Financing Agreement

(Additional Financing for Rural Telecommunications Project)

between

REPUBLIC OF NICARAGUA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 11, 2012
FINANCING AGREEMENT

Agreement dated 11/4/2012, 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 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 three million three hundred thousand Special Drawing Rights (SDR 3,300,000) ("Credit") 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.

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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 May 15 and November 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 3 to this Agreement.
2.07. The Payment Currency is USD.

ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall cause TELCOR to carry out the Project in accordance with the provisions of Article IV of the General Conditions.

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 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 consist of the following:

(a) TELCOR shall have failed to perform any of its obligations under the Amended Implementation Agreement to an extent that, in the opinion of the Association, would materially and adversely affect the achievement of the Project objective;

(b) Law No. 200 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 TELCOR to perform any of its obligations under this Agreement or under the Amended Implementation Agreement; and

(c) the Procurement Law has been amended, suspended, abrogated, repealed or waived so as to render its Article 5(e) ineffective, in the opinion of the Association, and no provision analogous to such Article 5(e) has been adopted to replace said provision.

4.02. The Additional Events of Acceleration consist of the following:

(a) The event specified in paragraph (a) of Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Association to the Recipient.

(b) Any event specified in paragraphs (b) and (c) of Section 4.01 of this Agreement occurs.
ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following: (a) the Amended Implementation Agreement has been signed by the parties thereto; and (b) the Operational Manual has been updated by TELCOR in a manner acceptable to the Association.

5.02. The Additional Legal Matter consists of the following, namely that the Amended Implementation Agreement has been duly authorized or ratified by the Recipient, through MHCP, and TELCOR and is legally binding upon the Recipient and TELCOR in accordance with its terms.

5.03. 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 December 13, 2013.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s Representative is the Minister of Finance and Public Credit.

6.02. The Recipient’s Address is:

Ministerio de Hacienda y Crédito Público
Frente al Edificio de la Asamblea Nacional
Managua
Nicaragua

Facsimile: 505-2222-3033

6.03. The Association’s Address is:

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

Cable: Telex: Facsimile:
INDEVAS 248423 (MCI) 1-202-477-6391
Washington, D.C.
AGREED at the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC TO NICARAGUA

By

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to increase access to, and reduce cost of, telecommunications services in the Recipient's rural areas.

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

Part 1: Expansion of Telecommunication Infrastructure in the Rural Areas

A. Assistance in connection with the rollout and provision of public payphones and establishment of a wireless network and services in the rural and underserved areas to be selected in accordance with the criteria set forth in the Operational Manual through the installation of base stations and requisite related network elements (collectively, the OBA Networks) which will be connected to other public telecommunications networks through microwave links, repeater stations, fiber optic cables and other network elements, as necessary.

B. Establishment of a network of POPs in the areas mentioned in Part 1.A above which do not have access to the internet, including the establishment of telecenters therein.

Part 2: Institutional Strengthening of Sector Regulator and Technical Assistance to Communities

A. Provision of technical assistance to TELCOR to support its restructuring and in the areas of competition, interconnection, price regulation, resolution of disputes, consumer rights and complaints, accounting for costs and new trends of regulation, including:

1. the review of the current legal and regulatory framework applicable to Recipient's telecommunications sector to support market liberalization in general and specifically to give effect to the implementation of the OBA Networks referred to in Part 1.A above;

2. the development of a modernized organizational structure for TELCOR and the carrying out of an assessment of its staff needs; and

3. the provision of technical assistance to carry out feasibility studies for additional universal services projects, including the preparation of bidding documents therefore.
B. Carrying out of training for TELCOR’s staff to improve their skills, including the identification and preparation of training plans based on skills assessments and in accordance with the new organizational structure.

C. Provision of internet applications and technical assistance to users of the POPs in the Recipient’s rural communities, including, *inter alia*, MINED, MHCP, MAGFOR, MINSA, and the areas referred to in Part 1.A of the Project.

Part 3: Project Management

A. Strengthening the technical capacity of TELCOR’s development division to implement the Project, including monitoring and evaluation, through the provision of technical assistance, training, operating costs and equipment.

B. Carrying out of the audits referred to in Part B.3 of Section II of Schedule 2 to this Agreement.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Implementation Agreement

1. To facilitate the carrying out of the Project, the Recipient, through MHCP, shall amend, and shall cause TELCOR to amend, the Implementation Agreement (the Amended Implementation Agreement), under terms and conditions approved by the Association, including those set forth in the Operational Manual and including, inter alia: (a) TELCOR’s obligation to carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, procurement, auditing, environmental and social standards and practices, including compliance with the pertinent provisions of this Agreement as applicable to TELCOR; and (b) the Borrower’s obligation to re lend the proceeds of the Credit to TELCOR including, inter alia, financial terms mutatis mutandis to those applicable to the Credit under this Agreement.

2. The Recipient shall exercise its rights and comply with its obligations under the Amended Implementation Agreement in such manner as to protect the interest 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, terminate or waive or fail to enforce the Amended Implementation Agreement or any of its provisions.

B. Institutional Arrangements

At all times during the execution of the Project, the Recipient shall cause TELCOR to operate and maintain the UCP with staffing, functions and responsibilities satisfactory to the Association, including the following responsibilities:

(a) overall planning, coordination and monitoring of Project activities; and

(b) the updating of the Procurement Plan, the preparation of consolidated financial reports and the contracting of external audits.

C. Manuals

1. The Recipient shall cause TELCOR to: (a) update the Operational Manual in a manner acceptable to the Association; and (b) thereafter, carry out the Project in accordance with the terms of the Operational Manual. Except as the Association shall otherwise agree, the Recipient shall not amend, waive or fail to enforce the Operational Manual, or any provision thereof. In case of any conflict between the
terms of this Agreement and those of the Operational Manual, the terms of this Agreement shall prevail.

2. The Operational 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 Section III of Schedule 2 to this Agreement, to be applicable to the contracts for the works, goods, consultants’ services, non-consulting services and training required for the Project and to be financed out of the proceeds of the Credit;

(c) project performance indicators and the procedures for the monitoring and evaluation of the Project, including the provisions of Section II of Schedule 2 to this Agreement;

(d) the procedures for the review and approval of Credit proceeds withdrawal applications to the Association, in conformity with the instructions that the Association may give to the Recipient in this respect;

(e) the criteria to select the areas referred to in Part 1.A of the Project; and

(f) the EMF, IPPF and RPF.

D. **Safeguards**

1. Without limitation to the provisions of Section 4.01 (b) of the General Conditions, the Recipient shall cause TELCOR to:

(a) carry out the Project in accordance with the provisions of the EMF, and thereafter implement the pertinent environmental management plans, all in accordance with their terms and in a manner acceptable to the Association;

(b) carry out the Project in accordance with the provisions of the IPPF, and thereafter implement the pertinent indigenous peoples development plans, all in accordance with their terms and in a manner acceptable to the Association; and

(c) carry out the Project in accordance with the provisions of the RPF, and thereafter implement the pertinent resettlement action plans or
abbreviated plans, as the case may be, all in accordance with their terms and in a manner acceptable to the Association.

E. Anti-Corruption

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

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 the performance indicators set forth 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 45 days after the end of the period covered by such report.

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 shall prepare and furnish to the Association, no later than 45 days after each semester, as part of the Project Reports, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Association.

3. The Recipient 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 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 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, Works and Non-consulting Services**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and non-consulting services 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:

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) National Competitive Bidding undertaken in compliance with the special provisions in Part E of this Section, and the Procurement Law and its regulations in effect as of May 11, 2012.</td>
</tr>
<tr>
<td>(b) Shopping.</td>
</tr>
</tbody>
</table>

**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.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Quality-Based Selection</td>
</tr>
<tr>
<td>(b) Selection under a Fixed Budget</td>
</tr>
<tr>
<td>(c) Selection Based on Consultant’s Qualifications</td>
</tr>
<tr>
<td>(d) Least-Cost Selection</td>
</tr>
<tr>
<td>(e) Single Source Selection</td>
</tr>
</tbody>
</table>
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. **Procurement Special Provisions**

In addition and without limitation to any other provisions set forth in this Section, the Procurement Guidelines or the Consultant Guidelines, the following principles of procurement shall expressly govern all procurement of works, goods, non-consulting services or consultants’ services, as the case may be:

(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) in the case of Shopping, a minimum of three quotations shall be obtained as a condition to award the contract;

(f) unless the Association may otherwise agree, for the procurement of goods and non-consulting services, the “best offer” shall be the one submitted by the bidder whose offer was determined to be the lowest evaluated bid and was found substantially responsive to the bidding document acceptable to the Association, provided further that the bidder was determined to be qualified to perform the contract satisfactorily;

(g) bidders and Consultants shall not be allowed to review or make copies of other bidder’s bids or consultants’ proposals, as the case may be. Likewise, bidders’ and consultants’ responses to requests of clarifications made by the procuring entity during the bidding process shall not be disclosed to other bidders or consultants, as the case may be. Finally, reports including recommendations for award shall not be shared with bidders and consultants prior to their publication;
(h) eligibility criteria shall be the one defined in Section 1 of the Procurement Guidelines and Consultant Guidelines. Articles 17 and 18 of the Procurement Law shall not apply;

(i) automatic rejection of bids or proposals, as the case may be, due to differences between bid or proposal prices and cost estimates being higher than predetermined percentages, shall not be allowed;

(j) bidders shall have the possibility of procuring hard copies of bidding documents even if they are published on the procurement portal;

(k) unless so indicated in the applicable Bank Standard Bidding Documents, pre-bid conferences shall not be conducted;

(l) bid preparation terms shall not be reduced as a result of re-bidding;

(m) consultants shall not be required to submit proposal and/or and performance securities;

(n) complaints shall be handled as indicated in the appendixes to the Procurement Guidelines and Consultant Guidelines. Articles 110 to 116 of the Procurement Law shall apply in a supplementary manner;

(o) the procurement of goods and works shall be carried out using standard bidding documents acceptable to the Association;

(p) the Recipient, shall cause TELCOR to: (i) supply SEPA with the information contained in the initial Procurement Plan within 30 days after the Project has been approved by the Association; and (ii) update the Procurement Plan at least every three months, or as required by the Association, to reflect the actual Project implementation needs and progress and shall supply SEPA with the information contained in the updated Procurement Plan immediately thereafter; and

(q) the invitations to bid, bidding documents, minutes of bid opening, requests for expressions of interest and the pertinent summary of the evaluation reports of bids and proposals of all goods, works, non-consulting and consultants services shall be published in SISCAE, and in a manner acceptable to the Association. The bidding period shall be counted from the date of publication of the invitation to bid or the date of the availability of the bidding documents, whichever is later, to the date of bid opening.
Section IV.  Withdrawal of the Proceeds of the Financing

A.  General

1. The Recipient 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 Credit to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, works, consultants' services, non-consulting services, Training and Operating Costs under the Project</td>
<td>3,300,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>3,300,000</td>
<td></td>
</tr>
</tbody>
</table>

3. For purposes of this Schedule, the terms: (a) "Training" means reasonable expenditures incurred by the Recipient for the carrying out of training activities under the Project, including reasonable costs of travel and per diem of trainers and trainees, rental of training facilities and equipment and training materials; (b) "Operating Costs" means the costs of operation and maintenance of: (i) computers; (ii) office and audiovisual equipment; and (iii) vehicles of the UCP, related to the administration of the Project; and (c) "non-consulting services" means the reasonable cost of services for which the physical aspects predominate and are bid and contracted on the basis of performance of measurable physical outputs that include, but are not limited to, field researches and logistic services relating to the provision of broadband services for the Project.
B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments prior to the date of this Agreement.

2. The Closing Date is March 31, 2015.
SCHEDULE 3

Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each May 15 and November 15:</td>
<td></td>
</tr>
<tr>
<td>commencing November 15, 2022 to and including May 15, 2032</td>
<td>1%</td>
</tr>
<tr>
<td>commencing November 15, 2032 to and including May 15, 2052</td>
<td>2%</td>
</tr>
</tbody>
</table>

* 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. “Amended Implementation Agreement” means the agreement referred to in Section I.A of Schedule 2 to this Agreement, amending the Implementation Agreement between the MHCP and TELCOR dated December 21, 2006, as said Amended Implementation Agreement may be amended from time to time with the agreement of the Association.


3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


5. “EMF” means the Recipient’s environmental management framework dated April 27, 2012 and published in the Association’s InfoShop on May 9, 2012 and on TELCOR’s website on May 9, 2012, acceptable to the Association and which contains the environmental protection measures in respect of the Project, including: (i) the procedures to screen, assess and develop necessary mitigation measures for any potential environmental damage and negative impact on physical cultural resources and/or natural habitats arising from the implementation of Project’s activities; (ii) the guidelines for the identification of the existing environmental conditions and potential direct or indirect environmental impacts resulting from the carrying out of the Project; and (iii) the guidelines for the carrying out of an environmental assessment and preparation of environmental management plans, when applicable, as said framework may be amended from time to time with the Association’s prior approval.


7. “IPPF” means the Recipient’s indigenous peoples planning framework dated May 2012 and published in the Association’s InfoShop on May 10, 2012 and on TELCOR’s website on May 10, 2012, acceptable to the Association, detailing measures to mitigate any adverse impact on indigenous people as a result of any activity carried out under the Project and to ensure that said indigenous people benefit from the Project, including procedures for the preparation and
implementation of the pertinent indigenous peoples development plans, as said framework may be amended from time to time with the Association’s prior approval.


9. “MAGFOR” means Ministerio Agropecuario y Forestal, the Recipient’s Ministry of Agriculture, Livestock and Forestry and any successor or successors thereto.

10. “MINED” means Ministerio de Educación the Recipient’s Ministry of Education and any successor or successors thereto.

11. “MHCP” means Ministerio de Hacienda y Crédito Público, the Recipient’s Ministry for Finance and Public Credit, and any successor or successors thereto.

12. “MINSA” means Ministerio de Salud, the Recipient’s Ministry of Health, and any successor or successors thereto.

13. “OBA Networks” shall have the meaning ascribed to it in Part 1 of Schedule 1 to this Agreement.

14. “Original Project” means the Project described in Schedule 1 to the Financing Agreement entered into between the Recipient and the Association, dated June 1, 2006 (Credit No 4168-NI).

15. “Operational Manual” means TELCOR’s manual dated June 2007, as amended pursuant to Section 1.C of Schedule 2 of this Agreement, as the same may be amended from time to time with the agreement of the Association.


18. “Procurement Law” means Ley de Contrataciones del Estado, the Recipient’s Law No. 737, which was enacted on November 4, 2010 and published in the Official Gazette on November 8, 2010.

19. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 3, 2012 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
20. “Resettlement” means the impact of an involuntary taking of land under the Project, which taking causes affected persons to have their: (i) standard of living adversely affected; or (ii) right, title or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected, temporarily or permanently.

21. “RPF” means the Recipient’s resettlement policy framework dated May 2012 and published in the Association’s InfoShop on May 10, 2012 and on TELCOR’s website on May 9, 2012, acceptable to the Association, outlining the general implementation procedures, mitigation measures and monitoring procedures for Resettlement, as said framework may be amended from time to time with the Association’s prior approval.

22. “SEPA” means the Association’s publicly accessible Procurement Plans Execution System.


24. “TELCOR” means Instituto Nicaragüense de Telecomunicaciones y Correos, the Recipient’s telecommunications regulatory agency, or its successor thereto.

25. “UCP” means TELCOR’s institutional development unit (Unidad Coordinadora del Proyecto), responsible for the implementation of the Project, referred to in Part B of Section I of Schedule 2 to this Agreement.