

March 30, 2017

Ms. Marie-Claude Bourgie
Director of Development, International Programs
One Drop Foundation
550 Beaumont Avenue, Suite 400
Montreal, Québec
H3N 1V1
Canada

Ref: Paraguay. Nonreimbursable Technical Cooperation
No. ATN/JO-15860-PR. Promotion of Behavior
Change and Strengthening of the Water and
Sanitation Sector in Paraguay.

Dear Ms. Bourgie:

The purpose of this letter of agreement, hereinafter referred to as the “Agreement”, between One Drop Foundation (also known as “One Drop”), a not-for-profit corporation and registered charity founded and existing under the laws of Canada, hereinafter referred to as the “Beneficiary”, and the Inter-American Development Bank, hereinafter referred to as the “Bank”, acting in its capacity as Administrator of the Japan Special Fund - Poverty Reduction Program (“JPO”), hereinafter referred to as the “Fund”, which we are submitting for your consideration, is to formalize the terms and conditions of a grant for a nonreimbursable technical cooperation to the Beneficiary, up to the amount of six hundred thousand dollars of the United States of America (US\$600,000) hereinafter referred to as the “Contribution”, to finance the procurement of goods, works, and non-consulting services, and the selection and contracting of consultants necessary for the execution of Component 1 and Component 2 of a technical cooperation project for the “Promotion of Behavior Change and Strengthening of the Water and Sanitation Sector in Paraguay”, hereinafter referred to as the “Project”, which is described in the Annex to this Agreement. Unless otherwise stated in this Agreement, the term “dollars” shall hereinafter refer to the currency of legal tender in the United States of America.

The Bank and the Executing Agency agree upon the following:

First. Components of the Agreement. This Agreement consists of this part one, referred to as the “Special Conditions”, part two, referred to as the “General Conditions”, and the Annex attached hereto. The prevalence between the aforesaid parts and the Annex is established in Article 1 of the General Conditions.

Second. Executing Agency. (a) The execution of Component 1 and Component 2 of the Project and the utilization of the resources of the Contribution will be carried out by One Drop Foundation, hereinafter referred to as, interchangeably, the “Beneficiary” or the “Executing Agency”.

(b) The Executing Agency represents and warrants, as of the date hereof and as of the date of submission of each disbursement request, that: (i) it is financially capable of carrying out the Project; (ii) it has the power to assume and perform the obligations set out in this Agreement, and that those obligations constitute its legal, valid, binding and enforceable obligations; (iii) it is legally established and has all necessary approvals to conduct its business, to receive the Contribution and to carry out the Project, the most recent documents of which have been submitted to the Bank; (iv) it has complied with all its obligations due at such time under this Agreement and under any other contract with the Bank; (v) neither it nor any person or entity acting on its behalf has, with respect to the Project or any transaction contemplated by this Agreement, committed or engaged in any activity that would constitute a Prohibited Practice (as defined in the General Conditions); and (vi) it has submitted all relevant documents and information for a true and fair view of the Executing Agency’s capacity for institutional, financial and operational management, and there have not been any material adverse changes thereto since such submissions.

(c) The Executing Agency agrees that, in addition to its obligations set forth in the General Conditions, it will: (i) use the proceeds of the Contribution exclusively for financing the Project and in accordance with all terms and conditions set out in this Agreement; (ii) carry out the Project diligently and in compliance with all applicable laws; (iii) exercise a standard of care consistent with sound professional practices; and (iv) achieve the Project goals specifically described in the Annex. The Executing Agency agrees that it shall not change the nature or scope of the Project without the Bank’s prior written consent.

Third. Conditions Precedent to First Disbursement. The first disbursement of the resources of the Contribution shall be subject to the fulfillment, by the Beneficiary, to the satisfaction of the Bank, of the conditions set forth in Article 2 of the General Conditions, as well as the following conditions:

- (a) Submit to the Bank evidence that there is an effective financial reporting system and internal control structure as referred to in Article 12 of the General Conditions;
- (b) Submit to the Bank evidence that it has set up, and agrees to maintain, a separate and specific bank account denominated in dollars in a financial institution exclusively to manage the resources of this Project;
- (c) Submit to the Bank evidence of the appointment/designation of: (i) a full time Project coordinator; (ii) a procurement/financial specialist; (iii) a technical specialist; and (iv) a monitoring and evaluation specialist;

- (d) Submit to the Bank evidence that it has signed, in terms previously agreed with the Bank, a sub-execution agreement with the implementing partner(s);
- (e) Submit to the Bank evidence of the approval, in terms previously agreed with the Bank, of the Project “Operating Manual”;
- (f) Submit to the Bank evidence that it has signed, in terms previously agreed with the Bank, a collaboration agreement with the Servicio Nacional de Saneamiento Ambiental (“SENASA”), unless this requirement is waived by the Bank; and
- (g) Submit to the Bank a financial and procurement plan for the proposed intervention, including a detailed budget, as well as the first Annual Operating Plan (“AOP”) with the content provided in paragraph Fourteenth (i) of this Agreement.

Fourth. Reimbursement of Expenditures Chargeable to the Contribution. With the consent of the Bank, resources of the Contribution may be used to reimburse expenditures incurred or to finance those that may be incurred in the Project on or after November 9, 2016, and up to the effective date of this Agreement, provided that requirements substantially similar to those set forth in this Agreement have been fulfilled.

Fifth. Deadlines. (a) The period for execution of the Project shall be forty-two months (42) months, from the effective date of this Agreement.

(b) The period for disbursement of the resources of the Contribution shall be forty-eight (48) months from said date. Any part of the Contribution which has not been utilized within this period shall be canceled.

(c) The aforementioned deadlines and any others that may be stipulated in this Agreement may be extended only when duly justified, and with the written consent of the Bank.

Sixth. Total Cost of the Project and Additional Resources. (a) The Beneficiary undertakes to make timely provision of the resources required, in addition to the Contribution, for the complete and uninterrupted execution of the Project (hereinafter referred to as the “Additional Resources”). The total amount of Additional Resources required is estimated to be the equivalent of one million four hundred thousand dollars (US\$1,400,000), of which up to nine hundred fifty-one thousand nine hundred dollars (US\$951,900) could be chargeable to the resources of the Multilateral Investment Fund (“MIF”), as indicated in the Annex. If MIF resources are not fully available for any reason, the Beneficiary shall make available and contribute to the Project out of its own resources any amount needed to complete the total amount of estimated Additional Resources. These estimates do not reduce the obligation of the Beneficiary to provide any additional resources required to complete the Project.

(b) The Additional Resources provided by the Beneficiary shall be used to finance the cost categories which are chargeable to it, as established in the Project's budget set forth in the Annex.

Seventh. Recognition of Expenses Chargeable to the Additional Resources. The Bank may recognize as part of the Additional Resources for the Project expenditures incurred or which may be incurred in the Project on or after November 9, 2016, and up to the effective date of this Agreement, provided that requirements substantially similar to those set forth in this Agreement have been fulfilled.

Eighth. Disbursement Currency. The Bank shall disburse the Contribution in dollars.

Ninth. Exchange Rate for Expenditures Incurred in Local Currency. For purposes of Article 9 of the General Conditions, the parties agree that the applicable exchange rate shall be: that indicated in paragraph (b)(i) of said Article. In addition, exclusively for the purposes described in paragraph (c) of said Article, the agreed exchange rate shall be the average exchange rate of the month in which the Executing Agency, or any other person or legal entity (including implementing partner(s)) in whom the power to incur expenditures has been vested makes the related payments to the contractor, supplier, or final beneficiary. For purposes of this Paragraph, "local currency of the Beneficiary's country" as referenced in Article 9 of the General Conditions, shall be read as the "local currency of Paraguay" when applicable.

Tenth. Procurement of goods and non-consulting services. (a) For purposes of Article 10 of the General Conditions, the Parties agree that the Procurement Policies are those dated March 2011, which are contained in document GN-2349-9, approved by the Bank on April 19, 2011. If the Procurement Policies are amended by the Bank, the procurement of goods and works and non-consulting services shall be carried out in accordance with the provisions of the modified Procurement Policies, once they are made known to the Beneficiary and the Beneficiary agrees in writing to apply them.

(b) For the procurement of goods and works and non-consulting services, the Beneficiary shall utilize established private sector or commercial practices that are acceptable to the Bank in order to secure competitive market prices for the goods and services necessary to carry out the Project. Furthermore, such procurement and contracting shall be negotiated on an arm's-length basis, taking into account the financial interests of the Beneficiary rather than the interests of any affiliate. When a shareholder or affiliate of the Beneficiary also acts as a contractor to the Beneficiary, the Beneficiary shall demonstrate, to the satisfaction of the Bank, that the prices paid are approximately equivalent to market prices and within the Project's budget, and that the conditions of the contract are equitable and reasonable. Procurement contracts shall be subject to *ex post* review and supervision by the Bank in accordance with the aforementioned Procurement Policies.

Eleventh. Selection and Contracting of Consultant Services. (a) For purposes of the provisions of Article 10 of the General Conditions, the Parties agree that the Consultant Policies are those dated March 2011, which are contained in document GN-2350-9, approved by the Bank on April 19, 2011. If the Consultant Policies are amended by the Bank, the selection and

contracting of consulting services will be carried out in accordance with the provisions of the amended Consultant Policies, once they are made known to the Beneficiary and the Beneficiary agrees in writing to apply them.

(b) For the selection and contracting of consulting services, the Beneficiary shall utilize established private sector or commercial practices that are acceptable to the Bank in order to secure competitive market prices for the contracting of consulting services necessary to carry out the Project. Furthermore, such contracting shall be negotiated on an arm's-length basis, taking into account the financial interests of the Beneficiary rather than the interests of any affiliate. When a shareholder or affiliate of the Beneficiary also acts as a contractor to the Beneficiary, the Beneficiary shall demonstrate, to the satisfaction of the Bank, that the prices paid are approximately equivalent to market prices and within the Project's budget, and that the conditions of the contract are equitable and reasonable. Consulting contracts shall be subject to *ex post* review and supervision by the Bank in accordance with the aforementioned Consultant Policies.

Twelfth. Procurement Plan update. In order to update the Procurement Plan in accordance with the provisions of Article 10(c) of the General Conditions, the Beneficiary must use the procurement plan template and/or implementation and monitoring system provided by the Bank.

Thirteenth. Monitoring and Evaluation. The Beneficiary shall present the following reports to the Bank:

- (i) Annual Operating Plan ("AOP") which shall cover at least the activities to be developed during the fiscal year of the Project (i.e. April to March), a schedule of the activities and the financial resources to be used. The AOP should be presented before within thirty (30) days of the first day of the fiscal year and it shall be updated if needed in the semiannual progress reports.
- (ii) Semiannual progress reports, within sixty (60) days following the end of each calendar semester, which shall reproduce -insofar as they include the same- the Project Status Reports presented to the MIF, if applicable, and in any case must include the following information: (i) financial progress of the Project; (ii) achieved outputs and outcomes; and (iii) work plan for the next reporting period. Each biannual report shall also include, if necessary, an update of the Operating Manual and procurement and financial plans, for approval by the Bank.
- (iii) Project evaluation, which will be conducted by external consultants financed by the Project on the following basis: (i) an intermediate evaluation sixty (60) days after the Bank has disbursed fifty percent (50%) of its contribution or sixty (60) days after half of the execution period has expired (whichever occurs first); and (ii) a final evaluation report within six (6) months after the end of the execution period. This final evaluation will include lessons learned, results reached, and any other relevant information for future similar projects. The terms of references of the external consultants will require the Bank's prior approval.

Fourteenth. Supervision of the Financial Management of the Project. (a) For purposes of Article 12 of the General Conditions, matters will be conducted according to the Financial Management Guidelines for IDB-financed projects (as set forth in document OP-273-6 approved on October 23, 2014). Prior to each disbursement, other than the first advance of funds, the Bank will request a certification of expenditures by a certified public accountant, together with the bank account reconciliation of the corresponding Project expenditures. The Bank will have the right to request from the Executing Agency and/or implementing partner(s), as the case may be, an audited financial report of the Project and supervise both the Executing Agency and/or implementing partner(s) if and when deemed necessary.

(b) For purposes of Article 13 of the General Conditions, as of the date of signature of this Agreement, the following external financial audit reports and other financial reports have been identified as necessary to supervise the financial management of the Project: (i) the Executing Agency's consolidated audited financial statements prepared by an independent auditor as follows: (A) a preliminary version, subject to approval, due within one hundred and twenty (120) days following the end of its fiscal year, and (B) the final and approved version due within one hundred and eighty (180) days following the end of its fiscal year, provided, however, that the Executing Agency further submits in writing a detailed explanation of any and all differences between the two sets of financial statements, if applicable; (ii) the Project's annual statements of cash flow and cumulative investments, due within 90 days following the end of its fiscal year; and (iii) the Annual Operating Plan, due within the first thirty (30) days of each fiscal year.

(c) For purposes of Article 13(a) of the General Conditions, the fiscal year of the Project is the period between April 1 and March 31 of each year.

Fifteenth. Access to Information. (a) The Beneficiary undertakes to notify the Bank, in writing, within a maximum period of ten (10) working days from the date of signature of this Agreement, whether it considers this Agreement to contain information that may qualify as an exception to the principle of disclosure of information under the Access to Information Policy of the Bank, in which case the Beneficiary undertakes to identify such information in the relevant provisions of the Agreement. In accordance with the aforementioned policy, the Bank will make available on its "Web" page the text of this Agreement once it has entered into effect and the aforementioned period has expired, excluding only that information which the Executing Agency has identified as an exception to the principle of disclosure of information under this policy.

(b) In accordance with the Access to Information Policy referred to above, and subject to the provisions thereof, the Bank will disclose to the public the Audited Financial Statements ("AFSs") it receives from the Executing Agency in accordance with Paragraph Fifteenth.

(c) In cases where the Executing Agency identifies information contained in the AFSs that it considers confidential under the exceptions provided in the Access to Information Policy, it will prepare an abridged version of the AFSs, acceptable to the Bank, for public disclosure.

Sixteenth. Other Documents Governing Project Execution (a) The Parties agree that the execution of the Project shall be carried out pursuant to the terms and conditions set forth in this Agreement and in the Operating Manual referred to in paragraph Third(e) of this Agreement. If any provision of this Agreement is inconsistent with, or contradicts, the terms and conditions set forth in the Operating Manual, the provisions of this Agreement shall supersede. Furthermore, the Parties agree that the Operating Manual may only be amended with the Bank's prior, written and express approval.

(b) The Operating Manual shall include at least the following elements: (i) Project eligibility criteria; (ii) disbursements and provisions for management and financial planning and reporting, including those provided for in the "Financial Management Guidelines for IDB-financed Projects" (document OP-273-6); (iii) monitoring and evaluation; and (iv) procurement, in order to regulate the implementation of the provisions set forth in paragraphs Tenth and Eleventh of this Agreement.

Seventeenth. Intellectual Property Rights and License Agreement. Notwithstanding the provision contemplated in Article 11 (iv) of the General Conditions, the Parties agree as follows:

- (a) The Executing Agency will own any and all intellectual property rights, including but not limited to copyright, in relation to and/or arising out of the following works to be produced by the Executing Agency under this Agreement (the "Works"): (i) Component 1 including but not limited to: (A) training material for sanitation boards and sanitation board associations; (B) script for sanitation and hygiene promotion campaigns; (C) social arts training materials for local social arts groups; (D) materials for entertainment shows and social arts activities; (E) educational materials for schools and homes; and (F) support materials for SENASA on water, sanitation, and hygiene; and (ii) Component 2 included but not limited to: (A) diagnosis on market needs; (B) training material for entrepreneurs and small and medium enterprises in the water and sanitation sector; (C) training and promotion material for financial institutions and local organizations for the development and promotion of financial products; and (D) educational material for homes, sanitation boards, sanitation board associations and SENASA. Notwithstanding the foregoing, the Executing Agency will take reasonable commercial measures to ensure that the Bank's Contribution to this Project is widely recognized by its beneficiaries and the international community, and will clearly so indicate in all publication and dissemination materials, pursuant to subsection (b) of Article 11 and Article 16 of the General Conditions.
- (b) The Executing Agency, in its capacity as owner and holder, or authorized representative of the organization that owns and holds, all intellectual property rights, including without limitation copyright, related to or associated with the Works identified in subsection (a) above, hereby:

- (i) Voluntarily hereby grants the Bank, without further authorizations or consents needed, a nonexclusive, worldwide, perpetual, irrevocable, royalty-free license for non-commercial purposes (the “License”) to use, copy, reproduce, distribute, disseminate, perform, publicly publish and display the Works in any format or media now known or hereafter developed (including print formats) in any publication, including without limitation website, blog, book, brochure, catalog, technical note, event, advertising, exhibit, archive, as well as in any Bank’s academic, educational or standard promotion materials.
- (ii) Understands, acknowledges and declares that the License will allow the Bank to: (A) edit, modify, adapt and translate the Works, in whole or in part; (B) create derivative works from the Works, in whole or in part;; and (C) improve existing Bank works; in which case, such improvements of existing Bank works will be wholly owned by the Bank, as applicable.
- (iii) Understands, acknowledges and declares that the Bank may sub-license the Works or any part thereof, without further authorizations or consents needed from the Executing Agency, as may be applicable, including without limitation by using the following Creative Commons licenses: CC IGO 3.0 BY-NC-SA (<http://creativecommons.org/licenses/by-nc-sa/3.0/igo/legalcode>) and CC IGO 3.0 BY-NC-ND (<http://creativecommons.org/licenses/by-nc-nd/3.0/igo/legalcode>).
- (iv) Notwithstanding any provision to the contrary in this Agreement, understands, acknowledges and declares that it will retain ownership and/or control of all other works that have been its property, or to which it has been granted a license, prior to entering into this Agreement (the “Other Works”), with the exception of those works developed under the technical cooperation agreement ATN/OC-15404-RG, dated March 31, 2016, signed between the Parties, which shall be governed by the provisions of said agreement.
- (v) Understands, acknowledges and declares that, if any Other Work is incorporated in the Works or is otherwise made available to the Bank under this Agreement, the Bank will also the same rights conferred under the terms of the aforementioned License.
- (vi) Understands, acknowledges and declares that if any of the Works or the Other Works is owned jointly with third parties, it will perform any and all actions necessary to comply with the terms and conditions under this Agreement, as applicable.
- (vii) Represents and warrants that (A) it has full right, power and authority to fulfill the obligations hereunder; (B) the Works are the original product of its work and creation or at least that it has sufficient rights to grant the

License provided herein; (C) there are no claims, complaints, actions or demands from third parties for copyright infringement associated with the Works; and (D) it will release and indemnify the Bank, its staff and consultants, as applicable, from any claims, complaints, actions, losses, demands, liabilities, damages, costs and/or expenses including, without limitation, reasonable attorneys' fees, which could be initiated against the Bank, its staff and/or consultants, in the exercise of the rights licensed to the Bank and which may have been licensed in violation of third parties' rights, or that may arise from the inaccuracy, or the actual or alleged breach of any representation or warranty that it has made under this Agreement or in the Works.

- (c) For the avoidance of doubt, paragraph (a)(iv) of Article 11 of the General Conditions will apply to any works not otherwise defined in this paragraph Eighteenth.
- (d) The Bank will employ its best efforts to incorporate the Executing Agency's name and/or logo in any Bank work that seeks to disseminate knowledge and/or best practices related to or associated with the Project (other than operational Bank documents, including procedure, analysis and evaluation documents). The Executing Agency hereby authorizes the Bank to use its name and/or logo for all such purposes. For the avoidance of doubt the Executing Agency's logo is the logo displayed in the the Executing Agency's website <https://www.onedrop.org>.
- (e) In the event that the Executing Agency reasonably considers that there has been any inappropriate or inadequate use of the License or its sub-licenses by the Bank, the Executing Agency may request the Bank to review and consider in good faith revising the use subject of concern.

Eighteenth. Notice. Any notice, request, or communication from one party to another by virtue of this Agreement shall be made in writing and shall be considered to have been made when the corresponding document is delivered to the addressee at the address indicated below, unless otherwise agreed by the parties in writing.

To the Executing Agency:

Mailing address:

One Drop Foundation
550 Beaumont Avenue, Suite 400
Montreal, Québec
H3N 1V1
Canada

Facsimile: 1 (514) 723-6845

To the Bank:

Mailing address:

Inter-American Development Bank
1300 New York Avenue, N.W.
Washington, D.C. 20577
U.S.A.

Facsimile: 1 (202) 623-3096

This Agreement shall be signed in two (2) equally authentic originals by the Beneficiary and the Bank, each acting through its duly authorized representative, in Asunción, Republic of Paraguay, and will enter into force on the date first written above.

Yours faithfully,

/s/

Luis Alberto Moreno
President
Inter-American Development Bank

Agreed:

One Drop Foundation

/s/

Marie-Claude Bourgie
Director of Development, International Programs

Witness of Honor

/s/

Yoshihisa Ueda
Ambassador Extraordinary and Plenipotentiary
of Japan to Paraguay

GENERAL CONDITIONS APPLICABLE TO NONREIMBURSABLE TECHNICAL COOPERATIONS

Article 1. Application and scope of General Conditions. (a) These General Conditions set forth terms and conditions generally applicable to all nonreimbursable technical cooperations granted by the Bank, and their provisions form an integral part of this Agreement. Any exception to these General Conditions shall be expressly stated in the text of the Special Conditions.

(b) If any provision of the Special Conditions or of the Annex should present any inconsistency or contradiction with these General Conditions, the provisions of the Special Conditions or the corresponding Annex shall prevail. In case of inconsistencies or contradictions between the Special Conditions and the corresponding Annex, specific provisions shall prevail over general provisions.

Article 2. Conditions prior to first disbursement. (a) The first disbursement of the Contribution shall be subject to the fulfillment of the following requirements by the Beneficiary, directly or through the Executing Agency:

- (i) Designation of the person or persons authorized to represent it in all acts relating to the execution of this Agreement, and submission to the Bank of authenticated specimen signatures of such persons. If two or more officials are designated, the designation shall indicate whether they may act severally or jointly; and
- (ii) Presentation to the Bank of a timetable for the use of the Additional Resources.

(b) If within one hundred eighty (180) days from the date of entry into effect of this Agreement, or within such longer period as the parties may agree in writing, the conditions precedent to the first disbursement established in this Article and in the Special Conditions have not been fulfilled, the Bank may terminate this Agreement by giving notice to the Beneficiary or to the Executing Agency, as the case may be.

Article 3. Requisites for all disbursements. As a condition for all disbursements and without prejudice to the conditions precedent to the first disbursement of the resources of the Contribution established in Article 2 of these General Conditions and/or in the Special Conditions, if any, the Beneficiary or the Executing Agency, as the case may be, undertakes to: (a) present to the Bank in writing, whether physically or by electronic means, in such form and conditions as may be specified by the Bank, a disbursement request together with the pertinent documents and other background materials required by the Bank; and (b) open and maintain one or more bank accounts in a financial institution in which the Bank shall make the disbursements of the Contribution. In addition to the above requirements, none of the circumstances described in Article 7 of these General Conditions

shall have occurred. Unless the Bank otherwise agrees, disbursement requests must be presented no later than thirty (30) calendar days prior to the expiration date of the period for disbursement of the resources or of any extension thereof which the Beneficiary or the Executing Agency, as the case may be, and the Bank may have agreed to in writing.

Article 4. Disbursement procedures of the Contribution. (a) At the request of the Beneficiary or the Executing Agency, as the case may be, the Bank may make disbursements of the resources of the Contribution through: (i) reimbursement of expenditures; (ii) advance of funds; (iii) direct payments to third parties; and (iv) reimbursement under a letter of credit guarantee.

(b) **Reimbursement of Expenditures.** The Beneficiary or the Executing Agency, as the case may be, may request disbursements under the reimbursement of expenditures method when the Beneficiary or the Executing Agency, as the case may be, has paid for eligible expenditures with its own resources. Unless the parties agree otherwise, disbursement requests for reimbursing expenditures shall be made promptly to the extent that the Beneficiary or the Executing Agency, as the case may be, has incurred such expenditures, and not later than sixty (60) days following the conclusion of each calendar semester.

(c) **Advance of Funds.** The Beneficiary or the Executing Agency, as the case may be, may request disbursements under the advance of funds method, chargeable to the resources of the Contribution, in order to cover eligible expenditures of the Project.

- (i) The amount of the advance of funds shall be set by the Bank on the basis of:
 - (aa) the liquidity needs of the Project in order to cover periodic projections of eligible expenditures during a period of up to six (6) months, unless the financial plan provides for a longer period, which in no case may exceed twelve (12) months; and
 - (bb) the risks associated with the capacity demonstrated by the Beneficiary or the Executing Agency, as the case may be, to manage and use the resources of the Contribution.
- (ii) Each advance of funds shall be subject to: (aa) the request for advance of funds being presented in a manner acceptable to the Bank; and (bb) with the exception of the first advance of funds, the Beneficiary or the Executing Agency, as the case may be, having presented a justification for the use of at least eighty percent (80%) of the total cumulative balances pending justification for this purpose, and the Bank having accepted such justification, unless the financial plan specifies a lower percentage, which in no case may be less than fifty percent (50%).
- (iii) The Bank may, during the term of the financial plan, provide for a one-time increase in the amount of the last advance of funds granted to the Beneficiary or the Executing Agency, as the case may be, to the extent that additional resources are needed to pay eligible expenditures that were unforeseen in said plan.

- (iv) The Beneficiary or the Executing Agency, as the case may be, shall present the last advance of funds request no later than thirty (30) days prior to the date of the expiration of the disbursement period established in the Special Conditions or any extension thereof, in the understanding that the justification for such advance of funds shall be presented to the Bank during the closing period as established in Article 5 of the General Conditions. The Bank shall not disburse resources subsequent to the expiration of the disbursement period or any extension thereof.
- (v) The value of each advance of funds to the Beneficiary or the Executing Agency, as the case may be, must be maintained in the equivalent value expressed in the respective disbursement currency. Eligible expenditures incurred with resources of an advance of funds must be justified in the equivalent of the total amount of the advance of funds expressed in the disbursement currency, using the exchange rate established in this Agreement. The Bank may accept adjustments in the justification of the advance of funds due to exchange rate fluctuations, provided that they do not impact the execution of the Project.
- (vi) The Bank may reduce or cancel the total aggregate balance of any advance of funds should the Bank determine that the disbursed resources of the Contribution have not been duly and timely used or justified, to the Bank's satisfaction, in accordance with the provisions established in this Agreement.

(d) **Direct payments to third parties.** The Beneficiary or the Executing Agency, as the case may be, may request disbursements under the method of direct payments to third parties, by means of which the Bank directly pays providers or contractors on behalf of the Beneficiary or the Executing Agency, as the case may be. In case of direct payments to third parties, the Beneficiary or the Executing Agency shall be responsible for payment of the amount equivalent to the difference between the amount of the disbursement requested by the Beneficiary or the Executing Agency and the amount received by the third party as the result of exchange rate fluctuations, commissions, and other financial costs.

(e) **Reimbursement under a Letter of Credit Guarantee.** The Beneficiary or the Executing Agency, as the case may be, may request disbursements through reimbursement under a letter of credit, in order to reimburse commercial banks for payments made to contractors or providers of goods and services by virtue of a letter of credit issued and/or confirmed by a commercial bank and guaranteed by the Bank. The letter of credit must be issued and/or confirmed in a manner satisfactory to the Bank. The resources committed under the letter of credit and guaranteed by the Bank shall be used exclusively for the purposes established in the letter of credit for as long as the guarantee remains in effect.

Article 5. Closing Period. (a) The Beneficiary undertakes to carry out, or to cause the Executing Agency to carry out, as the case may be, the following actions within a ninety (90)-day period from the date stipulated for the final disbursement of the Contribution: (i) finalize pending

payments to third parties, if any; (ii) reconcile its books and present to the Bank's satisfaction the supporting documentation relating to expenditures charged to the Project and other information that the Bank may request; and (iii) return to the Bank the unjustified balance of disbursed resources of the Contribution.

(b) Notwithstanding the foregoing, if this Agreement provides for external financial audit reports financed with resources of the Contribution, the Beneficiary or the Executing Agency, as the case may be, agrees to reserve, in the manner agreed with the Bank, sufficient resources to cover the payment of the corresponding auditing services. In this case, the Beneficiary or the Executing Agency, as the case may be, also undertakes to agree with the Bank as to how the corresponding payments for such audits will be made. In the event the Bank does not receive the above-mentioned external financial audit reports within the periods stipulated in this Agreement, the Beneficiary or the Executing Agency, as the case may be, agrees to return to the Bank the resources reserved for such purpose, which shall not be construed as a waiver by the Bank to exercise the rights set forth in Article 7 of this Agreement.

Article 6. Expenditures chargeable to the Contribution. The Contribution shall exclusively finance the eligible expenditures included in the categories of expenditures which are set forth as chargeable to the Contribution in the budget contained in the Annex that describes the Project. Only direct and actual expenditures made for the execution of the Project may be charged to the Contribution. Indirect or general operating expenses, which are not included in the Project budget, cannot be charged to the Contribution.

Article 7. Suspension and cancellation of disbursements. (a) The Bank, by means of a notice to the Beneficiary, may suspend disbursements or cancel the undisbursed portion of the Contribution if any of the following circumstances occurs: (i) the failure of the Beneficiary or the Executing Agency, as the case may be, to fulfill any obligation stipulated in this Agreement; or (ii) any circumstance which, in the Bank's opinion, may render unlikely the attainment of the objectives of the Project. Under these circumstances, the Bank shall notify in writing the Beneficiary or the Executing Agency, as the case may be, so that it may present its points of view, and after thirty (30) days from the date of the Bank's notice, it may suspend the disbursement or cancel the undisbursed portion of the Contribution.

(b) Pursuant to paragraph (a) above, the parties agree that upon the occurrence of institutional or organizational changes within the Beneficiary or the Executing Agency, which, in the Bank's opinion, might affect the timely attainment of the Project's objectives, the Bank shall review and evaluate the likely attainment of the objectives and may at its discretion, suspend, condition or cancel the disbursements of the Contribution.

(c) In addition to the provisions of paragraph (a) above, the Bank may: (i) suspend disbursements if, in accordance with the Bank's sanctions procedures, it is determined at any stage that an employee, agent or representative of the Beneficiary or the Executing Agency has committed a prohibited practice, as defined in Article 8 of these General Conditions (hereinafter "Prohibited Practices") during the procurement process or during the execution of a contract; and (ii) cancel the undisbursed portion of the Contribution pertaining unequivocally to the procurement of certain

goods, works or related services, or consulting services, if (aa) it determines at any time that the procurement was carried out without following the procedures set forth in this Agreement; or (bb) in accordance with the Bank's sanctions procedures, it is determined that any firm, entity or individual bidding for or participating in a Bank-financed activity including, inter alia, applicants, bidders, contractors, consulting firms and individual consultants, personnel, subcontractors, sub-consultants, providers of goods or services, concessionaires, the Beneficiary or the Executing Agency (including their respective officers, employees and representatives, irrespective of whether the agency is express or implied) has committed a Prohibited Practice during any stage of procurement or during the execution of a contract, when there is evidence that the representative of the Beneficiary or the Executing Agency has not taken the appropriate corrective action (including, among other things, adequate notice to the Bank upon learning of the Prohibited Practice) within a time period which the Bank considers reasonable.

Article 8. Prohibited Practices. (a) For the purposes of this Agreement, a Prohibited Practice shall be understood to include the following practices: (i) a “corrupt practice” is the offering, giving, receiving, or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party; (ii) a “fraudulent practice” is any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation; (iii) a “coercive practice” is impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party; (iv) a “collusive practice” is an arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party; and (v) an “obstructive practice” is: (aa) deliberately destroying, falsifying, altering or concealing evidence material to the investigation or making false statements to investigators in order to materially impede a Bank Group investigation into allegations of a corrupt, fraudulent, coercive or collusive practice; and/or threatening, harassing or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation, or (bb) acts intended to materially impede the exercise of the Bank’s inspection and audit rights provided in this Agreement.

(b) In addition to the provisions in Articles 7(c)(i) and 7(c)(ii)(bb) of these General Conditions, if it is demonstrated that in accordance with the sanctions procedures of the Bank any firm, entity or individual bidding for or participating in a Bank-financed activity including, inter alia, applicants, bidders, suppliers, contractors, consulting firms and individual consultants, personnel, sub-contractors, sub-consultants, goods and service providers, concessionaires, the Beneficiary or the Executing Agency (including their respective officers, employees, and agents, irrespective of whether the agency is express or implied) has engaged in a Prohibited Practice, during any stage of the procurement process or during the execution of a contract, the Bank may:

- (i) decline to finance any proposal to award a contract for the procurement of works, goods, related services and the contracting of consultant services;
- (ii) declare a procurement ineligible for Bank financing, when there is evidence that the representative of the Beneficiary or the Executing Agency has not taken the adequate remedial measures (including, among other things,

adequate notice to the Bank upon learning of the Prohibited Practice) within a time period which the Bank considers reasonable;

- (iii) issue a reprimand in the form of a formal letter of censure of the firm's, entity's or individual's behavior;
- (iv) declare that a firm, entity, or individual is ineligible, either permanently or for a stated period of time, to (aa) be awarded or participate in Bank-financed activities, and (bb) be designated sub-consultant, sub-contractor, or goods and services supplier of an otherwise eligible firm being awarded a contract to execute Bank-financed activities;
- (v) refer the matter to appropriate law enforcement authorities; and/or
- (vi) impose other sanctions that it deems to be appropriate under the circumstances, including the imposition of fines representing reimbursement of the Bank for costs associated with investigations and proceedings. Such other sanctions may be imposed in addition to or in lieu of the sanctions mentioned in Article 7(c)(i), in Article 7(c)(ii)(bb) and in this Article 8(b), numerals (i) through (v).

(c) The provisions of Article 7(c)(i) and Article 8(b)(i) shall be applicable in cases where the parties have been declared temporarily ineligible for the award of new contracts pending a final decision of a sanction proceeding, or otherwise.

(d) The imposition of any measure to be taken by the Bank pursuant to the provisions referred to above may be public.

(e) Any firm, entity or individual bidding for or participating in a Bank-financed activity including, inter alia, applicants, bidders, contractors, consulting firms and individual consultants, personnel, sub-contractors, sub-consultants, providers of goods or services, concessionaires, the Beneficiary or the Executing Agency (including their respective officers, employees, and agents, irrespective of whether the agency is express or implied) may be subject to sanctions pursuant to agreements that the Bank may have with other international financing institutions regarding the mutual enforcement of debarment decisions. For purposes of this sub-paragraph (e) the term "sanction" shall mean any debarment, conditions on future contracting or any publicly-disclosed action taken in response to a violation of an international financing institution applicable framework for addressing allegations of Prohibited Practices.

(f) When a Beneficiary procures goods, works or services other than consulting services directly from a specialized agency or hires a specialized agency to provide technical assistance under an agreement between the Beneficiary and such specialized agency, all provisions contained in this Agreement regarding sanctions and Prohibited Practices shall apply in their entirety to applicants, bidders, contractors, consulting firms or individual consultants, personnel, sub-contractors, sub-consultants, suppliers of goods and services (including their respective officers, employees, and

agents, irrespective of whether the agency is express or implied), or any other entity that has signed contracts with such specialized agency to supply such goods, works or services other than consulting services in connection with Bank-financed activities. The Bank retains the right to require the Beneficiary to invoke remedies such as suspension or termination. The Beneficiary agrees that contracts with specialized agencies shall include provisions requiring said agencies to consult the Bank's list of firms and individuals declared ineligible temporarily or permanently by the Bank. In the event that a specialized agency signs a contract or purchase order with a firm or an individual declared ineligible either temporarily or permanently by the Bank, the Bank will not finance the related expenditures and will apply other remedies as appropriate.

Article 9. Exchange Rate. (a) The Beneficiary undertakes to justify, or to cause the Executing Agency to justify, as the case may be, expenditures chargeable to the Contribution or the Additional Resources, expressing such expenditures in the currency of denomination of the respective disbursement.

(b) To determine the equivalence of an eligible expenditure incurred in the local currency of the Beneficiary's country in relation to the currency in which the disbursements are made, for purposes of accounting and justification of expenses, regardless of the source of financing of the eligible expenditure, one of the following exchange rates shall be used, pursuant to the Special Conditions:

- (i) the exchange rate in force on the date on which the disbursement currency is converted into the local currency of the Beneficiary's country; or
- (ii) The exchange rate in force on the date of payment of the expenditure in the local currency of the Beneficiary's country.

(c) In those cases in which the exchange rate established in paragraph (b)(i) of this Article is selected, to determine the equivalent of expenditures incurred in the local currency chargeable to the Additional Resources or the reimbursement of expenditures chargeable to the Contribution, the rate used shall be the exchange rate agreed upon with the Bank in the Special Conditions.

Article 10. Selection and contracting of non-consulting services and procurement of goods and contracting of consulting services. (a) Subject to the provisions of paragraph (b) of this Article, the Beneficiary undertakes to carry out or, where appropriate, cause the Executing Agency or the contracting agency, if any, to carry out the procurement of non-consulting services, as well as the procurement of goods, in accordance with the Procurement Policies and the Procurement Plan approved by the Bank, and the selection and contracting of consulting services, in accordance with the Consultant Policies and the Procurement Plan approved by the Bank. The Beneficiary represents that it is aware of the Procurement Policies and Consultant Policies and undertakes to inform the Executing Agency, the Contracting Agency, and the specialized agency, as the case may be, of these policies.

(b) When the Bank has validated a system or subsystem of the member country of the Bank where the Project will be executed, the Beneficiary or the Executing Agency, as the case may be, may carry out the procurement and contracting financed wholly or partially with resources of the Contribution using such systems or subsystem, in accordance with the terms of the validation of the Bank and applicable validated legislation and processes. The terms of such validation shall be notified in writing by the Bank to the Beneficiary and the Executing Agency. Use of the country system or subsystem may be suspended by the Bank when, in its opinion, changes have occurred in the parameters or practices the Bank used as the basis for its validation, until such time as the Bank determines whether such changes are compatible with international best practices. During such suspension, the Procurement Policies and Consultant Policies of the Bank will apply. The Beneficiary, directly or through the Executing Agency, as the case may be, undertakes to notify the Bank of any change in the applicable legislation or processes that have been so validated. The use of country systems or subsystems does not constitute a waiver of the application of the provisions set forth in Section I of the Procurement Policies and Consultant Policies, including the requirement that the respective procurement and contracting of services be contained in the Procurement Plan and is subject to the remaining provisions of this Agreement. The provisions of Section I of the Procurement Policies and Consultant Policies shall apply to all contracts, regardless of amount or contracting method. The Beneficiary agrees to include, or to cause the Executing Agency, as the case may be, to include in the model bidding documents, contracts, and instruments used in electronic or information systems (in physical or electronic media) measures to ensure the application of the provisions set forth in Section I of the Procurement Policies and Consultant Policies, including the provisions on Prohibited Practices.

(c) The Beneficiary, directly or via the Executing Agency as the case may be, undertakes to update the Procurement Plan at least annually or more frequently, depending on the Project needs. Each updated version of the Procurement Plan shall be submitted for review and approval of the Bank.

(d) The Bank will conduct a review of the selection process, contracting and procurement, as set forth in the Procurement Plan. At any time during the execution of the Project, the Bank may change the method of review of these processes, with prior notice to the Beneficiary or the Executing Agency. The changes approved by the Bank shall be reflected in the Procurement Plan.

(e) For purposes of this Article: (i) "Contracting Agency" means the entity with legal capacity to enter into contracts and, as agreed with the Beneficiary or the Executing Agency, as the case may be, assumes all or part of the responsibility of carrying out the procurement of goods and works, consulting services or non-consulting services for the Project; (ii) "Procurement Plan" means a tool for programming and monitoring the procurement related to the Project, in the terms described in the Procurement Policies and Consultant Policies; (iii) "Procurement Policies" means the Policies for the Procurement of Works and Goods financed by the Inter-American Development Bank in force at the time of the approval of the Project by the Bank; (iv) "Consultant Policies" means the Policies for the selection and contracting of consultants financed by the Inter-American Development Bank, which are in force at the time of the approval of the Project by the Bank.

(f) With resources of the Contribution and up to the amount allocated for that purpose in the budget set forth in the Annex that describes the Project, the Beneficiary or the Executing Agency, as the case may be, may procure the goods and contract the consulting services and non-consulting services required for the execution of the Project.

(g) When the goods and services procured for the Project are financed entirely with Additional Resources, the Beneficiary or the Executing Agency, as the case may be, shall, whenever possible, follow procedures that allow for the participation of several bidders or proponents, and shall take into account principles of economy, efficiency and reasonability of price.

(h) When sources of financing other than resources of the Contribution or of the Additional Resources are used, the Beneficiary or the Executing Agency, as the case may be, may agree with the financing entity the procedure to be followed for the procurement of goods and related services and the contracting of consultants. Notwithstanding, at the Bank's request, the Beneficiary or the Executing Agency, as the case may be, shall demonstrate the reasonability of both the price agreed upon or paid for the procurement of such goods and related services or the contracting of consultants. The Beneficiary or the Executing Agency, as the case may be, shall likewise demonstrate that the quality of the goods and related services and of the consultants meets the technical requirements of the Project.

(i) During the execution of the Project, the goods referred to in subsection (f) above shall be used exclusively for the execution of the Project. Following the completion of the execution of the Project, such goods may be used for other purposes.

(j) The goods included in the Project shall be adequately maintained according to generally accepted technical standards, at a level compatible with the services that they should provide.

Article 11. Other contractual obligations of consultants. (a) In addition to the special requirements included in Article 12(d), Article 13(g) and Article 14(e) of these General Conditions, in the Special Conditions, in the Annex or Annexes and in the respective terms of reference, the Beneficiary or the Executing Agency, as the case may be, agrees that contracts signed with consultants shall also specify the consultants' obligations to:

- (i) Provide any clarifications or additional information that the Beneficiary, Executing Agency or the Bank consider necessary with respect to the consultants' reports required under the terms of reference set forth in their respective contracts;
- (ii) Provide the Beneficiary or the Executing Agency and the Bank with any additional information they may reasonably request concerning the performance of their work;
- (iii) In the case of international consultants, perform their work in an integrated manner with the local professional staff assigned or contracted by the

Beneficiary or the Executing Agency to participate in the execution of the Project, with a view to carrying out technical and operational training of such staff by the conclusion of the work;

- (iv) Assign copyrights, patents and any other form of industrial property right to the Bank in cases where such rights result from the work and documents carried out or produced by the consultants under the consulting contracts financed with resources of the Project; and

(b) Notwithstanding paragraph (a)(iv) above, in order to obtain a timely dissemination of the results of the Project, the Bank authorizes the Beneficiary, or the Executing Agency, to make use of the products resulting from the consulting services financed with the resources of the Project, with the understanding that the Beneficiary or the Executing Agency shall utilize such consulting products under the terms set forth in Article 16 of these General Conditions.

Article 12. Financial information and internal control systems. (a) The Beneficiary shall maintain, or cause the Executing Agency to maintain, as the case may be, internal controls so as to reasonably ensure: (i) that Project resources are used for the purposes of this Agreement, devoting special attention to the principles of economy and efficiency; (ii) that Project assets are adequately safeguarded; (iii) that Project transactions, decisions, and activities are duly authorized and executed in accordance with the provisions of this Agreement and any other contract related to the Project; and (iv) that transactions are properly documented and recorded in a way that facilitates the production of timely and reliable reports.

(b) The Beneficiary shall maintain, and shall cause the Executing Agency, if any, to maintain, an acceptable and reliable financial management system for the timely management of Project resources that provides for: (i) financial planning; (ii) accounting, budgetary, and financial record-keeping; (iii) contract administration; (iv) payment processing; and (v) the issuance of financial audit reports and other reports associated with the resources of the Contribution, the Additional Resources, and other financing sources of the Project, if any.

(c) The Beneficiary shall preserve, and shall cause the Executing Agency, as the case may be, to preserve, the original records of the Project for a minimum period of three (3) years after the expiration date of the disbursement period of the resources or any extension thereof. Such documents and records shall be maintained adequately in order to: (i) substantiate Project-related activities, decisions, and transactions, including all expenditures incurred; and (ii) show the correlation of the expenditures incurred chargeable to the Contribution with the respective disbursement made by the Bank.

(d) The Beneficiary shall include, or cause the Executing Agency and the Contracting Agency, if any, to include in all bidding documents, requests for proposals, and contracts financed with the resources of the Contribution that they enter into, respectively, a provision requiring that providers of goods or services, contractors, subcontractors, consultants and their agents, personnel, subconsultants, subcontractors, or concessionaires contracted by them, keep all documents and

records related to activities financed with resources of the Contribution for a period of seven (7) years after completion of the work contemplated in the relevant contract.

Article 13. External Financial Audit Reports and other Financial Reports. (a) Unless the Special Conditions establish otherwise, the Beneficiary, directly or through the Executing Agency, as the case may be, shall present the Bank with the external financial audit reports and other reports identified in the Special Conditions within one hundred twenty (120) days following the closing of each fiscal year of the Project, during the disbursement period or any extension thereof, and within one hundred twenty (120) days following the date of the last disbursement.

(b) In addition, the Beneficiary, directly or through the Executing Agency, as the case may be, shall present to the Bank other financial reports in such form and with such content and frequency as the Bank may reasonably request during the Project's execution when, in the opinion of the Bank, the analysis of the level of the Project's fiduciary risk, complexity, or nature so warrant.

(c) Any external audit that may be required under the provisions of this Article and the corresponding provisions of the Special Conditions shall be performed by external auditors who have been previously accepted by the Bank or by a supreme audit institution previously accepted by the Bank, in accordance with auditing principles and standards acceptable to the Bank. The Beneficiary, directly or through the Executing Agency, as the case may be, shall authorize the supreme audit institution or the independent auditors to provide the Bank with such additional information it may reasonably request with respect to the external financial audit reports.

(d) The Beneficiary, directly or through the Executing Agency, as the case may be, shall select and contract the external auditors indicated in paragraph (c) above, in accordance with the procedures and terms of reference agreed upon with the Bank. In addition, the Beneficiary or the Executing Agency, as the case may be, shall provide to the Bank any information it requests relating to the independent auditors under contract.

(e) In the event an external audit required under the provisions of this Article and the corresponding provisions of the Special Conditions is to be performed by a supreme audit institution and such agency is unable to perform the audit in accordance with requirements satisfactory to the Bank or within the deadlines, for the period, or with the frequency stipulated in this Agreement, the Beneficiary or the Executing Agency, as the case may be, shall select and contract the services of external auditors acceptable to the Bank, as provided under paragraphs (c) and (d) of this Article.

(f) Notwithstanding the provisions above, the Bank may, on an exceptional basis, select and contract the services of external auditors to audit the financial audit reports and other reports as provided in this Agreement when: (i) pursuant to the findings of a Bank-conducted cost-benefit analysis, it is determined that the benefits associated with the hiring of such services by the Bank outweigh the costs; (ii) there is limited access to auditing services in the country; or (iii) special circumstances warrant the selecting and hiring of such services by the Bank.

(g) The Bank reserves the right to request the Beneficiary or the Executing Agency, as the case may be, to have external audits other than financial audits or to have services carried out

relating to the auditing of projects, of the Executing Agency and related entities, of the financial information system, and of the bank accounts of the Project, among others. The nature, frequency, scope, timing, methodology, type of applicable auditing norms, reports, auditor selection procedures, and terms of reference for the audits shall be agreed upon between the parties.

(h) Bidding documents and contracts that the Beneficiary or the Executing Agency enter into with a supplier of goods or services, contractor, sub-contractor, consultant, sub-consultant, personnel or concessionaire shall include a provision allowing the Bank to inspect any accounts, records and other documents relating to the submission of proposals and contract performance and to have them audited by auditors appointed by the Bank.

Article 14. Inspections. (a) The Bank may establish such inspection procedures as it deems necessary to ensure the satisfactory development of the Project.

(b) The Beneficiary or the Executing Agency, as the case may be, shall permit the Bank to inspect at any time the Project and the equipment and materials involved therein, and to examine such records and documents as the Bank may deem pertinent. The personnel whom the Bank sends or designates as investigators, agents, auditors or experts for this purpose shall receive the complete cooperation of the respective authorities. All the costs relating to transportation, salaries, and other expenses of such personnel shall be borne by the Bank.

(c) The Beneficiary or the Executing Agency, as the case may be, shall, upon request of an authorized representative of the Bank, provide to the Bank any documents, including procurement-related documents that the Bank may reasonably request. In addition, the Beneficiary and the Executing Agency shall make their personnel available, when requested and upon reasonable notice, to respond to questions from Bank personnel, which arise during the review or audit of such documents. The Beneficiary or the Executing Agency, as the case may be, shall produce the documents in a timely manner or shall submit an affidavit to the Bank setting forth the reasons why the requested material is unavailable or is being withheld.

(d) If the Beneficiary or the Executing Agency, as the case may be, refuses to comply with the Bank's request, or otherwise obstructs the Bank's review of the matter, the Bank in its sole discretion may take such measures as it considers appropriate against the Beneficiary or Executing Agency, as the case may be.

(e) The Beneficiary agrees that bidding documents, requests for proposals and contracts financed with resources of the Contribution that the Beneficiary or the Executing Agency enter into shall include a provision that requires applicants, bidders, providers of goods or services and their representatives, contractors, sub-contractors, consultants and their representatives, sub-consultants, service providers and concessionaires to: (i) permit the Bank to inspect any and all accounts, records, and other documents relating to the submission of bids and contract performance as well as to have them audited by auditors appointed by the Bank; (ii) assist the Bank with its investigation; and (iii) deliver any document necessary for the investigation of allegations of Prohibited Practices and make available their employees or agents with knowledge of the Bank-financed activities to respond to questions from Bank personnel or any properly designated investigator, agent, auditor or

consultant relating to the investigation. If the applicant, bidder, supplier and its agent, contractor, consultant, personnel, subcontractor, sub-consultant, service provider or concessionaire fails to cooperate and/or comply with the Bank's request, or otherwise obstructs the investigation, the Bank, in its sole discretion, may take appropriate action against the applicant, bidder, supplier and its agent, contractor, consultant, personnel, sub-contractor, subconsultant, service provider or concessionaire.

Article 15. Other Commitments. The Beneficiary, either directly or through the Executing Agency shall also:

- (a) Provide the consultants and local experts with administrative support, offices, office supplies, communication services, transport and any other logistical support required for the execution of their work;
- (b) Present to the Bank a copy of the consultants' reports and their comments thereon;
- (c) Provide the Bank with any other additional information or legal reports as it may reasonably request concerning the execution of the Project and the use of the Contribution and the Additional Resources; and
- (d) Keep the Bank's Representative in the respective country or countries informed of all aspects of the Project.

Article 16. Publication of Documents. Any document issued under the Bank's name or logotype, which is intended for publication as part of a special project, joint program, research initiative or any other activity financed with the resources of the Project, shall be previously approved by the Bank.

Article 17. Supervision in the Field. Without prejudice to the supervision of the Project activities performed by the Beneficiary or the Executing Agency, as the case may be, the Bank may supervise the Project in the field.

Article 18. Limitation of the Bank's Obligation. It is understood that the granting of the Contribution by the Bank does not constitute any obligation whatsoever on its behalf to totally or partially finance any project or program that may directly or indirectly result from the execution of the Project.

Article 19. Arbitration. For the solution of any controversy which may arise hereunder and which is not resolved by agreement of the parties, said parties shall unconditionally and irrevocably submit to the following arbitration procedure and award:

- (a) **Composition of the Tribunal.** The Arbitration Tribunal shall be composed of three (3) members, to be appointed in the following manner: one by the Bank, another by the Beneficiary, and a third, hereinafter called the "Referee", by direct agreement between the parties or through their respective arbitrators. If the parties or the arbitrators fail to agree on who shall be the Referee, or if one of the parties fails to appoint the arbitrator, the Referee shall be appointed, at the request of either party, by

the Secretary General of the Organization of American States. If either of the parties fails to appoint an arbitrator, he or she shall be appointed by the Referee. If either of the appointed arbitrators or the Referee is unwilling or unable to act or to continue to act, his or her successor shall be appointed in the same manner as for the original appointment. The successor shall perform the same functions and shall have the same powers as his or her predecessor.

- (b) **Initiation of the Procedure.** In order to submit the controversy to arbitration, the claimant shall address to the other party a written communication setting forth the nature of the claim, the satisfaction or compensation sought, and the name of the arbitrator it has appointed. The party receiving such communication shall, within forty-five (45) days, notify the adverse party of the name of the person it has appointed as arbitrator. If, within thirty (30) days after delivery of such notification to the claimant, the parties have not agreed upon the person who is to act as Referee, either party may request the Secretary General of the Organization of American States to make the appointment.

In cases of agreements with Argentina, the parties agree that in paragraphs (a) and (b), above, where it reads: "Secretary General of the Organization of American States", it shall read instead: "President of the International Court of Justice."

- (c) **Convening of the Tribunal.** The Arbitration Tribunal shall be convened in Washington, District of Columbia, on the date designated by the Referee and, once convened, the Tribunal itself shall decide when it shall meet.

In cases of agreements with Argentina, the parties agree that this paragraph (c) shall read instead: "The Arbitration Tribunal shall be convened at the place and date it designates and, once convened, it shall meet on the date decided by the Tribunal."

- (d) **Procedure.**

- (i) The Tribunal shall be competent only to hear the matter in controversy. It shall adopt its own procedures and may on its own initiative designate whatever experts it considers necessary. In any case, it shall give the parties the opportunity to make oral presentations.
- (ii) The Tribunal shall proceed *ex aequo et bono*, basing itself on the terms of this Agreement, and shall issue an award even if either party should fail to appear or to present its case.
- (iii) The award shall be in writing and shall be adopted with the concurrent vote of at least two of the members of the Tribunal. It shall be handed down within sixty (60) days from the date on which the Referee has been appointed, unless the Tribunal determines that, due to special and unforeseen circumstances, such period should be extended. The parties shall be notified of the award by

means of a communication signed by at least two members of the Tribunal. The parties agree that any award of the Tribunal shall be complied with within thirty (30) days from the date of notification and it shall be final and not be subject to any appeal.

- (e) **Costs.** The fees of each arbitrator shall be paid by the party which appointed him or her and the fees of the Referee shall be paid by both parties in equal proportion. Prior to the convening of the Tribunal, the parties shall agree on the remuneration of any other person who by mutual agreement, they deem should participate in the arbitration proceedings. If such agreement is not reached in a timely manner, the Tribunal itself may determine the compensation that is reasonable for such person under the circumstances. Each party shall defray its own expenses in the arbitration proceedings but the expenses of the Tribunal shall be divided and borne equally by both parties. Any doubt regarding the division of expenses or the manner in which they are to be paid shall be determined, without appeal, by the Tribunal.
- (f) **Notification.** All notifications regarding the arbitration proceeding or the award shall be made in the manner provided in this Article. The parties expressly waive any other form of notification.

In cases of Agreements with Ecuador, the parties agree that, for the purposes of notification, this paragraph (f) shall read: “All notifications regarding the arbitration proceeding or the award shall be made in the manner provided in the Agreement. The parties expressly waive any other form of notification. Notwithstanding the foregoing, any party delivering a notification hereunder must also notify the Attorney General (Procurador General del Estado) of Ecuador.”

ANNEX

THE PROJECT

Promotion of Behavior Change and Strengthening of the Water and Sanitation Sector in Paraguay

I. Objective

- 1.01** The objective of the Project is to design and implement potable water, sanitation and hygiene (“WASH”) innovative interventions through social arts¹ to encourage behavioral changes that increase the sustainable use of water and sanitation systems built in communities with up to ten thousand (10,000) inhabitants², and that encourage good hygiene practices.

II. Description

- 2.01** The Project contemplates the use of social art for behavior change and access to microfinance to improve the good practices and the sustainability of infrastructure and services. To achieve this goal, the activities will focus on: (i) improving the appropriation of WASH systems; (ii) promoting good hygiene practices (e.g. hand washing); (iii) improving the sustainable management of sanitation facilities; (iv) encouraging the payment of fees; and (v) increasing levels of system chlorination, among others. The Project will also analyze the possibility of developing market-based solutions to the WASH sector needs, supporting the design of financial instruments to strengthen or develop a new market around WASH products. Finally, the Project will promote activities to strengthen the technical capacity of the Sanitation Boards (“SB”) to improve their management and promote sustainability of the services provided.
- 2.02** To achieve the objectives described in paragraph 1.01, the Project will finance the following components:

Component 1: Promotion of Behavior Change

- 2.03** The objective of this component is to promote behavior change in the WASH sector through social arts (activities including theater, music, documentaries, circus, among others), based on local traditions. The activities of this component include:

¹ Social artists use creative skills to work with people or organizations in their communities to affect change and to promote and improve better behaviors to address specific conducts, as hygiene practices. Social arts can incorporate several different art forms including theater, music, poetry, circus or visual arts.

² A set of communities have been preliminarily identified. This initial list may be subject to changes during the execution of the Project, without affecting its objectives.

- (i) Training of local artist partners in behavior change techniques in the WASH sector: local artists will be trained by behavior change experts from One Drop Foundation in specific activities to develop and execute performances linked with WASH behaviors identified during the diagnosis and the barrier analysis. This activity will create know-how in the local communities through local artists and contribute towards the sustainability of the Project; and
- (ii) Development and implementation of social arts activities focused on behavior change in the WASH sector: the activities might be developed in schools, health centers and the community. The type of activities (e.g. theater, music, and circus) will be defined depending on the local artist partners and the type of behaviors to be improved, in local language, and taking into account the socio-cultural context. The activities developed will supplement the current social work performed with the communities by the Servicio Nacional de Saneamiento Ambiental (“SENASA”).

2.04 This component will be developed in rural communities and small towns assisted by SENASA in the departments of Concepción, San Pedro, Cordillera, Guaira, Caaguazú, Caazapá, Itapúa, Paraguari, Alto Paraná, Central and Canindeyú. Following a diagnosis to be performed by One Drop Foundation, the list of communities and departments could be adjusted, depending on the willingness of the community to participate in the Project and on operational cost and efficiency in the implementation of the Project. Subject to the foregoing, the behavioral change activities will reach and raise awareness of approximately thirty-five thousand (35,000) beneficiaries.

Component 2: Access to Capital

2.05 The Project will not provide micro-loans, but will support local organizations in the design of appropriate financial instruments to attend the WASH sector. It is expected that the resulting improved access to credit will increase connectivity to community sanitation systems in small towns, and will improve water services in rural areas through the Sanitation Boards(SB) and SB associations. This component will finance the following activities:

- (i) Needs assessments and market research for WASH services: the assessment will analyze the current market situation regarding local financial institutions with WASH products in the market, as well as services offered by entrepreneurs and small and medium enterprises. This assessment will help to better define the specific activities to develop and the baselines and targets of this component;
- (ii) Financial skills training for entrepreneurs and small and medium enterprises in the WASH sector: the training will improve financial, administrative and operative skills of entrepreneurs and small and medium enterprises in the WASH sector, and will promote new WASH services for households, SB and SB associations; and
- (iii) Promotion, through financial institutions, of specific loans in WASH for households, SB, SB associations, and WASH service enterprises.

- 2.06** The activities related to access to capital expect to reach five hundred (500) households, small and medium size businesses or Sanitation Boards, which will receive credit products associated with water and sanitation activities. Furthermore, fifteen (15) training courses on financial skills and financial promotion will be developed for direct beneficiaries (entrepreneurs, employees of financial institutions or local organizations) and financial institutions or local organizations to develop products related to WASH services, to be determined after the needs assessment.

III. Total Cost of the Project

- 3.01** The total estimated cost of the Project is the equivalent of two million dollars (US\$2,000,000), in accordance with the following indicative budget. The balance of one million four hundred thousand dollars (US\$1,400,000) not financed by the Contribution will come from One Drop Foundation, provided that One Drop Foundation's contribution will be reduced by any amount funded by the Multilateral Investment Fund ("MIF") or by any other funder acceptable to the Bank who directly invests in the Project ³.

Indicative Budget (in US\$)

| Component | JPO Fund | Counterpart One Drop Foundation | Counterpart MIF | TOTAL |
|---|----------------|---------------------------------------|--------------------|------------------|
| Component 1. Promotion of behavior change | 600,000 | 383,100 | 70,000 | 1,053,100 |
| Component 2. Access to Capital | 0 | 0 | 475,500 | 475,500 |
| Audit, Evaluation and Project Management | 0 | 65,000 | 406,400 | 471,400 |
| Total | 600,000 | 448,100 | 951,900 | 2,000,000 |

IV. Execution

- 4.01** The Executing Agency co-financer for the Project will be One Drop Foundation. One Drop Foundation is specialized in promoting behavior change through social arts in the WASH sector through its A·B·C methodology for sustainability (access, behavior change, capital). One Drop Foundation will assess the technical and administrative capacities of social art groups to work in some of the activities of the Project, developing the methodology and the performances to be implemented in the field.
- 4.02** Fundación Bertoni will be One Drop Foundation's local implementing partner to implement activities of the Project and assure the operational coordination with any relevant parties.

3 MIF has approved a technical cooperation for nine hundred and fifty-one thousand, nine hundred dollars (US\$951,900) which would cover part of the total one million, four hundred thousand dollars (US\$1,400,000).

- 4.03** To implement the Project, One Drop Foundation will sign agreements with other contractor partners to implement specific Project activities. These sub-executing agreements will be consistent with terms of this Agreement.