incurred by trainers and trainees in connection with their training and
by non-consultant training facilitators; (ii) course fees; (iii) training facility rentals; and
(iv) training material preparation, acquisition, reproduction and distribution expenses not
otherwise covered under this paragraph; and

   (b) the term “Operating Costs” means the incremental expenses incurred on
account of Project implementation, including office equipment and supplies, vehicle
operation and maintenance, communication and insurance costs, office administration
costs, utilities, travel, per diem and supervision costs, and salaries of locally contracted
employees (none of which would have been incurred absent the Project).

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be
made in respect of:

   (a) payments made for expenditures prior to the date of this Agreement;

   (b) payments made for expenditures covered by Category 4 in respect of an
Eligible Municipality, unless the respective Municipality Agreement has
been entered into by the parties thereto; and

   (c) payments made for expenditures covered by Category 5, unless the
Recipient has submitted to the Association an analysis, satisfactory to the
Association, prepared by independent consultants satisfactory to the
Association: (i) describing the severance payments regime applicable to
SANAA; (ii) demonstrating such regime’s compliance with all relevant
local laws, regulations and collective bargaining agreements; (iii)
defining the amount of such payments per worker, based on an analysis
which demonstrates the productivity and fiscal sustainability of the
investment; and (iv) demonstrating that satisfactory oversight
arrangements are in place.

2. The Closing Date is December 31, 2013.
SCHEDULE 3

Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each May 15 and November 15 commencing November 15, 2017 to and including May 15, 2027:</td>
<td>5%</td>
</tr>
</tbody>
</table>

* The percentages represent the percentage of the principal amount of the Credit to be repaid.
APPENDIX

Section I. Definitions

1. “AMHON” means Asociación de Municipios de Honduras, the Honduran association of municipalities established pursuant to the Recipient’s Executive Resolution No. 16-1962.


3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.

4. “CONASA” means Consejo Nacional de Agua Potable y Saneamiento, the Recipient’s National Water and Sanitation Council created pursuant to the WSS Sector Framework Law.


6. “Eligible Municipality” means a Municipality which meets the criteria set forth in the Operational Manual to participate in the Project.

7. “ERSAPS” means Ente Regulador de los Servicios de Agua Potable y Saneamiento, the Recipient’s regulating entity for potable water and sanitation created by the Recipient’s Legislative Decree No. 118-2003 of October 8, 2003.

8. “Framework for Social and Environmental Management” or “FSEM” means the Recipient’s framework for the social and environmental management of the Project dated May 3, 2007, as may be amended from time to time with the prior agreement of the Association.

9. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006), with the modification set forth in Section II of this Appendix.

10. “GIC” means Grupo Interinstitucional de Coordinación, the Recipient’s inter-institutional coordination group comprising SEFIN, SANAA, CONASA, AMHON and ERSAPS.
11. “Inter-institutional Agreement” means the agreement referred to in Section I.B.1 (a) of Schedule 2 to this Agreement.

12. “IPDF” means the Recipient’s Indigenous Peoples Development Framework for the Project dated May 3, 2007, as may be amended from time to time with the prior agreement of the Association.

13. “Municipality” means an autonomous entity established pursuant to the Municipality Law.

14. “Municipality Agreement” means the agreement referred to in Section I.D.1 (a) of Schedule 2 to this Agreement.

15. “Municipality Law” means the Recipient’s Ley de Municipalidades, established by the Recipient’s Decree No. 134-90 of November 19, 1990, as said Decree may have been amended to the date of this Agreement, and including the regulations adopted pursuant to the Recipient’s Accord No. 18-93 of February, 29, 1993, as said regulations may have been amended to the date of this Agreement.

16. “Operational Manual” means the Recipient’s manual for the implementation of the Project.

17. “PEMAPS” means Plan Estratégico de Modernización del Sector de Agua y Saneamiento, the Recipient’s Strategic Plan for the Modernization of the WSS sector of January, 2006.


20. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 18, 2007 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

21. “SANAA” means Servicio Autónomo Nacional de Acueductos y Alcantarillados, the Recipient’s national autonomous service for aqueducts and sewerage created pursuant to the Recipient’s Legislative Decree No. 91 of April 26, 1961, as it may have been amended to the date of this Agreement.

22. “SEFIN” means Secretaría de Estado en el Despacho de Finanzas, the Recipient’s Ministry of Finance.
23. “Subproject” means any of group of activities under Part 1 of the Project with respect to an Eligible Municipality, as set forth in the respective Municipality Agreement.

24. “UAP” means Unidad Administradora de Proyectos, the Recipient’s Project implementation unit within SEFIN created by SEFIN’s Ministerial Agreement No. 0271 of 2004.

25. “WSS” means water supply and sanitation.


Section II. Modifications to the General Conditions

The modifications to the General Conditions for Credits and Grants of the Association, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. Paragraph (b) of Section 3.03 is hereby deleted in its entirety.