

CONFORMED COPY

GRANT NUMBER H537-0-NI

Financing Agreement

(Additional Financing for the Second Agricultural Technology Project)

between

REPUBLIC OF NICARAGUA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 6, 2010

FINANCING AGREEMENT

Agreement dated July 6, 2010, entered into between REPUBLIC OF NICARAGUA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions, the Original Financing Agreement or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equivalent to six million three hundred thousand Special Drawing Rights (SDR6,300,000) (“Financing”) 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.

ARTICLE III — PROJECT

- 3.01. (a) The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall:
 - (i) carry out Part 1.C of the Project, through MAG-FOR, pursuant to the provisions of the Amended Subsidiary Agreement;
 - (ii) through MAG-FOR, cause INTA to assist in the carrying out Part 1.C.(a)(i), Part 1.C.(b) and Part 1.C.(c)(i) of the Project, pursuant to provisions of the INTA Implementation Agreement;

- (iii) through MAG-FOR, cause INATEC to assist in the carrying out Part 1.C.(a)(ii) of the Project pursuant to the provisions of the INATEC Implementation Agreement; and
- (iv) through MAG-FOR, cause FCR to assist in the carrying out Part 1.C.(b) of the Project pursuant to the provisions of the FCR Implementation Agreement;

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

- (b) Parts 1.A, B, D, E, F and G, and Part 2 of the Project shall be carried out and financed solely in accordance with the terms of the Original Financing Agreement.
- 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, through MAG-FOR, 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 consists of the following:
- (a) Law No. 462, Law No. 290, Presidential Decree No. 3-91 or any provision thereof shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Association, the ability of MAG-FOR, INTA or INATEC to perform any of their obligations under this Agreement or under their respective Implementation Agreements.
 - (b) The Recipient, MAG-FOR, INTA, INATEC and/or FCR shall have failed to perform any of their obligations under the Amended Subsidiary Agreement or under the respective Implementation Agreements to an extent that, in the opinion of the Association, would materially and adversely affect the achievement of the Project objectives.
 - (c) The Recipient, or any other authority having jurisdiction shall have taken any action that may result in the dissolution or disestablishment of INTA, INATEC and/or FCR, or in the suspension of their operations.
 - (d) The Recipient's Law No. 294, Law No. 640 and/or Law No. 684 (referred to in paragraph 14 of the Appendix to this Agreement) or any provision thereof shall have been amended, suspended, abrogated, repealed, waived, applied or enforced in a way so as to, in the opinion of the Association, affect materially and adversely the ability of the

Recipient and/or FCR to effectively perform any of their obligations referred to under this Agreement and/or the FCR Agreement, respectively.

- (e) The composition of FCR's equity structure has been changed in a manner so as to, in the opinion of the Association, adversely and materially affect the capacity of FCR to contribute towards the achievement of the Project objective.
- (f) The Procurement Law has been amended, suspended, abrogated, repealed or waived so as to, in the opinion of the Association, render Article 3(f) of the Procurement Law ineffective, and no provision analogous to such Article 3(f) has been adopted to replace said provision.

ARTICLE V — EFFECTIVENESS; TERMINATION

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

- (a) The Amended Subsidiary Agreement has been executed by the parties thereto.
- (b) The Amended INTA Implementation Agreement has been executed by the parties thereto.
- (c) The INATEC Implementation Agreement has been executed by the parties thereto.
- (d) The FCR Implementation Agreement has been executed by the parties thereto.

5.02. The Additional Legal Matters consist of the following:

- (a) the Recipient (in its legal opinion) indicates that the Amended Subsidiary Agreement has been duly authorized or ratified by, and executed and delivered on behalf of the Recipient and MAG-FOR, and is legally binding upon the Recipient and MAG-FOR in accordance with the terms of said Subsidiary Agreement; and
- (b) the Recipient, through MAG-FOR (in its legal opinion) and each of INTA, INATEC and FCR (in a separate legal opinion satisfactory to the Association, issued by counsel for INTA, INATEC and FCR, acceptable to the Association), indicate that the Amended INTA Implementation Agreement, the FCR Implementation Agreement and INATEC Implementation Agreement have each been duly authorized or ratified by, and executed and delivered on behalf of, the Recipient, through

MAG-FOR, and INTA, INATEC and FCR, and that each of these agreements are legally binding upon INTA, INATEC and FCR in accordance with the terms of each of said agreements (as the case may be).

- 5.03. This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date ninety (90) days after the date of this Agreement, unless the Association, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section, but in no case later than the eighteen (18) months after the Association's approval of the Financing which expire on November 10, 2011.
- 5.04. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement shall terminate is twenty years after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is its Minister of Finance and Public Credit.
- 6.02. The Recipient's Address is:

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

Facsimile: + (505) 2222-3033

- 6.03. The Association's address referred 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 provide the Recipient with a second phase of support to increase agricultural productivity by providing rural households and communities with broader access to sustainable agricultural, forestry and natural resource management services, technology and innovations, in line with the Recipient's PRORURAL program.

The Project consists of the following parts included in the Original Project, which are hereby amended solely for the purposes of the Financing:

Part 1: Enhancing Agricultural and Forestry Technology Innovation and Adoption

- A. Carrying out of agricultural research and development of new technologies, including, *inter alia*: (a) conducting agricultural research to develop and validate new agricultural technologies; and (b) increasing collaborative research with international centers and networks, universities and private sector actors through partnerships.
- B. Developing a system for a public and private provision of technical assistance and extension through, *inter alia*: (a) the provision of public technical assistance to the poorest group of farmers, including Indigenous Peoples, and in particular indigenous female producers; and (b) the provision of grants to Eligible Farmers (INTA Cost-Sharing Transfers) to co-finance the provision of technical assistance services by private extension agents.
- C. Expansion of the activities aimed at strengthening the technical and operational capabilities in the Recipient's territory for the production of foundation and registered seeds, through the carrying out of, *inter alia*, the following activities:
 - (a) strengthening of the capabilities for the production, organization and management of certified seed enterprises, through:
 - (i) the fostering of certified seed production capacity of selected cooperatives through, *inter alia*, the provision of training of field extension agents and farmers promoters in seed production and quality control; and
 - (ii) the strengthening of the organizational, managerial and marketing skills of seed cooperatives and producers' organizations through, *inter alia*, capacity building activities and support in developing and implementing Cooperative Development Plans.

- (b) the provision of Subcredits to finance the carrying out of Cooperative Development Plans, each of which may include one or more of, *inter alia*, the following: (i) certified seed production, processing and harvesting activities; (ii) collecting, storing and marketing of seeds; and (iii) acquisition of equipment and machineries and upgrading and improving of existing facilities for the activities mentioned in (i) and/or (ii) herein; and
- (c) the strengthening of the Recipient's public sector services within the National Seed System, through:
 - (i) the institutional strengthening of CNIAB for the collection, preservation and use of genetic resources and the production of genetic, foundation and registered seeds by, *inter alia*, the carrying out of civil works (including cold storage facilities and a new processing plant); and
 - (ii) the institutional strengthening of DGPSA for seed certification by, *inter alia*, the carrying out of civil works (including the rehabilitation of three phytosanitary diagnostic laboratories), and the creation of six new decentralized seed inspector/technicians positions to provide certification services.
- D. Strengthening of the technical and institutional capabilities of INTA's Post Harvest and Market Development Unit for, *inter alia*, the training of farmers (in particular women) in agro-processing and small enterprise management.
- E. Strengthening of the technical and institutional capabilities of INTA's Training and Dissemination Unit to, *inter alia*: (a) carry out training and knowledge sharing programs for INTA's technical staff and the staff of other service providers; and (b) carry out capacity building programs to strengthen the institutional capacity of indigenous organizations, particularly for the development of indigenous technologies and forest seed collection in accordance with the provisions of the IPDP.
- F. Strengthening of INAFOR's institutional and technical capabilities to improve the development, conservation and preservation of forest resources by supporting, *inter alia*: (a) its training of farmers (particularly female and indigenous farmers) in forest and agro-forestry management techniques; (b) its development of a strategy for forest genetic improvement; and (c) its carrying out of a national forest assessment.

- G. Implementation of the second phase of a program (FAT) aimed at providing, through FUNICA, grants to Beneficiaries for the financing of technical assistance and extension Subprojects in the selected municipalities set forth in the FUNICA Operational Manual.

Part 2: Institutional Modernization and Strengthening

- A. Strengthening of MAG-FOR's institutional capacity, through the provision of technical assistance and operational support for, *inter alia*: (a) the development of forest and agricultural policies and strategies; (b) the establishment and implementation of monitoring, evaluation and information systems; (c) the provision of training for technical staff; (d) the development of operational manuals, financial management reports; (e) the preparation of audit reports; (f) the development of a communication strategy; and (g) the maintenance of a system of agricultural statistics.
- B. Strengthening of INTA's institutional capacity, through the provision of technical assistance and operational support for, *inter alia*: (a) conducting procurement, financial management, accounting, planning, monitoring and evaluation activities, including the provision of training for finance and procurement staff; and (b) the preparation of Project reports.
- C. Strengthening of INAFOR's institutional capacity through, *inter alia*: (a) the provision of support to its training efforts to improve public management capability of district and municipalities staff; (b) the provision of technical assistance to improve the administrative and financial management of external funds, including the carrying out of external audits; and (c) the carrying out of a series of activities related to the conservation and preservation of forest resources.

SCHEDULE 2

Project Execution

Section I. Implementation and Other Arrangements

A. Subsidiary and Implementation Agreements

1. To facilitate the carrying out of the Project, the Recipient shall amend the existing agreement (the Amended Subsidiary Agreement) with MAG-FOR, under terms and conditions approved by the Association, including those set forth in the Operational Manual and including, *inter alia*, the following provisions:
 - (a) MHCP's obligation to transfer to MAG-FOR, through budgetary allocations, the proceeds of the Financing in an amount sufficient to carry out Part 1.C of the Project;
 - (b) MHCP's obligation to delegate the execution of Part C of the Project to MAG-FOR, and to create all the necessary conditions for MAG-FOR to comply with its obligations under this Agreement, including the general monitoring and coordination of Project implementation, as set forth in Part B.1 and 2 of this Section;
 - (c) MAG-FOR's obligation to use the Financing funds transferred to it exclusively for the purposes of Part 1.C of the Project;
 - (d) MAG-FOR's obligation to carry out its respective Part of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, procurement, auditing, environmental and social standards and practices; and
 - (e) MAG-FOR's obligation to comply with detailed monitoring, evaluation and reporting requirements as set forth in the Operational Manual.
2. To facilitate the carrying out of Part 1.C.(a)(i), Part 1.C(b) and Part 1.C(c)(i) of the Project, the Recipient, through MAG-FOR, shall amend the existing agreement (the Amended INTA Implementation Agreement) with INTA, under terms and conditions approved by the Association, which shall include, *inter alia*, the following provisions:
 - (a) the Recipient's obligation to timely transfer, on a grant basis, to INTA, the proceeds of the Financing to facilitate the carrying out of Part 1.C. (a) (i), 1.C (b) and (c) (i) of the Project;

- (b) the Recipient's obligation to partially delegate the execution of Part 1.C.(a)(i), 1.C(b) and (c)(i) of the Project to INTA and to ensure that INTA complies with its obligations derived from this Agreement;
 - (c) INTA's obligation to use the Financing funds transferred to it exclusively for the purposes of Part 1.C.(a)(i), 1.C(b) and (c)(i) of the Project;
 - (d) INTA's obligation to carry out its respective Parts of the Project in accordance with the terms of this Agreement and those of the Operational Manual, all with due diligence and efficiency in conformity with appropriate administrative, technical, financial, procurement, auditing, environmental and social standards and practices and in accordance with the provisions of Article IV of the General Conditions, including the obligation to take or permit to be taken all action to enable the Recipient to comply with its obligations under this Agreement in respect of Part 1.C.(a)(i), 1.C(b) and (c)(i) of the Project;
 - (e) INTA's obligation to procure the goods, consultants' services and works for the Project in accordance with the provisions of Section III of this Schedule and to comply with the provisions of the Anti-Corruption Guidelines (by for example, allowing the Association inspection and audit rights under paragraph 9(d) of the Anti-Corruption Guidelines), which Anti-Corruption Guidelines shall also be applicable to all contracts for goods, works and consultants' services under Part 1.C.(a)(i), 1.C(b) and (c)(i) of the Project signed on or after the date set forth in Section IV.B.1 of this Schedule; and
 - (f) INTA's obligation to evaluate environmental assessments (prepared by Eligible Credit Beneficiaries) of the Cooperative Development Plans, and thereafter if so required: (i) assess and approve the specific environmental plans (which plans shall include the results of said assessment and evaluation); and (ii) oversee their implementation (all such assessment, evaluation and plans to be consistent with parameters derived from the EA and EMP).
3. To facilitate the carrying out of Part 1.C. (a) (ii) of the Project, the Recipient, through MAG-FOR, shall enter into an agreement (the INATEC Implementation Agreement) with INATEC, under terms and conditions approved by the Association, which shall include, *inter alia*, the following provisions:
- (a) the Recipient's obligation to timely transfer, on a grant basis, to INATEC the proceeds of the Financing to facilitate the carrying out of Part 1.C. (a) (ii) of the Project;

- (b) the Recipient's obligation to partially delegate the execution of Part 1.C.(a)(ii) of the Project to INATEC and to ensure that INATEC complies with its obligations derived from this Agreement;
 - (c) INATEC's obligation to use the Financing funds transferred to it exclusively for the purposes of Part 1.C. (a) (ii) of the Project;
 - (d) INATEC's obligation to carry out its respective Part of the Project in accordance with the terms of this Agreement and those of the Operational Manual, all with due diligence and efficiency in conformity with appropriate administrative, technical, financial, procurement, auditing, environmental and social standards and practices and in accordance with the provisions of Article IV of the General Conditions, including the obligation to take or permit to be taken all action to enable the Recipient to comply with its obligations under this Agreement in respect to Part 1.C.(a)(ii) of the Project; and
 - (e) INATEC's obligation to procure the goods, services and works for the Project in accordance with the provisions of Section III of this Schedule and the provisions of the Anti-Corruption Guidelines (by for example, allowing the Association inspection and audit rights under paragraph 9(d) of the Anti-Corruption Guidelines), which Anti-Corruption Guidelines shall also be applicable to all contracts for goods, works and services under Part 1.C.(a)(ii) of Project signed on or after the date set forth in Section IV.B.1 of this Schedule.
4. To facilitate the carrying out of Part 1.C. (b) of the Project, the Recipient, through MAG-FOR, shall transfer, on a grant basis, the proceeds of the Financing allocated to Category (2) to FCR, pursuant to an agreement (the FCR Implementation Agreement) to be entered between the Recipient, through MAG-FOR and FCR under terms and conditions satisfactory to the Association, which shall include *inter alia*:
- (a) the obligation of FCR to, upon approval of any given Cooperative Development Plan:
 - (i) transfer a portion of the proceeds of the Financing allocated to Category (2) (the Subcredit) to the pertinent Eligible Credit Beneficiary pursuant to an agreement (the Subcredit Agreement) to be entered into between FCR and said Eligible Credit Beneficiary on terms and conditions acceptable to the Association which shall include, *inter alia*, that Part 1.C (b) of the Project will be carried out in accordance with the Anti-Corruption Guidelines; and

- (ii) collaborate with INTA so that INTA can fulfill its obligation to carry out evaluations of environmental assessments of the Cooperative Development Plans.
 - (b) the obligation of FCR to cause the relevant Eligible Credit Beneficiaries to:
 - (i) use the Subcredits for the financing of the corresponding Cooperative Development Plan;
 - (ii) repay the proceeds of the Subcredit in accordance with the applicable repayment terms set forth in the Line of Credit Manual;
 - (iii) to comply with, or cause to be complied with, the obligations referred to in Sections 4.04, 4.06 and 4.07 of the General Conditions related to insurance, use of goods, services, plans and schedules, records and reports, respectively;
 - (iv) to ensure that the Subcredits are used in accordance with the provisions of the Anti-Corruption Guidelines (by for example, allowing the Association inspection and audit rights under paragraph 9(d) of the Anti-Corruption Guidelines);
 - (v) take or permit to be taken all action to enable FCR to comply with its obligations under the FCR Implementation Agreement;
 - (vi) before withdrawing any portion of the Subcredit: (A) carry out an environmental assessment of its Cooperative Development Plan and present such assessment to INTA for evaluation; and (B) if INTA so requests, prepare an environmental plan, satisfactory to INTA, based on such assessment; and
 - (vii) carry out such plan in accordance with its terms.
5. The Recipient, through MAGFOR, shall exercise its rights and carry out its obligations under the Amended Subsidiary Agreement and under each Implementation Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate, waive or failed to enforce the Subsidiary Agreement and/or any Implementation Agreement or any provision therein.

B. Institutional Arrangements

At all times during the execution of the Project, the Recipient, through MAG-FOR, shall:

1. maintain staff (including a project manager, an environmental/social safeguard coordinator, a financial management specialist and a procurement specialist) responsible for Project implementation with functions and responsibilities satisfactory to the Association, including the following responsibilities:
 - (a) overall planning, coordination and monitoring of Project activities (including the direct implementation of Part 1.C.(c)(ii) of the Project);
 - (b) the updating of the Procurement Plan, the preparation of consolidated financial reports and the contracting of external audits; and
 - (c) enforce, through its Environmental Management Unit (*Unidad de Gestión Ambiental*), INTA, INATEC and FCR's compliance with the environmental and social recommendations and procedures defined in the EA, the EMP, the IPDP, IPMP and ICMP, pursuant to the provisions of the respective Implementation Agreement.

2. maintain and operate a Coordination Committee, presided by MAG-FOR, with the overall responsibility for coordinating the implementation of the Project among the Implementing Agencies. The Coordination Committee shall be responsible, *inter alia*, for:
 - (a) ensuring consistency among Project activities, objectives and overall policy strategy;
 - (b) reviewing Project operational plans and monitoring and evaluation reports; and
 - (c) ensuring the correct use of Financing funds by the Implementing Agencies pursuant to the provisions of the respective Implementation Agreements.

3. The Recipient, through MAGFOR, shall establish and thereafter operate during the implementation of the Project a technical committee (the "Executive Committee") in accordance with the functions and responsibilities set forth in the Line of Credit Manual which includes, *inter alia*, the responsibility to assist the Recipient in the carrying out of Part 1.C (b) of the Project and to evaluate and recommend Subcredit applications.

C. Manuals

1. The Recipient, through MAG-FOR, shall carry out the Project, and shall cause INTA, INATEC and FCR to carry out the Parts of the Project under their responsibilities all in accordance with the pertinent provisions of a manual, satisfactory to the Association (the Operational Manual) which manual shall include provisions detailing procedures and guidelines for the carrying out of the Project, including, *inter alia*:
 - (a) The procedures for the preparation, review and approval of reports pursuant to the Project's financial management arrangements.
 - (b) Procurement and contracting procedures consistent with Schedule 2 to this Agreement, to be applicable to contracts for the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Financing.
 - (c) The procedures for the monitoring and evaluation of the Project, including the provisions of Section II of this Schedule 2.
 - (d) The procedures for the review and approval of withdrawal applications to the Association, in conformity with the instructions that the Association may give to the Recipient in this respect.
 - (e) The procedures for environmental and social screening of the Cooperative Development Plans and the measures to be implemented under the Project (including the Cooperative Development Plans) and such Cooperative Development Plans which could possibly have negative environmental and/or social impacts, including the mechanisms to address the culturally specific needs of the Recipient's indigenous peoples groups to ensure that the benefits of the Project are culturally appropriate and that there is broad community support for the Project, as prescribed in the EA, IPDP, IPMP or ICMP as the case may be.
 - (f) The performance indicators for the Project.
 - (g) The provisions of the Line of Credit Manual which manual shall include provisions detailing procedures and guidelines for the carrying out of Part 1.C(b) of the Project, *inter alia*:
 - (i) The administrative rules and procedures for planning, preparing, proposing, contracting, financing, supervising, and carrying out of the Cooperative Development Plans, including the detailed criteria and procedures for selecting Eligible Credit Beneficiaries and approving Cooperative Development Plans.

- (ii) The procurement procedures for the Cooperative Development Plans to be financed out of the proceeds of the Financing.
- (iii) The procedures for environmental and social screening of the Cooperative Development Plans and the measures to be implemented for any such activities which could possibly have negative environmental and/or social impacts.
- (iv) The administrative and financial terms of the Subcredits, sustainability measures, interest rate regime and transition measures, risk management considerations, size of the Subcredits and other specific matters relevant for the adequate carrying out of Part 1.C (b) of the Project.

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

D. Anti-Corruption

The Recipient shall ensure that Part 1.C of the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

E. Safeguards

1. Without limitations to the provisions of Section I.C.1 and C.1 (g) (iii) of this Schedule, the Recipient, through MAG-FOR, shall:
 - (a) carry out the Project and/or cause the Implementing Agencies to carry out the pertinent Parts of the Project under their responsibility, all in accordance with the provision of the EA and the EMP;
 - (b) carry out the Project and/or cause the Implementing Agencies to carry out the pertinent Parts of the Project under their responsibility, all in accordance with the provision of the IPDP;
 - (c) carry out the Project and/or cause the Implementing Agencies to carry out the pertinent Parts of the Project under their responsibility, all in accordance with the provision of the IPMP; and
 - (d) carry out the Project and/or cause the Implementing Agencies to carry out the pertinent Parts of the Project under their responsibility, all in accordance with the provision of the ICPM.

2. The Recipient undertakes that no physical or economic involuntary resettlement (as interpreted in accordance with the Association's Operational Policy 4.12 (OP 4.12)) shall take place as a consequence of Project Implementation.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators included in the Operational Manual. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than one month after the end of the period covered by such report.
2. For purposes of Section 4.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than six months after the Closing Date.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient, through MAGFOR, shall prepare and furnish to the Association not later than 45 days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient, through MAGFOR, shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for Part 1.C of 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 Part 1.C of 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.

B. Particular Methods of Procurement of Goods and Works

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

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) Selection based on Consultant's Qualifications (CQS)
(b) Quality-based Selection (QBS)
(c) Least Cost Selection (LCS)
(d) Procedures set forth in Paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants (IC)
(e) Single Source Selection (SSS)

D. Review by the Association of Procurement Decisions

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

E. Special Provisions

In addition and without limitation to any other provisions set forth in this Section or in the Procurement Guidelines, the following principles of procurement shall expressly govern all procurement of goods and works under either International Competitive Bidding, National Competitive Bidding or Shopping:

- (a) Foreign bidders shall not be required to be registered with local authorities as a prerequisite for bidding.
- (b) No bids shall be rejected, and no provisional awards shall be made at the time of bid opening.
- (c) The invitation to bid shall not establish, for purposes of acceptance of bids, minimum or maximum amounts for the contract prices.
- (d) The invitation to bid shall not publish the estimated cost of the contract.
- (e) The invitation to bid shall not require mandatory attendance to a pre-bid meeting as a condition to bid.
- (f) In the case of Shopping, a minimum of three quotations shall be obtained as a condition to award the contract.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient, through MAGFOR, may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the 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 Grant Allocated (expressed in SDR)</u>	<u>Percentage of Expenditures to be Financed (inclusive of Taxes)</u>
(1) Goods, works, consultants’ services, training, and operating costs for Part.1.C of the Project (except for Part 1.C(b) of the Project)	3,970,000	100%
(2) Eligible Subcredits under Part 1.C(b) of the Project	2,210,000	100% of the cost of goods, works and consultants’ services to finance such Subcredits
(3) Unallocated	120,000	100%
TOTAL AMOUNT	6,300,000	

3. For the purposes of this Section:
 - (a) The term “Training” means expenditures (other than for consultants’ services) solely as required for the Project, incurred for: (a) reasonable travel and *per diem* expenditures incurred by trainers and trainees in connection with their training; (b) course fees; (c) training/workshop facility and equipment rentals; and (d) training material preparation, acquisition, reproduction and distribution expenses not otherwise covered under this paragraph; and
 - (b) The term “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 and maintenance of equipment and non-durable goods, excluding food expenditures, salaries for civil servants or permanent employees.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$500,000 equivalent may be made for payments made prior to this date but on or after November 15, 2009 (but in no case more than one year prior to the date of this Agreement) for Eligible Expenditures under Category (1).
2. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments under Category 2 in respect of each Subcredit unless: (a) the Recipient, through MAG-FOR, has caused FCR to effectively organize and implement the carrying out of Part 1.C(b) of the Project in accordance with appropriate managerial and technical standards, as set forth in the Line of Credit Manual, in a manner satisfactory to the Association; and (b) the Executive Committee has been established in a manner satisfactory to the Association.
3. The Closing Date is December 31, 2013.

APPENDIX

Section I. Definitions

1. “Amended INTA Implementation Agreement” means the agreement referred to in Section I.A.2 of Schedule 2 to this Agreement.
2. “Amended Subsidiary Agreement” means *Convenio Subsidiario*, the agreement between MHCP and MAG-FOR referred to in Section I.A.1 of Schedule 2 to this Agreement.
3. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “CNIAB” means *Centro Nacional de Investigación Agropecuaria y Biotecnológica*, the National Center for Agricultural and Bio-Technology Research under the jurisdiction of INTA.
6. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
7. “Cooperative Development Plan” means any of the plans to develop managerial capacity and identify seeds production marketing and distribution activities referred to in Part 1.C. (b) of the Project.
8. “Coordination Committee” means the committee referred to in Section I.B.2 of Schedule 2 to this Agreement.
9. “DGPSA” means *Dirección General de Protección y Sanidad Agropecuaria*, the Recipient’s General Directorate of Plant Safety and Seeds under the jurisdiction of MAG-FOR.
10. “EA” means the Recipient’s environmental assessment dated May 19, 2009, describing, *inter alia*, the environmental mitigation measures to be applied during Project implementation.
11. “Eligible Credit Beneficiaries” means a seed cooperative which has met the eligibility criteria to benefit by a Subcredit referred to in Part 1.C. (b) of the Project.

12. “EMP” means the Recipient’s environmental management plan, dated October 2009, acceptable to the Association, which sets forth the environmental measures in respect of the Project, including, *inter alia*: (i) a negative list of pesticides and environmentally sensitive activities ineligible for Project financing; (ii) an environmental screening checklist for Project interventions; and (iii) environmental supervision, monitoring and evaluation procedures for the Project.
13. “Executive Committee” means the committee referred to in Section I.B.3 of Schedule 2 to this Agreement.
14. “FCR” means *Fondo de Crédito Rural*, the Recipient’s Rural Credit Fund, established by the Recipient’s Law No. 294 of June 17, 1998 as a legal entity (as amended by Law No. 640 of November 6, 2007 and Law No. 684 of May 5, 2009) for purposes of operating as the entity in charge of providing services for the implementation, administration and monitoring of the credit scheme under Part 1.C.(b) of the Project (or any other successor or successors thereto acceptable to the Association).
15. “FCR Implementation Agreement” means the agreement referred to in Section I A.4 of Schedule 2 to this Agreement.
16. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006), with the modifications set forth in Section II of this Appendix.
17. “ICMP” means the Recipient’s updated integrated crop management plan dated October 2009 and published in MAG-FOR’s website on October 30, 2009, for purposes of addressing sustainable practices in agricultural production.
18. “Implementing Agencies” means INTA, INATEC and FCR (as hereinafter defined).
19. “Implementation Agreements” means the Amended INTA Implementation Agreement, the INATEC Implementation Agreement and/or the FCR Implementation Agreement.
20. “INATEC” means *Instituto Nacional Tecnológico*, the Recipient’s National Technological Institute, established pursuant to the Recipient’s Presidential Decree No. 03-91, published in the Recipient’s Official Gazette (as thereafter defined) on January 10, 1991, as amended to the date of this Agreement.
21. “INATEC Implementation Agreement” means the agreement referred to in Section I.A.3 of Schedule 2 to this Agreement.

22. “INTA” means *Instituto Nicaragüense de Tecnología Agropecuaria*, the Recipient's National Institute of Agricultural Technology, established pursuant to Decree No. 22-93, published in the Recipient’s Official Gazette (as thereafter defined) on March 26, 1993, as said decree has been amended to the date of this Agreement.
23. “IPDP” means the Recipient’s updated indigenous peoples development plan dated May 2009 and published in MAG-FOR’s website on October 30, 2009, to enhance the participation of indigenous peoples under Part 1.C and 1.E of the Project.
24. “IPMP” means the Recipient’s updated integrated pest management plan dated October 2009 and published in MAG-FOR’s website on October 30, 2009, a plan originally prepared and adopted under the Original Financing Agreement for the purposes of addressing the techniques applicable to reduce the use of toxic pesticides in agricultural production wherever pest management issues may be harmful to human health and the environment.
25. “Law No. 290” means the Recipient’s *Ley de Organización, Competencia y Procedimientos del Poder Ejecutivo*, dated March 27, 1998 and published on the Recipient’s Official Gazette N° 102 on June 3, 1998, as said law has been amended to the date of this Agreement.
26. “Law No. 462” means the Recipient’s *Ley de Conservación, Fomento y Desarrollo Sostenible del Sector Forestal*, dated June 26, 2003 and published in the Recipient’s Official Gazette N° 168 (as hereinafter defined) on September 4, 2003, as said law has been amended to the date of this Agreement.
27. “Line of Credit Manual” means the manual included in the Operational Manual referred to in Section I.C.1 (g) of Schedule 2 to this Agreement, as the same may be amended from time to time with the agreement of the Association.
28. “MAG-FOR” means *Ministerio Agropecuario y Forestal*, the Recipient's Ministry of Agriculture, Livestock and Forestry or any successor or successors thereto.
29. “MHCP” means *Ministerio de Hacienda y Crédito Público*, the Recipient’s Ministry of Finance and Public Credit, or any successor or successors thereto.
30. “National Seed System” means the Recipient’s *Sistema Nacional de Semilla* whose main objective is to stimulate the production, processing, and commercialization of certified seeds by small producers and their organizations in the Recipient’s territory.

31. “Operational Manual” means the manual referred to in Section I.C.1 of Schedule 2 to this Agreement.
32. “Original Financing Agreement” means the financing agreement for a Second Agricultural Technology Project between the Recipient and the Association, dated February 24, 2006 (Credit No. 4127), as amended.
33. “Original Project” means the Project described in the Original Financing Agreement.
34. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
35. “Procurement Law” means the Recipient’s Law No. 323, dated December 2, 1999 (published in the Recipient’s Official Gazette Nos. 1 and 2 on January 3, 2000, and January 4, 2000, respectively), which governs the Recipient’s public procurement, as said law has been amended to the date of this Agreement.
36. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated December 3, 2009 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.
37. “Subcredit” means a loan made out of the portion of the proceeds of the Financing to finance the total cost of a Cooperative Development Plan.
38. “Subcredit Agreement” means any of the agreements referred to in Section I.A.4. (a)(i) of Schedule 2 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the General Conditions for Credits and Grants of the Association, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. Paragraph (1) of Section 6.02 is modified to read as follows:

“Section 6.02. *Suspension by the Association*

... (1) *Ineligibility.* The Association or the Bank has declared the Project Implementing Entity ineligible to receive proceeds of any financing made by the Association or the Bank or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Association or the Bank, as a result of a determination by the Association or the Bank that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Association or the Bank.”