

CONFORMED COPY

CREDIT NUMBER 4468-NI

Financing Agreement

(Micro, Small and Medium Enterprise Development Project)

between

REPUBLIC OF NICARAGUA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 25, 2008

CREDIT NUMBER 4468-NI

FINANCING AGREEMENT

AGREEMENT dated July 25, 2008, between the REPUBLIC OF NICARAGUA (“Recipient”) and the 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 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 twelve million three hundred thousand Special Drawing Rights (SDR 12,300,000) (“Credit”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 June 15 and December 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 USD.

ARTICLE III - PROJECT

- 3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out Parts 1, 2 and 4 of the Project through MIFIC, and cause FNI to carry out Part 3 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. The Additional Events of Suspension consist of the following:
 - (a) FNI's Law or any provision thereof shall have been amended, suspended, abrogated, repealed or waived so as to, in the opinion of the Association, affect materially and adversely the ability of FNI to perform any of its obligations referred to under this Agreement or under the Subsidiary Agreement.
 - (b) FNI shall have failed to perform any of its obligations under the Subsidiary Agreement to an extent that such failure, in the opinion of the Association, would materially and adversely affect FNI's contribution towards the achievement of the Project objective.
 - (c) The Recipient, or any other authority having jurisdiction, shall have taken any action or adopt any policy that may result in the dissolution or disestablishment of SIBOIF and/or FNI or in the suspension of their operations, without replacing such entities with a successor thereto satisfactory to the Association.
 - (d) The composition of FNI's equity structure shall have changed in a manner so as to, in the opinion of the Association, adversely and

materially affect the capacity of FNI to contribute towards the achievement of the Project objective.

- (e) 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 said provision.
 - (f) The Recipient, through MIFIC, shall have failed to implement the Procurement Action Plan within 18 months of the Effective Date.
 - (g) That MIFIC shall have replaced key technical personnel for the implementation of the Project so as to affect, in the opinion of the Association, materially and adversely, the implementation of the Project.
- 4.02. The Additional Event of Acceleration consists of the following, namely, that any event specified in Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Association to the Recipient.

ARTICLE V - EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) The Subsidiary Agreement has been duly executed on behalf of the Recipient and FNI.
 - (b) Financial management, procurement and technical specialists for the Project have been employed by MIFIC under terms and in a manner acceptable to the Association.
- 5.02. The Additional Legal Matters to be included in the opinion or opinions to be furnished to the Association consist of the following:
- (a) that the Subsidiary Agreement has been duly authorized or ratified by the Recipient and FNI and is legally binding upon the Recipient and FNI in accordance with its terms;

- (b) that FNI has the legal and corporate capacity, pursuant to FNI's Law and other applicable laws of the Recipient, to carry out Part 3 of the Project; and
 - (c) that the Guarantee Facility to be created within FNI in order to carry out Part 3 of the Project has been legally established to the satisfaction of the Association, pursuant to the Partial Guarantee Operational Manual, FNI's Law and other applicable laws of the Recipient.
- 5.03. 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 December 14, 2009.

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 Publico
Avenida Bolivar, 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) 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/ 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 improve the competitiveness of Micro, Small, and Medium Enterprises (MSMEs) and the business climate that affects those firms.

The Project consists of the following parts:

Part 1: Business Climate Improvement

A. Provision of technical assistance, computing and office equipment, as well as non-consultant services and training to MIFIC to remove administrative and regulatory obstacles including, *inter alia*: (i) implementation of VUIs in at least five of the Recipient's municipalities; (ii) increasing the number of services offered by VUIs; (iii) implementing Municipality Scorecard Action Plans in at least six of the Recipient's municipalities; (iv) implementing e-regulations in at least eight Departments; and (v) supporting decentralized provision of MIFIC's services through regional centers.

B. (i) Establishment and implementation of an impact-monitoring system of national MSME policies; (ii) implementation of online modules for payment of export taxes; (iii) revision of the regulatory framework for MSMEs (including, *inter alia*, with respect to tax issues concerning contracting of MSMEs for provision of services and supplies to government).

C. Strengthening of the institutional capacity of the Recipient through the carrying out of, *inter alia*, the following: (i) improvement of MIFIC's food technology laboratory; (ii) provision of technical assistance, acquisition of laboratory equipment, consumable materials, non-consultant services and training to MIFIC's staff to improve quality analysis for the abovementioned laboratory; (iii) provision of technical assistance and training to the Recipient's staff in, *inter alia*, issuing food certifications and executing inspections; (iv) provision of technical assistance to the Recipient's National Accreditation Office, including, *inter alia*, the acquisition of equipment in metrology and standards and the renovation of the National Accreditation Office's laboratory; and (v) the carrying out of accreditation, certification and inspection procedures for MSMEs.

Part 2: Matching Grants for Eligible MSMEs

A. Provision of technical assistance, computing and office equipment, non-consultant services and training to MIFIC, for the development of a program to build capacity in, and provide Matching Grants to, Eligible MSMEs for the partial financing of initiatives to improve, *inter alia*, their products, production efficiency, packaging, quality control and sanitary practices in accordance with national norms where applicable; and

B. Provision of Matching Grants to Eligible MSMEs.

Part 3: Increased Access to Financial Services for MSMEs

Provision of financing by the Recipient to FNI for the purpose of: (i) operating the Guarantee Facility, including the provision of technical assistance, computing and office equipment, non-consultant services and training; and (ii) the issuance of partial credit Guarantees to Participating Financial Institutions in respect to their lending to Eligible MSMEs.

Part 4: Institutional Development

Strengthening of MIFIC's institutional capacity as Project coordinator, both technically and strategically, through *inter alia*, the provision of technical assistance, computing and office equipment (including vehicles), non-consultant services and training for: (i) the coordination of strategies and programs with other public agencies and private sector institutions; (ii) strategic and operational coordination of Project activities; and (iii) management of the Project's fiduciary responsibilities (including procurement, disbursement, and financial management).

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Implementation Arrangements

1. To facilitate the carrying out of Part 3 of the Project, the Recipient shall make part of the proceeds of the Financing available to FNI by means of a subsidiary agreement (the "Subsidiary Agreement"), under terms and conditions acceptable to the Association, which shall include, *inter alia*, the following:
 - (a) the Recipient's obligation to timely transfer to FNI the proceeds of the Financing to facilitate the carrying out of Part 3 of the Project;
 - (b) the Recipient's obligation to delegate the execution of Part 3 of the Project to FNI;
 - (c) FNI's obligation to enter into Participation Agreements with eligible Participating Financial Institutions, under terms and conditions set forth in the Partial Guarantee Operational Manual;
 - (d) FNI's obligation to use the proceeds of the Financing transferred to it exclusively for the purposes of carrying out Part 3 of the Project; and
 - (e) FNI's obligation to carry out Part 3 of the Project in accordance with the terms of this Agreement, the Operational Manual, the Partial Guarantee Operational Manual and Article IV of the General Conditions, with due diligence and efficiency and in conformity with appropriate administrative, financial, procurement, auditing, environmental and social standards and practices, including the obligations to prepare and provide to the Recipient all the necessary information to enable the Recipient to comply with its obligations under Section II.A. and B. of Schedule 2 to this Agreement in relation to Part 3 of the Project.
2. The Recipient, through MIFIC, shall exercise its rights under the Subsidiary Agreement in such manner so 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, repeal or otherwise waive the Subsidiary Agreement or any provisions therein.

B. Manuals

1. In addition to the provisions of paragraphs 3 and 5 immediately below, the Recipient, through MIFIC, shall carry out the Project, or cause it to be carried out, in accordance with the terms of a manual satisfactory to the Association (the Operational Manual). Except as the Association shall otherwise agree, the Recipient shall not amend, waive or fail to enforce the Operational Manual, or any provision thereof. In case of any conflict between the terms of this Agreement and those of the Operational Manual, the terms of this Agreement shall prevail.
2. The Operational Manual shall include provisions detailing procedures and guidelines for the carrying out of the Project, including, *inter alia*:
 - (a) detailed description of Project implementation activities, including their sequencing and the prospective timetable and benchmarks in relation thereto, as well as the detailed institutional arrangements in respect thereof;
 - (b) the Project's administrative, accounting, auditing, reporting, financial, procurement and disbursement procedures, including all pertinent standard documents and model contracts in relation thereto;
 - (c) procurement and contracting procedures consistent with Section III of this Schedule, to be applicable to the contracts for works, goods and services required for the Project and to be financed out of the proceeds of the Financing;
 - (d) the plan and procedures for the monitoring and supervision of the Project, including all environmental, economic and social aspects in relation thereto;
 - (e) the procedures for the review and approval of Financing proceeds withdrawal applications to the Association, in conformity with the instructions that the Association may give to the Recipient in this respect; and
 - (f) the Indicators for the Project.
3. The Recipient, through MIFIC, shall carry out Part 2 of the Project in accordance with the terms of a manual satisfactory to the Association (the Matching Grants Operational Manual). Except as the Association shall otherwise agree, the Recipient shall not amend, waive or fail to enforce the Matching Grants Operational Manual or any provision thereof. In case of any conflict between the

terms of this Agreement and those of the Matching Grants Operational Manual, the terms of this Agreement shall prevail.

4. The Matching Grants Operational Manual shall include provisions detailing procedures and guidelines for the carrying out of Part 2 of the Project including, *inter alia*:
 - (a) the administrative rules and procedures for planning, preparing, proposing, contracting, financing, supervising, and carrying out the activities financed by the Matching Grants, including the detailed criteria and procedures for selecting (on a competitive basis) the Eligible MSMEs;
 - (b) the procedures for procurement of works, goods and services required for Part 2 of the Project and to be financed out of the proceeds of the Financing;
 - (c) the procedures for environmental and social screening of the activities financed by the Matching Grants and the measures to be implemented for any such activities which could possibly have negative environmental and/or social impacts; and
 - (d) *inter alia*, the administrative and financial terms of the Matching Grants scheme, including appropriate staffing of MIFIC during Project implementation (in number and with experience acceptable to the Association), risk management considerations, size of the Matching Grants and other specific matters relevant for the adequate functioning and sustainability of the Matching Grants facility under Part 2 of the Project.
5. The Recipient shall cause FNI to carry out Part 3 of the Project, in accordance with the terms of a manual satisfactory to the Association (the Partial Guarantee Operational Manual). Except as the Association shall otherwise agree, the Recipient shall not amend, waive or fail to enforce the Partial Guarantee Operational Manual, or any provision thereof. In case of any conflict between the terms of this Agreement and those of the Partial Guarantee Operational Manual, the terms of this Agreement shall prevail.
6. The Partial Guarantee Operational Manual shall include provisions detailing procedures and guidelines for the carrying out of Part 3 of the Project including, *inter alia*:
 - (a) the administrative rules and procedures for the creation, planning, preparing, proposing, contracting, financing, supervising, and carrying out the activities financed by Part 3 of the Project, including the detailed

criteria and procedures for selecting the Eligible MSMEs and the Participating Financial Institutions;

- (b) the model forms, acceptable to the Association, of the Participation Agreements, and the terms, conditions, safeguards considerations and other specific obligations under which the Participating Financial Institutions shall contract Subloans with Eligible MSMEs;
- (c) the procedures for procurement of goods, services and training required under Part 3 of the Project and to be financed out of the proceeds of the Financing;
- (d) the procedures for environmental and social screening of the Subprojects to be financed by Subloans, and covered by Guarantees under Part 3 of the Project, as well as the measures to be implemented for any such Subprojects which could possibly have negative environmental and/or social impacts; and
- (e) *inter alia*, the administrative and financial terms of the Guarantee Facility scheme, including sustainability measures, governance, transition measures, risk management considerations and other specific matters relevant for the adequate functioning and sustainability of the Guarantee Facility.

- 7. The Operational Manual, the Matching Grants Operational Manual and the Partial Guarantee Operational Manual may be amended by the Recipient from time to time with the prior written approval of the Association.

C. Committees

- 1. The Recipient shall organize and maintain during the implementation of the Project an independent technical committee (the “Financing Committee”), which shall assist the Recipient by providing strategic and implementation guidance regarding the Matching Grants scheme under Part 2 of the Project, including the evaluation and final approval of Matching Grants applications; such Financing Committee shall be composed of at least one representative of MIFIC’s environmental department, one representative of the private sector and one representative of academia, acceptable to the Association, and shall operate under the terms and conditions set forth to that effect in the Matching Grants Operational Manual.
- 2. The Recipient shall cause FNI to organize and maintain during the Project implementation a technical committee (“Guarantee Committee”), which shall assist the Recipient by providing strategic and implementation guidance regarding the Guarantee Facility under Part 3 of the Project, including the

evaluation and final approval of Guarantee applications; such Guarantee Committee shall be composed of representatives in numbers and with professional experience acceptable to the Association, and shall operate under the terms and conditions set forth to that effect in the Partial Guarantee Operational Manual.

3. The Recipient shall request, and shall cause FNI to request, the prior no objection of the Association to substitute any members of either the Financing Committee or FNI's Guarantee Committee.

D. Anti-Corruption

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

E. Other Provisions

1. The Recipient shall cause FNI to ensure that the PFIs undertake that, unless the Association shall otherwise agree, Subloans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in the Partial Guarantee Operational Manual.
2. The Recipient shall cause FNI to ensure that the PFIs exercise its rights in relation to each Subproject in such a manner as to: (i) protect the interests of the Association and the Recipient; and (ii) achieve the objective of the Project.
3. No later than one month after the Effective Date, the Recipient shall have duly implemented the procedures for financial management and disbursements set forth in the Operational Manual and the Matching Grants Operational Manual for the provision of Matching Grants under Part 2.B of the Project; said procedures shall have been reviewed and found acceptable by the Association prior to the carrying out of any activities under Part 2.B of the Project.
4. The Recipient shall review with the Association no later than eighteen months after the Effective Date, or any later date as agreed by the Association, the operation of the Matching Grants scheme under Part 2 of the Project for the purposes of determining a framework for the future operation and/or winding down of the Matching Grants facility in accordance with procedures and under a time frame satisfactory to the Association.
5. The Recipient shall review, and cause FNI to review with the Association no later than eighteen months after the Effective Date, or any later date as agreed by the Association, the operation of the Guarantee Facility under Part 3 of the Project for the purposes of determining a framework for the future operation

and/or winding down of the Guarantee Facility in accordance with procedures and under a time frame satisfactory to the Association.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

The Recipient, through MIFIC, shall monitor and evaluate the progress of all Parts 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 Indicators. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the Association not later than 45 days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Recipient, through MIFIC, 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. Without limitation on the provisions of Part A of this Section, the Recipient, through MIFIC, shall prepare and furnish to the Association as part of the Project Report not later than 45 days after the end of each calendar quarter, interim un-audited financial reports for all Parts of the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient, through MIFIC, 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.
4. By not later than 6 (six) months after the Effective Date, the Association shall carry out a review on the overall readiness of MIFIC to handle the fiduciary responsibilities of the Project for the subsequent period of Project implementation. The Recipient, through MIFIC, shall review with the Association the conclusions and recommendations of the said review and shall take all measures required to ensure the efficient performance of its Project fiduciary responsibilities according to the conclusions of said review.

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 Section.
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 Section 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:

<u>Procurement Method</u>
(a) National Competitive Bidding
(b) Shopping
(c) Direct Contracting
(d) Commercial Practices for Part 2.B of the Project

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.

<u>Procurement Method</u>
(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
(g) Single-Source Selection of Individual Consultants as set forth in paragraph 5.4 of the Consultant's Guidelines.

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.

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 this Section and such additional instructions as the Association may 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 Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<u>Category</u>	<u>Amount of the Financing Allocated (expressed in SDR)</u>	<u>Percentage of Expenditures to be Financed</u>
(1) Goods, works, consultant services, Non-consultant Services, Training and Operating Costs under Part 1 of the Project	2,500,000	100%
(2) Goods, consultant services, Non-consultant services, Training and Operating Costs under Part 2.A of the Project	1,350,000	100%
(3) Matching Grants under Part 2.B of the Project	3,800,000	100%
(4) Goods, consultant services, Non-consultant Services, Training, Operating Costs and provision of partial credit Guarantees under Part 3 of the Project	2,950,000	100%
(5) Goods, works, consultant services, Non-consultant Services, Training and Operating Costs under Part 4 of the Project	950,000	100%
(6) Unallocated	750,000	
TOTAL AMOUNT	12,300,000	

3. For the purposes of this Schedule, the terms:
 - (a) “Training” means reasonable expenditures incurred by the Recipient for the carrying out of training activities under the Project, including reasonable costs of trainers fees, travel and per diem of trainers and trainees, rental of training facilities and equipment and training materials; and
 - (b) “Operating Costs” means the reasonable expenditures (none of which would have been incurred by the Recipient absent the Project), incurred by the Recipient for the implementation, management, coordination and supervision of the Project, including office rent and utilities, operation, insurance and maintenance of equipment purchased with Credit proceeds, laboratory and office non-durable goods, transportation and *per diem* of staff conducting Project supervision, but excluding non-consultant services and salaries of civil servants.
 - (c) “Non-consultant Services” means printing and reproduction of publications, training and office materials, as well as services required to deliver training events that are not otherwise comprised under Section 3 (a) above.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made for payments made: (i) prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$1,000,000 equivalent may be made for payments made prior to this date but on or after May 12, 2008, and in no case more than 12 months before the date of signature of this Agreement, for Eligible Expenditures under any Category except Category (4); and (ii) under Category (4) until the Recipient has put in place, and has caused FNI to put in place, adequate financial management and disbursement procedures for the operation of the Guarantee Facility under Part 3 of the Project, pursuant to the Operational Manual and the Partial Guarantee Operational Manual, in a manner satisfactory to the Association.
2. The Closing Date is December 31, 2013.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each June 15 and December 15:	
commencing June 15, 2018 to and including December 15, 2027	1%
commencing June 15, 2028 to and including December 15, 2047	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. “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.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Association in May 2004, as revised in October 2006.
4. “Córdobas” means the legal currency of the Recipient.
5. “Covered Risk” means the risk of loss in the event of default in payment of any Subloan made by a PFI to an Eligible MSME, under the terms, conditions and exceptions set forth in the Partial Guarantee Operational Manual.
6. “Department” means a political division of the Recipient. “Departments” means a number of such divisions.
7. “Eligible MSME” means a Micro, Small or Medium Enterprise or group of enterprises which meet the criteria set forth in either: (i) the Matching Grants Operational Manual to participate in the Matching Grants activities referred to in Part 2 of the Project; or (ii) the Partial Guarantee Operational Manual to benefit from the guarantee scheme and the activities referred to in Part 3 of the Project.
8. “Financing Committee” means the committee referred to in Section I.C.1 of Schedule 2 to this Agreement.
9. “FNI” means *Financiera Nicaraguense de Inversiones, S.A.*, the Recipient’s second-tier investment financial company, established pursuant to FNI’s Law, which shall operate as the entity in charge of providing services for the implementation, administration and monitoring of the Guarantee Facility.
10. “FNI’s Law” means the Recipient’s Law No. 289, published in the Official Gazette No. 76 of April 27, 1998, as amended, setting forth the creation and establishment of FNI.
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 in Section II of the Appendix to this Agreement.

12. “Guarantee” means, individually, the obligation undertaken by FNI under Part 3 of the Project to make payment to a Participating Financial Institution in respect of and upon verification that a Covered Risk has materialized, pursuant to the criteria, mechanisms, terms, conditions and exceptions set forth to this effect in the Partial Guarantee Operational Manual; “Guarantees” means, collectively, more than one Guarantee.
13. “Guarantee Committee” means the Committee referred to in Section I.C.2 of Schedule 2 to this Agreement.
14. “Guarantee Facility” means the facility established by FNI for purposes, *inter alia*, of providing Guarantees utilizing the proceeds of the Credit allocated to Part 3 of the Project and other financing that may be available to it under Part 3 of the Project, such Guarantees to be issued in accordance with the provisions of this Agreement and the Partial Guarantee Operational Manual.
15. “IFC” means International Finance Corporation.
16. “Indicators” means the impact, performance and implementation indicators for the Project as agreed with the Association and set forth in the Operational Manual.
17. “Law No. 316” means the Recipient’s Law of the Superintendence of Banks and Other Financial Institutions, dated September 29, 1999 and published in the Official Gazette N° 196 on October 14, 1999, as amended to the date of this Agreement.
18. “Matching Grants” means any grant made or proposed to be made by the Recipient to Eligible MSMEs to finance the percentage set forth in the Matching Grants Operational Manual of the cost of technical assistance, goods, works, services or training provided under Part 2.B of the Project.
19. “Matching Grants Operational Manual” means the manual referred to in Section I.B.3 of Schedule 2 to this Agreement, dated May 12, 2008, as the same may be amended from time to time with the agreement of the Association.
20. “Medium Enterprise” means a legal entity, with a minimum of 21 and a maximum of 150 employees and with annual sales up to 1,900,000 *Córdobas*, established in accordance with the MIPYME Law, in the territory of the Recipient.

21. “MHCP” means the *Ministerio de Hacienda y Crédito Público*, the Recipient’s Ministry of Finance and Public Credit and any of its successor or successors thereto.
22. “Micro Enterprise” means a legal entity, with a maximum of 5 employees and with annual sales up to 300,000 *Córdobas*, established in accordance with the MIPYME Law, in the territory of the Recipient.
23. “MIFIC” means the *Ministerio de Fomento, Industria y Comercio*, the Recipient’s Ministry of Development, Industry and Commerce and any successor thereto.
24. “MIPYME Law” means *Ley de Promoción, Fomento y Desarrollo de las Micro, Pequeña y Mediana Empresa* No. 645, the Recipient’s Law for the Promotion, Fostering and Development of MSMEs published in the Official Gazette No. 28 on February 8, 2008.
25. “MIPYME Regulation” means *Reglamento de la Ley de Promoción, Fomento y Desarrollo de las Micro, Pequeña y Mediana Empresa*, the Recipient’s MIPYME Law regulation, published in the Official Gazette No. 85 dated May 5, 2008.
26. “MSMEs” means, collectively, Micro, Small and Medium Enterprises.
27. “Municipality Scorecard Action Plans” means the plans developed by IFC in conjunction with the Recipient for each participating municipality, with the objective of identifying and removing regulatory obstacles in municipal processes regarding simplification of business regulation.
28. “National Accreditation Office” means the Recipient’s *Oficina Nacional de Acreditación*, established pursuant to the Recipient’s Law No. 219 (*Ley de Normalización Técnica y Calidad*), published in the Official Gazette No. 123 of July 2, 1996, as amended.
29. “Official Gazette” means *La Gaceta, Diario Oficial*, the Recipient’s official gazette.
30. “Operational Manual” means the manual referred to in Section I.B.1 of Schedule 2 to this Agreement, dated May 12, 2008, as the same may be amended from time to time with the agreement of the Association.
31. “Partial Guarantee Operational Manual” means the manual referred to in Section I.B.5 of Schedule 2 to this Agreement, dated May 12, 2008, as the same may be amended from time to time with the agreement of the Association.

32. “Participating Financial Institution” or “PFI” means any commercial bank, development bank or financial institution under the regular supervision of SIBOIF or other regulatory agency acceptable to the Association, registered according to the applicable laws and regulations of the Recipient, and selected by FNI to participate in Part 3 of the Project pursuant to the criteria set forth in the respective Participation Agreement and in the Partial Guarantee Operational Manual.
33. “Participation Agreement” means any agreement entered or to be entered into between FNI and a PFI, setting forth, *inter alia*, the conditions for the call of Guarantees (including coverage, eligibility, pre-conditions, exceptions and verification criteria), all under terms and conditions as set forth in the Partial Guarantee Operational Manual.
34. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Association in May 2004, as revised in October 2006.
35. “Procurement Law” means the Recipient’s Law No. 323, which was enacted on December 2, 1999 and published in the Official Gazette Nos. 1 and 2 on January 3, 2000, and January 4, 2000, respectively, as amended to the date of this Agreement.
36. “Procurement Action Plan” means the set of actions to be implemented by the Recipient with regard to the improvement of procurement processes under the Project, as these actions are set forth and detailed in the Operational Manual
37. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 12, 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.
38. “SIBOIF” means *Superintendencia de Bancos y Otras Instituciones Financieras*, the Recipient’s Superintendence of Banks and Other Financial Institutions, established pursuant to the Recipient’s Law No. 316.
39. “Small Enterprise” means a legal entity, with a minimum of 6 and a maximum of 20 employees and with annual sales up to 800,000 *Córdobas*, established in accordance with the MIPYME Law, in the territory of the Recipient.
40. “Subloan” means a loan made or proposed to be made by a Participating Financial Institution to an Eligible MSME, out of its own funds, for purposes of financing all or a portion of the expenditures incurred by the Eligible MSME for goods, works or services under a Subproject under Part 3 of the Project or for

financing working capital requirements of the Eligible MSME, all in accordance with the terms and conditions of the Partial Guarantee Operational Manual.

41. “Subproject” means a specific initiative: (i) selected by the Financing Committee under Part 2 of the Project, in accordance with the criteria set forth in the Matching Grants Operational Manual, which is proposed to be carried out by an Eligible MSME, in whole or in part through the utilization of the proceeds of a Matching Grant; or (ii) selected by the Guarantee Committee under Part 3 of the Project, in accordance with the criteria set forth in the Partial Guarantee Operational Manual, which is proposed to be carried out by an Eligible MSME, in whole or in part through the utilization of the proceeds of a Subloan.
42. “Subsidiary Agreement” means the agreement to be entered into between the Recipient and FNI, under terms and conditions acceptable to the Association, and referred to in Section I.A.1 of Schedule 2 to this Agreement.
43. “VUIs” means *Ventanilla Unica de Inversión*, the Recipient’s automated system for the development and promotion of business licenses at the municipal level.

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.

