

Public Disclosure Authorized

**CONFORMED COPY**

**CREDIT NUMBER 3760-NI**

# **Development Credit Agreement**

**(Off Grid Rural Electrification Project - PERZA)**

**between**

**REPUBLIC OF NICARAGUA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated May 27, 2003**

Public Disclosure Authorized

**CREDIT NUMBER 3760-NI**

**DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated May 27, 2003, between the REPUBLIC OF NICARAGUA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) (1) the Borrower has requested assistance from the resources of the Global Environment Facility (GEF) Trust Fund in the financing the Project; and (2) by an agreement of even date herewith between the Borrower and the Bank, acting as an implementing agency of the GEF (the Grant Agreement), the Bank has agreed to make a grant to the Borrower in an amount in various currencies equivalent to four million twenty thousand dollars (USD 4,020,000) (the Grant) to assist in financing the Project on the terms and conditions set forth in the Grant Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend 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) (the General Conditions), constitute an integral part of this Agreement.

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

(a) "ATDR-BL" means *Asociación de Trabajadores de Desarrollo Rural-Benjamín Linder*, a non-governmental organization legally established in the territory of the Borrower, and duly filed under number 346, pages 353-366, Volume IX, First Book of the Registry of Associations of the Department of Registry and Control of

Associations of the Ministry of Government, to carry out activities of generation, distribution and commercialization of electrical energy at the site referred to in Part B.1 of the Project;

(b) “BDS” means business development services;

(c) “BDS Provider” means an entity accredited as per criteria in the Operational Manual to provide BDS to Beneficiaries;

(d) “BDS Provider Matching Grant Agreement” means an agreement referred to in Section 3.01 (d) (iv) of this Agreement;

(e) “BDS Provider Subsidy Agreement” means an agreement referred to in Section 3.01 (d) (v) of this Agreement;

(f) “Beneficiaries” means households and businesses located in the Project Sites;

(g) “Beneficiary Agreement” means an agreement, satisfactory to the Association, between an MFI and a Beneficiary, referred to in Section 3.01 (d) (i) of this Agreement;

(h) “CNE” means *Comisión Nacional de Energía*, the Borrower’s institution responsible for the formulation of energy sector policies and for the implementation of the national rural electricity program, established under Law No. 272 “*Ley de la Industria Eléctrica*” published in the Borrower’s Official Gazette April 23, 1998;

(i) “Commercial Bank Agreement” means an agreement, satisfactory to the Association, between CNE and an Eligible Commercial Bank, referred to in Section 3.01 (d) (iii) (A) of this Agreement;

(j) “Draft-Law for the Promotion of the Hydro-electric Sub-Sector” means the Borrower’s *Anteproyecto de Ley de Promoción del Sub-sector Hidroeléctrico*, presented to the National Assembly on April 1, 2003;

(k) “Electricity Provider” means an entity: (i) selected as per criteria in the Operational Manual (except in the case of ATDR-BL) to provide electricity in the Project Sites (such term also includes SHS Providers and SBCS Providers); and (ii) that has entered into an agreement (satisfactory to the Association and containing performance indicators approved by the Association) with INE or CNE, as the case may be, allowing the Electricity Provider to provide such service;

(l) “Electricity Provider Credit Agreement” means an agreement, between an Eligible Commercial Bank and an Electricity Provider, referred to in Section 3.01 (d)(iii)(A) of this Agreement;

(m) “Electricity Provider Subsidy Agreement” means an agreement, between CNE and an Electricity Provider, referred to in Section 3.01 (d) (iii) (B) of this Agreement;

(n) “Electricity Services Provider Agreement” means the agreement referred to in Section 1.02 (k) (ii) above;

(o) “Eligible Commercial Bank” means a commercial bank that has been selected following the criteria provided in the Operational Manual, to provide Subproject financing to Electricity Providers;

(p) “Eligible Second-Tier Financial Institution” means a financial institution that has been selected, following the criteria provided in the Operational Manual, to provide Credit proceeds to MFIs pursuant to Part C of the Project;

(q) “ENEL” means *Empresa Nicaragüense de Electricidad*, the Borrower’s power company, established pursuant to Law 46-94 of January 1, 1995 published in the Borrower’s Official Gazette No. 204 on November 1, 1994;

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

(s) “FODIEN” means *Fondo para el Desarrollo de la Industria Eléctrica Nacional*, the Borrower’s national electricity development fund established under Law 272 published in the Borrower’s Official Gazette on April 23, 1998;

(t) “Implementation Letter” means the letter of even date herewith from the Borrower to the Bank setting forth the Project monitoring indicators;

(u) “Indigenous People Development Plan” means the plan referred to in Section 3.08 of this Agreement;

(v) “INE” means *Instituto Nicaragüense de Energía*, the Borrower’s energy regulatory entity, established pursuant to Legislative Decree No. 16 published in the Borrower’s Official Gazette No. 2 on August 23, 1979 and governed by its *Ley Orgánica* approved by Decree No. 87 of May 23, 1985, published in the Borrower’s Official Gazette No. 106 on June 6, 1985, as amended;

(w) “MFI” means a micro-finance institution accredited, following criteria provided for in the Operational Manual, to make loans to Beneficiaries;

(x) “Micro-Finance Credit Agreement” means an agreement, between an Eligible Second-Tier Financial Institution and an MFI, referred to in Section 3.01 (d) (i) of this Agreement;

(y) “Micro-Finance Matching Grant Agreement” means an agreement referred to in Section 3.01 (d) (ii) of this Agreement;

(z) “Operational Manual” means the manual referred to in Section 3.06 of this Agreement;

(aa) "PMU" means the Project management unit referred to in Section 3.12 of this Agreement;

(bb) “Project Sites” means sites served by electricity infrastructure constructed or installed under Part B of the Project, and their surrounding areas;

(cc) “SBCS” means solar battery charging station;

(dd) “SBCS Provider” means an entity accredited as per criteria in the Operational Manual to provide solar battery charging station services to Beneficiaries;

(ee) “Second-Tier Agreement” means an agreement, satisfactory to the Association, between CNE and an Eligible Second-Tier Financial Institution, referred to in Section 3.01 (d) (i) of this Agreement;

(ff) “SGSA” means the second generation special account referred to in Section 2.02 (b) of this Agreement, to be opened with proceeds of the Special Account;

(gg) “SHS” means solar home systems;

(hh) “SHS Provider” means an entity accredited as per criteria in the Operational Manual to sell SHS nationwide, install the systems and provide after sales maintenance service throughout the rural areas in the Borrower’s territory;

(ii) “SIN” means *Sistema Interconectado Nacional*, the Borrower’s national electricity interconnected system;

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

(kk) “Subsidiary Agreement” means the agreement to be entered into between the Borrower and CNE pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Agreement; and

(ll) “Subproject” means the construction of electricity infrastructure at a site covered by Part B.1 through B.5 of the Project.

## 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 eight million eight hundred thousand Special Drawing Rights (SDR 8,800,000).

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 its Central Bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement. The Borrower may likewise open and operate a second generation special account under terms and conditions satisfactory to the Association.

Section 2.03. The Closing Date shall be December 31, 2008 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 January 15 and July 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 January 15 and July 15 commencing July 15, 2013 and ending January 15, 2043. Each installment to and including the installment payable on January 15, 2023 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.

Section 2.09. The President of the CNE, and any person or persons whom he or she shall designate in writing, is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V 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 cause CNE, pursuant to the Subsidiary Agreement, to carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, and environmental practices, and in accordance with the Operational Manual, and shall take or cause to be taken all actions, including the provision of funds, facilities, services and other resources necessary or appropriate for CNE to carry out the Project, and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of the Project by CNE.

(b) The Borrower shall make the proceeds of the Credit available on a grant basis to CNE under an agreement (the Subsidiary Agreement), to be entered between the Borrower and CNE, under terms and conditions satisfactory to the Association.

(c) The Borrower shall exercise its rights, and carry out its obligations, under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive or fail to enforce the Subsidiary Agreement or any provision thereof.

(d) The Borrower shall cause CNE to:

- (i) for the purposes of Part C.1 (a) of the Project, make available to Eligible Second-Tier Financial Institutions through an agreement (the Second-Tier Agreement) the required amounts to be on-lent to MFIs under agreements (the Micro-Finance Credit Agreements) to be entered into between such Eligible Second-Tier Financial Institution and each MFI on terms and conditions which shall have been approved by the Association, for the purpose of on-lending, through another agreement (a Beneficiary Agreement), by the MFI to Beneficiaries;
- (ii) make available to MFIs, on a matching grant basis, the amounts from the Credit required to carry out Part C.1 (b) of the Project under agreements (Micro-Finance Matching Grant Agreements) to be entered into between CNE and each MFI on terms and conditions which shall have been approved by the Association;
- (iii)
  - (A) for purposes of carrying out Parts B.2 through B.5 of the Project, make available to an Eligible Commercial Bank, through an agreement (Commercial Bank Agreement), the required amounts from the Credit to be on-lent to Electricity Providers under another agreement (the Electricity Provider Credit Agreement) to be entered into between the said Eligible Commercial Bank and each Electricity Provider on terms and conditions which shall have been approved by the Association, to finance the carrying out of a Subproject by such Electricity Provider; and
  - (B) for purposes of carrying out Parts B.1 through B.5 of the Project, make available to Electricity Providers (except in the case of SBCS Providers), through an agreement (the Electricity Provider Subsidy Agreement), the required amounts from the Credit to subsidize the carrying out of a Subproject by such Electricity Provider;
- (iv) make available to BDS Providers, on a matching grant basis, the amounts from the Credit required to carry out Part D.1 (a) of the Project under an agreement (BDS Provider Matching Grant Agreement) to be entered into between CNE and each BDS Provider on terms and conditions which shall have been approved by the Association; and
- (v) make available to eligible BDS Providers, on a subsidy basis, the amounts from the Credit required to carry out Part D. 1 (b) of the

Project under an agreement (BDS Provider Subsidy Agreement) to be entered into between CNE and each BDS Provider on terms and conditions which shall have been approved by the Association.

(e) The Borrower shall cause CNE to: (i) exercise its rights and carry out its obligations under the Subsidiary Agreement and each Second-Tier Agreement, Micro-Finance Matching Grant Agreement, Commercial Bank Agreement, Electricity Provider Subsidy Agreement, BDS Provider Matching Grant Agreement and BDS Provider Subsidy Agreement, in such a manner as to protect the interests of the Association and the Borrower and accomplish the purposes of the Credit; and (ii) except as the Association shall otherwise agree, not amend, abrogate, assign, waive or fail to enforce the Subsidiary Agreement and any Second-Tier Agreement, Micro-Finance Matching Grant Agreement, Commercial Bank Agreement, Electricity Provider Subsidy Agreement, BDS Provider Matching Grant Agreement and BDS Provider Subsidy Agreement or any provision thereof.

(f) The Borrower shall ensure that CNE causes all parties to each Micro-Finance Credit Agreement, Beneficiary Agreement and Electricity Provider Agreement to: (i) carry out their obligation under each such agreement; and (ii) except for Beneficiaries, exercise their rights under each such agreement as to protect the interests of the Association and the Borrower and accomplish the purposes of the Credit and, except as CNE shall otherwise agree, not amend, abrogate, assign, waive, or fail to enforce any such agreement or provision thereof.

Section 3.02. The Borrower shall cause CNE to ensure that each Electricity Provider: (a) install, operate and maintain equipment under the Project in accordance with environmental standards and procedures that comply with local law, ensure proper recycling or disposal of batteries and solar cells, ensure proper storage, handling and disposal of fuels and ensure that mini-hydro (run of the stream) plants are set outside of protected areas, are set away from fish spawning areas and areas of particular ecological or scenic values, do not harm riverine vegetation and are regulated so as to restrict access by hunters and fishermen to sensitive areas; and (b) apply the environmental procedures (set forth in the Operational Manual) in the evaluation and execution of all Subprojects.

Section 3.03. 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 3.04. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by CNE.

Section 3.05. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall cause CNE to:

(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 for the future operation of the Project; and

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

Section 3.06. The Borrower shall cause CNE to carry out the Project in accordance with a manual, satisfactory to the Association (the Operational Manual), said manual to include, *inter alia*:

(a) the organizational structure of the PMU , the procurement and financial requirements, and the procedures for the carrying out, monitoring and evaluation of the Project;

(b) the criteria for the selection, approval and implementation of Subprojects, including the environmental screening, evaluation, approval and monitoring procedures;

(c) the guidelines for construction of Subprojects;

(d) the criteria for the selection of Electricity Providers;

(e) a project implementation plan, including, *inter alia*, a detailed procurement plan;

(f) the criteria for accreditation of MFIs;

(g) the criteria for accreditation of BDS Providers;

(h) the criteria for accreditation of SHS Providers and SBCS Providers;

(i) the criteria for the selection of Eligible Commercial Banks;

(j) the criteria for the selection of Eligible Second-Tier Financial Institutions;

(k) a list of Beneficiary activities that cannot be financed under Part C.1 (a) of the Project;

(l) a list of BDS Provider and Beneficiary activities that cannot be supported through BDS or otherwise under Part D of the Project;

- (m) the Indigenous People Development Plan;
- (n) a model Micro-Finance Matching Grant Agreement;
- (o) a model Micro-Finance Credit Agreement;
- (p) a model Second-Tier Agreement;
- (q) a model Beneficiary Agreement;
- (r) a model Commercial Bank Agreement;
- (s) a model BDS Provider Matching Grant Agreement;
- (t) a model Electricity Provider Subsidy Agreement;
- (u) a model Electricity Provider Credit Agreement; and
- (v) a model BDS Provider Subsidy Agreement.

In the case of any conflict between the terms of this Agreement and those of the Operational Manual, the terms of this Agreement shall prevail.

Section 3.07. Without limitation to the provisions of Section 3.01 (a) to this Agreement, the Borrower shall make yearly and timely allocation of the amounts of counterpart funds required to carry out the activities under the Project.

Section 3.08. The Borrower shall cause CNE to carry out a plan, designed to assist indigenous People affected by the Project (the Indigenous People Development Plan) in accordance with such plans.

Section 3.09. The Borrower shall cause CNE and INE, as the case may be, to: (i) exercise its rights and carry out its obligations under each Electricity Services Provider Agreement, in such a manner to protect the interests of the Association and the Borrower and accomplish the purpose of the Credit; and (ii) except as the Association shall otherwise agree, not amend, abrogate, sign, waive or fail to enforce each Electricity Services Provider Agreement or any provision thereof.

Section 3.10. The Borrower shall cause CNE:

- (a) to maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Project monitoring indicators set forth in the Implementation Letter, the carrying out of the Project and the achievement of the objectives thereof;

(b) to prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about December 31, 2004, 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; and

(c) to review with the Association, by June 30, 2005, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, 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 matter.

Section 3.11. The Borrower shall cause CNE to, unless the Association shall otherwise agree, promote, identify, appraise, approve and monitor Subprojects in accordance with the rules and procedures set forth or referred to in the Operational Manual.

Section 3.12. The Borrower shall cause CNE to: (a) establish and maintain a Project management unit integrated within CNE, with an organizational structure, staff, functions and responsibilities satisfactory to the Association, for the implementation and supervision of the Project; and (b) without limitation to paragraph (a) above, ensure that any change of PMU structure, staff, personnel, functions and responsibilities shall be effected only with the prior approval of the Association.

Section 3.13. For purposes of Parts B.3 and B.4 of the Project, the Borrower shall cause CNE to identify and determine the sites mentioned therein, subject to approval of said sites by the Association.

Section 3.14. The Borrower shall cause CNE to ensure that recipients of sub-loans, grants or subsidies under categories 1 through 10 in the table in paragraph 1 of Schedule 1 to this Agreement pay, with their own counterpart funds, any tax due on purchases financed by such sub-loans, grants or subsidies, so that in no case shall these sub-loans, grants or subsidies finance such taxes.

## ARTICLE IV

### Financial Covenants

Section 4.01. (a) The Borrower shall cause CNE to establish and maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Association, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) The Borrower shall cause CNE to:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors;
- (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 and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested;
- (iii) furnish to the Association such other information concerning such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request; and
- (iv) within no later than 90 days after the Effective Date, appoint the independent auditors referred to in Section 4.01 (b) (i) of this Agreement.

(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 sound accounting practices, records and separate accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained

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; and

- (iii) enable the Association's representatives to examine such records.
- (d) The Borrower shall:
  - (i) have the records and accounts referred to in paragraph (c) (i) of this Section and those for the Special Account and the SGSA for each fiscal year audited, in accordance with appropriate auditing principles 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 the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the or 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;
  - (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request; and
  - (iv) appoint, within no later than 90 days after the Effective Date, the independent auditors referred to in Section 4.01 (d) (i) of this Agreement.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.10 (b) of this Agreement, the Borrower shall cause CNE to 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 Association**

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) that the Draft-Law for the Promotion of the Hydro-electric Sub-sector, once legislatively approved and thus converted into law, 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 the Electricity Providers to carry out Subprojects by, for example, constraining the right of Electricity Providers to use water to generate electricity; and

- (b)
  - (i) Subject to subparagraph (ii) of this paragraph the right of the Borrower to withdraw the proceeds of the Grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the Grant Agreement providing therefor;
  - (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that:
    - (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under any of such agreement; and
    - (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement;

(c) the Borrower shall have failed to perform any of its obligations under the Grant Agreement; and

(d) as a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Borrower will be able to perform its obligations under the Grant Agreement.

## 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, namely, that:

(a) the Subsidiary Agreement has been executed on behalf of the Borrower and CNE;

(b) CNE has issued the Operational Manual and put it into effect;

(c) CNE has established, and made operational, financial management arrangements satisfactory to the Association;

(d) the PMU has been established and become operational with, *inter alia*, financial management staff in numbers and with qualifications satisfactory to the Association;

(e) the Association has been provided with evidence satisfactory to the Association that the amounts needed as Borrower's counterpart funds to carry out the Project up to December 31, 2003 have been allocated to the Project;

(f) the Association has been provided with evidence satisfactory to the Association that the bidding process for selection of the Electricity Provider (for the El Ayote Subproject referred to in Part B.2 of the Project), has been launched;

(g) the Association has been provided with evidence satisfactory to the Association that CNE has reached the agreement with ATDR-BL, endorsed by INE, referred to in Section 1.02 (k) (ii) of this Agreement; and

(h) that the Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness thereunder, except only the effectiveness of the Development Credit Agreement, have been fulfilled.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the Subsidiary Agreement has been duly authorized or ratified by the Borrower and CNE and is legally binding upon the Borrower and CNE in accordance with its terms.

Section 6.03. The date August 25, 2003 is hereby specified for the purposes of Section 12.04 of the General Conditions.

## **ARTICLE VII**

### **Representative of the Borrower; Addresses**

Section 7.01. Except as provided in Section 2.09 of this Agreement, the Minister of Finance and Public Credit 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:

Edificio del Ministerio de Hacienda y Crédito Público  
Avenida Bolívar, frente a la Asamblea Nacional  
Managua, Nicaragua  
Apartado Postal 28

Facsimile: (505) 222-3033

With copies to:

Comisión Nacional de Energía  
Atención: Presidente de la CNE  
Del portón del Hospital Bautista  
1 cuadra abajo, 125 metros al Lago  
Apdo. CJ-159

Facsímile: (505) 222-4629

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 Managua, the Republic of Nicaragua, as of the day and year first above written.

REPUBLIC OF NICARAGUA

By /s/ Eduardo Montealegre

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Amparo Ballivian

Authorized Representative

**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)	Sub-loans I under Parts B.3 and B.5 of the Project	1,150,000	100%
(2)	Sub-loans II under Parts B.2 and B.4 (b) of the Project	3,340,000	100%
(3)	Sub-loans III under Part B.4 (a) of the Project	100,000	100%
(4)	Sub-loans IV under Part C.1 (a) of the Project	630,000	100%
(5)	Grants I under Part C.1 (b) of the Project	160,000	95%
(6)	Grants II under Part D.1 (a) of the Project	110,000	95%
(7)	Subsidies I under Parts B.3 and B.5 of the Project	580,000	60%

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(8) Subsidies II under Parts B.2 and B.4 (b) of the Project	300,000	60%
(9) Subsidies III under Part B.4 (a) of the Project	80,000	60%
(10) Subsidies IV under Part D.1 (b) of the Project	160,000	95%
(11) Goods		
(a) under Part B.1 of the Project	50,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); and 85% of local expenditures for other items procured locally
(b) under Parts B.7 (d), C.4, E.2, and F.1 (a) of the Project	210,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); and 85% of local expenditures for other items procured locally

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(12) Works under Part B.1 of the Project	200,000	85%
(13) Consultants' Services		
(a) under Parts A, B.6, B.7, E and F.2 of the Project	1,230,000	35%
(b) under Parts C.2, C.3, C.4, D.2, D.4	150,000	91%
(14) Training under Parts B.7 (e), B.7 (f), C.2, and Part F.1 (b) of the Project	40,000	7%
(15) Audit services required under Section 4.01 of this Agreement and Part F.1 (c) of the Project	90,000	46%
(16) Incremental operating costs under Parts E and F.2 of the Project	220,000	90%
 TOTAL	 <u>8,800,000</u>	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods supplied from the territory of the Borrower;

(c) the term “incremental operating costs” means reasonable expenditures, which would not have been incurred absent the Project, for the maintenance and leasing of vehicles and equipment, for fuel, office supplies and other consumables, salaries of incremental PMU staff, utilities and travel and accommodations;

(d) the term “Sub-loans I” means amounts for goods, works and services for Parts B.3 and B.5 of the Project, financed through the chain of Commercial Bank Agreements and Electricity Provider Credit Agreements referred to in Section 3.01 (d) (iii) (A) of this Agreement;

(e) the term “Sub-loans II” means amounts payable under Electricity Services Provider Agreements to Electricity Providers by CNE and/or INE for implementation of Parts B.2 and B.4(b) of the Project, financed through the chain of Commercial Bank Agreements and Electricity Provider Credit Agreements referred to in Section 3.01 (d) (iii) (A) of this Agreement;

(f) the term “Sub-loans III” means amounts payable under Electricity Services Provider Agreements to Electricity Providers by CNE and/or INE for implementation of Part B.4(a) of the Project, financed through the chain of Commercial Bank Agreements and Electricity Provider Credit Agreements referred to in Section 3.01 (d) (iii) (A) of this Agreement;

(g) the term “Sub-loans IV” means amounts for goods, works and services for Part C.1(a) of the Project, financed through the chain of agreements referred to in Section 3.01 (d) (i) of this Agreement;

(h) the term “Grants I” means amounts for goods and services for Part C.1 (b) of the Project, financed through the Micro-Finance Matching Grant Agreements referred to in Section 3.01 (d) (ii) of this Agreement;

(i) the term “Grants II” means amounts for goods and services for Part D.1(a) of the Project, financed through the BDS Provider Matching Grant Agreements referred to in Section 3.01 (d) (iv) of this Agreement;

(j) the term “Subsidies I” means amounts for goods, works and services for Parts B.3 and B.5 of the Project, financed through the Electricity Provider Subsidy Agreements referred to in Section 3.01 (d) (iii) (B) of this Agreement;

(k) the term “Subsidies II” means amounts payable under Electricity Services Provider Agreements to Electricity Providers by CNE and/or INE for implementation of Parts B.2 and B.4(b) of the Project, financed through the Electricity Provider Subsidy Agreements referred to in Section 3.01 (d) (iii) (B) of this Agreement;

(l) the term “Subsidies III” means amounts payable under Electricity Services Provider Agreements to Electricity Providers by CNE and/or INE for implementation of Part B.4(a) of the Project, financed through the Electricity Provider Subsidy Agreements referred to in Section 3.01 (d) (iii) (B) of this Agreement;

(m) the term “Subsidies IV” means amounts for goods and services for Part D.1 (b) of the Project, financed through the BDS Provider Subsidy Agreement referred to in Section 3.01 (d) (v) of this Agreement; and

(n) the term “training” includes only: (i) reasonable travel, room board and per diem expenditures incurred by trainees in connection with their training and by non-consultant training facilitators; (ii) course fees; (iii) training facility rentals; and (iv) training material preparation, acquisition, reproduction and distribution expenses not otherwise covered under this paragraph.

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 880,000 may be made on account of payments made for expenditures before that date but after December 15, 2002; and

(b) payments made for expenditures covered by disbursement categories 2, 8, 11 (a) and 12 set forth in the table in paragraph 1 of this Schedule, unless the Draft-Law for the Promotion of the Hydro-electric Sub-sector has been approved by the Borrower’s National Assembly and has been declared in effect, including its promulgation and publication in the Borrower’s Official Gazette.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for Sub-loans I, Sub-loans II, Sub-loans III, Sub-loans IV, Grants I, Grants II, Subsidies I, Subsidies II, Subsidies III, Subsidies IV, training and incremental operating costs, under such terms and conditions as the Association shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to support the Borrower in: (i) increasing the sustainable provision of electricity services and associated social and economic benefits in selected rural sites in its territory; and (ii) strengthening its institutional capacity to implement its national rural electrification strategy.

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. Rural Electrification and Renewable Energy Policies and Strategies.**

1. Strengthening of FODIEN through the provision of technical assistance, including the following actions:
  - (a) development of a proposal to reform and strengthen FODIEN;
  - (b) presentation by CNE to the Borrower of the proposed reforms, in consultation with other relevant government institutions, and adoption of the plan to reform FODIEN; and
  - (c) support to CNE to implement the reform adopted by the Borrower.
2. Development of an overall energy sector policy that includes the general guidelines for a policy of rural electrification, as well as service standards and other procedures for the provision of electricity services in rural areas.
3. Rationalization of prices and subsidies through the provision of technical assistance to develop electricity prices and subsidies policies that would provide the policy guidelines for INE to set tariffs, both in urban and rural areas.
4. Elaboration of a strategy by CNE to address the situation of ENEL's off-grid plants, including: (a) a plan to make ENEL's off-grid plants sustainable and privately managed if feasible, or to dismantle said plants and replace them by other sources of energy when the latter is the better option; and (b) a proposal to implement the plan in (a) above within CNE's electrification program.
5. Carrying out of a wood fuel survey to analyze the environmental impact of this energy generation method in the Borrower's territory and propose more environmentally sound alternatives.

6. Carrying out of other policy and strategy studies, including, *inter alia*, studies on the quality of rural services and public dissemination of sector policies and strategies.

Part B. Rural Electrification Subprojects

1. Establishment of a mini-hydro power plant at El Bote-El Cua, its connection to the distribution network in San José Bocay and interconnection of these systems to the SIN.

2. Establishment of a mini-hydro power plant, installation of distribution lines that will serve the municipality of El Ayote and adjacent communities, and the installation of the necessary transmission lines to connect it with SIN.

3. Establishment of central SBCSs in: (a) each of Francia-Sirpe, Awastingni and Sangni Laya; and (b) other sites to be determined in accordance with Section 3.13 of this Agreement.

4. (a) Carrying out of power subprojects (other than hydro-electric), including the establishment of power plants, installation of distribution (mini-grid) and transmission lines, construction of roads to the plants and other improvements, in sites to be identified in accordance with Section 3.13 of this Agreement; and

(b) Carrying out of hydro-electric power subprojects, including the establishment of power plants, installation of distribution (mini-grid) and transmission lines, construction of roads to the plants and other improvements, in sites to be identified in accordance with Section 3.13 of this Agreement.

5. Carrying out of a solar photovoltaic subproject, consisting of the commercial dissemination and installation of photovoltaic systems, by, *inter alia*, providing funds to accredited dealers of SHS to make SHS affordable to Beneficiaries.

6. Carrying out of feasibility studies, financial and economic analysis, and social and environmental assessments to: (a) define the appropriate technology for, and finalize the preparation of, Subprojects under Parts B.1 through B.3 (a) of the Project; and (b) prepare new Subprojects under Parts B.3 (b) and B.4 of the Project.

7. Provision of technical assistance and training activities to: (a) support preparation work for new Subproject sites; (b) evaluate performance of renewable energy systems deployed; (c) provide standards and certification services for photovoltaic systems, (d) supervise and monitor the implementation of Subprojects; (e) train power plant and SBCS operators; and (f) train and provide market development support to accredited dealers of SHS.

Part C.            Micro-Finance Services

1.        Support to the MFIs to maximize the development impact of the Subprojects, through provision of:

          (a)        commercially priced, performance-based loans to MFIs (through Micro-Finance Credit Agreements) to on-lend to Beneficiaries (through Beneficiary Agreements) to finance electricity connections, purchase of photovoltaic systems, purchase of batteries and accessories for charging in centralized solar stations and for other business purposes (with exclusion of purposes listed on a negative list); and

          (b)        institutional development matching grants to MFIs (through Micro-Finance Matching Grant Agreements) to support technical assistance and asset purchases to improve their financial management systems and new product development and piloting.

2.        Carrying out of market studies to demonstrate the scale and variety of credit demand by Beneficiaries under Part C.1 (a) above.

3.        Carrying out of supervision and evaluation exercises to measure Beneficiary satisfaction under Part C.1 (a) above.

4.        Management by Eligible Second Tier Financial Institutions of funds on-lent to FMIs.

Part D.            Business Development Services

1.        (a)        Development of BDS products and delivery models for Project Sites; and  
          (b)        provision of BDS to Beneficiaries.

2.        Carrying out of market studies to enable BDS Providers to determine the potential for specific types of services under Part D.1 above.

3.        Carrying out of supervision exercises, at the firm and BDS Provider level, to measure coverage, quality, client satisfaction and sustainability of services under Part D.1 above.

4.        Carrying out of coordination services in support of Part D.1 above.

Part E.            Project Communication and Social Participation

Carrying out of specific activities that will strengthen the social impact of the Project and will support the implementation of the Indigenous People Development Plan, including, *inter alia*:

1. supporting community participation in the design and supervision of the Project, including field trips to Project Sites in the Atlantic coast and the central region of the Borrower's territory for social monitoring and evaluation, and meetings with local authorities;
2. disseminating and promoting the Project through presentations, promotion and dissemination workshops and other social/communication tasks; and
3. undertaking annual and final evaluations to assess the social impact of the Project.

Part F.            Project Management and Institutional Strengthening

1. Support to the PMU through:
  - (a) acquisition of selected equipment and software;
  - (b) carrying out of training for PMU staff with regard to Project coordination, supervision and monitoring; and
  - (c) carrying out of financial audits.
2. Operation of the PMU for purposes of Project management and supervision.

\* \* \*

The Project is expected to be completed by June 30, 2008.

### **SCHEDULE 3**

#### **Procurement**

##### Section I. Procurement of Good and Works

##### Part A: General

Goods and works shall be procured in accordance with 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 the following provisions of Section I of this Schedule.

##### Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works 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. To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$150,000 equivalent or more each.

##### Part C: Other Procurement Procedures

##### 1. National Competitive Bidding

(a) Goods estimated to cost less than \$150,000 equivalent per contract, but more than \$25,000 equivalent per contract, up to an aggregate amount not to exceed \$250,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Works estimated to cost \$1,500,000 equivalent or less per contract, but more than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$1,800,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

##### 2. International or National Shopping

Goods estimated to cost \$25,000 equivalent or less per contract, up to an aggregate amount not to exceed \$170,000 equivalent, may be procured under contracts awarded on the basis of international/national 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 \$50,000 equivalent or less per contract, up to an aggregate amount not to exceed \$150,000 equivalent, may be procured under a 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 experience and resources to complete the contract successfully.

4. BOO Procurement

Facilities under Parts B.2 and B.4 of the Project shall be constructed and operated under a contract awarded by INE to an entrepreneur (selected in agreement with CNE) on the basis of limited international bidding procedures in accordance with the provisions of paragraph 3.2 of the Guidelines, subject to the provisions of paragraph 3.13 (a) thereof. The goods, works and services required for the construction of said facilities shall then be procured in accordance with the applicable procedures of said entrepreneur.

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

With respect to each contract for goods and works (other than those procured by an entrepreneur covered by Part C.4 of this Section), the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by

World Bank Borrowers” published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Section.

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, 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. Least-cost Selection

Services under small and simple contracts estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants’ Qualifications

Services for promotion campaigns, beneficiary surveys, training and market studies, under Parts A and D of the Project estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Services under Part B.3 (a) of the Project, and services under very small contracts which are estimated to cost less than \$25,000 equivalent per contract, where it is not possible or justified to obtain competitive proposals, may, with the Association’s prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

Services of individual consultants for: (a) specialized advisory services shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines; and (b) specialized advisory services under Parts B, C, and D of the Project may be selected on a sole-source basis in accordance with the provisions of paragraphs 5.3 and 5.4 of the Consultant Guidelines, subject to prior approval of the Association.

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every 12 months during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants the report on the comparison of the qualifications and experience of candidates, 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. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

## **SCHEDULE 4**

### **Special Account**

1. For the purposes of this Schedule:
  - (a) the term “eligible Categories” means Categories 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 an amount equivalent to \$800,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.
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 with respect to the Project, 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 Accounts.

(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.

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