

CREDIT NUMBER 4521-NI

Financing Agreement

(Development Policy Financing)

between

REPUBLIC OF NICARAGUA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated

, 2008

FINANCING AGREEMENT

Agreement dated _____, 2008, entered into between REPUBLIC OF NICARAGUA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, *inter alia*, of: (a) the actions which the Recipient has already taken under the Program and which are described in Section I.A of Schedule 1 to this Agreement; and (b) the Recipient’s maintenance of an appropriate macro-economic policy framework. The Recipient and the Association therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

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

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to twelve million two hundred thousand Special Drawing Rights (SDR12,200,000) (variously, “Credit” and “Financing”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are March 15 and September 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 2 to this Agreement.

2.07. The Payment Currency is Dollars.

ARTICLE III — PROGRAM

3.01. The Recipient declares its commitment to the Program and its implementation. To this end:

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

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Events of Suspension consist of the following:

- (a) A situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.
- (b) The Recipient's macroeconomic policy framework has become inconsistent with the objectives of the Program.
- (c) An action has been taken or a policy has been adopted to reverse any action or policy under the Program in a manner that would, in the opinion of the Association, adversely affect the achievement of the objectives of the Program.
- (d) An action has been taken or a policy has been adopted to reverse any action listed in Section I of Schedule 1 to this Agreement.

- 4.02. The Additional Event of Acceleration consists of the following, namely, that any event specified in paragraphs (a) to (d) of Section 4.01 of this Agreement occurs and is continuing for a period of ninety (90) days after notice of the event has been given by the Association to the Recipient.

ARTICLE V — EFFECTIVENESS

- 5.01. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Association's approval of the Credit which expire on March 25, 2010.

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) 222-3033

- 6.03. The Association's Address is:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423(MCI)	1-202-477-6391

AGREED at _____, as of the day
and year first above written.

REPUBLIC OF NICARAGUA

By

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

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

- A. Actions Taken Under the Program.** The actions taken by the Recipient under the Program include the following:
1. The Recipient has advanced in the implementation of Civil Service Law through the accreditation of approximately 7,517 public civil servants covered by the law as of December 2007 (excluding teachers, health workers, policemen and soldiers) in line with its Strategic Civil Service Plan.
 2. The Recipient has made satisfactory progress in modernizing public finances on the basis of the Recipient's Laws Nos. 550, 477 and 323 through measures that have strengthened the Recipient's budgeting, treasury and public credit functions, as evidenced by: (i) the increase in the number of public entities using a MTEF from 18 in 2007, to 25 in the Recipient's draft national budget for 2008 as presented to Congress; (ii) the initiation of payments by way of electronic transfer to municipalities; and (iii) the verification that SIGADE-*Integrado* is operating successfully.
 3. The Recipient has: (i) presented its report on the results of the 2006 student learning achievement tests to the national education commissions and on its web portal; and (ii) prepared a plan to disseminate these results to all teachers, school directors and civil society during 2008.
 4. The Recipient has begun to implement a plan to reduce maternal mortality, focusing on the adoption of new procedures to improve access and quality of services, to be implemented in the six Recipient's Departments with the highest maternal mortality incidence (i.e. Matagalpa, Jinotega, RAAN, RAAS, Chontales and Managua).
 5. The Recipient has initiated the process of strengthening its child nutrition and development monitoring system by updating standards and developing new instruments to monitor nutritional status and development of children in its sixty six (66) poorest municipalities, in the context of the PAININ Program, emphasizing prevention and promotion of health among pregnant and lactating women, and children under the age of two.
 6. The Recipient has enacted the regulations to begin implementing the National Water Law, which modernizes the sector institutional framework.

Section II. Availability of Financing Proceeds

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

Allocations	Amount of the Financing Allocated (expressed in SDR)
Single Tranche	12,200,000
TOTAL AMOUNT	12,200,000

- C. Deposits of Financing Amounts.** Except as the Association may otherwise agree:
- The Recipient shall open, prior to furnishing to the Association the first request for withdrawal from the Financing Account, and thereafter maintain, a deposit account in Dollars (“Deposit Account”) on terms and conditions satisfactory to the Association.
 - All withdrawals from the Financing Account shall be deposited by the Association into the Deposit Account.
 - The Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount shall be deposited in the CUT and accounted for, in *Córdobas*, in the Recipient’s budget management system, in a manner acceptable to the Association.
- D. Audit.** Upon the Association’s request, the Recipient shall:
- Have the Deposit Account audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association.
 - Furnish to the Association as soon as available, but in any case not later than four months after the date of the Association’s request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request.
 - Furnish to the Association such other information concerning the Deposit Account and their audit as the Association shall reasonably request.

- E. Excluded Expenditures.** The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.
- F. Closing Date.** The Closing Date is December 31, 2008.

SCHEDULE 2**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each March 15 and September 15:	
commencing March 15, 2019 to and including September 15, 2028	1%
commencing March 15, 2029 to and including September 15, 2048	2%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX

Section I. Definitions

1. “Civil Service Law” means *Ley del Servicio Civil y Carrera Administrativa*, the Recipient’s Law No. 476 as published in the Official Gazette No. 235 of December 11, 2003, as amended.
2. “Córdobas” means the national currency of the Recipient.
3. “CUT” means the Recipient’s single treasury account (*Cuenta Única del Tesoro*), as defined in article 100, of the Recipient’s Law No. 550 (Financial Management and Budget Regime Law).
4. “Department” means a political division of the Recipient. “Departments” means a number of such divisions.
5. “Deposit Account” means the account referred to in Part C.1 of Section II of Schedule 1 to this Agreement.
6. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked

Group	Sub-group	Description of Item
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.
7. "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.
 8. "Law No. 323" means *Ley de Contrataciones y Adquisiciones del Estado*, the Recipient's Procurement Law as amended by the Recipient's Law No. 349 published in the Official Gazette No. 109 of June 9, 2000 and by the Recipient's Law 427, published in the Official Gazette No. 110 of June 13, 2002, as amended.
 9. "Law No. 477" means *Ley General de Deuda Pública*, the Recipient's General Law of Public Indebtedness, as published in the Official Gazette No. 236 of December 12, 2003, as amended.

10. “Law No. 550” means *Ley de Administración Financiera y del Regimen Presupuestario*, the Recipient’s Law of Financial Management and Budgetary Regime as published in the Official Gazette No. 167 of August 29, 2005, as amended.
11. “MTEF” means *Marco Presupuestario de Mediano Plazo*, the Recipient’s Medium Term Expenditure Framework.
12. “National Water Law” means *Ley General de Aguas Nacionales*, the Recipient’s Law No. 620 as published in the Official Gazette No. 169 of September 4, 2007.
13. “Official Gazette” means *La Gaceta, Diario Oficial*, the Recipient’s official gazette.
14. “PAININ Program” means *Programa de Atención Integral a la Niñez*, the Recipient’s Program for Comprehensive Childhood Support, launched in February 1998 and its subsequent phases.
15. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty as set forth or referred to in the letter dated April 21, 2008 from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.
16. “RAAN” means *Región Autónoma del Atlántico Norte*, the Recipient’s Autonomous Region of the Northern Atlantic.
17. “RAAS” means *Región Autónoma del Atlántico Sur*, the Recipient’s Autonomous Region of the Southern Atlantic.
18. “SIGADE-Integrado” means the Recipient’s database of public external and internal debt, as described in the Recipient’s document entitled “*Modelo Conceptual Interfaz SIGADE-SIGFA*” of October 2007.
19. “Single Tranche” means the amount of the Financing allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
20. “Strategic Civil Service Plan” means the Recipient’s plan, dated July 1, 2004, to modernize and professionalize its civil service, as set forth in the Recipient’s Civil Service Law.

Section II. Modifications to the General Conditions

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

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

“Section 4.06. *Plans; Documents; Records*

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

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

Section 4.07. *Program Monitoring and Evaluation*

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

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:
- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”
 - (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.
 - (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

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