

CREDIT NUMBER 6460-HN

Financing Agreement

(Tegucigalpa Water Supply Strengthening Project)

between

REPUBLIC OF HONDURAS

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between REPUBLIC OF HONDURAS ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association"). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form 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 a credit, which is deemed as Concessional Financing for purposes of the General Conditions, in the amount of fifty million Dollars (\$50,000,000) (variously, "Credit" and "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 III of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate is one-half of one percent ($1/2$ of 1%) per annum on the Unwithdrawn Financing Balance.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to the greater of: (a) the sum of three-fourths of one percent ($3/4$ of 1%) per annum plus the Basis Adjustment to the Service Charge; and (b) 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 The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to the greater of: (a) the sum of one and a quarter percent (1.25%) per annum plus the Basis Adjustment to the Interest Charge; and (b) zero percent (0%) per annum.

- 2.06. The Payment Dates are April 15 and October 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 Dollar.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall:
 - (a) cause Parts 1 through 3 of the Project to be carried out by the Project Implementing Entity under the terms of the Subsidiary Agreement; and
 - (b) carry out Part 4 of the Project through the Coordinating Authority,all in accordance with the provisions of Article V of the General Conditions, Schedule 2 to this Agreement and the Subsidiary Agreement, as applicable.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following:
 - (a) that the Project Implementing Entity's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Association, the ability of the Project Implementing Entity to perform any of its obligations under the Subsidiary Agreement; and
 - (b) that any of the actions required under the DLIs shall have been reversed.
- 4.02. The Additional Events of Acceleration consist of the following:
 - (a) that the event specified in Section 4.01 (a) of this Agreement occurs; and
 - (b) that the event specified in Section 4.01 (b) occurs and is continuing for a period of 60 days after notice of the event has been given by the Association to the Recipient.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) the Project Operational Manual has been adopted by the Project Implementing Entity in form and substance satisfactory to the Association;
 - (b) the Subsidiary Agreement has been entered into by the parties thereto in form and substance satisfactory to the Association; and
 - (c) the PCU has been established in form and substance satisfactory to the Association, and the Project coordinator, a financial management specialist and a procurement specialist have been employed under terms of reference and with qualifications satisfactory to the Association.
- 5.02. The Effectiveness Deadline is the date one hundred and twenty (120) days after the Signature Date.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is its Secretary of Finance.
- 6.02. For purposes of Section 11.01 of the General Conditions:

- (a) the Recipient's address is:

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

- (b) the Recipient's Electronic Address is:

Telex:	Facsimile:	E-mail:
(504) 2237-4142	(504) 2237-4142	dgcp@sefin.gob.hn

6.03. For purposes of Section 11.01 of the General Conditions:

(a) The Association's address is:

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

(b) the Association's Electronic Address is:

Telex:	Facsimile:
248423 (MCI)	1-202-477-6391

AGREED as of the Signature Date.

REPUBLIC OF HONDURAS

By



Authorized Representative

Name: Rocio Izabel Tabora

Title: Ministra de Finanzas

Date: 23. Agosto. 2019

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Seynabou Sakho

Authorized Representative

Name: Y. Seynabou Sakho

Title: Country Director

Date: Aug. 2, 2019

SCHEDULE 1

Project Description

The objective of the Project is to increase the efficiency and reliability of water services in selected areas of Tegucigalpa.

The Project consists of the following parts:

Part 1. Operationalization of the UMAPS.

Support for the transfer of SANAA's water and sanitation operations in Tegucigalpa to the UMAPS through, *inter alia*:

- (a) updating of the regulatory framework defining the UMAPS' governance structure, duties and responsibilities, and inter-institutional relationships;
- (b) operationalization and staffing of the key departments and units of the UMAPS, including the financing of severance payments to SANAA's staff to enable the transfer of functions; and
- (c) developing and implementing a gender policy for the UMAPS.

Part 2. Improved Water Production Capacity and Efficiency of the Distribution Network.

Enhancement of the resilience of Tegucigalpa's water service, through:

1. Improving Water Availability

Support for the improvement of water availability and management of Tegucigalpa's water system, including, *inter alia*:

- (a) rehabilitation and/or upgrading of selected water treatment plants, including minor remedial works in plants and distribution networks;
- (b) implementation of a program of metering of water provision in the Picacho and other targeted areas of Tegucigalpa to regularize pressure throughout the water mains, diagnose the main causes of water losses, repair leakage and enhance the existing network;
- (c) carrying out of selected activities designed to improve the efficiency of Tegucigalpa's water supply system and distribution network; and

- (d) carrying out of a communications campaign emphasizing the benefits of responsible domestic water consumption and conservation.

2. Strengthening the Safety of the Laureles and Concepción Dams

Carrying out of activities to secure the provision of water to the Tegucigalpa water supply system, including, *inter alia*:

- (a) establishment and operation of a dam safety panel of experts to review and advise AMDC on the studies and works to be carried out under the Project;
- (b) carrying out of dam safety assessments of the Laureles and Concepción Dams including a risk assessment of the impact of climate change on the dams' structural integrity and the definition of safety measures;
- (c) carrying out of emergency preparedness activities, construction supervision, a quality assurance plan for the remedial works to be carried out under (d) below and a dam safety plan;
- (d) carrying out of minor remedial works in Laureles and Concepcion Dams as well as the implementation of early warning systems in both dams; and
- (e) dam safety capacity building for the UMAPS and other stakeholders.

3. Developing Tools for Enhanced Watershed Management and Climate Resilience

Improvement of the management planning of watersheds in the UMAPS' jurisdiction using climate change adaptation principles, including, *inter alia*:

- (a) assessment of the impact of the climate risks identified in the water resource diagnostic for Los Laureles watershed carried out by AMDC;
- (b) updating of the diagnostic on the impact of anthropogenic interventions in selected watersheds;
- (c) development of a watershed management and conservation plan for selected watersheds;
- (d) development of a city-wide inclusive sanitation plan including the technical assistance and equipping required therefor;
- (e) prefeasibility, feasibility, preliminary design, and safeguard studies for select infrastructure, such as to improve sanitation in targeted areas, and/or to improve raw water quality at targeted water treatment plants;

- (f) installation of instruments and equipment to monitor the quality of water flowing into the targeted reservoirs prior to treatment; and
- (g) technical assistance to assess climate risks and develop a resilience strategy and plan to build the resilience of Tegucigalpa's water services.

Part 3. Project Management and Technical Assistance

Support for the operations of the PCU and for AMDC's oversight of the technical, environmental, social, and fiduciary aspects of the Project, including, *inter alia*:

- (a) implementation of activities under the ESCP;
- (b) verification of compliance of the DLIs in accordance with the DLI Protocols through the services of the Independent Verification Agent;
- (c) identification of financing options for larger investments involving infrastructure for additional water sources, wastewater treatment plant, among others;
- (d) carrying out of a gender gap analysis of the water supply and sanitation service delivery in Tegucigalpa;
- (e) design and implementation of a communications campaign targeting beneficiaries in the services areas; and
- (f) technical assistance to support citizen participation through the AMDC's water and sanitation committees.

Part 4. Contingency Emergency Response

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

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. For the purposes of overall management, implementation and coordination of Parts 1 through 3 of the Project, the Recipient shall cause the Project Implementing Entity to:
 - (a) establish, and thereafter operate and maintain the PCU, until completion of the Project, with staff, resources and terms of reference satisfactory to the Association and adequate for successful implementation of the Project; and
 - (b) without limitation to the provisions of (a) above, not later than sixty (60) days after the Effective Date, employ environmental, social, and labor specialists with qualifications and under terms of reference acceptable to the Association.
2. The Recipient shall cause the Project Implementing Entity under the terms of the Subsidiary Agreement:
 - (a) to carry out Parts 1 through 3 of the Project in accordance with the Project Operational Manual, satisfactory to the Association, and setting out, *inter alia*, the institutional, disbursement, procurement and financial management arrangements for the implementation of said Parts of the Project (including Project-related internal control, budgeting, external auditing, financial reporting and accounting policies and procedures and the Verification Protocols); and
 - (b) not to amend, suspend, repeal or waive any of the provisions of the Project Operational Manual without the Association's prior written agreement.

In case of any discrepancy between the provisions of the Project Operational Manual and those of this Agreement, the provisions of this Agreement shall prevail.

B. Subsidiary Agreement

1. To facilitate the carrying out of Parts 1 through 3 of the Project, the Recipient shall make the proceeds of the Credit allocated to Categories (1), (2)(a) and (2)(b) available to the Project Implementing Entity under a subsidiary agreement to be

entered into between the Recipient and the Project Implementing Entity, under terms and conditions approved by the Association ("Subsidiary Agreement"), which shall include, *inter alia*, that:

- (a) the Credit shall be made available to the Project Implementing Entity on a non-reimbursable basis, and denominated in Dollars;
 - (b) the Project Implementing Entity shall:
 - (i) carry out Parts 1 through 3 of the Project in accordance with the provisions of this Agreement, Article V of the General Conditions, and the Subsidiary Agreement;
 - (ii) without limitation to the provisions of paragraph (b) (i) of this Section, comply with the obligations set forth in Section I. A through D of this Schedule as applicable to the implementation for Parts 1 through 3 of the Project;
 - (iii) monitor and evaluate the progress of Parts 1 through 3 of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 (b) of the General Conditions and on the basis of the indicators acceptable to the Association. Each such Project Report shall cover the period of one calendar semester, and shall be furnished to the Association and the Recipient not later than forty-five (45) days after the end of the period covered by such report; and
 - (iv) take all such actions as shall be required from its part to enable the Recipient to make withdrawals of the proceeds of the Credit in accordance with Section III of this Schedule.
2. The Recipient shall exercise its rights and carry out its obligations under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate, waive, terminate or fail to enforce the Subsidiary Agreement or any of its provisions.

C. Verifications

The Recipient shall cause the Project Implementing Entity under the terms of the Subsidiary Agreement to:

- (a) not later than sixty days after the Effective Date and in any event before submitting the first withdrawal application for Category (2)(a), hire a third party entity or entities, with qualifications, experience, and terms of

reference satisfactory to the Association for the purpose of verifying the DLIs;

- (b) undertake, twice per calendar year and at such other additional times as the Association may agree, a verification process to ascertain whether the DLIs have been achieved for the period under review; and
- (c) furnish to the Association corresponding verification reports, in form and substance acceptable to the Association.

D. Environmental and Social Standards

1. The Recipient shall ensure, and shall cause the Project Implementing Entity under the terms of the Subsidiary Agreement to ensure, that the Parts of the Project under their responsibility are carried out in accordance with the Environmental and Social Standards, in a manner acceptable to the Association.
2. Without limitation upon paragraph 1 above, the Recipient shall, and shall cause the Project Implementing Entity under the terms of the Subsidiary Agreement to ensure, that the Parts of the Project under their responsibility are implemented in accordance with the Environmental and Social Commitment Plan ("ESCP"), in a manner acceptable to the Association. To this end, the Recipient shall, and shall cause the Project Implementing Entity to, ensure that:
 - (a) the measures and actions specified in the ESCP are implemented with due diligence and efficiency, and as further specified in the ESCP;
 - (b) sufficient funds are available to cover the costs of implementing the ESCP;
 - (c) policies, procedures and qualified staff are maintained to enable it to implement the ESCP, as further specified in the ESCP; and
 - (d) the ESCP or any provision thereof, is not amended, revised or waived, except as the Association shall otherwise agree in writing and the Recipient has, thereafter, disclosed the revised ESCP.

In case of any inconsistencies between the ESCP and the provisions of this Agreement, the provisions of this Agreement shall prevail.

3. The Recipient shall, and shall cause the Project Implementing Entity to:
 - (a) take all measures necessary on its part to collect, compile, and furnish to the Association through regular reports, with the frequency specified in the ESCP, and promptly in a separate report or reports, if so requested by the Association, information on the status of compliance with the ESCP

and the management tools and instruments referred to therein, all such reports in form and substance acceptable to the Association, setting out, *inter alia*: (i) the status of implementation of the ESCP; (ii) conditions, if any, which interfere or threaten to interfere with the implementation of the ESCP; and (iii) corrective and preventive measures taken or required to be taken to address such conditions; and

- (b) promptly notify the Association of any incident or accident related to or having an impact on the Project which has, or is likely to have, a significant adverse effect on the environment, the affected communities, the public or workers, including explosions, spills, and any workplace accidents that result in death, serious or multiple injury, pollution, or any violent labor unrest or dispute between the Recipient or the Project Implementing Entity or security forces (assigned to protect the Project) and local communities, or any case of gender-based violence and violence against minors, in accordance with the ESCP, the instruments referenced therein and the ESSs.

- 4. The Recipient shall, and shall cause the Project Implementing Entity to, maintain and publicize the availability of a grievance mechanism, in form and substance satisfactory to the Association, to hear and determine fairly and in good faith all complaints raised in relation to the Parts of the Project under their responsibility, and take all measures necessary to implement the determinations made by such mechanism in a manner satisfactory to the Association.
- 5. Without limitation upon paragraphs 1 and 2 above, the Recipient shall ensure that terms of reference for studies, capacity building and any other technical assistance provided under the Parts of the Project under their responsibility, including, but not limited to, dam safety assessments, dam safety plans and any other dam related activities, are prepared in a manner satisfactory to the Association and duly incorporate and take into consideration the requirements of the ESSs.

E. Contingent Emergency Response

- 1. In order to ensure the proper and timely implementation of Part 4 of the Project aimed to provide immediate response to potential Eligible Emergency, the Recipient shall take all actions required on its behalf to ensure that Part 4 of the Project is carried out in accordance with the following provisions:

- (a) The Recipient shall:

- (i) prepare and furnish to the Association for its review and approval, a draft of the Emergency Response Operations Manual setting forth detailed implementation arrangements for Part 4 of the Project, including: (A) designation of, terms of reference for, and resources to be allocated to, the entity to be responsible for

coordinating and implementing Part 4 of the Project ("Coordinating Authority"); (B) specific activities which may be included under Part 4 of the Project, the Emergency Expenditures required therefor and the proposed procedures for such inclusion; (C) financial management arrangements under Part 4 of the Project; (D) procurement methods and eligibility procedures for Emergency Expenditures to be financed under Part 4 of the Project; (E) the documentation required for withdrawals of Emergency Expenditures; (F) the required ESSs documents for Part 4 of the Project, consistent with the Association's policies on the matter and the provisions of Section D of this Section I; and (G) any other arrangements necessary to ensure proper coordination and implementation of Part 4 of the Project;

- (ii) afford the Association a reasonable opportunity to review and comment on the Emergency Response Operations Manual;
 - (iii) thereafter, promptly adopt the Emergency Response Operations Manual as shall have been approved by the Association;
 - (iv) from time to time, submit recommendations to the Association for its consideration for changes and updates of the Emergency Response Operations Manual, as they may become necessary or advisable during Project implementation to allow, if and as necessary, the inclusion of activities under Part 4 of the Project to respond to an Eligible Emergency;
 - (v) ensure that Part 4 of the Project is carried out in accordance with the Emergency Response Operations Manual; provided, however, that in the event of any inconsistency between the provisions of the Emergency Response Operations Manual and this Agreement, the provisions of this Agreement shall prevail; and
 - (vi) not amend, suspend, abrogate, repeal or waive any provision of the Emergency Response Operations Manual without the prior approval by the Association.
- (b) The Recipient shall, throughout the implementation of Part 4 of the Project, maintain the Coordinating Authority, with staff in adequate numbers and with qualifications and resources satisfactory to the Association.

2. The Recipient will not carry out any activity in the framework of Part 4 of the Project until the following conditions are met with respect to said activities:

- (a) the Recipient has determined that an Eligible Emergency has occurred, has provided the Association with a request to include such activities in Part 4 of the Project in order to respond to such Eligible Emergency, and the Association has agreed to such determination, has accepted said request and has notified the Recipient in this respect; and
- (b) the Recipient has prepared and disseminated all the ESSs instruments required for such activities, in accordance with the Emergency Response Operations Manual, the Association has approved all these instruments, and the Recipient has implemented whatever action is required to be taken under those instruments.

Section II. Project Monitoring, Reporting and Evaluation

The Recipient shall cause the Project Implementing Entity, under the terms of the Subsidiary Agreement, to furnish to the Association each Project Report not later than forty-five (45) days after the end of each calendar semester, covering the calendar semester.

Section III. Withdrawal of the Proceeds of the Financing

A. General

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Recipient may withdraw the proceeds of the Credit to finance Eligible Expenditures (including Emergency Expenditures); in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

Category	Amount of the Credit Allocated in USD	Percentage of Expenditures to be Financed (exclusive of Taxes)
(1) Goods, works, non-consulting services, consulting services, Training and Operating Costs for Parts 1 through 3 of the Project	32,000,000	100%
(2) Severance Payments		
(a) Sub-category (a)	3,000,000	100% subject to the provisions of Part B of this Schedule
(b) Sub-category (b)	15,000,000	

(3) Emergency Expenditures for Part 4 of the Project	0	100%
TOTAL AMOUNT	50,000,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A above, no withdrawal shall be made:
 - (a) for payments made prior to the Signature Date, except that withdrawals up to an aggregate amount not to exceed \$10,000,000.00 may be made for payments made prior to this date but on or after April 24, 2019, for Eligible Expenditures under Category (1);
 - (b) for payments made under Categories (2)(a) and (2)(b) unless and until the Recipient has furnished evidence that:
 - (i) the Independent Verification Agent has been hired; and
 - (ii) the Recipient has achieved, with respect to the amounts of the Financing set forth in the Annex to this Schedule for which disbursements are requested, the applicable DLI in accordance with the Verification Protocols and in form and substance satisfactory to the Association;
 - (c) for payments made under Category (2) (b) unless and until the Recipient has furnished evidence that, in form and substance satisfactory to the Association: (A) the Recipient has committed an amount of \$30,000,000 equivalent in form and substance satisfactory to the Association; and (B) the Project Implementing Entity has committed an amount of \$28,500,000 equivalent in form and substance satisfactory to the Association, both for severance payments for SANAA's staff from their own resources and excluding from said amounts those for which reimbursement will be requested under the Credit; and
 - (d) for payments made under Category (3) for Emergency Expenditures under Part 4 of the Project, unless and until the Association is satisfied, and has notified the Recipient of its satisfaction, that all of the following conditions have been met in respect of said Emergency Expenditures:
 - (i) the Recipient has determined that an Eligible Emergency has occurred, has furnished to the Association a request to include said Eligible Emergency under Part 4 of the Project 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 ESSs documents required for said Eligible Emergency, and the Recipient has implemented any actions which are required to be taken under said instruments, all in accordance with the provisions of Section E.1.(a) (i) F of this Schedule;
 - (iii) the Coordinating Authority has adequate staff and resources, in accordance with the provisions of Section I.E.1(b) of this Schedule, for the purposes of said activities; and
 - (iv) the Recipient has adopted the Emergency Response Operations Manual in form, substance and manner acceptable to the Association and the provisions of the Emergency Response Operations Manual are fully current in accordance with the provisions of Section I.E.1(a)(i) of this Schedule, so as to be appropriate for the inclusion and implementation Part 4 of the Project.
2. Notwithstanding the provisions of Section I.B.1 (b) of this Schedule, for purposes of disbursing Credit amounts under Category (2)(a) and (2)(b), if any of the DLIs has not been met by the expected date (as set forth in the Annex to this Schedule), the allocated amount not disbursed due to noncompliance of any said DLI, may: (A) be disbursed at the end of the subsequent verification period if the Association is satisfied that the respective DLI has been fully met; or (B) at the request of the Recipient be reallocated to other DLIs or cancelled.
3. The Closing Date is January 15, 2025.

Annex to Schedule 2

Disbursement Linked Indicators Matrix

DLI	Amounts of Category (2) subject to the respective DLI (expressed in USD)	Expected to be Achieved Within one year from the Effective Date	Expected to be Achieved Within two years from the Effective Date	Expected to be Achieved Within three years from the Effective Date
DLI 1: The UMAPS new governance structure has been adopted by the Recipient and the PIE, the UMAPS organizational structure has been approved by the AMDC's council, the managerial team has been appointed (general, administrative/financial, commercial and operational managers), the Service Performance Agreement has been signed and the UMAPS gender policy adopted and its first actions implemented	3,000,000	x		
DLI 2: SANAA's administration and finance functions have been transferred to the UMAPS under transfer agreements satisfactory to the Association	5,000,000		x	
DLI 3: SANAA's commercial functions have been transferred to the UMAPS under transfer agreements satisfactory to the Association	5,000,000		x	
DLI 4: SANAA's Picacho water subsystem have been transferred to the UMAPS under transfer agreements satisfactory to the Association	1,000,000			x
DLI 5: SANAA's Laureles water subsystem have been transferred to the UMAPS under transfer agreements satisfactory to the Association	1,500,000			x

DLI	Amounts of Category (2) subject to the respective DLI (expressed in USD)	Expected to be Achieved Within one year from the Effective Date	Expected to be Achieved Within two years from the Effective Date	Expected to be Achieved Within three years from the Effective Date
DLI 6: SANAA's Concepción water subsystem have been transferred to the UMAPS under transfer agreements satisfactory to the Association	1,500,000			x
DLI 7: SANAA's sanitation functions have been transferred to the UMAPS under transfer agreements satisfactory to the Association	1,000,000			x
TOTAL	18,000,000			

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each April 15 and October 15:	
Commencing October 15, 2024 to and including April 15, 2044	1.65%
commencing October 15, 2044 to and including April 15, 2049	3.40%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.05 (b) of the General Conditions.

APPENDIX

Definitions

1. “AMDC” means *Alcadía Municipal del Distrito Central*, the Recipient’s Municipality of the Central District (Tegucigalpa) established pursuant to the AMDC Legislation.
2. “AMDC Legislation” means the legislation establishing the *Alcadía Municipal del Distrito Central* (Tegucigalpa) set forth in Article 8 of the Recipient’s Constitution, Law Number 134-90 Dated October 29, 1990 published in the Official Gazette on November 19, 1990.
3. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, 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 and as of July 1, 2016.
4. “Category” means any of the categories set forth in the table in Section III.A of Schedule 2 to this Agreement.
5. “Collective Bargaining Agreement” means the collective bargaining agreement signed on January 1, 2012 between SANAA and its workers union setting forth the severance payment and related conditions.
6. “Concessional Financing” means, without limitation to the definition of said term in paragraph 19 of the General Conditions, the Credit extended by the Association to the Recipient on the terms referred to in Article II of this Agreement and in the General Conditions.
7. “Coordinating Authority” means the Recipient’s entity or institution in charge of implementing Part 4 of the Project.
8. “Disbursement Linked Indicator” or “DLI” means each disbursement-linked indicator set forth in the first column of the table in the Annex to Schedule 2 to this Agreement; and “DLIs” means the plural thereof.
9. “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.
10. “Emergency Expenditures” means the Eligible Expenditures required to finance the cost of the approved list of goods, works, and services necessary under Part 4 of the Project and set forth in the Emergency Response Operations Manual.

11. "Emergency Response Operations Manual" means the operations manual adopted by the Recipient for Part 4 of the Project in accordance with the provisions of Section I.E.1(a)(i) of Schedule 2 to this Agreement.
12. "Environmental and Social Commitment Plan" or the acronym "ESCP" means the Recipient and Project Implementing Entity's environmental and social commitment plan, acceptable to the Association, dated May 21, 2019, which sets out a summary of the material measures and actions to address the potential environmental and social risks and impacts of Parts 1 through 3 of the Project, including the timing of the actions and measures, institutional, staffing, training, monitoring and reporting arrangements, and any instruments to be prepared thereunder; as the ESCP may be revised from time to time, with prior written agreement of the Association, and such term includes any annexes or schedules to such plan.
13. "Environmental and Social Standards" or "ESSs" means, collectively: (i) "Environmental and Social Standard 1: Assessment and Management of Environmental and Social Risks and Impacts"; (ii) "Environmental and Social Standard 2: Labor and Working Conditions"; (iii) "Environmental and Social Standard 3: Resource Efficiency and Pollution Prevention and Management"; (iv) "Environmental and Social Standard 4: Community Health and Safety"; (v) "Environmental and Social Standard 5: Land Acquisition, Restrictions on Land Use and Involuntary Resettlement"; (vi) "Environmental and Social Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources"; (vii) "Environmental and Social Standard 7: Indigenous Peoples/Sub-Saharan Historically Underserved Traditional Local Communities"; (viii) "Environmental and Social Standard 8: Cultural Heritage"; (ix) "Environmental and Social Standard 9: Financial Intermediaries"; and (x) "Environmental and Social Standard 10: Stakeholder Engagement and Information Disclosure"; effective on October 1, 2018, as published by the Association at <https://www.worldbank.org/en/projects-operations/environmental-and-social-framework>.
14. "General Conditions" means the "International Development Association General Conditions for IDA Financing, Investment Project Financing", dated December 14, 2018.
15. "Implementing Entity's Legislation" means the AMDC Legislation.
16. "Independent Verification Agent" means the entity referred to in Section I.C. (a) of this Agreement.
17. "Laureles and Concepción Dams" means collectively the Laureles dam located in the Guaceripe watershed north of Tegucigalpa and the Concepción dam located in the Rio Grande watershed south of Tegucigalpa.

18. "Official Gazette" means *La Gaceta – Diario Oficial de la República de Honduras* the Recipient's official gazette.
19. "Operating Costs" means the reasonable costs, as shall have been approved by the Association, for the incremental expenses incurred on account of Project implementation, consisting of vehicle operation and maintenance, communication and insurance costs, banking charges, rental expenses, office (and office equipment) maintenance, utilities, document duplication/printing, consumables, travel cost and per diem for Project staff for travel linked to the implementation of the Project, and salaries of contractual staff for the Project (but excluding consulting services and salaries of officials of the Recipient's civil service).
20. "PCU" or "Project Coordinating Unit" means the unit to be established pursuant to the provisions of Sections I. A.1 of Schedule 2 to this Agreement or any successor thereto acceptable to the Association.
21. "Procurement Regulations" means, for purposes of paragraph 87 of the Appendix to the General Conditions, the "World Bank Procurement Regulations for IPF Borrowers", dated July 2016, revised November 2017 and August 2018.
22. "Project Implementing Entity" means AMDC acting through UMAPS.
23. "Project Operational Manual" means the operational manual for Parts 1 through 3 of the Project, referred to in Section I. A. 2 of Schedule 2 to this Agreement, acceptable to the Association.
24. "SANAA" means the Recipient's *Servicio Autónomo Nacional de Acueductos y Alcantarillados*, the Autonomous Water and Sewer Service being disestablished as a service provider pursuant to the terms of the "*Ley Marco del Sector Agua Potable y Saneamiento*" (Framework Law for the Drinking Water and Sanitation Sector) dated September 29, 2003 published in the Official Gazette on October 8, 2003.
25. "Service Performance Agreement" means the agreement or other arrangement to be entered into or made between the AMDC and the UMAPS to set forth a new framework, acceptable to the Association, for the management and financial and technical performance of the UMAPS.
26. "Severance Payments" means payments for officers and staff of SANAA who have signed termination contracts in accordance with the Collective Bargaining Agreement and are eligible for financing under the Credit in accordance with the requirements set forth in this Agreement, the Subsidiary Agreement, the Disbursement and Financial Information Letter and the Project Operational Manual.

27. "Signature Date" means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to "the date of the Financing Agreement" in the General Conditions.
28. "Sub-category (a)" means the portion of the Credit allocated to Category (2) which is subject to DLI 1 for its disbursement.
29. "Sub-category (b)" means the portion of the Credit allocated to Category (2) which is subject to DLI 2 through DLI 7 for its disbursement.
30. "Subsidiary Agreement" means the agreement referred to in Sections I. B. 1 of Schedule 2 to this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Agreement.
31. "Tegucigalpa" means the area comprising the city of Tegucigalpa and Comayagüela referred to in the AMDC Legislation.
32. "Training" means expenditures for Parts 1 through 3 of the Project related study tours, training courses, seminars, workshops and other training activities not included under service providers' contracts, including costs of training materials, space and equipment rental, travel and per diem costs of trainees and trainers, as approved by the Association.
33. "UMAPS" means *Unidad Municipal de Agua Potable y Saneamiento*, AMDC's unit for water and sewage established as a deconcentrated unit of AMDC's pursuant to the UMAPS Regulatory Framework.
34. "UMAPS Regulatory Framework" means the AMDC's Council Resolution (*Acuerdo*) No. 008 dated May 8, 2017 published in the Official Gazette on July 22, 2017.
35. "Verification Protocols" means the protocols set forth in the Project Operational Manual containing the technical standards and procedures for assessing the achievement of DLIs, as such protocol may be revised from time to time with the written concurrence of the Association.