His Excellency
Dr. Ivan Acosta
Minister of Finance and Public Credit
Ministry of Finance and Public Credit
Avenida Bolivar, Frente a la Asamblea Nacional-4to piso
Managua, Nicaragua

Re: Credit No. 5368-NI
Nicaragua: Additional Financing for Improving Community and
Family Health Care Services Project
Additional Instructions: Disbursement Letter

Excellency,

I refer to the Financing Agreement (“Agreement”) between the International Development Association (“World Bank”), and the Republic of Nicaragua (the “Recipient”) for the above-referenced project, dated March 21, 2014. The Agreement provides that the World Bank may issue additional instructions regarding the withdrawal of the proceeds of IDA Credit 5368-NI (“Financing”). This letter (“Disbursement Letter”), as revised from time to time, constitutes the additional instructions.

The World Bank Disbursement Guidelines for Projects, dated May 1, 2006, (“Disbursement Guidelines”) (Attachment 1) are an integral part of the Disbursement Letter. The manner in which the provisions in the Disbursement Guidelines apply to the Grant is specified below. Sections and subsections in parentheses below refer to the relevant sections and subsections in the Disbursement Guidelines and, unless otherwise defined in this letter, the capitalized terms used have the meanings ascribed to them in the Disbursement Guidelines.

I. Disbursement Arrangements

(i) Disbursement Methods (section 2). The following Disbursement Methods may be used under the Grant:

- Reimbursement
- Advances
- Direct Payment

(ii) Disbursement Deadline Date (subsection 3.7). The Disbursement Deadline Date is 4 months after the Closing Date specified in the Agreements. Any changes to this date will be notified by the World Bank.

(iii) Disbursement Conditions (subsection 3.8). Please refer to the Disbursement Condition(s) in Schedule 2, section IV (B) of the Financing Agreements.
II. Withdrawal of Credit Proceeds

(i) Authorized Signatures (subsection 3.1).
A letter in the Form attached (Attachment 2) should be furnished to the World Bank at the address indicated below providing the name(s) and specimen signature(s) of the official(s) authorized to sign Applications:

The World Bank
1818 H Street, N.W.
Washington, DC 20433
United States of America
Attention: Carlos F. Jaramillo, Country Director

(ii) Applications (subsections 3.2 - 3.3). Please provide completed and signed (a) applications for withdrawal, together with supporting documents, to the address indicated below:
Banco Mundial
Sector Comercial Norte
Quadra 02, Lote A
Edificio Corporate Finance Center
7º andar
70712-900 Brasilia, D.F.
Brazil
Attention: Loan Department

(iii) Electronic Delivery (subsection 3.4) The Association may permit the Recipient to electronically deliver to the Association Applications (with supporting documents) through the Association's Client Connection, web-based portal. The option to deliver Applications to the Association by electronic means may be effected if: (a) the Recipient has designated in writing, pursuant to the terms of subparagraph (i) of this Section, its officials who are authorized to sign and deliver Applications and to receive secure identification credentials ("SIDC") from the Association for the purpose of delivering such Applications by electronic means; and (b) all such officials designated by the Recipient have registered as users of Client Connection. If the Association agrees, the Association will provide the Recipient with SIDC for the designated officials. Following which, the designated officials may deliver Applications electronically by completing Form 2380, which is accessible through Client Connection (https://clientconnection.worldbank.org). The Recipient may continue to exercise the option of preparing and delivering Applications in paper form. The Association reserves the right and may, in its sole discretion, temporarily or permanently disallow the electronic delivery of Applications by the Recipient.

(iv) Terms and Conditions of Use of SIDC to Process Applications. By designating officials to use SIDC and by choosing to deliver the Applications electronically, the Recipient confirms through the authorized signatory letter its agreement to: (a) abide by the Terms and Conditions of Use of Secure Identification Credentials in connection with Use of Electronic Means to Process Applications and Supporting Documentation ("Terms and Conditions of Use of Secure
Identification Credentials”) provided in Attachment 3; and (b) to cause such official to abide by those terms and conditions.

(v) Minimum Value of Applications (subsection 3.5). The Minimum Value of Applications for Direct Payment and Reimbursement is US$500,000.

(vi) Advances (sections 5 and 6) to MOH for expenditures paid under Category 2, 3 and 4.
   • Type of Designated Account (subsection 5.3): Segregated.
   • Currency of Designated Account (subsection 5.4): US Dollars.
   • Financial Institution at which the Designated Account Will Be Opened (subsection 5.5): Banco Central de Nicaragua.
   • Ceiling (subsection 6.1): US$500,000.

(vii) Advances (sections 5 and 6) to MOH for Capitation Payments under Category 1.
   • Type of Designated Account (subsection 5.3): Segregated.
   • Currency of Designated Account (subsection 5.4): US Dollars.
   • Financial Institution at which the Designated Account Will Be Opened (subsection 5.5): Banco Central de Nicaragua.
   • Ceiling (subsection 6.1): Based on cash forecast prepared in accordance with the additional instructions in Section IV (i) of this letter.

III. Reporting on Use of Credit Proceeds

(i) Supporting Documentation (section 4). Supporting documentation should be provided with each application for withdrawal as set out below:

   • For requests for Reimbursement:
     o Records evidencing eligible expenditures (e.g., copies of receipts, supplier invoices) for payments made under contracts for:
       ➢ Works valued at US$150,000 equivalent per contract or more;
       ➢ Goods and Consultant firms costing US$100,000 equivalent per contract or more;
       ➢ Individual consultants costing US$50,000 equivalent or more;
       ➢ Operating Costs and Training costing US$20,000 or more;
     o Customized Statements of Expenditure, in the form attached (Attachment 4), for Capitation Payment Transfers (Category 1) of the project with the documentation detailed in Section IV (i) of this letter;
     o Statement of Expenditure in the form attached (Attachment 5), for payments, that do not exceed the thresholds established above; and,
• **For reporting eligible expenditures paid from the Designated Account:**
  - Records evidencing eligible expenditures (e.g., copies of receipts, supplier invoices) for payments made under contracts for:
    - Works valued at US$150,000 equivalent per contract or more;
    - Goods and Consultant firms costing US$100,000 equivalent per contract or more;
    - Individual consultants costing US$50,000 equivalent or more;
    - Operating Costs and Training costing US$20,000 or more;
  - Customized Statements of Expenditure in form attached (Attachment 4) for Capitation Payment Transfers (Category 1) of the project with the documentation detailed in Section V of this letter;
  - Statement of Expenditure in the form attached (Attachment 5), for payments, that do not exceed the thresholds established above; and,
  - List of payments for contracts, in the form attached (Attachment 6), for contracts subject to the Bank’s prior review; and,
  - Designated Account Activity Statement, in the form attached (Attachment 7), with a copy of the Designated Account Bank Statement.

• **For requests for Direct Payment:** records evidencing eligible expenditures, e.g., copies of receipts, supplier invoices.

(ii) **Frequency of Reporting Eligible Expenditures Paid from the Designated Account** (subsection 6.3). Quarterly and Semiannually for Category 1, Capitation Payments.

**IV. Other Disbursement Instructions**

(i) **Capitation Payments – Category (1)**

Capitation Payments financed under Category (1) will be disbursed from the Association to the MOH on a semester basis (Reporting Period) and paid by the MOH, via the SILAIS, to the Selected Municipalities in two installments. The first installment will be equal to 40% of the total estimated Capitation Payment for the Reporting Period while the second installment will be equal to 60% of the remaining Capitation Payment paid during the Reporting Period.

The amount allocated under Category(1) will be disbursed to the MOH based the evidence presented in accordance with the procedures detailed in the Operational Manual, the relevant provisions in the legal agreement and the following instructions:

The first Advance to the Designated Account (DA) for Capitation Payments made under Category (1) will be in an amount sufficient to finance the first installment of the first two reporting periods based on cash flow forecast covering the first two Reporting Periods. Subsequent replenishments to the DA will be made based on forecast of the amounts required to
finance the second installment of the previous reporting period and the first installment of the subsequent reporting period less any adjustments.

After the first disbursement under Category (1), subsequent disbursements under Category (1) will take into account the results of the relevant annual Independent Technical Audit, which will verify (i) whether the relevant Selected Municipality has attained the relevant Performance Goals, and (ii) whether the number of Eligible Beneficiaries reported by the relevant Selected Municipality in the customized statement of expenditure (SOE) accurately reflects the number of people who meet the eligibility criteria required to qualify as Eligible Beneficiaries.

If the Independent Technical Audit reveals that (i) any of the Selected Municipalities has not attained the relevant indicators and/or (ii) the number of Eligible Beneficiaries for any Selected Municipality needs to be adjusted to adequately reflect the number of people who meet the eligibility criteria required to qualify as Eligible Beneficiaries, subsequent disbursements under Category (1) will be:

(a) Reduce or adjusted the second installment within a Reporting Period by the necessary amount to reflect the actual number of Eligible Beneficiaries (as determined by the relevant Independent Technical Audit); and

(b) Reduce the second installment within a Reporting Period by an amount equal to the total amount resulting from multiplying the fractional amount of the capita assigned by the MOH to each failed Performance Goal by the amount of Eligible Beneficiaries living in each of the relevant Selected Municipalities.

The amounts resulting from a reduction due to failure to attain the Performance Goals indicated in the Operational Manual may be carried forward to the following Reporting Period for subsequent transfer to the Selected Municipality provided the Performance Goal is met during the following Reporting Period. The carry forward amount for each Selected Municipality cannot carry forward for more than two Reporting Periods. In the event the amount carried forward is not disbursed during the subsequent two Reporting Periods, the amount will need to be refunded back to the DA and may be disbursed for eligible expenditures under other categories of disbursement.

The DA activity statement, for capitation payments, will need to reflect reductions, amounts carried forward and other required adjustments in the reconciliation section. All verification documentation must be included with each withdrawal application for Category (1) as described in the detailed procedures of the Operational Manual.
(ii) **Contingent Financing of Public Health Alert or Public Health Emergency – Category (3)**

Disbursements from Category (3) will require that: (i) a Public Health Alert or Public Health Emergency has been declared by the Recipient; and (ii) the Recipient has provided a letter to the Association including: (A) legal evidence, satisfactory to the Association, of the declaration of a Public Health Alert or Public Health Emergency; (B) the estimated cash flow needs to finance eligible activities to respond to the Public Health Emergency or Alert; (C) (i) a list of the goods, works, consultants' services (including non-consultant services) and Operating Costs proposed to be financed under to address the needs of the Public Health Emergency or Alert (including a procurement plan); and (ii) the assessments and plans that the Association per the respective legal agreements.

(iii) **Retroactive Financing**

Retroactive Financing under the Grant will be available up to an aggregate amount not to exceed one million dollars ($1,000,000) equivalent may be made for payments made within twelve (12) months prior to the date of the Financing Agreement but on or after January 1, 2014, for Eligible Expenditures under Categories (1) and (2).

V. **Other Disbursement Information**

To make local currency payments to contractors, providers and consultants for goods, works or services provided under the project, the PCU make payments directly through the Recipient’s Integrated Financial Management System (SIGFAPRO) system. The SIGFAPRO system will open a ‘libreta’ for this project, which will be denominated in local currency within the single treasury account, and will be used exclusively to make payments in local currency for eligible project expenditures. The transfer of funds from the DA to the ‘libreta’ will occur each time IP requests a payment from SIGFA PRO. The exchange rate applicable, for the reconciliation of the DA account, will be the Recipient’s Central Bank rate on the date the funds are transferred from the DA to the Project’s ‘libreta’. Any gains or losses that occur due to these transfers will be absorbed by the Recipient and cannot be charged to any category of the Grant or Credit.

VI. **Other Important Information**


From the Client Connection website, you will be able to download Applications, monitor the near real-time status of the Grant, and retrieve related policy, financial, and procurement information.
If you have not already done so, the World Bank recommends that you register as a user of the Client Connection website (http://clientconnection.worldbank.org). From this website you will be able to download Applications, monitor the near real-time status of the Financing, and retrieve related policy, financial, and procurement information. For more information about the website and registration arrangements, please contact the World Bank Nicaragua country office.

If you have any queries in relation to the above, please contact the World Bank Loan Department by sending an email to loa_lcr@worldbank.org and placing the Grant number and name in the subject line.

Very truly yours,

INTERNATIONAL DEVELOPMENT ASSOCIATION

C. Felipe Jaramillo
Director
Central America
Latin America and the Caribbean Region
Attachments
1. World Bank Disbursement Guidelines for Projects, dated May 1, 2006
2. Form for Authorized Signatures
3. Terms and Conditions of Use of Tokens
4. Customized Statement of Expenditure (SOE) for Category 1 disbursements
5. Statement of Expenditure Format (SOE) without records
6. List of Payments under Contracts Subject to Prior Review
7. Designated Account Activity Statement

Cc with copies: Lic. Jose Adrian Chavaria Montenegro, Vice-Minister, Ministry of Finance and Public Credit
Lic. Uriel Perez Acuña, Director General de Crédito Publico Ministry of Finance and Public Credit
Dra. Sonia Castro Gonzalez, Ministry of Health
Dr. Alejandro Solís Martínez, Director General de Planificación y Desarrollo
Lic. Jaime González, Director General Administrativo Financiero