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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

NICARAGUA

CONTINGENT LOAN FOR NATURAL DISASTER EMERGENCIES

(NI-X1007)

LOAN PROPOSAL

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ELECTRONIC LINKS

REQUIRED

1. Monitoring and Evaluation Plan
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37962146

OPTIONAL

1. Eligible Events
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38229112
2. Automatic Redirection List (ARL)
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37961680
3. Operating Regulations
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37962184
4. Economic Analysis: Cost-Efficiency
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37962003
5. Comprehensive Natural Disaster Risk Management Program (CNDRMP)
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37962194
6. Operational analysis of the Contingent Credit Facility for Natural Disaster Emergencies. Annex II of document GN-2667-2.
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37023914
7. IDB. Natural Disasters Financial Risk Management: Technical and Policy Underpinnings for the Use of Disaster-Linked Financial Instruments. Technical Note IDB-TN-175
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35406452
8. IDB. Indicators of Disaster Risk and Risk Management: Nicaragua. Latin American and Caribbean Program. Technical Note IDB-TN-169. September 2010
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=37571415
9. Analysis for scaling financing coverage for natural disaster emergencies in Nicaragua.
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=37964015
10. Integrated Disaster Risk Management and Finance Approach (document GN-2354-7)
    http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36485670
11. Contingent Credit Facility for Natural Disaster Emergencies (document GN-2502-2)
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12. Letter of Request for Contingent Loan by the Government of Nicaragua
    http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37678016
13. Proposal to Establish a Set of Contingent Lending Instruments of the IDB
    http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37023914
14. Social and Environmental Safeguards Policy Filter
    http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37690786

ABBREVIATIONS

ARL	Automatic Redirection List
CCF	Contingent Credit Facility for Natural Disaster Emergencies
CNDRMP	Comprehensive Natural Disaster Risk Management Program
COSEFIN	Council of Ministers of Finance of Central America, Panama, and the Dominican Republic
DRM	Disaster risk management
FSO	Fund for Special Operations
GDP	Gross domestic product
IMF	International Monetary Fund
INETER	Instituto Nicaragüense de Estudios Territoriales [Nicaraguan Institute of Territorial Studies]
MARENA	Ministry of Environment and Natural Resources
MHCP	Ministry of Finance
PFTRDN	Programa de financiamiento y transferencia de riesgos de desastres naturales [Natural disaster financing and risk transfer program]
PNGR	Plan Nacional para la Gestión del Riesgo 2010-2015 [National Risk Management Plan 2010-2015]
RMI	Risk Management Index
SINAPRED	Sistema Nacional para la Prevención, Mitigación y Atención de Desastres [National Disaster Prevention, Mitigation, and Response System]
SE-SINAPRED	Secretaría Ejecutiva del Sistema Nacional para la Prevención, Mitigación y Atención de Desastres [Executive Secretariat of the National Disaster Prevention, Mitigation, and Response System]

PROJECT SUMMARY

NICARAGUA
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Financial Terms and Conditions[i]				
			OC	**FSO**
Borrower: Republic of Nicaragua Executing agency: Ministry of Finance (MHCP)		Amortization period:	30 years[ii]	40 years[ii]
		Grace period:	6 years[iii]	40 years[iii]
		Disbursement period (availability):	5 years[iv]	5 years[iv]
Source	**Amount[v]**	Interest rate:	Single Currency Facility Fixed	0.25%
Ordinary Capital (OC)	US$93 million	Inspection and supervision fee:	[vi]	N/A
FSO	US$93 million	Commitment fee:	[vi]	N/A
Total	US$186 million	Currency:	US$ Single Currency Facility of the Ordinary Capital	US$

Project at a Glance

Project objective and description:

The objective of the operation is to cushion the impact that a severe or catastrophic natural disaster could have on the country's public finances, by increasing the availability, stability, and efficiency of contingent financing to deal with emergencies caused by events of this type (paragraph 1.17).

Eligibility conditions to request disbursements: (i) submission of legal opinion and authorized signatures; and (ii) approval and entry into effect of the Operating Regulations (paragraph 2.5).

Conditions precedent to disbursements: (i) the Bank will verify the occurrence of an eligible event, defined in the Operating Regulations; (ii) the Comprehensive Natural Disaster Risk Management Program (CNDRMP), previously agreed upon with the Bank, will be in execution in a manner satisfactory to the Bank; and (iii) the borrower will submit, within 90 days following the occurrence of the eligible event, a disbursement request indicating the amount required, and whether or not the disbursement is being requested in whole or in part from the loans identified in the Automatic Redirection List (ARL); in the event that resources are requested from loans included on the ARL, the loans in question and the amounts requested for disbursement should be indicated (paragraph 2.5).

Special contractual conditions: (i) the maximum effective disbursement amount for each eligible event will be subject to the lesser of the following limits: (a) the available undisbursed balance of this contingent loan; and (b) the maximum amount established for the type, location, and intensity of the event declared eligible (paragraph 2.8); and (ii) the Bank will recognize as justified expenditures up to 100% of the expenditures actually incurred and paid by the borrower, starting on the day the eligible event occurred, for a period of up to 180 days immediately thereafter (paragraph 3.5).

Exceptions to Bank policies: None

Project consistent with country strategy: Yes [X] No [ ]

Project qualifies as: SEQ [ ] PTI [ ] Sector [ ] Geographic [ ] Headcount [ ]

[i] The financial terms and conditions of this operation differ from those normally applicable to loan operations financed with the Bank's Ordinary Capital resources. Pursuant to paragraph 4.7 of document GN-2502-2, entitled "Contingent Credit Facility for Natural Disaster Emergencies," approved by the Bank's Board of Executive Directors under Resolution 27/09 and amended by Resolution DE-96/12, "unless explicitly indicated otherwise in the corresponding loan proposal and the respective loan contract, the normal financial terms and conditions of the related funding source will be applied."

[ii] Amortization periods are calculated as of the date of each loan disbursement.

[iii] Grace periods are calculated as of the date of each loan disbursement.

[iv] The period during which resources will be available (disbursement period) is extendable by five additional years at the Bank's discretion, upon the request of the borrower.

[v] Disbursements of Bank financing will be subject to the Bank having, at the time of a disbursement request, sufficient resources from the FSO and OC for the ARL, or from the Bank's regular lending program with the borrower, as applicable.

[vi] The commitment fee and the inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of Bank lending charges, in accordance with the applicable policies. As established in document GN-2502-2 (Contingent Credit Facility for Natural Disaster Emergencies), the Bank will only charge a commitment fee on amounts disbursed from the Bank's regular lending program (not ARL resources) and charged to the OC. In this case, the commitment fee will accrue retroactively starting 60 days after the contingent loan contract is signed and up to the date of the corresponding disbursement(s) and will be calculated on the basis of their corresponding disbursement amount(s), applying the fee in effect on the date of the disbursement request (paragraph 2.3 c).

I. DESCRIPTION AND RESULTS MONITORING

A. Frame of reference, problem addressed, and rationale

1.1 This operation will be financed with resources from the Contingent Credit Facility for Natural Disaster Emergencies (CCF), as set forth in document GN-2502-2 and expanded and incorporated in the regular loan program by document GN-2667-2. The CCF, which enables the structuring of contingent loans such as the one considered here, is one of the Bank's main tools for helping countries improve their financial risk management for severe or catastrophic natural disasters.

1. Country's vulnerability to natural disasters and climate change

1.2 The countries of Central America and the Caribbean are exposed with increasing frequency to severe natural disasters. Nicaragua, due to its geographic location, is exposed to a number of natural threats, such as hurricanes, earthquakes, volcanic eruptions, and floods. Nicaragua is the second most vulnerable country in the world to hurricanes and tropical storms, and ranks thirtieth in the world in its vulnerability to earthquakes.[1] Moreover, according to a World Bank study, Nicaragua ranks twenty-sixth in the world in its exposure to natural hazards based on exposed land area, with 10% of its territory exposed to two or more types of adverse natural events of potentially severe or catastrophic magnitude.[2] This situation, combined with a variety of social, economic, and demographic factors, such as rapid urban population growth, a pattern of unplanned growth in most Nicaraguan cities, rising numbers of informal settlements, the absence of adequate construction practices, and environmental degradation, explain Nicaragua's high vulnerability to natural disasters and climate change.

1.3 Historically, natural disasters have occurred with great frequency in Nicaragua and, in recent decades, their occurrence has been trending upwards. In the last 40 years alone, the country has experienced 53 natural disasters of different types, and has posted economic losses of approximately US$2.728 billion, affecting more than 3.9 million people.[3] Among the most devastating events was the 1972 Managua earthquake, which had catastrophic impact on the Nicaraguan capital and resulted in estimated losses of US$845 million. Other recent high magnitude events were Hurricane Mitch in 1998, and Hurricane Joan in 1988, which caused total economic losses of US$988 million (equivalent to 22.5% of GDP) and US$400 million (nearly 12% of GDP), respectively.

2. Financial vulnerability to severe and catastrophic natural disasters

1.4 The Nicaraguan economy has shown signs of strength amid the difficulties now being experienced by advanced economies, having recovered rapidly from the 2009

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[1] Global Assessment Report on Disaster Risk Reduction. United Nations, 2011.

[2] Natural Disasters Hotspots: A Global Risk Analysis. World Bank, 2005.

[3] Emergency Event Database (EMDAT); www.emdat.be. The Centre for Research on the Epidemiology of Disasters, of the School of Public Health, Catholic University of Louvain, Brussels, maintains the EM-DAT database.

recession that stemmed from the effects of the international financial crisis. Appropriate macroeconomic policies, favorable export prices, and foreign currency inflows from abroad have helped restore the country's economic stability. According to the debt sustainability analysis carried out by the International Monetary Fund, Nicaragua's external debt appears sustainable over the medium term; and its debt management risk was considered moderate, associated primarily with a possible deterioration in financing terms and slower growth of the country's economy.[4] It should also be noted that Nicaragua's macroeconomic stability remains vulnerable to different types of external shocks, including the occurrence of a high-magnitude natural disaster. According to a technical study prepared by the Bank analyzing the country's financial capacity to cope with catastrophic events, in an extreme event with a recurrence interval of approximately 100 years, the country could incur losses equivalent to 27.36% of GDP,[5] of which 21.82% of GDP would have to be assumed by the public sector.[6]

1.5 Thus, it is clearly important for the country move forward with the development of a comprehensive financial management strategy for disaster risks, in order to provide effective financial coverage[7] to address in an appropriate and timely way, at a minimum, the emergency phase of a catastrophic natural disaster.[8]

3. Diagnostic assessment of natural disaster risk management in Nicaragua

1.6 In recent decades, Nicaragua has made progress on defining the legal and institutional framework for Disaster Risk Management (DRM). The country began to develop a legal and regulatory framework in that area with the enactment in 2000 of Law 337, the primary legislative instrument governing DRM. That law created the Sistema Nacional para la Prevención, Mitigación y Atención de Desastres [National Disaster Prevention, Mitigation, and Response System] (SINAPRED), and its National Committee, the highest level government body for DRM, coordinated, implemented, and facilitated by the system's Executive Secretariat (SE-SINAPRED). Since the enactment of Law 337, the country has prepared two national DRM plans: the Strategic Five-Year Plan 2007-2011 and the current National Disaster Risk Management Plan 2010-2015 (PNGR). However, Nicaragua still has several weaknesses in key areas of DRM, as reflected in the Risk Management Index (RMI) for Nicaragua. This index assesses risk management performance at the national level. While Nicaragua's RMI for 2008 shows that risk management has made relatively significant progress, and its performance is notable, its score of 41.58 on a scale of 100 indicates the magnitude of challenges

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[4] "2012 Article IV Consultation," International Monetary Fund (IMF), September 2012.

[5] Estimated based on the country's 2008 GDP.

[6] Nicaragua: Indicadores de Riesgo de Desastres y de Gestión de Riesgos (IDB, 2010).

[7] The document "Análisis para el dimensionamiento de una cobertura financiera para emergencias por desastres naturales en Nicaragua" estimates the financial coverage the country should have.

[8] Events with a recurrence interval of 40 to 100 years affecting over 10% of the country's population.

the country still faces in this area.[9] The country's recent progress in the four areas evaluated by the RMI is described below along with the main aspects identified in each area where strengthening is needed.

a. **Risk identification.** The institution promoting risk identification in the country is the Instituto Nicaragüense de Estudios Territoriales [Nicaraguan Institute of Territorial Studies] (INETER), which has been conducting research in this area for several decades. Notable recent studies include earthquake, flood, drought, volcanic eruption, landslide, hurricane, and tsunami threat maps; local risk maps at the municipal level; and a seismic vulnerability study for Managua. INETER, in coordination with the Ministry of Environment and Natural Resources (MARENA), has also prepared a study on climate change scenarios in Nicaragua and their impacts up to 2100. The country also has a large network of hydrometeorological, seismology, and tide-gauge stations for real time monitoring of extreme natural phenomena. Risk identification areas with the greatest limitations include technical and scientific knowledge transfer to sector and territorial authorities, including local governments (SE-SINAPRED, 2010). This is an important factor in ensuring that local development planning in vulnerable communities promotes disaster risk reduction among these populations. Another challenge of risk identification is the use of probabilistic risk studies to estimate the cost-benefit and cost-effectiveness of public investments in risk reduction (SE-SINAPRED, 2010). An evaluation of the vulnerability of water resources to the impact of climate change is also needed so that adaptation measures at the national level can be identified (ECLAC, 2007).

b. **Risk reduction**. This area involves promoting and implementing structural and nonstructural measures for risk prevention and mitigation. The country has been making progress in risk reduction, such as incorporating the DRM concept in formal education in the country, in primary, secondary, and university education curricula (SE-SINAPRED, 2010), conducting courses and training and awareness workshops on DRM in the most vulnerable municipalities, implementing relocation programs for families living in the areas most exposed to extreme hydrometeorological phenomena (especially floods), and building small flood risk mitigation works, especially in the municipio of Managua. Despite actions implemented by the national government, challenges remain in this area if the country's vast disaster risk is to be effectively reduced. To that end, progress is needed in the following

[9] The RMI is an index developed by the Bank that has been applied in 22 countries in Latin America and the Caribbean. The RMI scale ranges from 0 (lowest) to 100 (highest), and the performance levels are: low, 0 to 20; incipient, 21 to 40; significant, 41 to 60; excellent, 61 to 80; and optimal, 81 to 100. Nicaragua scored 41.58, which corresponds to significant performance. In terms of the performance of countries in Latin America and the Caribbean where RMI measurements have been taken, Colombia, Barbados, Nicaragua, and Jamaica have relatively positive performances, with the highest scores recorded (from 41 to 50). Dominican Republic, Honduras, and Costa Rica are rated at the "incipient" level in terms of performance (between 21 and 40). See Comparative regional report.

areas: effective supplementary legislation for land-use planning and urban reforms that incorporate DRM (GFDRR, 2010), greater compliance with standards and regulations for the construction of safe infrastructure (SE-SINAPRED, 2010), and the strengthening of public and private works for earthquake risk reduction (ECLAC, 2007).

c. **Disaster management.** Disaster management is the disaster response and post-disaster recovery capacity of the country's institutions and the community in general. With the enactment of Law 337, Nicaragua has strengthened its disaster preparedness and response system. Among the most significant advances are the specific contingency plans at the national level that have been prepared, the formation of committees and brigades at different levels (regional, departmental, municipal, community, and school), the installation and operation of community early warning systems, and the organization and implementation of simulations and drills at the national and local levels, as well as the training of neighborhood committees for emergency response. Progress has also been made with the preparation of a draft national framework on ex post recovery (rehabilitation and reconstruction following a disaster). Despite this progress, some actions are needed to continue strengthening disaster management in the country, such as the development of a strategic plan to monitor training for vulnerable municipios, preparation of a sector recovery framework for key sectors, based on the national framework that is now in the approval process, and the equipment needed to build emergency response capacity at the local level.

d. **Financial risk management:** In recent decades, Nicaragua has focused largely on ex post financing of natural disaster emergencies, rather than on ex ante financial management and planning for these risks. Although this approach has begun to change, led by the Ministry of Finance (MHCP), in coordination with SE-SINAPRED, efforts to develop a financial risk management strategy are still at an early stage. Since 2007 the country has had a National Disaster Fund, established under Article 12 of Law 337. The Fund is administered by SE-SINAPRED and, generally speaking, its resource allocations are earmarked during annual budget approval. This means that the Fund has a limited function in financing the extraordinary expenditures caused by emergencies. As regards contingent financing, under this operation, Nicaragua is beginning to establish a structure for financial coverage. To date, Nicaragua has no risk transfer instrument that covers natural disasters.[10] In that context, given the country's high level of financial vulnerability to disasters, it is important for it to develop and use the new financial instruments and financial mechanisms available and adopt a more comprehensive approach to the financial management of natural disaster risk. By developing a

[10] In that regard, COSEFIN countries have been making progress, with support from the U.S. Treasury Department, the IDB, the World Bank, and the Central American Bank for Economic Integration, in the analysis of a regional solution for transferring disaster risk to international markets.

comprehensive financial management strategy, it will be possible for the country to more effectively and efficiently determine matters including the level of ex ante coverage needed to finance emergency expenditures, the appropriate financing instruments for this purpose (budget provisions, emergency reserve funds, contingent credit lines, risk transfer instruments, etc.), and the strengthening of government policies for insuring infrastructure and public investments.

4. Bank programs for financing and transferring natural disaster risk

1.7 Since 2005, the IDB has been working on developing a comprehensive disaster risk management strategy within the framework of the Bank Action Plan for Improving Disaster Risk Management 2005-2008 (document GN-2339-1). Thus, in 2008, the Bank approved and began operational development of the Integrated Disaster Risk Management and Finance Approach (document GN-2354-7). This approach proposes the development of various mechanisms and instruments to improve financial planning and coverage of disaster risks.

1.8 One of the specific objectives of the Integrated Disaster Risk Management and Finance Approach (document GN-2354-7) is to support the Bank's borrowing member countries in designing and implementing programs to finance and transfer the financial risks arising from disasters that the public sector would have to address in cases of emergencies caused by severe or catastrophic events. These programs include a combination of financial instruments that provide broader, more stable, and more efficient coverage of the risk of extraordinary public financial outlays.

1.9 The natural disaster financing and risk transfer programs proposed by the Bank in the framework of its finance approach always assume that, because of budgetary and financial constraints, no single instrument can effectively cover all levels of risk. Thus, a variety of instruments capable of effectively covering specific areas of risk will inevitably have to be used, based on the probability of occurrence and the magnitude of the expected impact of disasters (in terms of the population affected and the extraordinary public spending caused by the emergency).[11]

1.10 Given the foregoing, it is recommended that the natural disaster financing and risk transfer programs draw on directly budgeted resources, or on the creation of reserve funds or multiyear budget provisions, to cover public outlays resulting from disasters that occur frequently and are less severe. At the same time, for disasters that have a lower probability of occurring but are of a severe or catastrophic nature, which generally require much higher extraordinary expenditures, financing is recommended through long-term contingent debt instruments and risk-transfer instruments such as insurance and/or CAT bonds (catastrophe bonds), since this is more economically efficient. Lastly, these programs recognize that there are events

[11] IDB. Natural Disasters Financial Risk Management: Technical and Policy Underpinnings for the Use of Disaster-Linked Financial Instruments in Latin America and the Caribbean, IDB-TN-175 (April 2010).

for which ex ante financial coverage is fiscally unsustainable, since despite the fact that they recur infrequently, the losses they produce are extremely high, as is the corresponding cost of their ex ante coverage.[12]

1.11 **Potential benefits.** The benefits of focusing on this type of ex ante financing program for the emergency phase are demonstrated to be greater than their potential costs. The NDFRTPs make it possible for countries to obtain more efficient coverage in terms of both direct costs and the savings created by timely resource availability, while reducing the liquidity gap that governments generally face during such events, due to the combination of increased expenditures, lower revenues, and incremental restrictions on accessing—and on the cost of—loans.

1.12 Thus, providing ex ante financial coverage for large-scale disasters partially reduces the risk of even worse scenarios, in terms of a disaster's impact on public accounts, by providing rapid access to financing to deal with the costs of emergency response. This has been verified by studies conducted by the Bank[13] and other multilateral organizations, such as the IMF,[14] which confirm that having financial coverage to ensure liquidity in case of severe events guarantees greater stability in long-term economic growth, compared to not having such coverage, since the resources are then readily available to meet the requirements of the emergency, while eliminating the need to finance unbudgeted extraordinary expenditures from public accounts.

1.13 As part of the studies cited above, there was also an analysis of the amount of international aid provided between 1960 and 2002 to Latin American countries that experienced disasters entailing significant economic losses. These studies show that although international aid has continued to reach the countries, it has been insufficient, covering on average only 8.6% of the losses, with only 5% to 10% of this assistance provided in liquid resources. More recent reviews of the figures on humanitarian aid indicate that these shortfalls in international aid have been accentuated in recent years, due to the increase in the number of catastrophic events and the global economic situation. This brings into even starker relief the need for greater financial coverage that allows countries to ensure an adequate response to natural disaster emergencies, without having to resort, almost exclusively to ex post international aid, since experience shows that the amount and timely availability of such assistance is uncertain.

5. Operation's relation to the Bank's country and sector strategies

1.14 **Bank actions and support in the sector.** The Bank has been supporting specific actions to strengthen comprehensive natural disaster risk management (DRM) in strategic areas, such as risk identification or analysis, risk reduction, and emergency preparedness, as well as financial risk management, consistent with the Disaster

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[12] World Bank. The Management of Catastrophe Risk using Pooled Insurance Structures. Pollner (2001).

[13] IDB. Disaster Risk Management. Freeman, Mechler, et al. (2002), inter alia. (link).

[14] IMF. Natural Disasters: Mitigating Impact, Managing Risks. Laframboise and Loko (2012).

Risk Management Policy (document GN-2354-5), which provides for a comprehensive approach to management.

1.15 Specifically, Bank support for DRM in Nicaragua has been focused on the following programs:

a. **Environmental Program for Disaster Risk and Climate Change Management (operation NI-L1048).** The aim of this program, approved in September 2010 for US$10 million, is to reduce the vulnerability of rural populations to natural phenomena and climate change. The program is being executed in 12 of the country's municipios and includes three components: (i) support for the adoption of environmental restoration systems; (ii) infrastructure for disaster loss reduction; and (iii) capacity building to supplement the work of SE-SINAPRED in preparing municipal risk management plans and threat maps, among other measures. The program also has €2.5 million (approximately US$3 million) in nonreimbursable financing from the Nordic Development Fund. The program's executing agency is MARENA, in coordination with the Technical Coordination Committee (CCT) composed of SE-SINAPRED, the Ministry of Agriculture, Livestock, and Forestry (MAGFOR), the Nicaraguan Institute of Territorial Studies (INETER), and a representative of the program's participating municipios.

b. **Risk of Natural Disaster and Its Management (operation NI-T1090).** This technical cooperation operation was approved by the Bank in 2010 to support the country in structuring the loan operation described in the preceding paragraph (operation NI-L1048). Its objectives are to: (i) strengthen municipal planning processes aimed at reducing disaster risk; (ii) strengthen the operation of SINAPRED; and (iii) support the design of investment in infrastructure works to reduce vulnerability. Its main outputs (municipal risk management plans and RMI studies in 12 municipios) were completed in October 2013.

1.16 **Strategic alignment of the operation.** The proposed operation is aligned with the IDB Country Strategy with Nicaragua (2012-2017) (document GN-2683), especially with the crosscutting action areas of climate change vulnerability reduction, adaptation and mitigation. The operation is also included in Nicaragua's Country Program Document 2013. Moreover, this operation is consistent with the 2010-2015 lending program priorities of the Ninth General Increase in the Resources of the IDB, under the categories of: (i) lending to small and vulnerable countries; and (ii) lending to support climate change initiatives (document AB-2764).

B. Objectives and expected outcomes

1.17 The objective of the operation is to cushion the impact that a severe or catastrophic disaster could have on the country's public finances, by increasing the availability, stability, and efficiency of contingent financing to deal with emergencies caused by events of this type.

1.18 The operation will provide the Government of Nicaragua with rapid access to liquid resources, enabling it to structure stable, efficient ex ante financial coverage so that it can deal, on a timely basis, with the extraordinary expenditures that could arise in emergencies caused by severe or catastrophic natural disasters.

1.19 The operation also promotes development by the Nicaraguan government of effective mechanisms for the comprehensive management of natural disaster risks through the Comprehensive Natural Disaster Risk Management Program required to access the proceeds of this loan. This program promotes improvements in the identification, reduction, and financial management of risks, as well as in disaster management (see paragraphs 1.6 and 2.9).

C. Key results indicators

1.20 In terms of outputs, this operation will provide Nicaragua with contingent financing to deal with extraordinary public expenditures during emergencies caused by severe or catastrophic natural disasters. Consistent with the operation's objective, the expected outcomes are: (i) an increase in the country's total contingent financial coverage for addressing extraordinary public expenditures caused by emergencies brought on by severe or catastrophic natural disasters; and (ii) this additional coverage will be financially efficient for the country. In order to verify the efficiency of the loan's financial coverage, the differential between the financial cost of the Bank loan and of Nicaragua's long-term sovereign foreign trade debt will be monitored annually.

1.21 Given the contingent nature of the operation, disbursements will only be made upon verification that an eligible event has occurred during the loan's disbursement period. Once verified, the availability and efficiency of the resources from this operation will be measured on the basis of: (i) how quickly the resources are accessed; and (ii) the financial cost per unit of extraordinary emergency expenditure financed with the loan proceeds.

1.22 The indicators for making these measurements will be: (i) the number of days between the date of the country's disbursement request to the Bank and the date on which the loan proceeds are made available to the borrower; and (ii) the financial cost of the loan proceeds, compared to the financial cost of Nicaragua's long-term foreign trade debt at the time a disbursement is made under this loan.[15]

[15] The interest rate for the loan proceeds at the time each disbursement is made will be compared to the long-term interest rate on Nicaragua's sovereign foreign trade debt prevailing on the same date in international secondary markets. If no Nicaraguan international sovereign debt bonds are issued, an interest rate will be estimated based on its credit rating (B3, according to Moody's).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instrument

2.1 This operation will be undertaken as a Bank investment loan pursuant to the specific provisions set forth for such purposes in paragraphs 3.10 and 4.20 of the document "Contingent Credit Facility for Natural Disaster Emergencies" (document GN-2502-2). The operation will be financed with resources from the Single Currency Facility of the Ordinary Capital (OC) and the Fund for Special Operations (FSO), in accordance with the OC-FSO mix established for the country by the Bank.

2.2 The main operational and financial features of the operation are: (i) the borrower will be the Republic of Nicaragua, and the executing agency will be its Ministry of Finance (MHCP); (ii) the financing will be for a maximum of US$186 million;[16] and (iii) the resources will be drawn either from the regular lending program or from available, undisbursed balances of loans already approved and identified in the Automatic Redirection List (ARL),[17] or from a combination of both.

2.3 Contingent loans granted under the CCF have specific characteristics designed primarily to: (i) provide immediate access to liquid financial resources to deal in a timely manner with expenditures associated with emergencies; and (ii) provide financing under appropriate conditions to support the country at a critical time, involving an emergency caused by a severe or catastrophic event, when public finances are impacted, given the need for additional resources to defray extraordinary expenditures and the unforeseen drop in revenues as a result of reduced economic activity. In order to address the foregoing characteristics, the terms and conditions of loans granted under the CCF include the following:

a. The amortization period and grace period are calculated from the date of each disbursement, for both OC and FSO resources.

b. The commitment fee will only be charged in the event that a disbursement is actually made from Ordinary Capital resources under the regular lending program. In this case, the commitment fee will accrue retroactively beginning 60 days after the date the loan contract is signed to the date of the corresponding disbursement and will be

[16] The Bank's analysis of Nicaragua's public expenditure for catastrophic natural disaster emergencies estimates that the country would require ex ante financial coverage of US$398 million (5% of GDP). The contingent loan has been scaled on the basis of this analysis and adjusted to the limits established by document GN-2667-2 for this type of instrument (the lesser of 2% of GDP or US$300 million). The financial coverage provided by the loan is expected to be supplemented by catastrophic event insurance. See Scaling analysis.

[17] The ARL includes the IDB's current investment loans with Nicaragua with balances available for disbursement, for which remaining balances could be redirected automatically should an event occur. CID/CNI will be responsible for updating the ARL periodically, in consultation with the borrower, for the inclusion of new loans, which will be monitored using a system provided by the Bank's Finance Department for this purpose.

calculated on the basis of the amount thereof. For such purposes, the effective fee at the time of the corresponding disbursement will apply.

c. The period during which the resources are available is five years, extendable for up to five additional years at the borrower's request.[18] In the event of an extension, the amortization period, grace period, and the commitment fee will be calculated as of the date of this extension.

2.4 **Use of resources.** This operation's resources will be used solely and exclusively to address extraordinary public expenditures incurred during emergencies caused by eligible natural disasters. To be recognized as acceptable to the Bank, these expenditures must be incurred and paid within 180 days immediately following the date of the start of the eligible event. The types of eligible expenditures will be broad, and will be limited only by a list of excluded expenditures, which will be part of the loan contract (paragraph 3.5).

2.5 **Resource availability.** Disbursements may be made from this loan when an eligible event occurs during the loan's disbursement period (period of resource availability). Given the contingent nature of the operation, there are general eligibility conditions for the country to be able to request disbursements and, when an eligible event occurs, there are also special conditions to be met for making disbursements of the loan proceeds. The eligibility conditions for requesting disbursements are as follows: (i) submission of a legal opinion and authorized signatures; and (ii) approval and entry into effect of the Operating Regulations. Conditions precedent to each disbursement are as follows: (i) the Bank will verify the occurrence of an eligible event, defined in the Operating Regulations; (ii) the Comprehensive Natural Disaster Risk Management Program (CNDRMP) previously agreed upon with the Bank will be in execution in a manner satisfactory to the Bank (paragraph 2.9); (iii) the borrower will submit, within 90 days following the occurrence of an eligible event, a disbursement request indicating the amount required and whether or not the disbursement is being requested in whole or in part from loan proceeds identified in the ARL; in the event that resources are requested from loans included on the ARL, the loans in question and the amounts requested for disbursement should be indicated; and (iv) the borrower will have indicated to the Bank the special bank account to which the Bank will disburse the funds.

2.6 Loan disbursements will be subject to the Bank having sufficient FSO and Ordinary Capital resources originating on the ARL or from the combined resources allocated biennially through the Debt Sustainability Framework and the Enhanced Performance-based Allocation System for the Bank's regular lending program with the borrower, at the time of a disbursement request, as applicable. If at the time of such a request, the Bank does not have such resources available, the Bank may disburse up to the maximum amount of available resources. In the event that no resources whatsoever are available, the Bank will not be required to make any

[18] Provided the availability period or its extensions so not exceed the execution period of the CNDRMP.

disbursement until the lack of resource availability is resolved. Once the lack of resource availability has ended, as determined by the Bank, it will notify the borrower thereof immediately.

2.7 **Eligible events.** These are events that meet the parameters of type, location, and intensity agreed upon with the borrower. This loan is expected to provide coverage for earthquakes and hurricanes (see Eligible Events). At the borrower's request, the future possibility of including coverage for floods will be analyzed.

2.8 **Determination of eligibility of events and disbursement limits per event.** A natural disaster will only be considered an eligible event for purposes of actual disbursement of funds under this operation once the Bank has verified that an event meeting the contractually agreed parameters of type, location, and intensity has occurred. The maximum disbursement amount for each eligible event will be the lesser of the following: (i) the available undisbursed balance of this contingent loan; and (ii) the maximum amount established for the type, location, and intensity of the event declared eligible. If event is not eligible, no disbursement may be made from the loan proceeds. The Operating Regulations will specify the events eligible for coverage, all specific considerations related to the triggering of eligibility for disbursements, and the methodology for calculating the maximum amount that may be disbursed based on the intensity of each eligible event.

2.9 **Comprehensive Natural Disaster Risk Management Program (CNDRMP)**. In order to access the financing under the CCF, the borrower must formalize a CNDRMP with the Bank, establishing the country's proactive commitment to take concrete steps to effectively develop comprehensive management of natural disaster risk. The CNDRMP includes activities grouped according to the following strategic areas agreed upon with the country: (i) risk analysis; (ii) risk reduction; (iii) disaster financial risk management; and (iv) emergency preparedness and response.

2.10 The CNDRMP ensures that any Bank interventions will be consistent with Bank policies on disaster risk management, which provide for a comprehensive risk management approach and encourage ex ante preventive and planning actions and measures. The content and scope of the CNDRMP for this operation has been agreed by consensus between the country and the Bank and includes execution progress indicators for each of the areas mentioned above.

B. Main risks and mitigation measures

2.11 **Environmental and social risks.** Pursuant to Directive B.13 of the Environment and Safeguards Compliance Policy (document GN-2208-20 and Operational Policy OP-703), this operation does not require classification. Since the resources which could ultimately be disbursed under this loan may only be used to finance extraordinary public expenditures caused by an emergency, and given that the Ministry of Finance (MHCP), as executing agency, ensures compliance with the country's social and environmental laws in using such resources, no adverse environmental or social impacts are expected. A negative list of expenditures that may not be financed with the loan proceeds will be included in the loan contract.

2.12 **Risk of errors in verifying eligible expenditures.** There is a risk that certain expenditures financed with loan proceeds may not meet the contractually stipulated eligibility criteria, which would prevent the Bank from accepting them. Moreover, pursuant to the provisions of the document establishing the CCF (document GN-2502-2), the Bank reserves the right, if it deems such action necessary, to conduct audits of the expenditures financed with the loan proceeds. The fact that the MHCP has experience with the Bank in disbursements for policy-based loans, which are similar, in terms of fiduciary safeguards, to CCF loans, reduces the likelihood of this risk materializing (see Annex III).

2.13 **Risk that eligibility for loan disbursements could be suspended.** There is the possibility that the Bank might find performance, in execution of the CNDRMP, inadequate during the loan's disbursement period. In such a case, the Bank could suspend the eligibility for loan disbursements under this operation unless the country, in a timely manner, takes the steps deemed necessary by the Bank to remedy the situation. To mitigate this risk, the Bank will carry out periodic monitoring, and an annual evaluation, of progress made in executing the CNDRMP. If, based on these evaluations, the Bank determines that the CNDRMP is not being executed satisfactorily, the borrower will be notified as to the specific measures that would need to be implemented, within a period of no more than 90 days, calculated from the date on which the notification was issued, in order to remain eligible to receive disbursements under this operation. Only if, after the allotted term, the Bank finds that the recommended remediation measures have not been completely and appropriately implemented, may the Bank, through formal notification to the borrower, suspend the borrower's eligibility to receive loan disbursements until the shortcomings at issue are remedied. The risk that eligibility to receive disbursements will be suspended during the period in which resources are available is considered to be low, since the country has sent, and continues to send, clear signals as to the strength of its commitment to develop and implement a comprehensive disaster risk management system.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Main implementation arrangements

3.1 The borrower will be the Republic of Nicaragua, and the executing agency will be the Ministry of Finance (MHCP).

3.2 **Disbursement requests.** In addition to the requirements set forth in the Operating Regulations, requests for disbursement of loan proceeds will be submitted no more than 90 days after an eligible event has occurred, specifying the amounts being requested. In cases where the borrower chooses to use loan resources included in the ARL, the requests must specify the loans from which resources are to be taken and the specific amounts required from each one.

3.3 Each disbursement under this loan will be made under the financial terms and conditions established for it, regardless of whether or not the disbursement is being

requested in whole or in part from the loans identified in the ARL, or from the regular lending program.

3.4 The project will have a special account for disbursing resources, which will be administered by the General Treasury of the Republic of the MHCP. The borrower, through the MHCP, will justify the use of the resources disbursed, in the form of a written declaration of adequate use, to be submitted to the Bank within 365 calendar days after the starting date of the eligible event for which the Bank disbursed the resources in question.

3.5 **Eligible expenditures.** Resources disbursed under this loan may be used to finance extraordinary public expenditures during emergencies caused by eligible events, provided that these expenditures meet the following requirements: (i) they are not explicitly included among the expenditures contractually excluded from the financing in the loan contract; (ii) they are legal under Nicaraguan law; (iii) they are directly related to the emergency caused by the natural disaster for which financing has been provided; and (iv) they consist of procurements and payments that are verifiable, documented, clearly recorded, and are considered appropriate in terms of amount and price. The Bank will recognize up to 100% of the amount of eligible expenditures incurred and paid by the borrower as of the date on which the eligible event occurred, for a period of up to 180 calendar days immediately thereafter.

3.6 Some of the types of expenditures that could be considered eligible include: (i) emergency medical equipment; (ii) vaccines and medications; (iii) facilities and equipment for temporary shelters; (iv) food for affected populations; (v) costs associated with emergency personnel needed to assist victims; (vi) short-term renting of equipment and facilities for power, transportation, and communications, and for warehousing space; and (vii) temporary rehabilitation of infrastructure and measures needed to restore basic services immediately after the disaster.

3.7 In all procurement-related matters, this operation will be governed by the rules set forth in the document establishing the CCF (document GN-2502-2). The borrower will abide by national laws regarding the procurement of goods and the contracting of works and services applicable to extraordinary fiscal expenditures in cases of natural disasters (see Annex III).

B. Monitoring and evaluation arrangements

3.8 **Annual monitoring of the CNDRMP.** As indicated in paragraph 2.9, during the loan's disbursement period, the Bank will conduct periodic monitoring of progress made in executing the CNDRMP to determine, based on the indicators established for this purpose, whether execution is proceeding satisfactorily. These evaluations will be conducted at least once a year. In the event that execution of the CNDRMP is found to be unsatisfactory, the Bank, after having exhausted the preventive remedies which it has recommended to the country on a timely basis, may notify Nicaragua that it is temporarily suspending its eligibility to receive loan disbursements until the country demonstrates, to the Bank's satisfaction, that the shortcomings in question have been remedied. Notwithstanding the foregoing, it

should be noted that, once the Bank has granted general eligibility to receive disbursements under this loan, this eligibility shall remain in effect during the loan's disbursement period unless the Bank formally notifies the country of its temporary suspension (document GN-2502-2, paragraph 4.25).

3.9 **Monitoring and disbursements.** Within a period of no more than two years following each disbursement, the bank, at its sole discretion and at no cost to the borrower, may verify through independent external audits the appropriateness of the expenditures claimed as eligible. If, as a result of any such audits, the Bank determines that the disbursed funds were used to finance ineligible expenditures, it may demand that the borrower immediately rectify the situation or reimburse the amounts in question.

3.10 **Evaluation of the borrower.** Monitoring and evaluation of the operation will be conducted according to the provisions of the Monitoring and Evaluation Plan, which describes in depth the actions and those responsible for carrying them out. The specific provisions regarding evaluation established for operations under the CCF (document GN-2502-2, paragraphs 4.27 and 4.28) will also be taken into account.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	(i) Small and vulnerable countries and (ii) Support climate change initiatives, renewable energy and environmental sustainability.		
Regional Development Goals	Protecting the environment, responding to climate change, promoting renewable energy, and enhancing food security.		
Bank Output Contribution (as defined in Results Framework of IDB-9)	National frameworks for climate change mitigation supported.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix			
Country Program Results Matrix	GN-2696	The intervention is included in the 2013 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)	GN-2683	Crosscutting sector: climate change vulnerability reduction, adaptation and mitigation.	
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	9.1		10
3. Evidence-based Assessment & Solution	9.5	33.33%	10
4. Ex ante Economic Analysis	10.0	33.33%	10
5. Monitoring and Evaluation	7.7	33.33%	10
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	Low		
Identified risks have been rated for magnitude and likelihood	Yes		
Mitigation measures have been identified for major risks			
Mitigation measures have indicators for tracking their implementation	Yes		
Environmental & social risk classification	B.13		
IV. IDB´s Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	Budget, and Accounting and Reporting.	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan			

The objective of the operation is to mitigate the potential impact that a severe or catastrophic natural disaster could have on the country's public finances. The operation is aligned to the strategic development program of i) Lending to small and vulnerable countries and ii) Lending to support climate change initiatives. The operation will contribute to the Results Framework Output of National frameworks for climate change mitigation supported. The operation is aligned with the Country Strategy. The diagnosis presents adequate information on Nicaragua's vulnerability to natural disasters. The vertical logic is adequate to the fiscal objective of the operation and indicators are adequate to measure the results on public finances.

The document provides an adequate cost-effectiveness analysis that compares for each financing alternative two indicators: i) the financing cost, and ii) the promptness in the availability of financing.

The Monitoring and Evaluation Plan is suitable; it is planned to do an ex-post economic analysis. The document identified the risks of the operation. The most significant one is that the Natural Disasters Integrated Risk Management Program is rated unsatisfactory. This risk was classified as low and it will be monitored.

RESULTS MATRIX

Project objective:	To cushion the impact that a severe or catastrophic natural disaster could have on the country's public finances by increasing the availability, stability, and efficiency of the contingent financing available for emergencies caused by events of this type.

EXPECTED IMPACT

Indicators	Unit of measure	Baseline		Interim measurements						Targets		Source/Means of verification	Remarks
		Value	Year[1]	Value	Year	Value	Year	Value	Year	Value	Year		
EXPECTED IMPACT: The impact of a severe or catastrophic natural disaster on Nicaragua's public finances is cushioned.													
Ex ante financial coverage as a percentage of maximum possible expenditure for natural disaster emergencies.	%	0.1%[2]	1	19%	2	19%	3	19%	4	19%	5	Nicaragua's Ministry of Finance (MHCP)	The indicator measures Nicaragua's ex ante financial coverage as a percentage of the maximum expected expenditure for disaster emergencies.[3]

[1] Year 1 is 2013.
[2] For the impact indicator, as part of the country's ex ante financial coverage, the baseline takes into account the 2012 annual allocation to the National Disaster Fund.
[3] Maximum expected emergency expenditure is based on the occurrence of a 100-year event impacting 37% of the country's population.

EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline		Interim measurements						Targets		Source/Means of verification	Remarks
		Value	Year	Value	Year	Value	Year	Value	Year	Value	Year		
EXPECTED OUTCOME 1: Availability and stability. The country has increased contingent financial coverage for dealing with extraordinary public expenditures during severe and/or catastrophic natural disaster emergencies.													
Total amount of contingent financial coverage available to the country	US$ million	0	1	186	2	186	3	186	4	186	5	Nicaragua's MHCP	The baseline considers total contingent financing for dealing with disasters now available to the country, including contingent loans contracted with other financial organizations or institutions.
EXPECTED OUTCOME 2: Efficiency: Available coverage is efficient in terms of financial cost and rapid access to financial resources.													
Differential between the interest rate of the IDB loan and that of Nicaragua's long-term sovereign foreign trade debt[4]	Basis points	500	1	Rate differential	2	Rate differential	3	Rate differential	4	500	5	IDB: Publication on current lending charges, Finance Department. Bloomberg. MHCP: Office of Public Credit.	The differential between the financing cost of the IDB loan and the cost of Nicaragua's long-term sovereign foreign trade debt will be monitored, providing evidence that the contingent loan is an efficient financing option for the country. Note that as long as the differential is positive, the operation remains efficient from a financial cost standpoint. Therefore, it is advisable for the country to make an ex ante provision by contracting contingent financing.
Speed of access to resources in case of an eligible event occurring.	Days	90	1	20	2	20	3	20	4	Maximum of 20	5	IDB: Finance Department; MHCP: Office of Public Credit	The baseline consists of the average time normally required to launch a sovereign bond issue in U.S. dollars on the international market.

[4] If market information is unavailable on the interest rate for Nicaragua's long-term sovereign foreign trade debt, it will be estimated using the average spread of the countries in the region with the same credit rating. In this case, the source of information would be Bloomberg, and the project team would be responsible for determining the estimate.

Indicators	Unit of measure	Baseline		Interim measurements						Targets		Source/Means of verification	Remarks
		Value	Year	Value	Year	Value	Year	Value	Year	Value	Year		
Interest rate differential at the time of occurrence of an eligible event[5]	Basis points	500[6]	1	Rate differential	2	Rate differential	3	Rate differential	4	Above 500	5	IDB: Publication on current lending charges, Finance Department. Bloomberg. MHCP: Office of Public Credit	In the months immediately before and after an eligible event, monitoring of the differential between IDB interest rates and those for Nicaragua's long-term sovereign foreign trade debt will make it possible to measure the country's savings by contracting the contingent loan to finance extraordinary emergency expenditures.

OUTPUTS

Output	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5
SOLE COMPONENT: Contingent financing by the Bank to address extraordinary public expenditure during severe or catastrophic natural disaster emergencies.							
Available financial coverage	US$ million	0	186	186	186	186	186

[5] If market information is unavailable on the interest rate for Nicaragua's long-term sovereign foreign trade debt, it will be estimated using the average spread for the countries in the region with the same credit rating. In this case, the source of information would be Bloomberg, and the project team would be responsible for determining the estimate.

[6] The baseline would be the rate differential based on the figure in the month immediately prior to the occurrence of the eligible event, and thereafter the behavior of the rate differential following the occurrence of the event would be monitored. At the time of preparation of this document, this differential was 500 basis points.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country	Nicaragua
Project number:	NI-X1007
Name:	Contingent Loan for Natural Disaster Emergencies
Executing agency:	Ministry of Finance (MHCP)
Prepared by:	Santiago Alejandro Castillo; Senior Procurement Specialist (FMP/CNI), and Jorge Osmin Mondragón; Financial Management Specialist (FMP/CNI)

I. BACKGROUND

1.1 The executing agency will be the Ministry of Finance (MHCP). The project will be executed under the Contingent Credit Facility for Natural Disaster Emergencies (CCF) established through document GN-2502-2 of 13 February 2009, which sets forth exceptions to the Bank's fiduciary policies.

1.2 Given the contingent nature of the operation, disbursements will only be made only once the conditions stipulated in the loan contract have been met, and will be made in a manner similar to that used for policy-based loans.

A. Fiduciary context of the country

1.3 The Government of the Republic of Nicaragua, as part of efforts to modernize the State, has given priority to the reform of the National Public Procurement System (SNCP). The executing agency for this reform is the Ministry of Finance (MHCP), through the Office of State Procurement (DGCE), governing entity of the SNCP. The legal framework for public procurement consists primarily of two laws: the Public Sector Administrative Procurement Law (Law 737), in force since 9 February 2011, and the Municipal Administrative Procurement Law (Law 801), in force since 25 January 2013. Among the main changes incorporated in Law 737 are: (i) promotion of participation by micro, small, and medium-sized enterprises (MSMEs); (ii) clarification of the general administrative procurement principles, including technological currency (meeting conditions of quality and technological modernity); control (ensuring transparency of procurement activity, supervised by the Office of the Comptroller General of the Republic); integrity (preventing corrupt and fraudulent practices); and equity (equal conditions for suppliers participating in public sector procurement processes); (iii) new procurement procedures, such as framework contracts; (iv) the Office of the Comptroller General of the Republic no longer takes part in processes approving procurement procedure exclusions, and reverts to its role in the system as a

control entity; and (v) reorganization of the scope of the items and conditions for direct contracting.

1.4 As regards national financial systems, for the management and supervision of its operations, the Bank uses the Integrated Administrative Financial Management System (SIGFA), consisting of the budget, cash management, accounting, and reporting subsystems, in conjunction with the system for projects, SIGFAPRO. The Bank is now supporting the government in designing a new integrated administrative financial management system (SIGAF), which will incorporate: (i) applications for public resource recording and accountability of the MHCP, the entity with responsibility for the Financial Management System; (ii) the necessary functionalities for managing all public sector institutions, in accordance with the characteristics and administrative autonomies of each; (iii) budgeting with a results-based management approach; (iv) administrative management of institutions by full transaction cycles; and (v) international accounting standards. The system will also automatically generate public finance statistics.

B. Fiduciary context of the executing agency

1.5 Among its legally established functions, the MHCP oversees the financial administration of the budget, cash management, and public accounting. To do so, it uses the Integrated Administrative Financial Management System (SIGFA). A number of measures have been developed to improve this system and ensure that it acts in an integrated, automated way with the various information systems used by the entities or divisions of the Financial Administration System, so as to minimize errors and recording delays. The MHCP, through its Office of Public Credit, maintains close contact with the Bank in monitoring the portfolio of sovereign-guaranteed investment loan operations. At present, the MHCP is the executing agency for the Public Sector Financial Management System Modernization Project, loan 2422/BL-NI, for developing and implementing SIGAF.

C. Fiduciary risk evaluation and mitigation measures

1.6 We believe that the level of fiduciary risk for the operation is **low**, given the control conditions implemented in the different stages of execution of public funds. While certain expenditures financed with loan proceeds could fail to meet the contractually stipulated eligibility criteria, thus preventing the Bank form accepting them, such actions have a low probability of occurring and are, in any case, addressed by the fact that the IDB reserves the right to conduct audits of expenditures whenever it deems such action necessary.

II. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

2.1 Pursuant to the provisions of document GN-2502-2 establishing the CCF, loans under the Contingent Credit Facility benefit from a waiver with respect to the Bank’s policies and procedures for the procurement of goods and the contracting of services. Instead, the borrower will apply its own rules and regulations with

respect to procuring goods and contracting services for extraordinary fiscal expenditures in cases of natural disasters, in accordance with any applicable provisions of local administrative regulations and laws.

2.2 Loan proceeds from the Contingent Credit Facility may only be used for expenditures deemed eligible for this operation. As part of the justification for the use of resources disbursed, the borrower will present a descriptive list of expenditures and events considered eligible for the operation, taking into account the following requirements: (i) they may not be explicitly listed among the expenditures excluded from financing in the loan contract; (ii) they must be legal under the law of the Republic of Nicaragua; (iii) they must be directly related to the natural disaster emergency for which financing is provided; and (iv) they must involve procurement and payments that can be verified and documented, must be clearly recorded, and considered reasonably appropriate in terms of amount and price.

III. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

3.1 Financial management agreements and requirements are specified in document GN-2502-2 and are summarized as follows:

3.2 **Disbursement requests.** Requests for the disbursement of loan proceeds will be submitted within 90 days of the occurrence of an eligible event, specifying the disbursement amounts requested and indicating, where applicable, from which loan or loans the resources are to be drawn, and the specific amount required from each one.

3.3 **Disbursement mechanisms.** Once the conditions for requesting a disbursement have been met,[1] the borrower may obtain up to 100% of the amount requested in the form of an advance on the loan.

3.4 The executing agency will justify the use of the disbursed resources through a written declaration of adequate use, to be submitted to the Bank within 365 calendar days following the start date of the event giving rise to the emergency.

3.5 The Bank will recognize up to 100% of the amount of the eligible expenditures actually incurred and paid by the borrower during the 180 days following the date on which the emergency began.

3.6 **Special account.** The project will have a special account in the Central Bank of Nicaragua for disbursement of the funds, to be administered by the General Treasury of the Republic (TGR) of the MHCP.

[1] Defined in the loan contract, namely: (i) verification that an eligible event, as defined in the loan contract, has occurred; (ii) confirmation that execution of the CNDRMP, as previously agreed upon with the Bank, is being carried out in a manner satisfactory to the Bank; and (iii) submission of a disbursement request within 90 days following the occurrence of an eligible event.

3.7 **Audits.** Within a period of no more than two years following each disbursement, the Bank, at its sole discretion, and at no cost to the borrower, may verify through independent audits the appropriateness of the expenditures claimed as eligible, as well as compliance with the procedures set forth in Nicaraguan legislation.