

CONFORMED COPY

**Global Partnership on Output-based Aid
TF GRANT NUMBERS TF058263, TF058264, TF058265**

Global Partnership on Output-based Aid Grant Agreement

(National OBA Facility for Water and Sanitation Services Project)

among

FONDO HONDUREÑO DE INVERSIÓN SOCIAL

and

REPUBLIC OF HONDURAS

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

acting as Administrator of the Global Partnership on Output-based Aid

Dated June 19, 2007

**Global Partnership on Output-based Aid
TF GRANT NUMBERS TF058263, TF058264, TF058265**

**GLOBAL PARTNERSHIP ON OUTPUT-BASED AID
GRANT AGREEMENT**

AGREEMENT (“Grant Agreement”) dated June 19, 2007, entered into among:

1. FONDO HONDUREÑO DE INVERSIÓN SOCIAL (“FHIS” or the “Recipient”);
2. REPÚBLICA DE HONDURAS (the “Member Country”) acting through *SECRETARIA DE ESTADO EN EL DESPACHO DE FINANZAS* (“SEFIN”); and
3. INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“World Bank”), acting as administrator of the Global Partnership on Output-based Aid (“GPOBA”). The Recipient, the Member Country and the World Bank hereby agree as follows:

**Article I
Standard Conditions; Definitions**

- 1.01. The Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 20, 2006 (“Standard Conditions”), 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 Standard Conditions or in this Agreement.

**Article II
The Project**

- 2.01. The Member Country and the Recipient declare their commitment to the objective of the project described in Schedule 1 to this Agreement (“Project”). To this end,
 - (i) the Member Country through ERSAPS shall carry out Part 3 (b) of the Project and cause Parts 1, 2 and 3 (a) of the Project to be carried out by the Recipient; and
 - (ii) the Recipient shall carry out Parts 1, 2 and 3 (a) of the Project,

all in accordance with the provisions of Article II of the Standard Conditions.

- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Member Country, the Recipient and the World Bank shall otherwise agree, the Member Country and the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

Article III The Grant

- 3.01. The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to four million five hundred ninety thousand Dollars (USD 4,590,000) (“Grant”) to assist in financing the Project. From the total Grant amount, one million five hundred thirty thousand Dollars (USD 1,530,000) will be financed by the International Finance Corporation (TF058264-IFC), one million five hundred thirty thousand Dollars (USD 1,530,000) will be financed by the Government of Netherlands Ministry of Development Cooperation (TF058263-DGIS) and the remaining one million five hundred thirty thousand Dollars (USD 1,530,000) will be financed by the Department for International Development (TF058265-DFID).
- 3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.

Article IV Additional Remedies

- 4.01. The Additional Events of Suspension consist of the following:
- (a) *Ineligibility.* IBRD or IDA has declared the Recipient ineligible to be awarded a contract financed by IBRD or IDA.
 - (b) The World Bank has determined after the Effective Date referred to in Section 5.03 of this Agreement that prior to such date but after the date of this Agreement, an event has occurred which would have entitled the World Bank to suspend the Recipient’s right to make withdrawals from the Grant Account if the Grant Agreement had been effective on the date such event occurred.
 - (c) The Eligible Implementers have failed to design, construct, operate and maintain the sub-projects in accordance with the Environmental and Social Management Framework and the Indigenous People’s Planning Framework (as the case may be).

- (d) The Recipient fails to maintain an aggregate amount of one million dollars (USD 1,000,000) in the Operating Account and to make available such funds on a revolving basis to the Public Sector Implementers to pre-finance costs for Eligible Sub-projects under the terms and conditions set forth in Annex (G) of the Operational Manual.
- (e) The Recipient has failed to perform any obligation under the Performance Agreements.
- (f) The Operational Manual has been amended, suspended, abrogated repealed or waived so as to: (i) affect materially and adversely, in the opinion of the World Bank, the carrying out of the Project; and (ii) change the output based approach of the Project design without prior agreement of the World Bank.

Article V
Effectiveness; Termination

5.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the conditions specified below have been satisfied.

- (a) The execution and delivery of this Agreement on behalf of the Recipient and the Member Country has been duly authorized or ratified by all necessary governmental and corporate action.
- (b) If the World Bank so requests, the condition of the Recipient, as represented or warranted to the World Bank at the date of this Agreement, has undergone no material adverse change after such date.
- (c) Each other condition specified below has occurred:
 - (i) the Recipient has deposited an aggregate amount of one million Dollars (USD 1,000,000) in the Operating Account and, such funds are made available to Public Sector Implementers as bridge loans intended to fund temporarily the costs of an Eligible Sub-project under the terms and conditions set forth in the relevant Performance Agreements and in accordance with Annex G of the Operational Manual;
 - (ii) The Operational Manual has been issued and put into effect.
 - (iii) A legal opinion from the Legal Director of the FHIS

satisfactory to the World Bank, showing that the model Performance Agreement includes legally binding obligations under the laws of the Republic of Honduras.

- 5.02. As part of the evidence to be furnished pursuant to Section 5.01 (a) above, there shall be furnished to the World Bank an opinion or opinions satisfactory to the World Bank of counsel acceptable to the World Bank, showing the following matter: on behalf of the Recipient and the Member Country that this Agreement has been duly authorized or ratified by, and executed and delivered on its behalf and is legally binding upon it in accordance with its terms.
- 5.03. Except as the Recipient, the Member Country and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient and the Member Country notice of its acceptance of the evidence required pursuant to Section 5.01 (“Effective Date”). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this subparagraph until such event (or events) has (or have) ceased to exist.
- 5.04. *Termination for Failure to Become Effective.* This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date ninety (90) days after the date of this Agreement, unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.

Article VI Representatives; Addresses

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

6.02. The Recipient’s Address is:

Fondo Hondureño de Inversión Social
Col. Lomas de Toncontin
Comayaguela
Honduras

Facsimile: (504) 234-5255

6.03. The Member Country’s Representative is its *Secretario de Estado en el Despacho de Finanzas*.

6.04. The Member Country's Address is:

Secretaría de Estado en el Despacho de Finanzas
Avenida Cervantes, Barrio El Jazmín
Tegucigalpa, M.D.C.
Honduras, C.A.
Facsimile: (504) 237-4142

6.05. The World Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable Address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

1-202-477-6391

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

REPUBLIC OF HONDURAS

By /s/ Rebeca P. Santos

**Authorized Representative
Secretaría de Estado en el Despacho de Finanzas**

FONDO HONDUREÑO DE INVERSIÓN SOCIAL

By /s/ Cesar Arnulfo Salgado Saucedo

Authorized Representative

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
acting as administrator of the
Global Partnership on Output-based Aid**

By /s/ Jessica Poppele

Authorized Representative

HONORARY WITNESS

By /s/ José Manuel Zelaya Rosales

President of the Republic of Honduras

SCHEDULE 1

Project Description

The objective of the Project is to develop an output-based facility aimed at establishing an efficient and transparent mechanism for financing infrastructure in water and sanitation projects in Honduras and to increase access to water and sanitation services and improve the quality of existing services for about forty thousand (40,000) low income households in rural and peri-urban areas of Honduras. The Project envisages to: (i) increase the number of household water connections with meters, yard taps, public points and water availability; and (ii) increase water quality and household connections to sewer systems in selected peri-urban and rural communities.

The Project consists of the following parts:

Part 1: OBA Facility:

Creating an output based-aid financial mechanism (the “OBA Facility”) to be managed by the Recipient through its OBA Unit for the provision of a GPOBA subsidy to be paid by the Recipient to Eligible Implementers who carry out Eligible Sub-projects upon the delivery of certain pre-specified Outputs.

Part 2: Technical Assistance:

Providing technical assistance to assist the Implementers to formulate viable and eligible sub-project proposals by retaining specialized consultants to assist in the preparation of such proposals.

Part 3: Project Management, Monitoring and Evaluation

- (a) Strengthening the OBA Unit’s management capacities by hiring specialized management consultants including but not limited to a financial management specialist, procurement specialist, technical specialist, Construction Supervision Officer and administrative support staff.
- (b) Carrying out of audits, monitoring and evaluation activities by hiring an Independent Verification Agent.

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. OBA Facility

The OBA Facility shall have the following characteristics:

(a) the Implementers shall: (i) submit proposals for a GPOBA subsidy for a sub-project to the OBA Facility; and (ii) in the case of Public Sector Implementers (if necessary) submit requests to the OBA Facility for a bridge loan to pre-finance the sub-project costs.

(b) the OBA Facility shall: (i) identify if the sub-project is eligible based on the FHIS Eligibility Criteria, the OBA Eligibility Criteria and the Ranking Methodology; and (ii) in the event of Public Sector Implementers, determine if they are eligible for a bridge loan.

(c) if the sub-project is deemed eligible, the OBA Facility shall prepare a draft Performance Agreement to be entered into by the FHIS and the Implementer and such draft, together with a procurement, financial, environmental and social package including a Baseline Report prepared in accordance with the guidelines set forth in the Operational Manual, shall be submitted to the World Bank for prior written approval.

(d) upon approval by the World Bank, the Recipient shall enter into the relevant Performance Agreement with the Eligible Implementer and shall monitor compliance by the Eligible Implementer with the provisions of such Performance Agreement.

The design and guidelines for the operation of the OBA Facility are incorporated in the Operational Manual.

B. Performance Agreement

1. The Recipient shall be required to enter into an agreement (Performance Agreement) with each Eligible Implementer for an Eligible Sub-project, under the terms and conditions approved by the World Bank and substantially similar to those contained in the model form contained in Annex A of the Operational Manual, which shall include the following:

(a) for sub-projects carried out by a Public Sector Implementer, a requirement that the collective community contributions together with the public sector entity contributions, in kind or in cash, shall be at least twenty per cent (20%) of the total cost of works and services of the relevant Eligible Sub-project, all as further described in the Operational Manual;

(b) adequate provisions to ensure that the Eligible Implementers, procure any goods, works and services with the contractors under each sub-project in accordance with the procedures listed in Section III of this Schedule and the Operational Manual;

(c) adequate provisions identifying the total GPOBA subsidy award (calculated pursuant to the GPOBA Subsidy Calculation Methodology) and provisions reflecting that such award is represented by a unit cost per household connection to be payable against pre-specified Outputs to an Eligible Implementer as follows:

- (i) ten (10) per cent of the total GPOBA subsidy award for the Eligible Sub-project to be advanced by the Recipient (the “Advance”) upon the signing of the Performance Agreement.
- (ii) sixty-five (65) per cent of the total GPOBA subsidy award for the Eligible Sub-project to be disbursed once the pre-specified Outputs identifying a number of working household water and sewerage connections (including stand pipes if appropriate), as the case may be, have been verified in the Outputs Verification Report by the Independent Verification Agent.
- (iii) twenty five (25) per cent to be disbursed after: (1) an Eligible Implementer has provided satisfactory evidence to the OBA Facility that a particular customer who has been connected to the services in accordance with the description of the sub-project detailed in the Performance Agreement has been billed and paid its bills for a period of six consecutive months; and (2) the information described in sub-paragraph (1) above has been verified by the Independent Verification Agent in an Outputs Verification Report,

provided that: (i) the maximum GPOBA subsidy award per person is lower or equal to the Reference Values; and (ii) the amounts shall be adjusted as needed to reflect the actual verified outputs as detailed in the relevant Outputs Verification Report;

(d) adequate provisions to ensure that the Eligible Implementers shall carry out the Eligible Sub-projects in compliance with the Environmental and Social Management Framework and the Indigenous Peoples Planning Framework;

(e) if applicable, the terms and conditions of the bridge loan to be provided by the Recipient to the eligible Public Sector Implementers;

(f) the obligation of the Eligible Implementer to prepare the reports referred to in the Operational Manual, including but not limited to a Baseline Report and a quarterly progress report.

2. The Recipient shall exercise its respective rights under each Performance Agreement in such manner as to protect the interests of the Recipient, the Member Country and the World Bank and to accomplish the purposes of the Grant. Except as the World Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive a Performance Agreement or any of its provisions.

C. Other.

1. Operational Manual

The Recipient and the Member Country (through ERSAPS) shall carry out the Project in accordance with an operational manual satisfactory to the World Bank (the “Operational Manual”), such manual to include, *inter alia*:

- (a) The rules and procedures for the operation of the OBA Facility referred to in Part 1 of the Project including:
 - (i) the selection criteria for sub-projects (FHIS Eligibility Criteria, OBA Eligibility Criteria and Ranking Methodology);
 - (ii) the procurement, financial management, disbursement and monitoring arrangements for Eligible Sub-projects;
 - (iii) the GPOBA Subsidy Calculation Methodology;
 - (iv) the requirements and conditions that need to be satisfied (including the delivery of an Outputs Verification Report) to cause the Recipient to make subsidy payments to the Eligible Implementers;
 - (v) the plan for the monitoring and supervision of the Project; and
 - (vi) the performance indicators and the monitoring indicators for the Project;
- (b) the Environmental and Social Management Framework and the Indigenous Peoples Planning Framework; and
- (c) the model form of the Performance Agreement.

In the event that any provision of the Operational Manual shall conflict with any one under this Agreement, the terms of this Agreement shall prevail.

The Recipient and the Member Country may amend the Operational Manual from time to time only with the World Bank’s prior written consent.

2. Cooperation and inter-agency transfer of funds.

(a) The Recipient hereby agrees to fully cooperate with the Member Country and upon the request of the Member Country (through ERSAPS), to promptly transfer up to fifty thousand Dollars (USD 50,000) of the Grant amount to ERSAPS to ensure that ERSAPS retains an Independent Verification Agent;

(b) the Member Country (through ERSAPS) hereby agrees to fully cooperate with the Recipient and to retain no later than sixty (60) days from the date of effectiveness of the Grant an Independent Verification Agent to carry out the Output Verification Reports and other monitoring and verification activities, all as required pursuant to Sections (D), (E), (F) and (J) of the Operational Manual;

(c) the Recipient and the Member Country (through ERSAPS) hereby agree to fully cooperate to ensure appropriate coordination and efficient and timely project implementation; and

(d) the Member Country (through ERSAPS) hereby agrees to provide all relevant information which the Recipient may require in order to carry out its reporting obligations under this Agreement in a timely manner.

3. FHIS Contribution and bridge loans to Public Sector Implementers

The Recipient hereby agrees to:

(a) deposit and maintain at all times on a revolving basis and for the duration of the Project, an aggregate amount of one million Dollars (USD 1,000,000) in the Operating Account (the “FHIS Contribution”), such funds to be used exclusively as bridge loans intended to fund temporarily the sub-project costs incurred by the Public Sector Implementers to carry out an Eligible Sub-project;

(b) provide, upon the request of an eligible Public Sector Implementer, a bridge loan under the terms and conditions set forth in the relevant Performance Agreement and in accordance with Annex G of the Operational Manual; and

(c) ensure that the repayment of principal of a bridge loan or any funds retained by the Recipient as repayment of the relevant bridge loans, as the case may be, remain in the Operating Account for the duration of the Project and are made available for other Eligible Sub-projects to Public Sector Implementers (as the case may be).

4. OBA Unit

The Recipient shall designate (and thereafter maintain during the execution of the Project) an output based-aid unit (within the Recipient) responsible for the coordination and management of the Project, such unit to have a structure and functions satisfactory to the World Bank, and to have qualified staff in adequate numbers as required to carry out its responsibilities including a procurement, financial and technical specialist and the Construction Supervision Officer.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports; Completion Report

1. (a) the Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators set forth in the Operational Manual. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than forty-five days after the end of the period covered by such report.
- (b) Each Project Report shall also include: (i) the financial reports referred to in Section II.B.2 below; (ii) a summary of the status of each sub-project; and (iii) procurement reports, all in accordance with the formats agreed with the World Bank.
2. (a) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions, such report to include among other things:
 - (i) relevant information on the execution of each sub-project; and
 - (ii) the completed GPOBA data sheet for monitoring and verification indicators included as Annex J of the Operational Manual; and
- (b) the Recipient shall furnish the Recipient's Completion Report not later than six months after the Closing Date. In addition, the Recipient shall prepare two additional reports ("Post Project Reports"), each of such scope and in such detail as the World Bank shall reasonably request, on the execution of the plan set out in the Recipient's Completion Report, and setting out measures designed to ensure the continued efficient and effective achievement of the Project's objectives. The Recipient shall furnish the Post-Project Reports to the World Bank not later than one month after the first and second anniversaries of the Closing Date, respectively.

B. Financial Management, Financial Reports and Audits.

1. The Recipient shall ensure that a financial management system is maintained in

accordance with the provisions of Section 2.07 of the Standard Conditions.

2. The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank as part of the Project Report not later than forty-five days after the end of each calendar semester, covering the quarter, in form and substance satisfactory to the World Bank.
3. The Recipient shall have its Financial Statements for the Project audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such 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 World Bank not later than six months after the end of such period.

Section III. Procurement

A. General.

1. **Procurement and Consultant Guidelines.** All goods, works and services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:
 - (a) Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 (“Procurement Guidelines”), and Operational Memorandum from James Adams dated November 7, 2005, *Application of Paragraph 3.13 of the Procurement Guidelines to Cases Involving Incumbent Concessionaries*, in the case of goods and works including non-consultant services and Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 (“Consultant Guidelines”) in the case of consultants’ services; and
 - (b) the provisions of this Section III, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines (“Procurement Plan”).
2. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the World Bank 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 and Works (including Non-Consultant Services) to be procured by the Eligible Implementers for Eligible Sub-projects

(i) **National Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works (including non-consultant services) shall be procured by the Eligible Implementers under contracts awarded on the basis of National Competitive Bidding.

(ii) **Other Methods of Procurement of Goods and Works.** The following methods, other than National Competitive Bidding, may be used for procurement of goods and works (including non-consultant services) by the Eligible Implementers for those contracts specified in the Procurement Plan: (a) Shopping; (b) Direct Contracting; (c) Force Account; (d) established practices of the Eligible Implementers, which have been found acceptable to the World Bank for goods procured by an Eligible Implementer for an Eligible Sub-project as described in the relevant Performance Agreement; and (e) Community Participation procedures which have been found acceptable to the World Bank.

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 methods, other than Quality and Cost-based Selection, may be used for procurement of consultants' services for those assignments which are specified in the Procurement Plan: (a) Quality-based Selection; (b) Selection under a Fixed Budget; (c) Least Cost Selection; (d) Selection based on Consultants' Qualifications; (e) Single-source Selection; (f) Established Private or Commercial Practices which have been found acceptable to the World Bank; (g) Selection of Individual Consultants; and (h) Sole source Procedures for the Selection of Individual Consultants.

D. Review by the World Bank of Procurement Decisions

1. All other contracts shall be subject to Post Review by the World Bank.

2. Except as the World Bank shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the World Bank: (a) the Performance Agreements together with the relevant supporting procurement package; (b) the contract for the selection of the Independent Verification Agent; (c) the contract for the selection of the Construction Supervision Officer and; (d) each contract for consultants' services provided under Part 2 of the Project (technical assistance).

E. Special Provisions

1. The Recipient shall: (a) identify in the Performance Agreement the specific methods of procurement to be used by the Eligible Implementers; (b) submit the draft Performance Agreement together with its supporting procurement package

to the World Bank for its prior written approval.

2. Unless the Bank shall otherwise agree in writing, all goods, works and services required for each sub-project shall be procured by the Eligible Implementers in compliance with the Procurement Guidelines and the Consultant Guidelines and using standard bidding documents satisfactory to the World Bank.
3. If and when the Bank has reviewed and approved any revisions to the Procurement Plan, FHIS shall advertise the revised Procurement Plan in the Development Business newspapers and other publishing sources acceptable to the World Bank.

Section IV. Withdrawal of the Proceeds of the Grant

A. General.

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may 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 World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Grant (TF 058263-DGIS) Allocated (expressed in USD)	Amount of the Grant (TF 058265-DFID) Allocated (expressed in USD)	Amount of the Grant (TF 058264-IFC) Allocated (expressed in USD)	Percentage of Expenditures to be Financed
(1) GPOBA Subsidy for water and sanitation connections under Part 1 of the Project	1,333,333	1,333,333	1,333,333	100% excluding the portion covered by the counterpart contribution cited in Section I.B.1(a) of Schedule 2 of this Agreement

(2) Consultants' services under Parts 2 and 3 (a) and (b) of the Project	196,667	196,667	196,667	100%
TOTAL AMOUNT	1,530,000	1,530,000	1,530,000	

For the purposes of this Schedule:

the term "GPOBA Subsidy" means the amounts payable by the Recipient to the Eligible Implementer upon achievement of deliverables and against pre-specified Outputs, such amounts to be defined as a price per household connection in the Performance Agreement and provided that the price per household connection shall not exceed the Reference Values.

B. Withdrawal Conditions; Withdrawal Period.

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made:
 - (a) for payments made prior to the date of this Agreement;
 - (b) for payments covered by Category (1) above for the GPOBA Subsidy unless the Recipient shall have entered into the relevant Performance Agreements with the Eligible Implementers in form and substance satisfactory to the World Bank; and
 - (c) for payments covered by Category (1) (which are not considered an Advance of the Subsidy) unless an Outputs Verification Report satisfactory to the World Bank has been received from the Independent Verification Agent.
2. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is February 28, 2010.

APPENDIX

Section I. Definitions

1. “Baseline Report” means the report to be prepared by the OBA Facility and the relevant Eligible Implementer which shall be used as the base from which to monitor progress and achievements for each sub-project, such report to be certified by the Independent Verification Agent and to be delivered as set forth in Section I.A.(d) of this Agreement;
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Construction Supervision Officer” means a consultant retained by the FHIS pursuant to the terms of reference set forth in Annex I of the Operational Manual to assist the Eligible Implementers in procurement for all construction activities and in the preparation of payment certificates for contractors as well as to assist the FHIS in the supervision of the sub-project construction contractors.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004.
5. “Development Business” means the *UN Development Business (UNDB)* publication which provides a comprehensive source of information on opportunities to supply goods, works and services for projects financed by the United Nations, governments and the world's leading development banks.
6. “Effective Date” means the date referred to in Section 5.03 of this Agreement;
7. “Eligible Implementer” means an Implementer that has been selected in accordance with the FHIS Eligibility Criteria, the OBA Eligibility Criteria and the Ranking Methodology set forth in the Operational Manual;
8. “Eligible Sub-project” means any activities (under Part 1 of Schedule 1 of this Agreement) to be carried out by an Eligible Implementer to improve access to and quality of water and sanitation services for low income households in rural and peri-urban areas, appraised and approved in accordance with the Operational Manual.
9. “Environmental and Social Management Framework” means the environmental and social management plan dated October 1, 2006 satisfactory to the World Bank, setting forth measures to mitigate any adverse social and environmental impacts in the implementation of the Eligible Sub-projects.
10. “ERSAPS” means *Ente Regulador de los Servicios de Agua Potable y*

Saneamiento, the Member Country's regulating entity for potable water and sanitation created by the Member Country's Legislative Decree No.118-2003 published in the Member Country's Official Gazette on October 8, 2003 and its successors and permitted assigns.

11. "FHIS" means *Fondo Hondureño de Inversión Social*, the Member Country's Social Investment Fund established pursuant to the Recipient's Decree No. 12-90 of February 22, 1990, as said Decree may have been amended to the date of this Agreement and governed by the regulations set forth in the Member Country's Decree No. 261-91 of April 2, 1991, as said regulations may have been amended to the date of this Agreement;
12. "FHIS Eligibility Criteria" means the criteria for eligibility of an Implementer and its proposed sub-project which shall include, but not be limited to, technical, financial and environmental criteria all as set forth in Annex B of the Operational Manual.
13. "FHIS Contribution" means the monetary contribution by FHIS for the Project referred to in Section I.C.3 of Schedule 2 of this Agreement.
14. "GPOBA Subsidy Calculation Methodology" means the methodology for calculating the total amount of subsidy which shall be awarded to an Eligible Implementer for an Eligible Sub-project and which shall take into account: (i) the contributions from other sources to a particular sub-project; (ii) the Eligible Implementer's minimum contribution (as the case may be); and (iii) the Reference Values, all as set forth in the Operational Manual;
15. "Implementer" includes Public Sector Implementers and private sector providers including, but not limited to, SANAA, rural water boards ("*juntas de agua*"), community groups, community based organizations and non-governmental organizations.
16. "Independent Verification Agent" means the consultant hired by ERSAPS with the prior review of the World Bank and pursuant to the terms of reference set forth in Annex H of the Operational Manual for the purpose of monitoring implementation progress, preparing Outputs Verification Reports, quarterly monitoring reports, certifying payment of the GPOBA subsidy award after verifying satisfactory completion of Outputs and Baseline Reports and preparing an annual program audit report.
17. "Indigenous Peoples Planning Framework" means the indigenous peoples management plan dated October 1, 2006 satisfactory to the World Bank, setting forth measures to mitigate any adverse impacts to the indigenous peoples in the implementation of the Eligible Sub-projects.
18. "OBA Eligibility Criteria" means the criteria to determine the eligibility of an Implementer and its proposed sub-project including, but not limited to, the appropriateness and sustainability of the technical solution proposed by the

- Implementer, the ownership and availability of the water resource, the willingness of the population to connect and pay for the proposed services, the amount of subsidy required, the economic net present value of the sub-project, the capacity of the Implementer as well as the financial feasibility of the sub-project, all as set forth in Annex C of the Operational Manual.
19. “OBA Facility” means the facility referred to in Section I.A of Schedule 2 of this Agreement.
 20. “OBA Unit” means the unit within the FHIS referred to in Section I.C.4 of Schedule 2 of this Agreement.
 21. “Operating Account” means an account to be opened in a financial institution acceptable to the World Bank and on terms and conditions acceptable to the World Bank.
 22. “Operational Manual” means the manual referred to in Section I.B.1 of Schedule 2 of this Agreement.
 23. “Outputs” means the outputs that are agreed to by the Recipient and each Eligible Implementer in the Performance Agreement and developed pursuant to the guidelines set forth in the Operational Manual.
 24. “Outputs Verification Report” means the report, satisfactory to the World Bank, to be prepared by the Independent Verification Agent pursuant to the forms included in Annex E of the Operational Manual.
 25. “Performance Agreement” means the agreement to be entered into between the Recipient and the Eligible Implementers and referred to in Section I.B of Schedule 2 of this Agreement.
 26. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004.
 27. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 25, 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.
 28. “Public Sector Implementers” includes municipalities, SANAA and any other sub-sovereign entity provided it is operating on commercial principles.
 29. “Ranking Methodology” means the methodology described in Annex (C) of the Operational Manual and used by the OBA Unit to compare and rank sub-projects proposed by Implementers during a given period of four (4) consecutive months, the first such period to begin on the date of effectiveness of this Agreement and provided that the sub-projects identified in Annex (K) of the Operational Manual may be deemed eligible by the FHIS and the Bank on the date of effectiveness of

this Agreement and any time thereafter.

30. “Reference Values” means ninety Dollars (USD 90) per person for water projects and ninety-six (USD 96) per person for sanitation projects as calculated for a household of six individuals.
31. “SANAA” means the *Servicio Autónomo Nacional de Acueductos y Alcantarillados*, the Member Country’s national autonomous service for aqueducts and sewerage created by the Member Country’s Legislative Decree No. 91 of April 26, 1961, as it may have been amended to the date of this Agreement and its successors and permitted assigns.
32. “Standard Conditions” means the “Standard Conditions for Grants made by the World Bank acting as administrator of Various Funds’ dated July 20, 2006.