March 8, 2011

H.E. Francisco Campbell
Ambassador of the Republic of Nicaragua
to the United States of America

Re: IDA Credit No. 4862- NICARAGUA Social Protection Project
Additional Instructions: Disbursement Letter

Excellency,

I refer to the Financing Agreement between the International Development Association (“Association”), and the Republic of Nicaragua (“Recipient”) for the above-referenced project, dated March 8, 2011. The Financing Agreement provides that the World Bank may issue additional instructions regarding the withdrawal of the proceeds of IDA Credit 4862-NI (“Financing”). This letter (“Disbursement Letter”), as revised from time to time, constitutes the additional instructions.

The attached 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 Credit 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 Credit:

- 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 Financing Agreement. 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 Agreement.
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 Felipe Jaramillo, Country Director

(ii) Applications (subsections 3.2 - 3.3). Please provide completed and signed applications for withdrawal, together with supporting documents, to the address indicated below:

The World Bank  
1818 H Street, N.W.  
Washington, DC 20433  
United States of America  
Attention: Loan Department

(iii) Electronic Delivery (subsection 3.4) The Bank may permit the Recipient to electronically deliver to the Bank Applications (with supporting documents) through the Bank’s Client Connection, web-based portal. The option to deliver Applications to the Bank 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 devices (“Tokens”) from the Bank 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 Bank agrees, the Bank will provide the Recipient with Tokens 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 Bank 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 Tokens to Process Applications. By designating officials to accept Tokens 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 Device in connection with Use of Electronic Means to Process Applications and Supporting Documentation (“Terms and Conditions of Use of Tokens”) provided in Attachment 3; and (b) to deliver the Terms and Conditions of Use of Tokens to each such official and 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 MIFAN for Category 1 – Family Grants.

- **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$1,000,000.

(vii) Advances (sections 5 and 6) to MIFAN for Categories 2 & 3.

- **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$800,000.

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:**
  - Summary Statements in the form attached (Attachment 4) with records evidencing eligible expenditures (e.g., copies of receipts, supplier invoices) for payments made under contracts for:
    - Minor Rehabilitation Works valued at US$150,000 equivalent per contract or more;
    - Goods and Consultant firms Services costing US$100,000 equivalent per contract or more;
    - Individual & Non–consultant Services costing US$50,000 equivalent or more; and
    - Training and Operating Costs costing US$20,000 or more;
  - Customized Statements of Expenditure in the form attached (Attachment 5) for Family Grants (Category 1) of the project with the documentation detailed in Section IV of this letter; and
-4-

- Statement of Expenditure in the form attached (Attachment 6) for payments, that do not exceed the thresholds established above.

- For reporting eligible expenditures paid from the Designated Account:
  - Summary Statements in the form attached (Attachment 4) with 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 Services costing US$100,000 equivalent per contract or more;
    - Individual & Non–consultant Services costing US$50,000 equivalent or more; and
    - Training and Operating Costs costing US$20,000 or more;
  - Customized Statements of Expenditure in the form attached (Attachment 5) for Family Grants (Category 1) of the project with the documentation detailed in Section IV of this letter;
  - Statement of Expenditure in the form attached (Attachment 6) for payments, that do not exceed the thresholds established above; 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.

IV. Other Disbursement Instructions

(i) Family Grants – Category (1)

Family Grants (see the Appendix to the Financing Agreement, definition No. 8, financed under Category (1), will be disbursed to a separate Designated Account (DA). The Recipient, through MIFAN, will have access to these funds and will transfer funds, every two months, from the DA to the pay agent(s) contracted by MIFAN to make payments under the Family Grant program in the following six Departments responsible for making payments under the Family Grant program: (a) Chinandega; (b) Estelí; (c) Jinotega; (d) León; (e) Madriz; and (f) Matagalpa.

The first disbursement under Category (1) will represent 100% of the estimated Family Grant for the first six-months of Project implementation. After the first disbursement under Category (1), subsequent disbursements under this Category (1) will take into account: (i) the results of the relevant Concurrent Audit, (ii) the results of the pay agent account reconciliation, and (iii) whether the number of eligible beneficiaries reported by each of the departments, in
MIFAN in their customized statement of expenditure (SOE), accurately reflects the number of people who meet the eligibility criteria required to qualify as eligible beneficiaries.

If the pay agent (i.e. Financial Institution as described in the definition No. 11 of the Appendix to the Financing Agreement) account reconciliation reveals funds not paid, and/or the Concurrent Audit reveals that the amount of eligible beneficiaries for any department 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 need to be:

(a) Adjusted by the amount necessary to reflect the actual number of eligible beneficiaries (as determined by the relevant Concurrent Audit); and

(b) Reduced by an amount of funds remaining in the pay agent (i.e. Financial Institution) account that was not disbursed during the previous pay periods.

Disbursements under Category 1 will require submitting (i) a customized SOE in the format agreed (Attachment 5), and (ii) the Designated Account activity statement reflecting any required adjustments as a result of the above stated in (a) and (b).

(ii) School Feeding Program – Category (3)

Under Category 3 MIFAN will finance goods, works, and services as well as transfer approximately US$173,000 to cover the operating costs and training costs incurred by the Ministry of Education (MINED) related to the carrying out the school feeding program. Specifically, MIFAN will be responsible for contracting and paying for goods, works and services, while MINED will submit documentation to support both costs incurred and paid every two months from the transfer of funds received from MINED. The Operational Manual will detail the conditions for transferring funds from the MINFAN DA to the MINED operating account and the period and format of expenditure reporting. In addition, this component will be specifically included in the audit scope to be covered by the external auditors.

V. Other Disbursement Information

Should instances of ineligibility be brought up by the annual financial audit, the concurrent audit, and/or by Bank supervision, the amounts in questions will be returned by MIFAN to the Designated Account or substituted with other eligible expenditures.

VI. Other Important Information


From the Client Connection website, you will be able to download Applications, monitor the near real-time status of the Credit, 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 Credit number and name in the subject line.

Yours sincerely,

/s/ Carlos Felipe Jaramillo
Country Director
Central America Country Management Unit
Latin America and the Caribbean Region
Attachments
2. Form for Authorized Signatures
3. Terms and Conditions of Use of Tokens
4. Summary Statement (SS) with Records
5. Customized Statement of Expenditure (SOE) for Category 1 disbursements
6. Statement of Expenditure Format (SOE) without records
7. Designated Account Activity Statement

Cc with copies: Lic. Ivan Acosta Montalvan, *Vice-Ministro*, Ministry of Finance and Public Credit  
Lic. Uriel Perez Acuña, *Director General de Crédito Público*, Ministry of Finance and Public Credit  
Ms. Marcia Ramirez, Minister of MIFAN

Disbursement Letter prepared by: Patricia Hoyes, Senior Finance Officer

Reviewed and Cleared by: Jorge Luis Alva-Luperdi, Counsel  
Theresa Jones, TTL