

CONFORMED COPY

CREDIT NUMBER 3665-NI

Development Credit Agreement

(Land Administration Project)

between

REPUBLIC OF NICARAGUA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 24, 2002

CREDIT NUMBER 3665-NI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 24, 2002, between the REPUBLIC OF NICARAGUA (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Association to assist in the financing of the Project; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the credit provided for in Article II of this Agreement (the Credit) to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

“12. ‘Participating Country’ means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and ‘Participating Countries’ means, collectively, all such countries.” ; and

(b) The second sentence of Section 5.01 is modified to read:

“Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.”

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional

terms have the following meanings:

(a) “BOSAWAS Reserve” means the Borrower’s national natural resources reserve governed by Decree 44-91 dated October 31, 1991, and Law 407, published in the *Gaceta* No. 224, of December 24, 2001;

(b) “Cadastre” means the Borrower’s national property cadastre operated by INETER and the municipalities of the Borrower;

(c) “CONADE” means National Commission for Land Demarcation in RAAN and RAAS as established by Decree 16-96 dated September 6, 1996;

(d) “Coordination Commission” means *Comisión Coordinadora*, the commission for the demarcation and titling of indigenous lands, comprising indigenous representatives, regional and municipal authorities of the Borrower and non governmental organizations;

(e) “CSI” means the Inter-institutional Steering Committee of the Borrower as established by Presidential Accord (*Acuerdo Presidencial*) 108-2001, dated April 18, 2001;

(f) “CTO” means the Operational Technical Committee of the Borrower as established by Presidential Accord 108-2001, dated April 18, 2001;

(g) “DIRAC” means the Borrower’s directorate for alternative conflict resolution, established by Law 278 dated November 26, 1997 under the Supreme Court’s oversight or any successor thereto;

(h) “FMR” means each financial monitoring report prepared in accordance with Section 4.02 of this Agreement;

(i) “Grant” means any grant to be made for the financing of goods, works, consultants’ services and/or training activities under a Subproject;

(j) “Implementing Entities” means collectively INETER, INIFOM, MAGFOR, MARENA, the Supreme Court (including the Registry), RAAN, RAAS and MHCP (through the Intendance of Property and UTAP);

(k) “Indigenous Organizations, Associations and Communities” means the indigenous communities or groups of indigenous communities legally registered with the RAAN or RAAS regional or municipal authorities, or a non-governmental organization acting on behalf of any such organization, association or community, which meets the criteria set forth in the SOM to be a beneficiary of a Grant;

(l) “Indigenous Peoples Policy Process Framework” means the set of policies, conditions and timetable determining the Borrower’s approach to indigenous peoples’ issues,

described in the Borrower's letter to the Association, dated April 18, 2002;

(m) "INETER" means the Borrower's Nicaraguan territorial studies institute as referred to in Article 14.I.(c) of Laws 290 (dated June 1, 1998) and 311 (dated June 1, 1998);

(n) "INIFOM" means the Borrower's Municipal Development Institute, as referred to in Decree 497, published in the *Gaceta* No. 44, of March 2, 1990;

(o) "Intendance of Property" means the Borrower's general directorate of property within MHCP, as referred in Section 5 of Decree 71-98 dated October 30, 1998, or any successor thereto;

(p) "Land Regularization Services" means field surveys, mapping, legal cadastre, land rights regularization, land titling and registration, conflict resolution, and other activities for land regularization set forth in the Operational Manual, to be carried out under Parts C, D and E of the Project;

(q) "MAGFOR" means the Borrower's ministry of agriculture and forestry, or any successor thereto;

(r) "MARENA" means the Borrower's ministry of environment and natural resources or any successor thereto;

(s) "MHCP" means the Borrower's ministry of finance and public credit, or any successor thereto;

(t) "National Assembly" means the Borrower's legislative branch;

(u) "Operational Manual" means the manual referred to in Section 3.03 (a) and (b) of this Agreement;

(v) "Project Implementation Plan" means the plan referred to in Section 3.03 (d) of this Agreement;

(w) "Protected Area" means any area established in Estelí, Madriz, Chinandega, RAAN or RAAS within the framework of Law 217 (Title II, Chapter II, Section III), Decree 9-96, Decree 14-99, and other related laws, decrees and regulations of the Borrower, said protected areas to include - but not to be limited to - Apacunca, Complejo Volcánico San Cristobal-Casitas, Delta del Estero Real, Estero Padre Ramos, Volcan Cosiguina, Cerro Quiabuc-Las Brisas, Cerro Tisey-Estanzuela, Cerro Tomabu, Mesa de Moropotente, Miraflor, and Tepesomoto-Pataste;

(x) "RAAN" means the North Atlantic Autonomous Region, one of the regions in

which the Borrower is geopolitically divided, as regulated by Law 28, dated September 2, 1987;

(y) “RAAS” means the South Atlantic Autonomous Region, one of the regions in which the Borrower is geopolitically divided, as regulated by Law 28, dated September 2, 1987;

(z) “Regional Councils” means the RAAN and RAAS regional councils, as regulated by Title II, Chapter II of Law 28, dated September 2, 1987;

(aa) “Registry” means the Borrower’s public property registry (*Registro Público de la Propiedad*) as established by Chapter II, Book III, Section XXV of the Borrower’s 1904 Civil Code;

(bb) “Selected Indigenous Communities” means the indigenous communities to be selected by the Borrower, through the Intendance of Property, with the agreement of the Association, to participate in Part E.3 of the Project;

(cc) “Selected Municipalities” means the municipalities of Somoto, Totogalpa, Telpaneca, San Juan de Río, Palacagüina, Yalagüina, San Lucas, Las Sabanas, San José de C. (Madriz), Pueblo Nuevo, Condega, Estelí, San Juan de Limay, La Trinidad, San Nicolás (Esteli), San Pedro, San Francisco, Cinco Pinos, Santo Tomás, El Viejo, Puerto Morazán, Somotillo, Villa Nueva, Chinandega, El Realejo, Corinto, Chichigalpa, and Posoltega (Chinandega), as this list may be modified by agreement between the Borrower and the Association from time to time;

(dd) “SIICAR” means the integrated information system to be operated jointly by the Cadastre and the Registry;

(ee) “SOM” means the subproject operational manual referred to in Section 3.03(a) and (c) of this Agreement;

(ff) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;

(gg) “Subproject” means any of the projects referred to in Part E.3 (d) of the Project which is selected, approved and implemented in accordance with, and carried out by, an indigenous community eligible pursuant to the criteria set forth in the SOM;

(hh) “Supreme Court” means the highest tribunal of the Borrower’s judiciary;

(ii) “UTAP” means the Project technical and administrative unit - within MHCP - as established by the Presidential Accord 108-2001, dated April 18, 2001;

(jj) “UTAP-R” means the MHCP’s regional technical and administrative unit for

either RAAN or RAAS, and “UTAP-Rs” means both of said units; and

(kk) “UTO” means the technical operating unit of either the department of Estelí, or Madriz, or Chinandega, and “UTOs” means all three of said technical operating units.

Section 1.03. Any reference in this Agreement to a decree, presidential accord or law shall be understood as made to a decree, presidential accord or law of the Borrower.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to twenty-six million two hundred thousand Special Drawing Rights (SDR 26,200,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars, a separate special deposit account in a commercial bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2007 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on June 15 and December 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each June 15 and December 15, commencing on December 15, 2012 and ending on June 15, 2042. Each installment to and including the installment payable on June 15, 2022 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the

above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through MHCP and the UTAP, with the assistance of the Implementing Entities and the policy and technical guidance of CSI and CTO, all with due diligence and efficiency and in conformity with appropriate financial, administrative, technical, environmental, social, cultural, and legal practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project. No clause of this Agreement shall be construed so as to limit the provisions of this Section 3.01 (a).

(b) The Borrower, through MHCP, shall enter into agreements under terms and conditions satisfactory to the Association, with: (i) the Supreme Court, for the execution of Parts B.2, C and F.1 of the Project, and all Parts of the Project where the Registry is involved; (ii) INETER, for the execution of all Parts of the Project; (iii) RAAN and RAAS, whereby RAAN and RAAS shall agree to participate in the execution of Parts A and E of the Project, as detailed in the Operational Manual; and (iv) INIFOM, for the execution of Parts B.4, B.6, and C.1 of the Project. Unless agreed between the Borrower and the Association, the Borrower shall not amend or fail to enforce any of the agreements referred to in (i) through (iv) above.

(c) The Borrower shall cause MHCP to make arrangements - under terms and conditions satisfactory to the Association - with MAGFOR, for the execution of Parts A1, B1 and F.4 of the Project, and MARENA, for the execution of Part D of the Project, setting forth their respective responsibilities as Implementing Entities.

(d) The Borrower shall maintain within MAGFOR the general directorate of land and agrarian reform (including its role for policy formulation), as foreseen in Section 4, Chapter 7 of Decree 71-98 and furnish it with resources to carry out its mandate under said decree (in accordance with Article 24(c) of Law 290).

(e) The Borrower shall open and thereafter maintain an account in a commercial bank, until completion of the Project, under terms and conditions satisfactory to the Association, for purposes of managing the counterpart funds required for the Project. The Borrower shall by

no later than February 1, May 1, August 1, and November 1 of each year, deposit in such account the counterpart funds required for the implementation of the Project in the following three months.

Section 3.02. (a) The Borrower shall ensure that the CSI, CTO, UTAP, UTAP-Rs and UTOs have a structure, functions and members satisfactory to the Association.

(b) The Borrower, through UTAP, shall establish: (a) a regional UTAP (UTAP-R) in each of RAAN and RAAS; and (b) a technical operating unit (UTO) in each of the departments of Estelí, Madriz and Chinandega, and in other departments of the Borrower as it may be agreed between the Borrower and the Association from time to time. The Borrower shall ensure that each UTAP-R and each UTO be staffed with personnel in quantity and with qualifications satisfactory to the Association at least two months before the beginning of Project activities in the relevant region (RAAN or RAAS) or department.

Section 3.03. (a) Except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out: (i) the Project in accordance with the Operational Manual and the Project Implementation Plan; and (ii) Part E.3 (d) of the Project in accordance with the SOM, all satisfactory to the Association and not to be modified unless with the agreement by the Association. The Borrower shall update and improve the Operational Manual, the SOM and the Project Implementation Plan in accordance with the objectives and performance of the Project. In case of disagreement between the provisions of the Operational Manual, the SOM or the Project Implementation Plan and those of this Agreement, the provisions of this Agreement shall prevail.

(b) The Operational Manual shall contain, *inter alia*:

- (i) the procedures, methodology, principles, technical definitions, and implementation arrangements for: (A) Land Regularization Services (under Part C of the Project); and (B) demarcation of Protected Areas (under Part D of the Project); and
- (ii) the strategies for addressing, in a culturally appropriate manner, indigenous peoples concerns in the implementation of Part E of the Project, including, *inter alia*, the list of territories and communities where the activities referred to in Part E.3 of the Project shall take place, and the procedures, methodology, technical definitions and implementation arrangements for the carrying out of such Part of the Project.

(c) The Subproject Operational Manual (SOM) shall contain, *inter alia*, the criteria and procedures for the selection of indigenous communities eligible for Subprojects and for the eligibility and implementation of Subprojects, a draft grant agreement for Subprojects, and the procurement requirements, environmental and sustainable criteria and procedures, and rules and procedures for a system of checks and balances, including penalties and quality control and

supervision measures for the execution of Part E.3 (d) of the Project.

(d) The Project Implementation Plan shall contain, *inter alia*, a detailed description of the Project components, activities and costs, the Project financial management and administrative procedures, and the responsibilities of the Implementing Entities and UTAP.

Section 3.04. The Borrower, through the applicable UTAP-R, shall enter into grant agreements - in terms and conditions satisfactory to the Association and substantially in the form of the draft grant agreement to be included in the SOM - with RAAN or RAAS (as the case may be) and Indigenous Organizations, Associations and Communities for the implementation of Subprojects. The Borrower shall exercise its rights under said grant agreements in such a manner as to protect the interests of the Borrower and the Association, and to accomplish the purposes of the Credit, and shall not amend or fail to enforce its rights under such grant agreements without the consent of the Association.

Section 3.05. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.06. The Borrower, through the Intendance of Property of the MHCP, shall grant priority to the resolution of land claims in to the departments of Estelí, Madriz and Chinandega.

Section 3.07. The Borrower shall: (a) not later than March 31, 2003, submit to the National Assembly a cadastre law - satisfactory to the Association - providing, *inter alia*, for the admissibility of parcel boundaries recorded by INETER as legal boundaries and the integration of Cadastre and Registry data; and (b) not later than one month after the Effective Date, adopt simplified procedures - satisfactory to the Association - for land titling under Part C.2 (a) (i) of the Project.

Section 3.08. The Borrower shall: (a) carry out Parts C, D and E of the Project in accordance with: (i) the process framework, described in the Borrower's letter to the Association, dated April 18, 2002, for mitigating potential livelihood impacts resulting from the Project execution; and (ii) the indigenous peoples development strategy and action plan described in the Borrower's letter to the Association, dated April 18, 2002; and (b) implement the Indigenous Peoples Policy Process Framework in accordance with the terms thereof.

Section 3.09. The Borrower shall refrain from: (a) granting or considering any claims for lands within or adjacent to Protected Areas, unless: (i) said lands have been physically demarcated in a manner satisfactory to the Association; (ii) the Protected Area has been classified and land uses have been defined; and (iii) the corresponding management plan has been submitted to, and found satisfactory by, the Association; and (b) regularizing any private land titles or claims within or adjacent to new officially proposed Protected Areas, unless technical studies of such areas - acceptable to the Association - have been completed and the Borrower has reached a decision on the status of such proposed Protected Areas.

Section 3.10. The Borrower shall not issue land titles to private parties in the Selected Indigenous Communities until the activities under Parts E.3 (b) and (c) and E.4 of the Project have been carried out.

Section 3.11. The Borrower shall: (a) prepare by not later than December 10 of each year throughout the course of Project implementation, starting on December 10, 2002, a plan - satisfactory to the Association - setting forth the annual work program for the implementation of the Project during the following calendar year; and (b) thereafter carry out said plan in accordance with its terms.

Section 3.12. The Borrower shall, in a manner satisfactory to the Association, implement, starting not later than December 31, 2002, an organizational development plan for the improvement of the structure, procedures and delivery of services of the Implementing Entities.

Section 3.13. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in the letter from the Borrower to the Association, dated April 18, 2002, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about January 1 of each year commencing on January 1, 2003, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;

(c) review with the Association, by February 1 of each year commencing on February 1, 2003, or such later date as the Association shall request: (i) the report referred to in paragraph (b) of this Section; (ii) the progress in the discussion in the National Assembly of the draft law for the recognition and titling of communal land rights of indigenous peoples; and (iii) the progress in the implementation of the Indigenous Peoples Policy Process Framework; and the Borrower shall, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matters set forth in (i), (ii) and (iii) above; and

(d) furnish to the Association, on or about March 31, 2003, a Project monitoring and evaluation baseline satisfactory to the Association.

Section 3.14. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the continued achievement of the Project's objectives; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and thereafter maintain throughout the Project a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements, records and accounts and a report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including as part of the information to be provided in such report, a management letter concerning the Borrower's internal controls; and

(iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Article III of this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that the draft new property registry law submitted by the Supreme Court to the National Assembly on June 8, 2001 has not become a law by December 31, 2003.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following

additional event is specified, namely, that the event specified in Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Operational Manual, approved by CTO, has been furnished to the Association;

(b) the agreements between: (i) MHCP and the Supreme Court; (ii) MHCP and INETER; and (iii) MHCP and INIFOM, referred to in Section 3.01(b) of this Agreement, have been entered into;

(c) the arrangements referred to in Section 3.01 (c) of this Agreement have been entered into between the respective parties thereto;

(d) the financial management system referred in Section 4.01 of this Agreement has been established in a manner satisfactory to the Association;

(e) the UTAP-Rs have been established and are fully staffed in a manner satisfactory to the Association;

(f) the Project Implementation Plan has been furnished to the Association; and

(g) a firm - satisfactory to the Association - has been employed by MAGFOR for purposes of assisting MAGFOR in the carrying out of Part F.4 (b) and (c) of the Project.

Section 6.02. The date September 23, 2002 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of

the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministerio de Hacienda y Crédito Público
Costado Norte de la Asamblea Nacional
Managua, Nicaragua

Facsimile:

505-2224383

For the Association:

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

Cable address:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF NICARAGUA

By /s/ Carlos Ulvert Sanchez

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Jane Armitage

Acting Regional Vice President
Latin American and the Caribbean Region

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	500,000	85%
(2) (a) Goods (other than those covered under Category (2) (b))	1,500,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); and 85% of other items procured locally
(b) Goods under Parts E.1, E.2, E.3 (a), (b) and (c), and E.4 of the Project	10,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); and 85% of other items procured locally
(3) (a) Consultants' services (other than those covered under Category (3) (b))	8,100,000	100%
(b) Consultants' services under Parts E.1, E.2, E.3 (a) and (b), and E.4 of the Project	700,000	100%
(4) (a) Training (other than that covered under Category (4) (b))	1,100,000	100%

	(b) Training under Parts E.1, E.2 and E.3 (a) and (b) of the Project	300,000	100%
(5)	(a) Operating costs (other than those covered under Category (5) (b))	6,000,000	85% until withdrawals under this category have reached an amount of SDR3,000,000 equivalent; 60% until withdrawals under this category have reached an amount of SDR5,000,000 equivalent; and 45% thereafter
	(b) Operating costs under Parts E.3 (a) and (b), and E.4 of the Project	80,000	70%
(6)	(a) Land Regularization Services (other than those covered under Category (6) (b))	6,000,000	85%
	(b) Land Regularization Services under Parts E.3 (b) and E.4 of the Project	600,000	85%
(7)	Grants	400,000	100% of amounts disbursed
(8)	Auditing services	200,000	100%
(9)	Unallocated	710,000	
	TOTAL	<u>26,200,000</u>	

2. For the purposes of this Schedule:

(a) “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) “local expenditures” means expenditures in the currency of the Borrower or for

goods or services supplied from the territory of the Borrower;

(c) “training” means reasonable expenditures (other than those for consultants services) related to training activities, such as travel, *per diem* of trainees, study tours, rental of facilities and equipment, and training materials; and

(d) “operating costs” means the expenditures for the reasonable incremental costs (as such reasonability shall be determined by the Association) associated with the implementation of the Project, such as: (i) operation and maintenance of vehicles, including repairs, fuel and spare parts; (ii) maintenance of computer, geodetic and office equipment; (iii) office supplies; (iv) phone and other communication expenses; (v) transportation, travel and *per diem* for technical staff to carry out supervisory and monitoring activities, as such costs shall be previously approved by the Association; and (vi) salaries of new staff of UTAP, UTAP-Rs, and UTOs, as previously approved by the Association.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 1,000,000 may be made in respect of Categories (1) through (6) on account of payments made within six months prior to the date of this Agreement;

(b) payments made for expenditures under Categories (2) (b), (4) (b), (5) (b) and (6) (b) unless the agreement between MHCP and RAAN or RAAS - as the case may be - referred to in Section 3.01 (b) (iii) of this Agreement has been entered into; and

(c) payments made for expenditures under Category (7) unless: (i) the SOM has been submitted to the Association and found satisfactory by it; and (ii) the grant agreement for the respective Subproject has been entered into between the respective parties thereto.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) works costing less than \$1,500,000 equivalent per contract; (b) goods costing less than \$150,000 equivalent per contract; (c) consulting services provided by firms costing less than \$100,000 equivalent per contract; (d) consulting services provided by individuals costing less than \$30,000 equivalent per contract; (e) training; (f) operating costs; (g) Land Regularization Services costing less than \$1,500,000 equivalent; and (h) Grants, all of these under such terms and conditions as the Association shall specify by notice to the Borrower.

5. If the Association shall have determined at any time that any payment made from the Credit Account was used for any expenditure not consistent with the provisions of this Agreement, the Borrower shall, promptly upon notice from the Association, refund to the Association for deposit into the Credit Account, an amount equal to the amount so used or the portion thereof as specified by the Association.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to develop the legal, institutional, technical and participatory framework for the administration of property rights in the Borrower's territory; and (b) to demonstrate the feasibility of a systematic land rights regularization program.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Policy and Legal Reforms

1. Carrying out of policy analyses, studies, surveys, training activities, workshops, dissemination activities and periodic consultations with all relevant stakeholders to develop a new participatory land policy framework for the territory of the Borrower.
2. Carrying out of a legal assessment and a substantial dialogue between the Borrower and civil society representatives with respect to the needed legal and regulatory land reforms. Provision of technical assistance to Borrower's agencies to implement the recommendations of said legal assessment, to develop transitory methodology for the demarcation and titling of selected indigenous lands and to formulate indigenous peoples Policies.
3. Development, updating and improvement of the Operational Manual (including its annexes), the SOM and the Project Implementation Plan in accordance with the objectives of the Project.

Part B: Institutional strengthening and decentralization

1. Provision of technical assistance and equipment for the establishment of the general directorate of land and agrarian reform as foreseen in Section 4, Chapter 7, of Decree 71-98.
2. (a) Decentralization and strengthening of the Borrower's agencies in charge of administration of property rights, including: (i) the Intendance of Property through the elaboration and implementation of an organizational development plan and the strengthening of OTU (*Oficina de Titulación Urbana*), OOT (*Oficina de Ordenamiento Territorial*), OCI (*Oficina de Cuantificación de Indemnizaciones*) and OTR (*Oficina de Titulación Rural*); (ii) INETER through an improvement in its control of the physical cadastre, the modernization of the cadastre database and the integration of the latter with the database of the Registry; (iii) the Registry, through: (A) the establishment of a national directorate of registries under the Supreme Court; (B) once enacted by the National Assembly, the implementation of the new property registry law submitted by the Supreme Court to the National Assembly on June 8, 2001; (C) the strengthening and modernization of the departmental offices of the Registry located in the departments of Estelí, Madriz and Chinandega and in the city of Managua; and (iv) DIRAC through the improvement of its capacity to develop and disseminate informal mediation procedures for property disputes.
 - (b) Provision of technical assistance, vehicles and office equipment and funds for:

(i) rental or rehabilitation of offices at the departmental level; (ii) salaries of incremental staff; and (iii) operating costs, of the Implementing Entities.

3. Provision of legal and other technical assistance to grassroots organizations, farmer organizations, Selected Municipalities, and other civil society agents (such as peasant labor unions and civil associations), to support them through the process of land assessment, land demarcation, title regularization, registration, land-related conflict resolution, land inheritance, public information campaigns, and land sales and rental agreements. Provision of training courses to members of the private sector (including, *inter alia*, surveyors, lawyers, paralegals, notaries and mediators) on, *inter alia*, systematic methodology and legal cadastre required for the land regularization process.

4. Provision of technical assistance and equipment to Selected Municipalities to: (a) enable them to participate in Project activities; (b) train them in the usage of SIICAR; and (c) improve their capacity to manage information on natural resources and territorial planning.

5. Provision of technical assistance, equipment and funds for works and operating costs to UTAP, UTAP-Rs and UTOs for the management and coordination of the Project.

6. Provision of technical assistance and equipment for improvement of land titling in peri-urban areas of the cities of Granada, Managua, León and Rivas.

Part C: Titling and regularization services

1. Development and validation of a methodology to clarify rights and carrying out of a land rights regularization process in the departments of Estelí, Madriz and Chinandega, including - but not limited to - document researching, cadastral field surveys, field inquiries on current occupants, technical and legal post-field clarification of rights, production of parcel maps, alternative conflict resolution mechanisms such as mediation and conciliation, public posting of results, certification or titling activities, integration of data into SIICAR and registration at the Registry.

2. Processing of: (a) the land claims, including titling of: (i) the beneficiaries of the Borrower's agrarian land reform; (ii) ex-combatants; and (iii) marginal peri-urban settlers in the departments of Estelí, Madriz and Chinandega and in the cities of Granada, Managua, León and Rivas; and (b) the expropriated-based indemnification claims existing in the departments of Estelí, Madriz and Chinandega, including the provision of technical assistance to beneficiaries and agencies of the Borrower to simplify their land-related procedures, juridical services provided by OOT, OTU, OCI and OTR, topographic services, and registration of parcels.

3. Carrying out of alternative conflict resolution activities through: (a) a training program in mediation, negotiation, collaboration and co-management of conflicts for community leaders and field mediators; (b) mediation of land conflicts; and (c) the carrying out of a communication campaign on alternative conflict resolution mechanisms directed at officials of the Borrower's judiciary, municipal officials, and beneficiary population.

Part D: Demarcation and consolidation of Protected Areas

1. Review of the Borrower's land tenure policy in Protected Areas through the carrying out

of workshops and similar activities.

2. Demarcation and consolidation (including the implementation of management plans) of Protected Areas and identification of new officially proposed Protected Areas in the departments of Estelí, Madriz, and Chinandega through: (a) preparatory work obtaining preliminary information and consultative and informal meetings with beneficiaries; (b) field socio-economic and tenure studies, and rapid ecological assessments; (c) determination of the precise boundaries to be demarcated; (d) physical demarcation and registration in the Cadastre and Registry, including, *inter alia*, the revision of the Borrower's land policy and the development of legal recommendations to secure the land tenure status of people residing in Protected Areas; (e) the carrying out of land tenure and socio-economic studies of proposed new Protected Areas; and (f) the development of an information database systematizing Protected Areas' land tenure information within SIICAR.

3. Consolidation of Protected Areas through the formulation of Protected Areas management plans with the participation of beneficiaries, including, *inter alia*: (a) the development of rules concerning the use of natural resources; (b) the establishment of different use zones; (c) the elaboration of co-management agreements and the establishment of mechanisms for their implementation; (d) management planning; and (e) baseline data collection.

4. Operational strengthening of Protected Areas management through their continued monitoring and management by providing control posts, basic equipment and technical assistance to carry out basic protection functions.

5. Carrying out of studies for the identification of new officially proposed Protected Areas.

6. Carrying out of social communication and environmental education campaigns in the departments of Estelí, Madriz and Chinandega, including, *inter alia*, the dissemination of information on each Protected Area, direct and indirect benefits of natural resources conservation activities and recommended land management practices.

7. Carrying out of Protected Areas information management through the systematization of land tenure information of the departments of Estelí, Madriz and Chinandega, and the access of MARENA to SIICAR through the development of a special node for Protected Areas.

Part E: Demarcation of indigenous lands

1. Carrying out of consultations with relevant stakeholders of new legislation and procedures for the recognition of indigenous and ethnic communities and the titling of their lands.

2. Strengthening of the capacity of Regional Councils, Indigenous Organizations, Associations and Communities to participate in the preparation, review and implementation of laws concerning indigenous and ethnic communities, conflict resolution, and land demarcation and titling activities, and elaboration and implementation of territorial management plans through the provision of technical assistance, training, capacity building, institutional development activities and a regional campaign for public awareness in indigenous land issues.

3. Carrying out of a process of participatory land demarcation, titling and land management in the Selected Indigenous Communities through: (a) diagnostic studies; (b) demarcation and conflict resolution activities in RAAN and RAAS; (c) titling and registration of lands in the Selected Indigenous Communities; and (d) community driven subprojects for the development and implementation of plans that will improve the administration and management of demarcated indigenous peoples lands.
4. Carrying out of physical demarcation of territories within the BOSAWAS Reserve.

Part F: Information systems

1. (a) Development and implementation of a country-wide integrated cadastre and registry information system (SIICAR) to: (i) modernize, secure and computerize land related records; (ii) establish at the departmental level a unified information system which will grant legal value to graphical and alphanumerical data; (iii) link cadastral data with Registry information; (iv) maintain updated Registry and cadastral field information; and (v) grant easy access to land tenure information to public and private parties.

(b) Training of staff of the Borrower and selected private providers of land related services in the usage of SIICAR.
2. Development and implementation of a land titling monitoring sub-system at the Intendance of Property to help track the issuance of land titles, including, *inter alia*, the development of the relevant software and the provision of training.
3. Development and implementation of a system to monitor the financial and administrative management and execution of the Project.
4. Development and implementation of: (a) an operational system to measure and monitor the Project's progress and performance; (b) an impact evaluation system to evaluate the Project's progress in achieving its strategic development goals; and (c) a participatory sub-system to enable the Borrower and Project beneficiaries to evaluate the impact of the Project, including, *inter alia*, the provision of technical assistance, baseline data collection and definition of indicators.
5. Carrying out of Project audits (as further detailed in Article IV of this Agreement).

* * *

The Project is expected to be completed by June 30, 2007.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Good, Works and Land Regularization Services

Part A: General

1. Goods, works and Land Regularization Services shall be procured in accordance with: (a) the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines); and (b) the provisions of the following Parts of this Section I.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to “Bank member countries” and “member country” shall be deemed to be references, respectively, to “Participating Countries” and “Participating Country”.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and Land Regularization Services shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto (regarding preference for domestically manufactured goods) shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Works shall be procured in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines using standard bidding documents satisfactory to the Association. To the extent practicable, contracts for works shall be grouped in bid packages estimated to cost \$150,000 equivalent or more each.

(b) Goods estimated to cost less than \$150,000 equivalent per contract, up to an aggregate amount not to exceed \$240,000 equivalent, and Land Regularization Services estimated to cost less than \$1,500,000 equivalent per contract up to an aggregate amount not to exceed \$1,900,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines using standard bidding documents satisfactory to the Association. To the extent practicable, contracts for Land Regularization Services shall be grouped in bid packages estimated to cost \$1,500,000 equivalent or more each.

2. Shopping

Goods estimated to cost less than \$25,000 equivalent per contract, up to an aggregate

amount not to exceed \$240,000 equivalent, may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than \$150,000 equivalent per contract, up to an aggregate amount not to exceed \$240,000 equivalent (excluding from this ceiling works under Part E.3 (d) of the Project), may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

4. Direct Contracting

Goods and works costing \$10,000 equivalent or less per contract, required for Part E.3 (d) of the Project in remote areas where - as determined by the Association - it is not possible or economically feasible to follow the procedures set forth in Part C.3 above, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) each contract procured pursuant to Part B.1 above; (ii) the first three contracts for goods procured pursuant to Part C.1 above; (iii) the first three contracts for works procured pursuant to Part C.1 above; and (iv) the first three contracts for Land Regularization Services procured pursuant to Part C.1 above, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first three contracts procured under Part C.2 above and the

first three contracts for works under Part C.3 above, the following procedures shall apply:

- (i) prior to the selection of any supplier or the execution of any contract under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received; and
- (ii) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with: (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines); and (b) the provisions of the following Parts of this Section II.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services by the firm referred to in Section 6.01 (g) of this Agreement shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the

Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost less than the equivalent of \$100,000, the terms of reference of the consulting firm shall be furnished to the Association for its prior review and approval.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$30,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

(d) With respect to each contract for the employment of individual consultants estimated to cost less than the equivalent of \$30,000, the terms of reference of the consultants shall be furnished to the Association for its prior review and approval.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part and each contract governed by paragraphs 2 (b) and 2 (d) above, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

Section III. Non-Participating Countries

In addition to the provision set forth in paragraph 1.6 of the Guidelines, set forth below is the list of countries which do not meet the requirements to be considered Participating Countries as referred to in Section 2.01 (12) of the General Conditions and therefore are also not eligible for participating in procurement financed by the Association:

- The Bahamas
- Bahrain
- Brunei Darussalam
- Cyprus
- Oman
- Qatar
- Singapore
- United Arab Emirates

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (8) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term “Authorized Allocation” means the amount of \$2,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule; provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$1,000,000 until the aggregate amount of withdrawals from the Credit Account, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of SDR2,500,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to

replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit

Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

