

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4471-NI
GRANT NUMBER H407-0-NI

Financing Agreement

(Rural Water Supply and Sanitation Project)

between

REPUBLIC OF NICARAGUA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 25, 2008

Public Disclosure Authorized

**CREDIT NUMBER 4471-NI
GRANT NUMBER H407-0-NI**

FINANCING AGREEMENT

AGREEMENT dated July 25, 2008, entered into between REPUBLIC OF NICARAGUA (“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) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant and a credit (collectively “Financing”) in the following amounts to assist in financing the project described in Schedule 1 to this Agreement (“Project”):
 - (a) an amount equivalent to twelve million Special Drawing Rights (SDR 12,000,000) (“Grant”); and
 - (b) an amount equivalent to two hundred thousand Special Drawing Rights (SDR 200,000) (“Credit”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

- 2.05. The Payment Dates are March 15 and September 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is United States Dollars.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall cause FISE to carry out the Project with the assistance of:
 - (a) the Eligible Municipalities for purposes of Part 1 of the Project;
 - (b) the Eligible Municipalities, the Project Committee, and RAAN for purposes of Part 2 of the Project; and
 - (c) the WSS Rural Sector Support Institutions for purposes of Part 4(a) of the Project;

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

- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. (a) The Additional Events of Suspension consists of the following:
 - (i) The FISE Legislation has been amended, suspended, abrogated, repealed, waived or not enforced so as to affect materially and adversely, in the opinion of the Association, the ability of the FISE to perform any of its obligations under the Subsidiary Agreement.
 - (ii) The Procurement Law has been amended, suspended, abrogated, repealed or waived so as to render its Article 3(f) ineffective, in the opinion of the Association, and no provision analogous to such Article 3(f) has been adopted to replace such provision.

(iii) The Water Law and/or the Municipality Law have been amended suspended, abrogated, repealed, waived or not enforced so as to affect, in the opinion of the Association, materially and adversely the implementation of the Project or the achievement of its objective.

(iv) FISE shall have failed to comply with any of its obligations under the Subsidiary Agreement.

(v) An Eligible Municipality shall have failed to comply with any of its obligations under a Municipality Subproject Agreement to which it is a party.

(vi) RAAN shall have failed to comply with any of its obligations under the RAAN Subproject Agreement.

(b) Notwithstanding the rights contained in Section 6.02 of the General Conditions, it is understood that if any of the events specified in paragraphs (a) (v) or (a) (vi) of this Section shall have occurred, the Association may, by notice to the Recipient, choose to suspend in whole or in part the right of the Recipient to make withdrawals from the Financing Account for expenditures solely in respect of the concerned Eligible Municipality (in the case of paragraph (a) (v)) or in respect of RAAN (in the case of paragraph (a) (vi)).

4.02. The Additional Events of Acceleration consist of the following:

(a) The event specified in paragraphs (a)(iv) of Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Association to the Recipient.

(b) Any event specified in paragraphs (a)(i), (a)(ii), and/or (a)(iii) of Section 4.01 of this Agreement occurs.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Conditions of Effectiveness consist of the following:

(a) The Subsidiary Agreement has been executed on behalf of the Recipient and FISE.

(b) The Operational Manual has been adopted by the Recipient and FISE.

- 5.02. The Additional Legal Matter consists of the following, namely, that the Subsidiary Agreement has been duly authorized or ratified by the Recipient and FISE and is legally binding upon the Recipient and FISE in accordance with its terms.
- 5.03. Without limitation to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Association's approval of the Financing which expire on December 12, 2009.
- 5.04. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is eighteen years after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

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

6.02. The Recipient's Address is:

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

Facsimile: (505) 222-3033

6.03. The Association's Address is:

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

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI)	1-202-477-6391

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

REPUBLIC OF NICARAGUA

By /s/ Alberto José Guevara Obregón

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Laura Frigenti

Authorized Representative

SCHEDULE 1

Project Description

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

The Project consists of the following parts:

Part 1. WSS Coverage Increases in Rural Areas

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

Part 2. WSS Coverage Increases in RAAN and RAAS

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

Part 3. Pilot Subprojects

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

Part 4. Institutional Strengthening; Project Management and Monitoring

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

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

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall cause FISE to maintain, throughout Project implementation, professional staff required for Project implementation as set forth in the Operational Manual, all with qualifications and experience satisfactory to the Association.
2. Prior to carrying out any activity under Part 2 of the Project, the Recipient shall organize and maintain throughout Project implementation a committee (the "Project Committee") with composition and functions satisfactory to the Association and set forth in the Operational Manual, including providing strategic and policy guidance for the carrying out of Part 2 of the Project. The Project Committee shall operate under the terms and conditions set forth to that effect in the Operational Manual.
3. Notwithstanding the provisions of Section 3.01 of this Agreement, in the event that FISE decides, with the prior approval of the Association, to delegate implementation responsibilities (including, *inter alia*, financial management and procurement responsibilities) for any of the pilot subprojects under Part 3 of the Project to an Eligible Municipality, then the provisions set forth in Section I.D.1 and I.E of Schedule 2 to this Agreement shall apply to the respective pilot subproject under Part 3 of the Project and to the relationship between FISE and the respective Eligible Municipality.

B. Subsidiary Agreement

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Financing available to FISE under a subsidiary agreement (Subsidiary Agreement) between the Recipient and FISE, under terms and conditions acceptable to the Association and adequate to protect the interests of the Recipient and those of the Association, which shall include:
 - (a) the provision to FISE of the funds, facilities, services and other resources required to enable FISE to carry out the Project, including the transfer of the proceeds of the Financing on a grant basis;
 - (b) the obligation of FISE to: (i) carry out the Project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association, including in accordance with the Operational Manual and the provisions of the Anti-Corruption Guidelines applicable to

recipients of Financing proceeds other than the Recipient; (ii) provide, promptly as needed, any additional resources within its control required for the purpose; (iii) (A) procure or cause to be procured the goods, works and services to be financed out of the Financing in accordance with the provisions of this Agreement; and (B) conduct the audits referred to in Sections V.B and V.C of Schedule 2 to this Agreement; (iv) prior to the carrying out of any Subproject, enter into a Subproject Agreement with the respective Eligible Municipality or with RAAN (in the case of Alto Coco and Bocay Subprojects), as provided in Section I.D.1(a) of Schedule 2 to this Agreement; (v) maintain, throughout Project implementation, professional staff required for Project implementation as provided in Section I.A.1 of Schedule 2 to this Agreement; (vi) maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with indicators acceptable to the Association and set forth in the Operational Manual, the progress of the Project and the achievement of its objective; (vii) (A) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect its operations and financial condition, including operations, resources and expenditures related to the Project; and (B) have such financial statements audited by independent auditors acceptable to the Association in accordance with consistently applied auditing standards acceptable to the Association (each audit covering one fiscal year of FISE), and promptly furnish the statements as so audited to the Recipient and the Association; (viii) enable the Recipient and the Association to inspect the Project, its operation and relevant records and documents; and (ix) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing; and

(c) the right of the Recipient to suspend or terminate the right of FISE to use the proceeds of the Financing, and the right of the Recipient to obtain a refund from FISE of all or any part of the amount of the Financing then withdrawn by FISE, upon FISE's failure to perform any of its obligations under the Subsidiary Agreement.

2. The Recipient shall exercise its rights 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 or fail to enforce the Subsidiary Agreement or any of its provisions.

C. Operational Manual

1. (a) The Recipient shall, and shall cause FISE to, carry out the Project in accordance with an operational manual (the Operational Manual), satisfactory to the Association, said manual to include, *inter alia*:
 - (i) the procedures for the carrying out, monitoring and evaluation of the Project (including the procurement, disbursement, financial management, social and environmental requirements thereof);
 - (ii) the staff in FISE required for Project implementation, including the necessary qualifications and experience for such positions;
 - (iii) the criteria for selecting Eligible Municipalities;
 - (iv) the criteria for the eligibility, approval, implementation, monitoring and evaluation of Subprojects, including, *inter alia*: (A) the Subproject cycles, as applicable; (B) the amount of counterpart contribution, in cash or in kind, required for each type of investment under a Subproject; and (C) the eligibility criteria and procedures for community participation in the implementation of Subprojects;
 - (v) the procedures to be followed in the event that any “chance finds” of archeologically or culturally significant resources are encountered during construction;
 - (vi) the EMF and the IAPP; and
 - (vii) the indicators for Project monitoring and evaluation (the Performance Indicators).
- (b) The Operational Manual may be amended from time to time with the prior approval of the Association. In the case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

D. Sub-projects

1. For purposes of carrying out Parts 1 and 2 of the Project, the Recipient shall cause FISE to:
 - (a) prior to carrying out each Subproject, enter into an agreement with the respective Eligible Municipality (a Municipality Subproject Agreement), or in the case of Alto Coco and Bocay Subprojects, with RAAN (the RAAN Subproject Agreement) under terms and conditions satisfactory to the Association, which shall include, *inter alia*:

- (i) the provision to the Eligible Municipality or to RAAN (as the case may be) of the facilities, services and other resources required to enable the Eligible Municipality to participate in the respective Subproject, including the funds necessary to contract the works under the respective Subproject and the provision of the technical assistance under the respective Subproject;
 - (ii) the obligation of the Eligible Municipality or RAAN (as the case may be) to: (A) cooperate in the carrying out of the respective Subproject with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association, including in accordance with the Operational Manual and the provisions of the Anti-Corruption Guidelines applicable to recipients of Financing proceeds other than the Recipient; (B) provide, promptly as needed, the resources required for the purpose, including without limitation the counterpart contribution in cash or in kind required for each type of investment under a Subproject in the percentages set forth in the Operational Manual; (C) cooperate with FISE to ensure that all goods, works and services to be financed out of the Financing are procured in accordance with the provisions of this Agreement; (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association, the progress of the Subproject and the achievement of its objectives; (E) enable the Recipient, FISE and the Association to inspect the Subproject, its operation and any relevant records and documents; (F) prepare and furnish to the Recipient, FISE and the Association all such information as the Recipient, FISE or the Association shall reasonably request relating to the foregoing; and (G) in the event that community participation is envisaged in the implementation of the respective Subproject, ensure that the criteria and procedures set forth in the Operational Manual for community participation in the implementation of Subprojects are complied; and
 - (iii) the right of FISE to suspend or terminate the right of the Eligible Municipality to participate in the Subproject and/or to benefit from the proceeds of the Financing, upon the Eligible Municipality's failure to perform any of its obligations under the respective Subproject Agreement; and
- (b) exercise its rights under each Subproject Agreement in such manner as to protect the interests of the Recipient, FISE, and the Association and to accomplish the purposes of the Financing, and, except as the Association

shall otherwise agree, not to assign, amend, terminate, abrogate, waive or fail to enforce any Subproject Agreement or any provision thereof.

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

E. Safeguards

1. Without limitation to the provisions of Section I.C.1 (a) of Schedule 2 to this Agreement, the Recipient undertakes that, unless the Association shall otherwise agree:
 - (a) Subprojects shall be promoted, identified, appraised, approved, carried out and monitored by FISE and the respective Eligible Municipality or RAAN in the case of Alto Coco and Bocay Subprojects, in accordance with the procedures set forth in the Operational Manual, including the EMF and the IAPP; and
 - (b) no physical or economic involuntary resettlement (as interpreted in accordance with the Association's Operational Policy 4.12 (OP 4.12)) shall take place as a consequence of Project implementation, including the Subprojects.

F. Anti-Corruption

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

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the Performance Indicators. Each Project Report shall cover the period of six months, and shall be furnished to the Association not later than two months after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. The Recipient shall prepare and furnish to the Association as part of the Project Report, interim unaudited financial reports for the Project covering the six-month period, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods, Works and Non-Consultant Services.** All goods, works and non-consultant services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Sections.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.
4. **Stipulation of Procedures under the Procurement Law.** For purposes of Article 3(f) of the Procurement Law, the Procurement Guidelines, the Consultant Guidelines, and the provisions of this Schedule collectively constitute the stipulated procedures for the procurement of goods, works, non-consultant and consultant services financed under this Agreement.

B. Particular Methods of Procurement of Goods and Works and Non-Consultant Services

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and non-consultant services shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods, Works and Non-Consultant Services.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and

non-consultant services. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method
(a) National Competitive Bidding
(b) Shopping
(c) Community Participation procedures described in the Operational Manual and the Procurement Plan

C. Particular Methods of Procurement of Consultants’ Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Quality-Based Selection
(b) Selection under a Fixed Budget
(c) Least-Cost Selection
(d) Selection Based on Consultants’ Qualifications
(e) Single-Source Selection
(f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association.

E. Special Provisions

1. In addition and without limitation to any other provisions set forth in this Section or the Procurement Guidelines, the following principles of procurement shall expressly govern all procurement of goods under either International Competitive Bidding or National Competitive Bidding:
 - (a) Foreign bidders shall not be required to be registered with local authorities as a prerequisite for bidding.

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

(c) The invitation to bid shall not establish, for purposes of acceptance of bids, minimum or maximum amounts for the contract prices.

(d) The invitation to bid shall not publish the estimated cost of the contract.

(e) The invitation to bid shall not require mandatory attendance to a pre-bid meeting as a condition to bid.

2. In addition and without limitation to any other provisions set forth in this Section or the Procurement Guidelines, the following principles of procurement shall expressly govern all procurement under Shopping:

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

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

(c) The invitation to bid shall not establish, for purposes of acceptance of bids, minimum or maximum amounts for the contract prices.

(d) The invitation to bid shall not publish the estimated cost of the contract.

(e) The invitation to bid shall not require mandatory attendance to a pre-bid meeting as a condition to bid.

(f) A minimum of three quotations shall be obtained as a condition to award the contract.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the

amounts of the Credit and of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Grant Allocated (expressed in SDR)	Amount of the Credit Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Consultant's Services: (a) under Parts 1 and 3 of the Project; and (b) under Part 2 of the Project	2,030,000 850,000	0 0	100%
(2) Goods, works and Non-Consultant Services: (a) for Subprojects under Part 1 of the Project; (b) for Subprojects under Part 2 of the Project; and (c) under Part 3 of the Project	4,300,000 2,200,000 1,400,000	200,000 0 0	100% except for those costs covered by the counterpart contribution referred to in paragraph 1(a)(ii)(B) of Section I.D. of Schedule 2 to this Agreement.
(3) Consultants' Services, Non-consultant services, goods, works, Training and Operating Costs: (a) under Part 4 (a) of the Project (b) under Part 4 (b) of the Project	350,000 480,000	0 0	100%

(4) Salaries of locally contracted FISE employees involved in Project implementation	390,000	0	80% during the first year of Project implementation (starting on the Effective Date); 60% during the second year of Project implementation; 40% during the third year of Project implementation; and 20% during the fourth year of Project implementation
TOTAL AMOUNT	12,000,000	200,000	

3. For the purposes of this Schedule, the term:
- (a) “Training” means: (i) reasonable travel, room, board and per diem expenditures incurred by trainers and trainees in connection with their training and by non-consultant training facilitators; (ii) course fees; (iii) training facility rentals; and (iv) training material preparation, acquisition, reproduction and distribution expenses not otherwise covered under this paragraph;
 - (b) “Operating Costs” means the incremental expenses incurred on account of Project implementation, including office equipment and supplies, vehicle operation and maintenance, communication and insurance costs, office administration costs, utilities, travel, per diem and supervision costs, and excluding salaries of locally contracted employees (none of which would have been incurred absent the Project); and
 - (c) “Non-consultant Services” means the reasonable expenditures incurred on account of Project implementation to cover reasonable costs of data collection services and other services which are not rendered by consultants and which are not covered in the definitions of Training and Operating Costs set forth in paragraphs (a) and (b) above.

B. Withdrawal Conditions; Withdrawal Period

- 1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made in respect of:
 - (a) payments made prior to the date of this Agreement; or

- (b) payments made for expenditures covered by Categories 1 (b) and 2 (b), unless: (i) the Project Committee has been established and is operating; and (ii) the Operational Manual has been updated to reflect the detailed implementation criteria and procedures for Municipality Subprojects and Alto Coco and Bocay Subprojects under Part 2 of the Project (including the respective Subproject cycle), all in a manner satisfactory to the Association.

2. The Closing Date is March 31, 2014.

Section V. Other Undertakings

A. WSS Strategy

Not later than June 30, 2009 or such other date as the Association may establish by notice to the Recipient, the Recipient shall issue a WSS strategy, satisfactory to the Association, which *inter alia* clarifies the specific responsibilities with regard to supporting WSS systems in rural areas of the Recipient's territory and to supporting their WSS Committees.

B. Annual Project Audits

The Recipient shall cause FISE to:

(a) not later than November 30 of each year of Project implementation, starting on November 30, 2009, contract physical audits for each year of Project implementation, with independent auditors of experience and qualifications satisfactory to the Association operating under terms of reference satisfactory to the Association, such audits to focus on a sample of Subprojects, so as to review individual contracts and agreements, ascertain compliance with their terms and conditions, inspect physical progress of civil works and reconcile it with financial expenses incurred, and verify compliance with the EMF and the IAPP;

(b) not later than March 31 of each year of Project implementation, starting March 31, 2010, furnish to the Association the report of such audits by said auditors; and

(c) not later than June 30 of each year of Project implementation, starting June 30, 2010, discuss the results of such audits with representatives of Eligible Municipalities, RAAN, RAAS, and communities involved in Project activities, taking into account the Association's comments thereon.

C. Annual Procurement Audits

The Recipient shall cause FISE to:

(a) not later than November 30 of each year of Project implementation, starting on November 30, 2009, contract annual procurement audits for each year of Project implementation, with independent auditors of experience and qualifications satisfactory to the Association operating under terms of reference satisfactory to the Association and have all the procurement records and documentation for each fiscal year of the Project audited, in accordance with appropriate procurement auditing principles;

(b) not later than March 31 of each year of Project implementation, starting March 31, 2010, furnish to the Association the procurement audit report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested;

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

(d) not later than June 30 of each year of Project implementation, starting June 30, 2010, discuss the results of such audits with the Association and take into account the Association's comments thereon.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each March 15 and September 15:	
commencing September 15, 2018 to and including March 15, 2028	1%
commencing September 15, 2028 to and including March 15, 2048	2%

* 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 3.03 (b) of the General Conditions.

APPENDIX

Section I. Definitions

1. “Alto Coco and Bocay Area” means the area of the Recipient that corresponds to the demarcated indigenous territories of the Miskitu Indian Tasbaika Kum, Mayangna Sauni Bu and Kipla Sait Tasbaika.
2. “Alto Coco and Bocay Subproject” means any group of activities under Part 2 of the Project which are included in the Subproject cycle referred to in the Operational Manual, to be carried out in the Alto Coco and Bocay Area, as set forth in the RAAN Subproject Agreement.
3. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
6. “Eligible Municipality” means a Municipality which meets the criteria set forth in the Operational Manual to participate in the Project.
7. “Environmental Management Framework” or “EMF” means the Recipient’s framework for the environmental management of the Project dated April 28, 2008, as may be amended from time to time with the prior agreement of the Association.
8. “ENACAL” means *Empresa Nicaragüense de Acueductos y Alcantarillados Sanitarios*, the Recipient’s National Water and Sanitation Enterprise established pursuant to the Recipient’s Law No. 276 published in the Recipient’s Official Gazette No. 12 of January 20, 1998.
9. “FISE” means the Recipient’s Emergency Social Investment Fund (*Fondo de Inversión Social de Emergencia*), a public, autonomous and decentralized entity of the Recipient established and operating pursuant to the FISE Legislation.
10. “FISE Legislation” means the Recipient’s Decree No. 59-90, dated November 21, 1990 and published in the Recipient’s Official Gazette No. 240 of December 13, 1990, as amended by the following decrees of the Recipient:

- (a) Decree No. 43-94, dated October 28, 1994 and published in the Recipient's Official Gazette No. 203 of October 31, 1994;
 - (b) Decree No. 3-97, dated January 27, 1997 and published in the Recipient's Official Gazette No. 25 of February 5, 1997;
 - (c) Decree No. 57-98, dated August 28, 1998 and published in the Recipient's Official Gazette No. 167 of September 4, 1998;
 - (d) Decree No. 109-2004, dated September 28, 2004 and published in the Recipient's Official Gazette No. 191 of October 1, 2004; and
 - (e) Decree No. 12-2007, dated January 25, 2007 and published in the Recipient's Official Gazette No. 21 of January 30, 2007.
11. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 1, 2005 (as amended through October 15, 2006), with the modifications set forth in Section II of this Appendix.
 12. "IAPP" means the Recipient's Indigenous and Afro-Caribbean Peoples Plan for the Project dated April 10, 2008, as may be amended from time to time with the prior agreement of the Association.
 13. "Municipality" means an autonomous entity established pursuant to the Municipality Law.
 14. "Municipality Law" means the Recipient's Law No. 40 published in the Recipient's Official Gazette No. 155 of August 17, 1988, amended by Law No. 261, published in the Recipient's Official Gazette No. 162 on August 26, 1997.
 15. "Municipality Subproject" means any group of activities under Parts 1 or 2 (or 3 if Section I.A.3 of Schedule 2 to this Agreement applies) of the Project (other than those activities carried out in the Alto Coco and Bocay Area), with respect to an Eligible Municipality, which is included in the Subproject cycle referred to in the Operational Manual, as set forth in the respective Municipality Subproject Agreement.
 16. "Municipality Subproject Agreement" means any of the agreements referred to in Section I.D.1(a) of Schedule 2 to this Agreement pursuant to which FISE shall make part of the proceeds of the Financing available to an Eligible Municipality.
 17. "Operational Manual" means the Recipient's manual for the implementation of the Project, as the same may be amended from time to time with the prior approval of the Association.

18. “Performance Indicators” means the indicators for Project monitoring and evaluation set forth in the Operational Manual.
19. “PIMM” means *Plan de Inversión Municipal Multianual*, a Multiyear Municipal Investment Plan issued by an Eligible Municipality.
20. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
21. “Procurement Law” means the Recipient’s Law No. 323, which was enacted on December 2, 1999 and published in the Recipient’s Official Gazette Nos. 1 and 2 of January 3, 2000, and January 4, 2000, respectively, as amended to the date of this Agreement.
22. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated April 28, 2008 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
23. “Project Beneficiary” means an individual who benefits from the Project activities.
24. “Project Committee” means the committee referred to in Section I.A.2 of Schedule 2 to this Agreement.
25. “RAAN” means *Región Autónoma del Atlántico Norte*, the Recipient’s Autonomous Region of the Northern Atlantic.
26. “RAAN Subproject Agreement” means the agreement referred to in Section I.D.1(a) of Schedule 2 to this Agreement pursuant to which FISE shall make a part of the proceeds of the Financing available to RAAN.
27. “RAAS” means *Región Autónoma del Atlántico Sur*, the Recipient’s Autonomous Region of the Southern Atlantic.
28. “Subprojects” means, collectively, the Municipality Subprojects and the Alto Coco and Bocay Subprojects; and “Subproject” individually means any of such subprojects.
29. “Subproject Agreements” means, collectively, the Municipality Subproject Agreements and the RAAN Subproject Agreements; and “Subproject Agreement” means any one of such Subproject Agreements.
30. “Subsidiary Agreement” means the agreement referred to in Section I.B.1 of Schedule 2 to this Agreement pursuant to which the Recipient shall make the proceeds of the Financing available to FISE.

31. “Water Law” means the Recipient’s Law No. 620 (*Ley General de Aguas Nacionales*), which was enacted on May 15, 2007 and published in the Recipient’s Official Gazette No. 169 of September 4, 2007.
32. “WSS” means water supply and sanitation.
33. “WSS Committee” means a community organization recognized by the Recipient as responsible for the operation and maintenance of WSS systems in such community.
34. “WSS Rural Sector Support Institution” means FISE, ENACAL, Eligible Municipalities or any other of the institutions of the Recipient providing long-term technical assistance to WSS Committees in accordance with the strategy referred to in Section V.A of Schedule 2 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows and constitute an integral part of this Agreement.

The definition of “Project Implementing Entity” in paragraph 40 of the Appendix to the General Conditions shall be amended and replaced in its entirety with the following text:

“Project Implementing Entity” means a legal entity (other than the Recipient or the Guarantor) which is responsible for implementing all or a part of the Project and which: (a) is a party to the Project Agreement; or (b) is not a party to the Project Agreement but is a party to an agreement (referred to in a Legal Agreement as a “Subsidiary Agreement”) whereby such party's role in implementing the Project or any part thereof is set forth. If there is more than one such entity, “Project Implementing Entity” refers separately to each such entity. For cases where clause (b) of this definition applies: the last sentence of Section 1.01 of these General Conditions shall be disregarded; the Association's obligation in Section 6.06(b)(ii) of these General Conditions to notify the Project Implementing Entity shall be disregarded; references to the Project Implementing Entity in Articles VIII and IX of these General Conditions shall be disregarded with the exception of the reference in Section 9.03; and, in those other Sections of these General Conditions where reference is made to a Project Implementing Entity’s obligations under the Project Agreement or under a Legal Agreement, such obligations shall be deemed to be those set forth in the respective “Subsidiary Agreement” referred to herein.