GRANT NUMBER H815-0-N1

Financing Agreement

(Additional Financing for Nicaragua Rural Water Supply and Sanitation Project)

between

REPUBLIC OF NICARAGUA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 1, 2013
FINANCING AGREEMENT

Agreement dated May 1, 2013, entered into between REPUBLIC OF NICARAGUA ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing additional financing for the Original Project (as defined in the Appendix to this Agreement). 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 grant in an amount equivalent to four million Special Drawing Rights (SDR 4,000,000) ("Financing") to assist in financing the project described in Schedule 1 to this Agreement ("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 Payment Dates are January 15 and July 15 in each year.

2.05. The Payment Currency is Dollar.

ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall cause FISE to carry out the Project with the assistance of:
(a) the Eligible Municipalities for purposes of Part 1 of the Project;

(b) the Eligible Municipalities and the Project Committee, for purposes of Part 2 of the Project; and

(c) the WSS Rural Sector Support Institutions for purposes of Part 4(a) of the Project

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

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 Additional Events of Suspension as set forth in the Original Financing Agreement, and the following:

(i) The FISE Legislation has been amended, suspended, abrogated, repealed, waived or not enforced so as to affect materially and adversely, in the opinion of the Association, the ability of the FISE to perform any of its obligations under the Subsidiary Agreement.

(ii) The Procurement Law has been amended, suspended, abrogated, repealed or waived so as to render its Article 5 (e) ineffective, in the opinion of the Association, and no provision analogous to such Article 5 (e) has been adopted to replace said provision.

(iii) The Water Law and/or the Municipality Law 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 objective.

(iv) The FISE shall have failed to comply with any of its obligations under the Subsidiary Agreement.
(v) An Eligible Municipality shall have failed to comply with any of its obligations under a Municipality Subproject Agreement 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 paragraph (v) above 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 Financing Account for expenditures solely in respect of the concerned Eligible Municipality.

4.02. The Additional Events of Acceleration consist of the Additional Events of Acceleration as set forth in the Original Financing Agreement, and the following:

(a) The event specified in paragraph (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) The event specified in paragraph (a)(i) 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 amendment to the Subsidiary Agreement has been executed on behalf of the Recipient and FISE, as provided in Section 1.B.1 of Schedule 2 to this Agreement.

(b) The Operational Manual has been updated and adopted by FISE, as provided in Section 1.D.1 of Schedule 2 to this Agreement.

5.02. The Additional Legal Matter consists of, namely, that the amendment to the Subsidiary Agreement referenced in Section 5.01 (a) above has been duly authorized or ratified by the Recipient and FISE, and is legally binding upon the Recipient and FISE 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 eighteen (18) months after the Association's approval of the Financing which expires on July 17, 2014.
5.04. For purposes of Section 8.03 (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 eighteen years after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

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

6.02. The Recipient’s Address is:

Ministerio de Hacienda y Crédito Público
Avenida Bolívar, Frente a la Asamblea Nacional
Managua, Nicaragua

Facsimile: (505) 22:11-3033

6.03. The Association’s Address is:

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

Cable: INDEVAS
Tel.: 248423 (MCI)
Facsimile: 1-202-477-6391

Washington, D.C.
AGREED at the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF NICARAGUA

By

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to increase access by Project Beneficiaries to sustainable water and sanitation services in rural areas of the Recipient.

The Project consists of the following parts:

Part 1. WSS Coverage Increases in Rural Areas

Supporting Eligible Municipalities (other than those located in RAAN and RAAS) to increase coverage of WSS services in their rural territory through the financing of investments and technical assistance included in their respective PIMM.

Part 2. WSS Coverage in RAAN, RAAS, Alto Wankyu Bocay

Supporting: (a) Eligible Municipalities in RAAN and RAAS; and (b) communities in the Alto Wankyu Bocay Area, to increase coverage of WSS services in their rural territory through the financing of investments and technical assistance.

Part 3. Pilot Subprojects

Developing, carrying out, monitoring and evaluating and documenting a series of WSS pilot subprojects and the accompanying intervention strategies to address some of the challenges of the rural WSS sector and establish best practice models of intervention in the WSS sector by the Recipient.

Part 4. Institutional Strengthening; Project Management and Monitoring

(a) Institutional Strengthening. (i) Supporting and strengthening WSS Rural Sector Support Institutions to ensure that the existing and new WSS systems and their WSS Committees are made more sustainable through the provision of technical assistance, the purchase of vehicles and equipment, and the upgrading of the working environment; and (ii) conducting exchanges of experience with other countries, training and consultancy to move toward a more unified WSS policy.

(b) Project Management and Monitoring. (i) Supporting FISE to implement, manage, monitor and evaluate the Project through the provision of technical assistance, the financing of incremental operating costs, the carrying out of training and study tours, the purchase of vehicles and equipment, the upgrading of the working environment; and (ii) carrying out audit services for purposes of Sections II.B.3, V.A and V.B of Schedule 2 to this Agreement.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall cause FISE to maintain, throughout Project implementation, professional staff required for Project implementation as set forth in the Operational Manual, all with qualifications and experience satisfactory to the Association.

2. In connection with implementation of activities under Part 2 of the Project, the Recipient shall continue to operate and maintain throughout Project implementation the Project Committee with composition and functions satisfactory to the Association and set forth in the Operational Manual, including providing strategic and policy guidance for the carrying out of Part 2 of the Project.

3. Notwithstanding the provisions of Section 3.01 of this Agreement, in the event that FISE decides, with the prior approval of the Association, to delegate implementation responsibilities (including, inter alia, financial management and procurement responsibilities) for any of the pilot subprojects under Part 3 of the Project to an Eligible Municipality, then the provisions set forth in Section I.E.1 and Section I.F of Schedule 2 to this Agreement shall apply to the respective pilot subproject under Part 3 of the Project and to the relationship between FISE and the respective Eligible Municipality.

B. Subsidiary Agreement

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Financing available to FISE under an amendment to the Subsidiary Agreement pursuant to terms and conditions approved by the Association, which shall include: (a) the provision to FISE of the funds, facilities, services and other resources required to enable FISE to carry out the Project, including the transfer of the proceeds of the Financing on a grant basis; and (b) the pertinent provisions of this Agreement as applicable to FISE.

2. The Recipient shall exercise its rights and carry out its obligations under the Subsidiary Agreement as amended pursuant to Section B.1 above, 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, further amend, terminate,
abrogate, waive, or fail to enforce, the Subsidiary Agreement or any of its provisions.

C. Anti-Corruption

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

D. Operational Manual

1. The Recipient shall cause F SE to: (a) update and adopt the Operational Manual in a manner acceptable to the Association; and (b) carry out the Project in accordance with the terms of the updated Operational Manual, which shall 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 staff in FISE required for Project implementation, including the necessary qualifications and experience for such positions;

   (iii) the criteria for selecting Eligible Municipalities;

   (iv) the criteria for the eligibility, approval, implementation, monitoring and evaluation of Subprojects, including, *inter alia*: (A) the Sub-projects cycle, as applicable; (B) the amount of counterparty contribution, in cash or in kind, required for each type of investment under a Subproject; and (C) the eligibility criteria and procedures for community participation in the implementation of Subprojects;

   (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 ESMF and the IAPP; and

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

2. 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.
E. Sub-projects

1. For purposes of carrying out Parts 1 and 2 of the Project, or Part 3 of the Project (if FISE decides to delegate implementation responsibilities for any of the pilot subprojects under Part 3 of the Project to an Eligible Municipality pursuant to Section I.A.3 of Schedule 2 to this Agreement), the Recipient shall cause FISE to:

(a) prior to carrying out each Subproject, enter into an agreement with the respective Eligible Municipality (a Municipality Subproject Agreement), 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, including the funds necessary to contract the goods, works, and non-consulting services under the respective Subproject and the provision by FISE of the technical assistance under said 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 Financing proceeds other than the Recipient; (B) provide, promptly as needed, the resources required for the purpose, including without limitation the counterpart contribution in cash or in kind required for each type of investment under a Subproject in the percentages set forth in the Operational Manual; (C) cooperate with FISE to ensure that all goods, works, and non-consulting services to be financed out of the Financing 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, FISE and the Association to inspect the Subproject, its operation and any relevant records and documents; (F) prepare and furnish to the Recipient, FISE and the Association all such information as the Recipient, FISE or the Association shall reasonably request
relating to the foregoing; and (G) in the event that community participation is envisaged in the implementation of the respective Subproject, ensure that the criteria and procedures set forth in the Operational Manual for community participation in the implementation of Subprojects are followed; and

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

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

2. Without limitation to the provisions of paragraph 1 above, the Recipient shall cause FISE to ensure that prior to signing a Municipality Subproject Agreement, the respective Subproject has been approved by the Project Committee.

3. For purposes of carrying out Part 2 of the Project, in respect of existing Municipality Subproject Agreements, the Recipient shall cause FISE to amend those Municipality Subproject Agreements which face costs-over runs, as approved by the Association, under terms and conditions satisfactory to the Association, which shall include inter alia the provision to the Eligible Municipality of the additional funds, facilities, services and other resources required to enable the Eligible Municipality to participate in the respective Subproject.

F. Safeguards

1. The Recipient shall carry out the Project in accordance with ESMF and IAPP, and shall not amend, suspend or abrogate any of the provisions of ESMF or IAPP without the prior agreement of the Association.

2. Without limitation to the provisions of Section I.D.1 of this Schedule 2, the Recipient undertakes that, unless the Association shall otherwise agree:

(a) Subprojects shall be promoted, identified, appraised, approved, carried out and monitored by FISE and the respective Eligible Municipality in accordance with the procedures set forth in the Operational Manual, including the ESMF and the IAPP; and
(b) 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.

3. The Recipient shall ensure, and/or cause FISE to ensure, that the terms of reference for any consultancy in respect of any Project activity under Part 4 of the Project shall be satisfactory to the Association following its review thereof, and to that end, such terms of reference shall duly incorporate the requirements of the Association Safeguards Policies then in force, as applied to the advice conveyed through such technical assistance.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

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 calendar semester, and shall be furnished to the Association not later than two months 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. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association not later than sixty (60) days after the end of each calendar semester, interim unaudited financial reports for the Project covering the calendar semester, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements audited and disclosed 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.
Section III. Procurement

A. General

1. Goods, Works and Non-consulting Services. All goods, works and non-consulting 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.

2. Consultants' Services. 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.

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-consulting Services

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. Other Methods of Procurement of Goods, Works and Non-consulting Services. The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and non-consulting 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>
<tr>
<td>(d) Community Participation procedures described in the Operational Manual and the Procurement Plan</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.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Quality-Based Selection</td>
</tr>
<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) Single-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.

E. Special Provisions

1. In addition and without limitation to any other provisions set forth in this Section or the Procurement Guidelines or the Consultant Guidelines, the following principles of procurement shall expressly govern all procurement of works, goods, non-consulting services or consultants' services, as the case may be:

(a) foreign bidders shall not be required to be registered with local authorities as a prerequisite for bidding;

(b) no bids shall be rejected, and no provisional awards shall be made at the time of bid opening;

(c) the invitation to bid shall not establish, for purposes of acceptance of bids, minimum or maximum amounts for the contract prices;
(d) the invitation to bid shall not publish the estimated cost of the contract;

(e) in the case of shopping, a minimum of three quotations shall be obtained as a condition to award the contract;

(f) unless the Association may otherwise agree, for the procurement of goods and non-consulting services, the "best offer" shall be the one submitted by the bidder whose offer was determined to be the lowest evaluated bid and was found substantially responsive to the bidding document acceptable to the Association, provided further that the bidder was determined to be qualified to perform the contract satisfactorily;

(g) bidders and consultants shall not be allowed to review or make copies of other bidder's bids or consultants' proposals, as the case may be. Likewise, bidders' and consultants' responses to requests of clarifications made by the procuring entity during the bidding process shall not be disclosed to other bidders or consultants, as the case may be. Finally, reports including recommendations for award shall not be shared with bidders and consultants prior to their publication;

(h) eligibility criteria shall be the one defined in Section I of the Procurement Guidelines and Consultant Guidelines. Articles 17 and 18 of the Procurement Law shall not apply;

(i) automatic rejection of bids or proposals, as the case may be, due to differences between bid or proposal prices and cost estimates being higher than predetermined percentages, shall not be allowed;

(j) bidders shall have the possibility of procuring hard copies of bidding documents even if they are published on the procurement portal;

(k) unless so indicated in the applicable Bank Standard Bidding Documents, pre-bid conferences shall not be conducted;

(l) bid preparation terms shall not be reduced as a result of re-bidding;

(m) consultants shall not be required to submit proposal and performance securities;

(n) complaints shall be handled as indicated in the appendixes to the Procurement Guidelines and Consultant Guidelines. Articles 110 to 116 of the Procurement Law shall apply in a supplementary manner;

(o) the procurement of goods and works shall be carried out using standard bidding documents acceptable to the Association;
the Recipient shall: (i) supply SEPA with the information contained in the initial Procurement Plan within 30 days after the Project has been approved by the Association; and (ii) update the Procurement Plan at least every three months, or as required by the Association, to reflect the actual Project implementation needs and progress and shall supply SEPA with the information contained in the updated Procurement Plan immediately thereafter; and

the invitations to bid, bidding documents, minutes of bid opening, requests for expressions of interest and the pertinent summary of the evaluation reports of bids and proposals of all goods, works, non-consulting and consultants services shall be published in SISCAE, and in a manner acceptable to the Association. The bidding period shall be counted from the date of publication of the invitation to bid or the date of the availability of the bidding documents, whichever is later, to the date of bid opening.

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 Grant Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Consultants’ services, and goods, works and Non-consulting Services:</td>
<td></td>
<td>100% for consultants’ services; and 100% under Subprojects (except for those costs covered by the counterpart contribution referred to in</td>
</tr>
<tr>
<td>(a) under Part I of the Project;</td>
<td>950,000</td>
<td></td>
</tr>
</tbody>
</table>

15
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>(b) under Part 2 of the Project; and</td>
<td>1,600,000</td>
<td>paragraph 1(a)(ii)(B) of Section I.E. of Schedule 2 to this Agreement</td>
</tr>
<tr>
<td>(c) under Part 3 of the Project</td>
<td>550,000</td>
<td></td>
</tr>
<tr>
<td>(2) Consultants’ services, goods, works, Non-consulting Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training and Operating Costs:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) under Part 4(a) of the Project; and</td>
<td>550,000</td>
<td>100%</td>
</tr>
<tr>
<td>(b) under Part 4(b) of the Project</td>
<td>350,000</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td>4,000,000</td>
<td></td>
</tr>
</tbody>
</table>

For purposes of this table, the term:

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

(b) “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 (none of which would have been incurred absent the Project); and excluding salaries of locally contracted employees; and

(c) “Non-consulting Services” means the reasonable expenditures incurred on account of Project implementation to cover reasonable costs of data collection services and other services which are not rendered by consultants, and which are not covered in the definitions of Training and Operating Costs set forth in paragraphs (a) and (b) above.
B. **Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.

2. The Closing Date is March 31, 2014.

Section V. **Other Undertakings**

A. **WSS Strategy**

Not later than June 30, 2013 or such other date as the Association may establish by notice to the Recipient, the Recipient shall issue a WSS strategy, satisfactory to the Association, which *inter alia* clarifies the specific responsibilities with regard to supporting WSS systems in rural areas of the Recipient’s territory and to supporting their WSS Committees.

B. **Annual Project Audits**

The Recipient shall cause FIS 3 to:

(a) not later than November 30 of each year of Project implementation, contract physical audits for each year of Project implementation, with independent auditors of experience and qualifications satisfactory to the Association operating under terms of reference satisfactory to the Association, focus audits to focus on a sample of Subprojects, so as to review individual contracts and agreements, ascertain compliance with their terms and conditions, inspect physical progress of civil works and reconcile it with financial expenses incurred, and verify compliance with the ESMF and the IAPP;

(b) not later than March 31 of each year of Project implementation, furnish to the Association the report of such audits by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(c) not later than June 30 of each year of Project implementation, discuss the results of such audits with representatives of the Association, Eligible Municipalities, RAAN, RAAS, and communities involved in Project activities, and, immediately thereafter, take into account the Association’s comments thereon.
C. Annual Procurement Audits

The Recipient shall cause FISE to:

(a) not later than November 30 of each year of Project implementation, contract annual procurement audits for each year of Project implementation, with independent auditors of experience and qualifications satisfactory to the Association operating under terms of reference satisfactory to the Association and have all the procurement records and documentation for each fiscal year of the Project audited, in accordance with appropriate procurement auditing principles;

(b) not later than March 31 of each year of Project implementation, furnish to the Association the procurement audit report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested;

(c) furnish to the Association or to said auditors such other information concerning said procurement records and documentation as the Association shall from time to time reasonably request; and

(d) not later than June 30 of each year of Project implementation, discuss the results of such audits with the Association and immediately thereafter, take into account the Association’s comments thereon.

D. Existing Subprojects

Prior to any withdrawal of Financing proceeds from the Financing Account under Category (1) in respect of any existing Subproject (which faces a cost overrun, as determined by the Association), the Recipient shall cause FISE to ensure that the respective Municipality Subproject Agreement has been amended pursuant to Section I. E. 3 of this Schedule.
APPENDIX

Section I. Definitions

1. "Alto Wanky y Bocay Area" means the area within the Recipient's territory that corresponds to the cemarcd indigenous territories of the Miskitu Indian Tasbaika Kurru, Mayangna Satni Bu and Kipla Sait Tasbaika.


4. "Category" means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


6. "Eligible Municipality" means a Municipality which meets the criteria set forth in the Operational Manual to participate in the Project, including the carrying out of Subprojects.

7. "Environmental and Social Management Framework" or "ESMF" means the Recipient's framework for the environmental management of the Project dated March 31, 2008 and updated on September 20, 2012, and disclosed by the Recipient on September 25, 2012, and through the Association's Infoshop on September 27, 2012, which contains, inter alia, guidelines for the carrying out of environmental assessments and for the preparation and implementation of environmental management plans, when applicable, as such framework may be amended from time to time with the prior agreement of the Association.


9. "FISE" means Fondo de Inversión Social de Emergencia the Recipient's Emergency Social Investment Fund, a public, autonomous and decentralized
entity of the Recipient established and operating pursuant to the FISE Legislation.

10. "FISE Legislation" means the Recipient’s Decree No. 59-90, dated November 21, 1990 and published in the Recipient’s Official Gazette No. 240 of December 13, 1990, as amended by the following decrees of the Recipient:

   b. Decree No. 3-97, dated January 27, 1997 and published in the Recipient’s Official Gazette No. 25 of February 5, 1997;
   d. Decree No. 109-2004, dated September 28, 2004 and published in the Recipient’s Official Gazette No. 191 of October 1, 2004; and


12. "IAPP" means the Recipient’s Indigenous and Afro-Caribbean Peoples Plan for the Project dated September 7, 2012, disclosed by the Recipient on September 7, 2012, and through the Association’s Infoshop on September 18, 2012, 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.


15. "Municipality Subproject" or "Subproject" means any group of investments under Parts 1 or 2 of the Project, or Part 3 of the Project (if FISE decides to delegate implementation responsibilities for any of the pilot subprojects under Part 3 of the Project to an Eligible Municipality pursuant to Section I.A.3 of Schedule 2 to this Agreement), for the carrying out of Subprojects, as set forth under a Municipality Subproject Agreement.
16. "Municipality Subproject Agreement" means an agreement entered into in accordance with Section 1.6.1(a) of Schedule 2 to this Agreement, pursuant to which FISE shall make part of the proceeds of the Financing available to an Eligible Municipality for the carrying out of a Subproject.

17. "Original Financing Agreement" means the financing agreement for the Rural Water Supply and Sanitation Project (Credit No 4471-NI and Grant No. H407-0-NI), between the Recipient and the Association dated July 25, 2008 as amended to the date of this Agreement.

13. "Original Project" means the Project as described in Schedule 1 to the Original Financing Agreement.

19. "Operational Manual" means the manual for the implementation of the Project comprised by: (i) the Manual de Ejecución de Proyectos de Agua y Saneamiento Rural (MEPAS) dated August 2, 2011; (ii) the Reglamento Operativo dated March 11, 2009; and (iii) the Recipient's Manual Operativo de los Proyectos Guidados por la Comunidad (PGC) dated October 18, 2011, as the same may be further amended from time to time with the prior approval of the Association.


23. "Procurement Law" means the Recipient's Law No. 737, which was enacted on November 4, 2010 and published in the Recipient's Official Gazette No. 213 of November 5, 2010.

24. "Procurement Plan" means the Recipient's procurement plan for the Project, dated October 22, 2012 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

25. "Project Beneficiary" means an individual who benefits from the Project activities.

26. "Project Committee" means the committee referred to in Section 1.A.2 of Schedule 2 to this Agreement.
27. "RAAN" means Región Autónoma del Atlántico Norte, the Recipient’s Autonomous Region of the Northern Atlantic.

28. "RAAS" means Región Autónoma del Atlántico Sur, the Recipient’s Autonomous Region of the Southern Atlantic.

29. "SEPA" means Sistema de Ejecución de Planes de Adquisiciones, the Association’s Procurement Plan Execution System.

30. "SISCAE" means Sistema de Contrataciones Administrativas Electrónicas, under the Procurement Law.

31. "Subsidiary Agreement" means the agreement between the Recipient and FISE dated October 20, 2009, as said agreement may be amended from time to time with the prior agreement of the Association.


33. "WSS" means water supply and sanitation.

34. "WSS Committee" means a community organization recognized by the Recipient as responsible for the operation and maintenance of WSS systems in such community.

35. "WSS Rural Sector Support Institution" means FISE, ENACAL, Eligible Municipalities or any other of the institutions of the Recipient providing long-term technical assistance to WSS Committees in accordance with the strategy referred to in Section V. A. of Schedule 2 to this Agreement.