

CONFORMED COPY

FINANCING NUMBER 4243-NI

Financing Agreement

(Second Poverty Reduction Support Development Policy Financing – PRSC II)

between

REPUBLIC OF NICARAGUA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 29, 2006

FINANCING NUMBER 4243-NI

FINANCING AGREEMENT

Agreement dated November 29, 2006, entered into between REPUBLIC OF NICARAGUA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, *inter alia*, of: (a) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Recipient’s maintenance of an appropriate macro-economic policy framework. The Recipient and the Association therefore 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 the Financing 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 credit in an amount equivalent to sixteen million eight hundred thirty thousand Special Drawing Rights (SDR 16,830,000) (“Credit”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 February 15 and August 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 2 to this Agreement.
- 2.07. The Payment Currency is Dollars.

ARTICLE III—PROGRAM

- 3.01. The Recipient declares its commitment to the Program and its implementation. To this end:
 - (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall exchange views with the Association on any proposed action to be taken after the disbursement of the Financing which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV—REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Events of Suspension consist of the following:
 - (a) A situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.
 - (b) The Recipient's macroeconomic policy framework has become inconsistent with the objectives of the Program.
 - (c) An action has been taken or a policy has been adopted to reverse any action or policy under the Program in a manner that would, in the opinion of the Association, adversely affect the achievement of the objectives of the Program.

- (d) An action has been taken or a policy has been adopted to reverse any action listed in Section I of Schedule 1 to this Agreement.
- 4.02. The Additional Event of Acceleration consists of the following, namely, that any event specified in paragraphs (a), (b), (c) or (d) 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.

ARTICLE V—EFFECTIVENESS

- 5.01. Without prejudice 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 Credit, which expire on May 7, 2008.

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
Frente al Edificio de 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) or 64145 (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/ Salvador Stadthagen

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Jane Armitage

Authorized Representative

SCHEDULE 1**Program Actions; Availability of Financing Proceeds****Section I. Actions Taken Under the Program**

The actions taken by the Recipient under the Program include the following:

1. The Recipient's National Assembly has enacted the Legislative Decree No. 4371, published in the Recipient's Official Gazette No. 199, dated October 14, 2005, which ratified the DR-CAFTA.
2. The Recipient has registered in the Recipient's property registry (*Registro Público de la Propiedad*) the title of one indigenous territory in the Bosawas Biosphere reserve.
3. The Recipient's National Assembly has enacted the Legislative Decree No. 582, published in the Recipient's Official Gazette No. 150, dated August 3, 2006 (reform to the *Ley General de Educación*), to eliminate the automatic increment of the transfers to the Recipient's budget for its Ministry of Education.
4. The Recipient has started the implementation of the Recipient's Law No. 574, dated December 22, 2005 and published in the Recipient's Official Gazette No. 250, dated December 27, 2005, as evidenced by: (a) the collection of the special tax to finance FOMAV established by article 2 of the Law No. 574; and (b) the transfer of 86,732,514.71 *Córdobas* collected from the special tax mentioned in (a) above, from the Recipient's National Treasury to FOMAV.
5. The Recipient has started the implementation of the Recipient's Civil Service Law No. 476, dated November 19, 2003 and published in the Recipient's Official Gazette No. 235, dated December 11, 2003 and its Regulation, as evidenced by: (a) the incorporation of 3,970 public employees into the Recipient's administrative career system following the procedures established in the Law No. 476; and (b) advancing the process to incorporate 1,450 additional public employees into the Recipient's administrative career system by December 31, 2006.
6. (a) The Recipient's National Assembly has enacted the Financial Management and Budget Regime Law pursuant to the Legislative Decree No. 550, published in the Recipient's Official Gazette No. 167, dated August 29, 2005, and its modification pursuant to the Legislative Decree No. 565, published in the Recipient's Official Gazette No. 226, dated November 22, 2005; and (b) the Recipient's public sector institutions have started its implementation.

7. The Recipient's National Assembly has approved a budget for calendar year 2006, consistent with Poverty Reduction Expenditures of the Non-Financial Public Sector, equal to at least 13.6 percent of the Recipient's gross domestic product (GDP).
8. The Recipient has reached a level of execution of the Poverty Reduction Expenditures during the first calendar semester of 2006 of at least 40 percent of the total amount budgeted for 2006.

Section II. Availability of Financing Proceeds

- A. **General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.
- B. **Allocation of Financing Amounts.** The Financing shall be withdrawn in a single tranche. The allocation of the amounts of the Financing to this end is set out in the table below:

<u>Allocations</u>	Amount of the Financing Allocated (expressed in SDR)
Single Tranche	16,830,000
TOTAL AMOUNT	16,830,000

C. Deposits of Financing Proceeds

1. The Recipient shall open, prior to furnishing to the Association the first request for withdrawal from the Financing Account, and thereafter maintain a deposit account in Dollars ("Deposit Account") on terms and conditions satisfactory to the Association.
2. All withdrawals from the Financing Account shall be deposited by the Association into the Deposit Account.
3. The Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount shall be deposited in the CUT and accounted for, in *Córdoba*, in the Recipient's budget management system, in a manner acceptable to the Association.

D. Audit

Upon the Association's request, the Recipient shall:

1. have the Deposit Account audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;
2. furnish to the Association as soon as available, but in any case not later than four months after the date of the Association's request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request; and
3. furnish to the Association such other information concerning the Deposit Account and their audit as the Association shall reasonably request.

E. Excluded Expenditures

The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

F. Closing Date. The Closing Date is June 30, 2007.

SCHEDULE 2**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each February 15 and August 15:	
commencing February 15, 2017 to and including August 15, 2026	1%
commencing February 15, 2027 to and including August 15, 2046	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. “Córdobas” means the national currency of the Recipient.
2. “CUT” means the Recipient’s single treasury account (*Cuenta Unica del Tesoro*), as defined in article 100, of the Recipient’s Law No. 550 (Financial Management and Budget Regime Law).
3. “Deposit Account” means the account referred to in Part C.1 of Section II of Schedule 1 to this Agreement.
4. “DR-CAFTA” means the Dominican Republic-Central American-U S Free Trade Agreement, entered into among the Republic of Costa Rica, the Republic of Honduras, the Republic of Guatemala, the Republic of El Salvador, the Republic of Nicaragua, the Dominican Republic and the United States of America, on August 5, 2004.
5. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another Financing, credit, grant or loan;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors

Group	Sub-group	Description of Item
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) under a contract with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds during the procurement or execution of such contract, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to remedy the situation.
6. "FOMAV" means the *Fondo de Mantenimiento Vial*, the fund established by the Recipient for purposes of financing the maintenance of the Recipient's roads pursuant to the Recipient's Law No. 355, which was approved on June 29, 2000 (as published in the Official Gazette No. 157 on August 21, 2000), as amended by Law No. 572, which was approved on December 13, 2005 (as published in the Official Gazette No. 249 on December 26, 2005), and Law No. 574 dated December 22, 2005 and published in the Recipient's Official Gazette No. 250, dated December 27, 2005.
7. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 1, 2005 with the modifications set forth in Section II of this Appendix.
8. "Non-Financial Public Sector" means the Recipient's institutions defined in article 3 of the Recipient's Law No. 550 (referred to in Section I.6(i) of Schedule 1 to this Agreement) excluding the Recipient's financial institutions as defined in article 4 (k) of the Recipient's Law No. 550.

9. “Poverty Reduction Expenditures” means *Gasto para la Reducción de la Pobreza*, the Recipient’s public expenditures of the Non-Financial Public Sector aimed at reducing poverty, as defined in Annex II of the Recipient’s poverty reduction strategy paper entitled “National Development Plan”, dated November 2005.
10. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated September 26, 2006 from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.
11. “Single Tranche” means the amount of the Financing allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. *Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

6. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

Section 4.07. Program Monitoring and Evaluation

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

- (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.