

**AGREED MINUTES OF NEGOTIATIONS
BETWEEN THE REPUBLIC OF NICARAGUA
AND
THE INTERNATIONAL DEVELOPMENT ASSOCIATION
FOR THE SUSTAINABLE RURAL WATER SUPPLY
AND SANITATION SECTOR PROJECT**

GENERAL

1. **Introduction.** Negotiations for a proposed credit of US\$ 14.3 million and a grant of SDR 10.2 million (US\$ 15.7 million equivalent) for the Sustainable Rural Water Supply and Sanitation Project were held between a delegation of the Republic of Nicaragua ("the Recipient") and the International Development Association ("the Association"), via videoconference between Managua, Nicaragua; Tegucigalpa, Honduras; Brasilia, Brazil and the Association's offices in Washington D.C., on January 16 and 17, 2014.
2. **Recipient's Delegation.** The Recipient's delegation was led by Jose Chavarria Vice-Minister (MHCP) and included: Rosa Sanchez, Sub-Director Legal Advisor (MHCP); Marlon Navarrete, Director of Negotiations and Contracting (MHCP); Ruth Humphreys, liaison (MHCP); Julio Cuadra, Executive President (FISE); Isabel del Carmen Castillo, head of OASH (FISE); America Zeledon, Institutional Development Director (FISE); Felix Pedro Perez, Director of Administrative and Financing (FISE); Smilton Garcia, Director of Procurement (FISE); Cristobal Rodriguez, Legal Advisor (FISE); Ana Lilia Reyes, head of ORID (FISE); Oscar Sanchez, Director of Operations and Local Development (FISE).
3. **IDA Delegation.** The Association's delegation was led by Lilian Pena P. Weiss, Team Leader (LCSWS) from Headquarters, and included: (i) also from Headquarters, Ignacio Jauregui, Legal Counsel (LEGLE), Carlos Aguilar Delfin, Sr. Water and Sanitation Specialist, Clementine Stip, Junior Professional, Elizabeth Sanchez, Program Assistant (LCSWS); Francisco Rodriguez, Procurement Specialist (LCSPT); Patricia De la Fuente Hoyes, Senior Finance Officer (CTRLN), Ximena Traa (Social Development Specialist); (ii) from Managua, Enrique Roman, Financial Management Specialist (LCSFM); (iii) from Tegucigalpa, Antonio Rodriguez, Sr. Water and Sanitation Specialist (TWILC); and (iv) from Brasilia, Fernanda Balduino, Finance Analyst (CTRLN) (the list of participants and the delegation's authorization to negotiate are attached to these Minutes as Annex 1).
4. The revised version of the Financing Agreement, dated January 16, 2014, is attached as Annex 2 to these Minutes and reflects the agreements reached by the Association's delegation and the Recipient's delegation. In addition, the following documents were reviewed: (a) the draft Project Appraisal Document (PAD) and (b) the Draft Disbursement Letter (DL) and its Annexes; and the Supplemental Letter. The revised versions of the draft DL and Supplemental Letter are attached to these Minutes as Annex 4 and 3, respectively.
5. These Minutes are intended to set forth certain important understandings reached during the negotiations and to identify the principal changes agreed upon in the above mentioned draft



documents. The major changes and understandings are indicated in the paragraphs below. These minutes are not a complete record of negotiations.

6. **IDA Grant Terms.** The terms of the Grant were discussed and the following agreements were reached:

IDA Product	IDA Grant
Currency & Amount	SDR10,200,000 Special Drawing Rights (USD\$15.7 million equivalent)

7. **IDA Credit Terms.** The terms of the Credit were discussed and the following agreements were reached:

IDA Credit Product	IDA Single Currency Credit Regular
Currency & Amount	USD\$14,300,000
Service Fee	Fee equal to 75 basis points, calculated on the disbursed and outstanding balance of the IDA credit.
Repayment Terms	Payable in 40 years, including a 10-year grace period with a level repayment schedule with repayments on each April 15th and October 15th.

8. **Repayment Schedule.** The Recipient confirms their agreement with the repayment schedule presented in Schedule 3 of the Financing Agreement.

9. **Disbursement Arrangements.** The Disbursement Letter and the relevant aspects of the disbursement arrangements under this Project were discussed with the Recipient's Delegation. Specific points addressed were the following:

- Discussed and agreed that the reporting of eligible expenditures paid from the Designated Account would be done on a quarterly; however, this does not prevent the project from reporting expenditures on a more frequent basis.
- Clarification that the provisions of the Disbursement Letter, including the amount of the ceiling of the Designated Account, can be revised at any time during project execution without requiring a legal amendment to the agreement. In order to revise the Disbursement Letter, the recipient will need to send a request to the task team leader of the project with a copy to the Bank's loan department, formalizing the request and providing the justification for the change.
- Clarified that the Operating Costs under Part 1. C of the project included all operating costs related to the implementation, monitoring and evaluation of the project.
- The closing date was agreed to be changed to July 31, 2019

10 **Project Description and Implementation Arrangements:** The Project description and implementation arrangements have been confirmed. Minor edits were made to the



implementation arrangements in the PAD, in order to reflect better the role of the Planning Direction in the social management of the Project.

11. Procurement. The publication of the General Procurement Notice was set for before January 31, 2014.

12. Financial Management. As part of the negotiations, the financial management arrangements applicable to this Project were reviewed and confirmed. A few changes were made to the Financing Agreement. The Recipient's delegation requested and the Association's delegation agreed to include clarifications on the Subsidiary Agreement definition to emphasize that the funds provided to FISE are on a grant and non-reimbursable basis. The Association's delegation and the Recipient's delegation agreed to increase to 6 months the period by which the first audit should be contracted, and agreed to start this process as soon as possible. To ensure continuity with the processes of PRASNICA, the Association's delegation agreed that the period to submit the Progress Reports (including the financial part) at the end of each semester would be increased from 45 to 60 days. Regarding the Technical and Procurement audits, the Recipient's delegation inquired into the alignment of deliverable due dates. The Association's delegation agreed with the new dates for the audits Progress Reports, the revision with the municipalities, and the action plan.

13. The Recipient's delegation inquired if the Grant amount could be indicated in US dollars in the FA and the Association's delegation clarified that the amounts of IDA grants are in SDRs, but clarified further that as of the date of negotiations the SDR amount of the grant is equivalent to USD\$15,700,000.

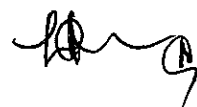
14. Safeguards. The Environmental and Social Framework definition was adjusted to include the term social management.

15. Other comments to the PAD. The Recipient's delegation inquired about the justification of some of the risks ratings presented in the table in section V and annex 3 (financial management part) of the PAD. It was discussed and agreed that the entity level risk rating for financial management can be lowered to L (low), considering FISE's satisfactory financial management performance. The explanations of the other financial management ratings have been complemented to clarify that the Project involves co-implementation agents (such as municipalities).

16. Operational Manual and Procurement Plan. A draft Operational Manual and Procurement Plan were submitted to the Association prior to negotiations and reviewed accordingly. The Association's delegation confirmed that both documents are acceptable.

17. Acceptance of Project Documents. The Recipient's delegation confirmed its agreement to the draft Project Appraisal Document, the negotiated version of the Financing Agreement, the accompanying Supplemental Letter and the Disbursement Letter attached to these Minutes.

18. Access to information. The Association's delegation informed the Recipient's delegation that, pursuant to the Association's Policy on Access to Information, the Association




will disclose the Project Appraisal Document (PAD), the related legal agreements, and other information related to the legal agreements, including any supplemental letters. The Recipient's delegation confirmed that the Association may publicly release the PAD before consideration of the operation by the Association's Board of Executive Directors.

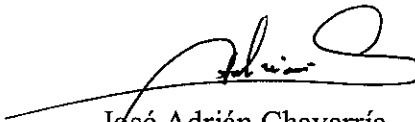
19. Board Date for the Project. The Association's delegation confirmed to the Recipient's delegation that the proposed Project is currently expected to be presented to the Association's Board of Directors on March 17, 2014.

20. Conditions for negotiations. The following manuals: MEPAS, Operations Manual, PGC's Manual and MAC-PM, have been sent to the Bank by the Recipient and were considered satisfactory, which constitutes fulfillment of the respective negotiations conditions. In addition, the format of the Interim Financial Reports was submitted by the Recipient and was considered acceptable by the Association, complying with the last negotiations condition.

21. Next Steps. The Association's delegation informed the Recipient's delegation that in order to present the proposed Credit and Grant to the Association's Board of Executive Directors, the Association must receive from the Recipient: (i) confirmation, on behalf of the Government of the Republic of Nicaragua, from the Minister of Finance (MHCP) of the approval of the negotiated Financing Agreement and ratification of these Minutes; and (ii) the signature of the Expert appointed by the Republic of Nicaragua in the Statutory Committee Report. The Recipient's delegation confirmed it would provide the approval from the Minister of Finance by January 24, 2014 and would take the necessary steps to ensure that the Statutory Committee Report is signed promptly in order to allow timely processing of the Financing documents towards Board approval.



Lilian Mena P. Weiss
Task Team Leader
World Bank



José Adrián Chavarría
Head of Delegation
Vice-Minister (MHCP)

Annexes

- List of Participants and Recipient's authorization to negotiate (Annex 1)
- Negotiated Financing Agreement (Annex 2)
- Supplemental Letter (Annex 3)
- Disbursement Letter (Annex 4)

Annex 1
List of Participants

Association Delegation	
Name	Position
Ignacio Jauregui	Counsel (LEGLE)
Lilian Pena Pereira	Team Task Leader (LCSWS)
Carlos Aguilar Delfin	Sr. Water and Sanitation Specialist (LCSWS)
Clémentine Stip	Junior Professional (LCSWS)
Elizabeth Sanchez	Program Assistant (LCSWS)
Francisco Rodriguez	Procurement Specialist (LCSPT)
Patricia De la Fuente Hoyes	Senior Finance Officer (CTRLN)
Fernanda Balduino	Finance Analyst (CTRLN)
Antonio Rodriguez	Sr. Water and Sanitation Specialist (TWILC)
Enrique Roman	Financial Management Specialist (LCSFM)
Ximena Traa	Social Development Specialist (LCSSO)

Recipient Delegation	
Name	Position
José Adrián Chavarría	Vice-Minister (MHCP)
Julio Cuadra	Executive President (FISE)
Rosa Sanchez	Sub-Director Legal Advisor (MHCP)
Marlon Navarrete	Director of Negotiations and Contracts (MHCP)
Ruth Humphreys	Enlace (MHCP)
Isabel del Carmen Castillo	Director OASA (FISE)
América Zeledon	Institutional Development Director (FISE)
Felix Pedro Perez	Administrative and Financing Department (FISE)
Smilton Garcia	Procurement Director (FISE)
Cristobal Rodriguez	Legal Advisor (FISE)
Ana Lilia Reyes	(FISE)
Oscar Sanchez	Project Director (FISE)



