



CREDIT NUMBER 5270-HN

Financing Agreement

(Additional Financing for the Water and Sanitation Sector Modernization Project)

between

REPUBLIC OF HONDURAS

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 12, 2013

FINANCING AGREEMENT

AGREEMENT dated July 12, 2013 entered into between REPUBLIC OF HONDURAS (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement).

WHEREAS by an agreement between the Recipient and the Association, dated November 16, 2007, as amended (the Original Financing Agreement), the Association made a credit (Credit No 4335-HO) to the Recipient in an amount equivalent to nineteen million eight hundred thousand Special Drawing Rights (SDR 19,800,000) (the Original Credit) to assist in the financing of the Water and Sanitation Sector Modernization Project on terms and conditions set forth in the Original Financing 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 credit in an amount equivalent to six million seven hundred thousand Special Drawing Rights (SDR 6,700,000) (variously, "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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to one and a quarter percent (1.25%) per annum.
- 2.06. The Payment Dates are May 15 and November 15 in each year.
- 2.07. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.08. The Payment Currency is United States Dollars.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall: (a) carry out Parts 1 through 4 of the Project through the UAP, with the assistance of: (i) the Eligible Municipalities, CONASA and ERSAPS for purposes of Part 1 of the Project; (ii) SANAA for purposes of Part 2 of the Project; (iii) CONASA, ERSAPS and SANAA for purposes of Part 3.A of the Project; and (iv) SANAA for purposes of Parts 3.B and 3.C of the Project; and (b) cause the Coordinating Authority to carry out Part 5 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 objective.
 - (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 the Municipality 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 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 consist 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 Condition of Effectiveness consists of the following, namely that the Inter-institutional Agreement has been amended in a manner acceptable to the Association.
- 5.02. Without limitation 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 19, 2014.
- 5.03. 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.

Facsimile:

(504) 2237-4142
(504) 2238-6995

- 6.03. The Association's Address is:

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

Cable:
INDEVAS
Washington, D.C.

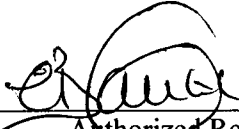
Telex:
248423 (MCI)

Facsimile:
1-202-477-6391

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

REPUBLIC OF HONDURAS


By



Authorized Representative
Name: Aurelia Lizeth Benitez
Title: Subsecretaria de Credito
e Inversion Publica.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative
Name: GIUSEPPE ZAMPAGLIONE
Title: COUNTRY MANAGER HONDURAS

SCHEDULE 1

Project Description

The objective of the Project is to support the Recipient to improve: (a) the sustainability, efficiency, and reliability of its WSS services in Eligible Municipalities; (b) the performance of its national WSS sector institutions in the exercise of their respective roles in accordance with the WSS Sector Framework Law; and (c) its capacity to respond promptly and effectively to an Eligible Emergency.

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 providers 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 an action 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.B.2 and 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-*Alcaldía Municipal del Distrito Central*, or Tegucigalpa).

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

A. 1. Support to CONASA and SANAA to strengthen their institutional capacity to comply with the WSS Sector Framework Law through, *inter alia*: (a) the development of a sector financing policy for CONASA aimed at guaranteeing the long-term sustainability of the WSS sector; and (b) the piloting of technical assistance activities by SANAA, including providing operational, commercial and managerial support to local WSS service providers.

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. [Intentionally left blank]

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 the 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.

Part 5: Immediate Response Mechanism

Provision of support to respond to an Eligible Emergency, as needed.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. Pursuant to this Agreement, all the Recipient's obligations referred to in Section I of Schedule 2 to the Original Financing Agreement shall apply to the execution of the Project.
2. Without limitation upon the provisions of paragraph 1 of this Section, prior to carrying out of any Subproject to be financed with the proceeds of the Credit in a given Eligible Municipality that has already entered into a Municipality Agreement in accordance with the provisions of Section I.D.1 of the Original Financing Agreement, the Recipient, through SEFIN, shall amend the corresponding Municipality Agreement, in a manner satisfactory to the Association.
3. Without limitation upon the provisions of paragraph 1 of this Section, the Recipient, through SEFIN, shall amend the Inter-Institutional Agreement, in a manner satisfactory to the Association.
4. Without limitation upon the provisions of paragraph 1 of this Section, the Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

B. Implementation Arrangements for Part 5 of the Project (Immediate Response Mechanism (IRM Part))

1. In order to ensure the proper implementation of Part 5 of the Project ("IRM Part"), the Recipient shall take the following measures:
 - (a) prepare and furnish to the Association for its review and approval, an operations manual ("IRM Operations Manual") which shall set forth detailed implementation arrangements for the IRM Part, including: (i) designation of terms of reference for, and resources to be allocated to, the entity to be responsible for coordinating and implementing the IRM Part ("Coordinating Authority"); (ii) specific activities which may be included in the IRM Part, Eligible Expenditures required therefore ("Emergency Expenditures"), and any procedures for such inclusion; (iii) financial management arrangements for the IRM Part; (iv) procurement methods and procedures for Emergency Expenditures to be financed under the IRM Part; (v) documentation required for withdrawals of

- Emergency Expenditures; (vi) environmental and social safeguard management frameworks for the IRM Part, consistent with the Association's policies on the matter; and (vii) any other arrangements necessary to ensure proper coordination and implementation of the IRM Part;
- (b) afford the Association a reasonable opportunity to review the proposed IRM Operations Manual;
 - (c) promptly adopt the IRM Operations Manual for the IRM Part as shall have been approved by the Association;
 - (d) ensure that the IRM Part is carried out in accordance with the IRM Operations Manual; provided, however, that in the event of any inconsistency between the provisions of the IRM Operations Manual and this Agreement, the provisions of this Agreement shall prevail; and
 - (e) not amend, suspend, abrogate, repeal or waive any provision of the IRM Operations Manual without prior approval by the Association.
2. The Recipient shall, throughout the implementation of the IRM Part, maintain the Coordinating Authority, with adequate staff and resources satisfactory to the Association.
3. The Recipient shall undertake no activities under the IRM Part (and no activities shall be included in the IRM Part) unless and until the following conditions have been met in respect of said activities:
- (a) the Recipient has determined that an Eligible Emergency has occurred, has furnished to the Association a request to include said activities in the IRM Part in order to respond to said Eligible Emergency, and the Association has agreed with such determination, accepted said request and notified the Recipient thereof; and
 - (b) the Recipient has prepared and disclosed all safeguards instruments required for said activities, in accordance with the IRM Operations Manual, the Association has approved all such instruments, and the Recipient has implemented any actions which are required to be taken under said instruments.

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 calendar 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. Without limitation to the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association, as part of each Project Report, interim unaudited financial reports for the Project covering the relevant calendar 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.

Section III. Procurement

A. General

1. Goods and Works and Non-Consulting Services.

- (a) All goods, works and non-consulting 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 the criteria set forth in the bidding documents (acceptable to the Association), 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 non-consulting 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 non-consulting services (other than consultants' services). The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method
(a) National Competitive Bidding
(b) Shopping
(c) Direct Contracting

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 Methods
(a) Least Cost Selection
(b) Selection based on Consultants' Qualifications
(c) Single-source Selection
(d) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(e) Sole Source Procedures for the Selection of Individual Consultants

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. Procurement of Emergency Expenditures under the IRM Part of the Project

Notwithstanding any provision to the contrary in this Section, Emergency Expenditures required for the IRM Part of the Project shall be procured in accordance with the procurement methods and procedures set forth in the IRM Operations Manual.

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:

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Consultants’ services under Part 1.A, 3.A and 4 of the Project	1,750,000	100%
(2) Goods under Parts 3.A and 4 of the Project	80,000	100%
(3) Goods, works, consultants’ services, non-consulting services, and Training under Parts 1.B and 1.C of the Project	4,410,000	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 to the Original Financing Agreement.
(4) Operating Costs under Parts 3.A and 4 of the Project	210,000	100%
(5) Training and non-consulting services under Parts 3.A and 4 of the Project	250,000	100%
(6) Emergency Expenditures under Part 5 of the Project	0	100%
TOTAL AMOUNT	6,700,000	

3. For the purposes of this Section:
 - (a) the term "Training" means expenditures (other than consultant and non-consultant services) for: (i) reasonable travel, room, board and per diem expenditures incurred by trainers and trainees in connection with their training and by 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) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed 40% of the amount allocated to Category (6) may be made for payments prior to this date but on or after March 31, 2013, for Eligible Expenditures under Category (6); and
 - (b) under Category (6), for Emergency Expenditures under Part 5 of the Project, unless and until the Association is satisfied, and notified the Recipient of its satisfaction, that all of the following conditions have been met in respect of said activities:
 - (i) the Recipient has determined that an Eligible Emergency has occurred, has furnished to the Association a request to include said activities in the IRM Part in order to respond to said Eligible Emergency, and the Association has agreed with such determination, accepted said request and notified the Recipient thereof;
 - (ii) the Recipient has prepared and disclosed all safeguards instruments required for said activities, and the Recipient has implemented any actions which are required to be taken under said instruments, all in accordance with the provisions of Section I.B.3(b) of this Schedule;

- (iii) the Recipient's Coordinating Authority has adequate staff and resources, in accordance with the provisions of Section I.B.2 of this Schedule for the purposes of said activities; and
- (iv) the Recipient has adopted the IRM Operations Manual in form, substance and manner acceptable to the Association and the provisions of the IRM Operations Manual remain or have been updated in accordance with the provisions of Section I.B.1(c) of this Schedule so as to be appropriate for the inclusion and implementation of said activities under the IRM Part.

2. The Closing Date is December 31, 2016.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each May 15 and November 15:	
commencing November 15, 2018 to and including May 15, 2028	1.65%
commencing November 15, 2028 to and including May 15, 2038	3.35%

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

APPENDIX

Section I. Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “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.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011.
5. “Coordinating Authority” means the entity or entities designated by the Recipient in the IRM Operations Manual and approved by the Association pursuant to Section I.B.1 of Schedule 2 to this Agreement, to be responsible for coordinating the IRM Part of the Project.
6. “Eligible Emergency” means an event that has caused, or is likely to imminently cause, a major adverse economic and/or social impact to the Recipient, associated with a natural or man-made crisis or disaster.
7. “Eligible Municipality” means a Municipality which meets the criteria set forth in the Operational Manual to participate in the Project.
8. “Emergency Expenditure” means any of the Eligible Expenditures set forth in the IRM Operations Manual in accordance with the provisions of Section I.B.1 (a) of Schedule 2 to this Agreement and required for the activities included in the IRM Part of the Project.
9. “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.
10. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010, with the modifications set forth in Section II of this Appendix.

11. “Immediate Response Mechanism Operations Manual” and “IRM Operations Manual” each means the operations manual referred to in Section I B of Schedule 2 of this Agreement, to be adopted by the Recipient for the IRM Part of the Project in accordance with the provisions of said Section.
12. “Inter-institutional Agreement” means the agreement referred to in Section I.B.1 (a) of Schedule 2 to the Original Financing Agreement, as amended for purposes of this Credit.
13. “IRM Part of the Project” and “IRM Part” each mean Part 5 of the Project.
14. “Municipality” means an autonomous entity established pursuant to the Municipality Law.
15. “Municipality Agreement” means any of the agreements referred to in Section I.D.1 (a) of Schedule 2 to the Original Financing Agreement, as amended pursuant to Section I.A.2 of Schedule 2 to this Agreement.
16. “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.
17. “Operational Manual” means the Recipient’s manual for the implementation of the Project, updated on April 12, 2013, acceptable to the Association, as said manual may be amended from time to time with the agreement of the Association.
18. “Original Financing Agreement” means the Financing Agreement between the Republic of Honduras and the International Development Association for the “Water and Sanitation Sector Modernization Project”, dated November 16, 2007, as amended.
19. “Original Project” means the Project described in the Original Financing Agreement.
20. “Performance Indicators” means the indicators for Project monitoring and evaluation set forth in the Operational Manual.
21. “Procurement Guidelines” means the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011.
22. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 11, 2013 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.

23. "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.
24. "SEFIN" means *Secretaría de Estado en el Despacho de Finanzas*, the Recipient's Ministry of Finance.
25. "Subproject" means any group of activities under Part 1 of the Project with respect to an Eligible Municipality, as set forth in the respective Municipality Agreement.
26. "UAP" means *Unidad Administradora de Proyectos*, the Recipient's Project implementation unit within SEFIN created by SEFIN's Ministerial Agreement No. 0271 of 2004.
27. "WSS" means water supply and sanitation.
28. "WSS Regulations" means the regulations to the WSS Sector Framework Law issued on February 3, 2004 by the Recipient's Ministry of Health pursuant to Article 56 of the WSS Sector Framework Law, and published in the Recipient's Official Gazette on May 8, 2004.
29. "WSS Sector Framework Law" means the Recipient's Legislative Decree No. 118-2003 dated August 20, 2003 and published in the Recipient's Official Gazette on October 8, 2003.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Section 3.02 is modified to read as follows:

"Section 3.02. *Service Charge and Interest Charge*

- (a) *Service Charge.* The Recipient shall pay the Association a service charge on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. The Service Charge shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Service Charges shall be computed on the basis of a 360-day year of twelve 30-day months.

(b) *Interest Charge.* The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months.”

(A) Paragraph 28 of the Appendix (“Financing Payment”) is modified by inserting the words “the Interest Charge” between the words “the Service Charge” and “the Commitment Charge”.

(B) The Appendix is modified by inserting a new paragraph 32 with the following definition of “Interest Charge”, and renumbering the remaining paragraphs accordingly:

“32. “Interest Charge” means the interest charge specified in the Financing Agreement for the purpose of Section 3.02(b).”

(C) Renumbered paragraph 37 (originally paragraph 36) of the Appendix (“Payment Date”) is modified by inserting the words “Interest Charges” between the words “Service Charges” and “Commitment Charges”.

(D) Renumbered paragraph 50 (originally paragraph 49) of the Appendix (“Service Charge”) is modified by replacing the reference to Section 3.02 with Section 3.02 (a).