

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

NICARAGUA

SOCIAL ENTREPRENEURSHIP PROGRAM

EXECUTIVE SUMMARY

EXPANDING SUSTAINABLE ACCESS TO RENEWABLE ENERGY FOR RURAL FAMILIES

(NI-S1012)

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ABBREVIATIONS

ECAMI	Empresa de Comunicaciones S.A.
MFIs	Microfinance institutions
MIF	Multilateral Investment Fund
PERZA	Proyecto de Electrificación Rural en Zonas Aisladas [Off-grid rural electrification program]
PNESER	National Sustainable Electrification and Renewable Energy Program
RAAN	Región Autónoma del Atlántico Norte [North Atlantic Autonomous Region]
RAAS	Región Autónoma del Atlántico Sur [South Atlantic Autonomous Region]
SEP	Social Entrepreneurship Program

I. PROJECT OVERVIEW

A. Executing agency

1.1 Empresa de Comunicaciones S.A. (ECAMI)

B. Financing amount and source

	IDB US\$	ECAMI US\$	Total US\$
Reimbursable financing:	760,000	200,000	60,000
Technical cooperation:	250,000	73,200	323.200
Total:	1,010,000	273,200	1,283.200

Source: Net income of the Fund for Special Operations

C. Terms and conditions

Amortization period:	10 years
Grace period:	36 months for the principal
Interest rate:	6 month LIBOR + 325 basis points with an interest-rate ceiling of 5% per year
Currency:	U.S. dollar
Performance schedule:	Reimbursable financing: 33 months Technical cooperation: 36 months
Disbursement period:	Reimbursable financing: 36 months Technical cooperation: 42 months

D. Statement of no objection

1.2 The Ministry of Finance of Nicaragua indicated its no objection to Bank financing for the project in official letter MHCP-DM-E-1499-06-10 of 16 June 2010.

E. Problem to be addressed

1.3 **Access to electricity in rural areas.** Approximately 35% of Nicaragua's population lacks access to the commercial electricity grid.¹ Despite considerable efforts in recent years to provide this basic service through electricity sector reforms, investment projects to expand the infrastructure of the electric grid, and projects to promote the use of renewable energy (off-grid solutions), electricity coverage in the country remains well below the average for Latin America, (94.6%).² Moreover, the differences in coverage between urban and rural areas are significant. While 92% of the urban population has access to electricity the figure is less than 40% for rural areas, where plans to introduce electricity face short-and-medium term structural obstacles. The socioeconomic level of potential customers in rural areas, projections indicating low energy consumption, obstacles to reaching

¹ Ministry of Energy and Mines, Fund for the Development of the National Electric Industry. Presentation: Perspectivas de la Electrificación Rural PLANER 2004 – 2013 – Nicaragua – 2009.

² Benchmarking data of electricity distribution sector in Latin America and Caribbean region 1995-2005.

- these areas, as well as the dispersion of families translate into high costs to provide electricity, making this market unattractive for electricity-generation and distribution companies.
- 1.4 Rural families have met their energy needs by using kerosene for lamps and firewood for cooking. These practices pose a fire risk and encourage the indiscriminate use of forest resources, while cooking over an open fire leads to chronic respiratory illnesses. Moreover, families must limit their consumption of kerosene owing to seasonal increases in the price of this fuel.
 - 1.5 The lack of access to electricity limits the number of hours that adults, especially women, devote to work, and that children can devote to reading and writing for school, and restricts access to communication (cell phones) and to information. In addition, the lack of electricity limits the ability of rural productive microenterprises to pump irrigation water and increase production in their fields, while the lack of refrigeration prevents small rural businesses (“pulperías,” or small stores, and hostels) from expanding their provision of fresh produce.
 - 1.6 One possible solution to providing families and rural enterprises access to electricity is for them to utilize renewable energy through solar-power systems that will enable them to: (1) have lighting in their homes and use conventional electrical devices (television sets, cell phone batteries), and (2) have sufficient electricity for productive uses and for income generation. The main obstacle to this solution is, however, the lack of financing in line with families’ and microenterprises’ willingness and capacity to pay.
 - 1.7 **Access to energy microfinancing:** In recent years, electricity and renewable-energy projects have relied on various business models to promote solar-power systems in rural areas not serviced by the national power grid. This has elicited a certain amount of interest among rural residents. The World Bank-financed Proyecto de Electrificación Rural en Zonas Aisladas [Off-grid rural electrification program] (PERZA) worked through two energy-provision components. One component consisted of pilot projects to install 100%-subsidized solar-power systems in extremely poor communities and the other worked through partnerships with microfinance institutions (MFIs) to provide credit for users to acquire solar-power systems or to connect to the power grid wherever possible. The MFI model revealed an interesting potential for the expansion of credit for solar power. After the conclusion of PERZA, however, the MFIs’ portfolios for solar energy, despite having performed well, were reduced and nearly eliminated, owing to two factors: (1) financing-policy changes at the second-tier institution that provided these loans—Fondo Nicaragüense de Inversiones (FNI S.A., since renamed Banco Produzcamos)—limiting long-term financing for MFIs and consequently for their customers, and (2) the emergence of “nonpayment” movements among MFI clients, which forced the MFIs to restrict their lending in all spheres including for solar energy.
 - 1.8 A second business model that considerably boosted rural demand for solar energy was financed by the Social Entrepreneurship Program (SEP) in favor of the

company TECNOSOL from 2006 to 2009. This project set up 900 solar-power systems in 83 rural communities to the benefit of some 4,500 persons. The project promoted this technology by granting a long-term supplier credit with monthly charges of US\$15 for an average term of five years. It also extended loans to nine local distributors to promote solar-power systems in rural communities and established two new branches. The business model supported the generation of social benefits for low-income photovoltaic-system users by providing financing under conditions in line with their payment capacity. In addition, by establishing the two new branches and the distributor network, it generated sufficient income to offset the low revenue turnover from the supplier credit. These two operations generated profits and ensured the success of the project. However, one feature that, although called for in the original design, was not implemented was the improvement of post-sales services (efficient collection and maintenance systems) to help lower the cost of the model and generate even more revenue.

- 1.9 **Sustainable business models to finance renewable energy:** Despite the progress that has been made, the information provided above points to the need to continue seeking a business model through which to provide ongoing financing to promote solar energy. Moreover, current and potential demand requires that such efforts be made, given that some 180,000 families in isolated rural areas still lack electricity.³ Empresa de Comunicaciones S.A. (ECAMI), Nicaragua's second-largest supplier of solar-energy equipment,⁴ identified this need as well as new technologies and systems that might improve existing models. The company's efforts to implement these systems have, however, been hampered by a lack of capital to do research and development on the needed technologies and to implement them. ECAMI thus approached the SEP and proposed improvements to the models described above in order to steadily expand the supply of renewable energy available to low-income rural families. ECAMI has requested two types of support: technical assistance with which to implement systems and processes to meet the needs of dispersed low-income rural customers with suitable, efficient services that are affordable, and working capital with which to acquire the equipment that it will sell to these customers through long-term loans.
- 1.10 **Beneficiaries:** ECAMI S.A. intends for the proposed initiative to provide home solar-power systems on credit to some 1,300 low-income families in rural communities in the departments of Matagalpa, Estelí, the South Atlantic Autonomous Region (RAAS), and the North Atlantic Autonomous Region (RAAN). The households in these departments have little or no possibility of connecting to the electricity grid. Although new investments are planned to install electricity lines in these departments, some areas cannot be connected to the electricity grid because adverse conditions on the ground make the installation of electricity posts difficult and because a small number of families are dispersed over a large swath of territory. In these areas, ECAMI has identified potential demand by

³ Final evaluation of the Tecnosol project, November 2009. Drafted by Miguel A. Ruiz.

⁴ According to estimates from ECAMI, the largest supplier of solar-energy technology is TECNOSOL.

- households that would like to access solar-power systems, provided they receive affordable financing.
- 1.11 On average, the beneficiary families are composed of five members⁵ and have an annual income of US\$1,500, mainly from agricultural activity, including growing corn and beans, on plots of land measuring between 20 and 50 manzanas (between 15 and 35 hectares). Their dwellings are constructed of wooden planks or cement blocks and have an average of two to three rooms.
 - 1.12 In addition to households, the project is also expected to benefit 115 rural microenterprises through the sale, on credit, of pumping systems for irrigation and refrigeration, thereby supporting their work activities and helping them generate income. Lastly, ECAMI will use project resources to provide working capital to five local small entrepreneurs (owners of warehouses, stores, hardware stores) in the urban areas of the municipios. ECAMI will accredit these entrepreneurs as local distributors and train them in promoting and selling renewable-energy technologies in rural areas.
 - 1.13 **Rationale:** The project meets the SEP's criteria and is part of the priority area of basic services identified in it. It is also part of the agenda of the Expansion of Access to Clean and Efficient Energy of the Multilateral Investment Fund (MIF). This agenda focuses on increasing the availability of financing to provide cleaner and more efficient energy for individuals, municipalities, and small enterprises and to give small enterprises the ability to produce, distribute, and provide services with clean and efficient energy technologies. In addition, the project offers the IDB/MIF a unique opportunity to capitalize on the successful business model previously adopted by TECNOSOL, to take into account the lessons learned from it, and, hence, to enhance a business model that might be scalable and expandable nationally and internationally. Lastly, the project includes new elements that would add value to the work already carried out, such as the use and adaptation of cutting-edge technology in renewable-energy sources; the promotion and sale of low-cost, easy-to-use improved cook stoves; and an analysis of the viability of a novel payment system based on an electronic data-storage card that would lower collection costs and reduce the risk of delinquency in the financing extended to rural customers.

II. THE PROJECT

A. Objectives

- 2.1 The goal of the project is to improve the quality of life of low-income families in rural communities that lack access to clean and efficient energy. Its purpose is to establish a profitable and sustainable business model to give low-income families

⁵ According to the Seventh Population and Housing Census, 2005, published by the National Institute of Development Information, the average number of persons per household in Nicaragua is 5.2. <http://www.inide.gob.ni/index.htm>

and microenterprises in rural areas access to energy and lighting for household and productive uses through renewable, clean, and efficient energy sources.

B. Description

- 2.2 The project has two components: a reimbursable-financing component, for US\$960,000 (IDB: US\$760,000, and ECAMI: US\$200,000), and a nonreimbursable technical-cooperation component, for US\$323,200 (IDB: US\$250,000, and ECAMI: US\$73,200). Both components will be executed by ECAMI.
- 2.3 The **reimbursable-financing component** will provide working capital to allow ECAMI to sell solar-power systems on credit to rural microenterprises and families as well as to local distributors. This component will provide funds to (i) purchase, install, and sell on credit 1,300 home photovoltaic systems of varying capacities (10, 50, and 65 watts) for rural families; (ii) purchase, install, and sell on credit 115 refrigeration and pumping systems for irrigation for rural microenterprises; (iii) purchase and sell on credit 1,000 improved cook stoves,⁶ which will be delivered as part of the home packages; (iv) provide credit lines for five new local distributors to promote and sell the systems; and (v) establish and outfit two new branches of the company in Nicaragua's RAAN and RAAS as well acquire inventory for them.
- 2.4 The capacity and composition of the systems to be sold will be determined by ECAMI's experience with the type of equipment for which there is a demand among low-income families and by these families' electricity needs and payment capacity. The Bank financing will be used to defray the cost of the equipment and materials of which the home and microenterprise systems are composed, and ECAMI will use the counterpart resources to cover its labor costs and taxes as well as to purchase improved cook stoves. The counterpart resources will come from ECAMI's credit lines with a local bank and with the company's international and local suppliers.
- 2.5 The project execution plans call for the systems to be sold on credit using a lending methodology outlined in the Operating Regulations. The basic elements of the Regulations include loans of between US\$300 and US\$600 for the home systems and between US\$1,660 and US\$3,400 for the production systems. In all cases, the amount of the loan depends on the capacity of the system.⁷ The term of the loans will be three years with an initial fee of 10% to 20% of the value of the systems. Periodic fees will be charged in accordance with the seasonal nature of customers' income (monthly, quarterly, semi-annually).

⁶ This new technology (Stovetec stoves) has gained a foothold in South Africa, Uganda, Tanzania, and Madagascar, and is finding growing acceptance in Chile and Argentina. The stoves save wood and organic fuels and reduce carbon monoxide emissions. They cost US\$15 each.

⁷ The estimated loan amounts are as follows: for residential systems: 10 watts, US\$320; 50 watts, US\$540; and 65 watts, US\$600. For production systems: refrigeration: US\$2,444; pumping 1 and 2: US\$1,660 and US\$3,368.

- 2.6 The reimbursable financing component will be executed in four tranches. With the first tranche, ECAMI will acquire photovoltaic systems with which to conduct pilot tests of the lending methodology and of the payment systems using the radiofrequency technology detailed in the project (see paragraph 2.10). Execution of the second, third, and fourth tranches will be subject to: (i) the refinement of the lending methodology and credit system under which the family systems will be installed and delivered to rural families and microenterprises; and (ii) the validation of the final design of technology as well as of a payment (collection) system that will be implemented to ensure loan repayment. Both activities will be financed with technical-cooperation funds.
- 2.7 The five new ECAMI distributors will be granted credit lines on the basis of their prior good commercial relations with ECAMI. The credit lines will allow them to have sufficient equipment of varying capacities so as to meet demand in their territory. The average loan amount for the distributors has been estimated at US\$3,000 each. The funds for this component will be used to establish two new branches in the RAAN and RAAS. To this end, an inventory of equipment required to launch the project will be provided, and ECAMI will finance the expenses of equipping commercial premises and other start-up expenses with its counterpart contribution.
- 2.8 The main objective of the **technical-cooperation component** is to strengthen the executing agency's capacity to perform services related to sales of the solar-powered systems on credit (pre-sale and post-sale services, including maintenance and collection). It also aims to mitigate the weaknesses identified in certain areas of ECAMI and support the company's expansion and market penetration. This support is expected to enable ECAMI to (i) grant and collect loans in a manner that is efficient, reliable, and in line with its customers' needs; (ii) compete in the market through differentiated strategies, greater promotion, and diverse renewable technologies; and (iii) efficiently expand its operations to new rural areas.
- 2.9 Two aspects that the project will address to ensure the achievement of the objectives and the sustainability of the intervention are the identification and implementation of a lending methodology in keeping with the needs and payment capacities of customers in the rural areas that it will serve. A consultant with experience in microfinancing will be retained to devise the lending methodology and will work in conjunction with a consultant contracted to assess the viability of adapting a novel collection-payment system, which applies radiofrequency energy-tracking technology (an RFID card).
- 2.10 Radiofrequency technology allows users to "add credit" to the solar-power system's tracker and purchase electricity in advance for a predetermined amount of time. This technology relies on the principle of prepaid cellular-telephone systems. It has been successfully tested in Ethiopia, and it is expected that it can be adapted to the company's and its users' needs. This system's technical and financial viability will be evaluated mainly by comparing it with the traditional collection method, which relies on the use of promoters and other techniques, such as having accounts

receivable handled by a microfinance institution. The technical-cooperation component will also support the execution, evaluation, and audit of the project. The technical-cooperation plan of operations describes this support in greater detail.

C. Expected outcomes and capture of benefits

- 2.11 The project will provide access to clean, renewable energy sources for some 8,300 persons in remote rural communities and for 115 microenterprises, giving them an immediate solution to their basic need for affordable lighting for their homes and electricity for their businesses. Customers will receive other benefits, such as operational and environmental training to allow them to use the corrective maintenance (repair) and preventive maintenance services and systems during the repayment period. The project will also accredit five small entrepreneurs as distributors of the systems and other renewable-energy technologies and provide them with training and working capital to consolidate their enterprises. Together with the working capital for the two new branches to be opened by ECAMI, this will help the enterprises expand their markets and consequently boost their sales. Moreover ECAMI will be strengthened by (i) establishing an efficient credit system and collection system that will make the investment sustainable; (ii) improving its marketing strategy and its strategy to differentiate itself from its competitors; and (iii) enhancing the corrective and preventive maintenance services that it offers.

D. Sustainability and findings of the financial analysis

- 2.12 Project sustainability is predicated on four main factors: (i) the photovoltaic systems' high technological quality and their long expected useful life (25-year guarantee on the solar panels) will ensure the equipment's long-term performance and allow the improvement in the families' living conditions to be maintained; (ii) the long-term credit conditions (three years) will encourage ECAMI to offer suitable repair, maintenance, and collection services for the same term. This is also intended to ensure repayment; (iii) by adopting lending and collection technology, the company will achieve sound, efficient credit-sales portfolio management. In conjunction with long-term working capital (such as the Bank financing), this will allow it to meet sustained future demand, which will attract other financing companies or institutions; and (iv) lastly, the increased number of ECAMI-associated branches and distributors that will promote and market the systems and other equipment in the project areas as well as in other potential markets will allow ECAMI to generate sufficient additional income to continue growing as well as offset the postponement of revenue owing to the sale of the systems to rural families and microenterprises on credit.
- 2.13 The project is considered viable because of the demand for the resources to be provided through the project, a prior experience with another Nicaraguan company in the same line of business, and the positive results of that experience, and because of ECAMI's financial management, which is seen as having sufficient capacity to conduct this type of project, and its strong proven credit record with other lending agencies (i.e., E&Co and local banks). In terms of payment capacity, the company's financial projections, which assume conservative sales growth (10% annual) and a

cost structure similar to the current one, point to modest profits in the project's first two years and to profits of about 8% to 11% thereafter, for average profits of 7% per year in terms of revenue. The projections indicate that the income generated by the distributors and the branches and collections from credit sales will make the project viable starting in the third year. Projections that indicate that the debt coverage ratio will at all times be higher than 1 for the project and 2 for the company lead to the conclusion that the project will generate sufficient cash flows to ensure servicing its debt. The project's internal rate of return is 8.7% in a conservative revenue and cost scenario.

E. Risks for the Bank and mitigating factors

- 2.14 This operation poses a moderate **credit risk** for the IDB, but the high expected impact of providing low-income populations with access to renewable-energy technologies justifies assuming that risk. The main risk is the possibility that ECAMI will not meet its financial commitments owing to nonpayment by the families and rural microenterprises. This risk will be mitigated by the technical-cooperation component, which will help ECAMI design and implement a credit system and collection system allowing it to properly select its customers and devise a novel and efficient system to offer incentives for timely payment. Another important risk is that ECAMI will become decapitalized because of serious financial or market crises undermining its viability or the financial situation of its shareholders. This risk is mitigated by three factors: (i) the majority shareholders have made special contributions in recent years, which demonstrates their trust in and commitment to the company; and before executing the financing agreement ECAMI committed to making a special equity contribution of US\$200,000; (ii) the company is interested in maintaining the prestige and recognition it has earned with international institutions and the Bank; (iii) financial performance indicators must be met in order for the disbursements to be released, which guarantees that the loan proceeds will be maintained at a level that is appropriate for the company's equity.
- 2.15 In addition to the credit risk, the operation faces other important risks: (i) **Payment culture risk**, which might mean that the rural families and microenterprises will be unwilling to pay for this service. This risk will be mitigated through the refinement of a lending and collection methodology based on efficiency and sound financial practices, by post-sale services to encourage loyalty to the company, and, lastly, by the possibility that, in extreme cases, the equipment will be repossessed. (ii) **The risk that market instability** will adversely affect international and local suppliers of the systems. Strong demand in recent years for solar panels in, for example, Europe, Japan, and the United States, has caused the price of silicon (the raw material used to make solar panels) to rise and created market problems for suppliers. However, the entry of other solar panel producers, such as in China, has substantially offset this increased demand. Experts suggest that in coming years prices will drop or at least stabilize. Although this risk is difficult to mitigate, the company has entered into strategic partnerships with its leading suppliers (Kyocera, in Japan, and Xantrex, in the United States) by periodically placing "firm" orders, which has allowed it to enjoy the preference of these suppliers.

F. The Bank's strategy and related operations

- 2.16 The IDB's strategy in the electricity sector has enabled it to support the activities of the Government of Nicaragua through several loans and technical-cooperation operations that have had a positive impact on the sector. Nevertheless, much work remains to be done in electricity coverage and services. The important problems in the sector have led to the formulation of a new National Sustainable Electrification and Renewable Energy Program (PNESER) intended to support and complement international-cooperation efforts to significantly transform the electricity sector. The Bank is supporting this program with US\$30 million, mainly for investments to, for example, promote rural electrification for the extension of distribution networks; bolster the transmission system; normalize the service in settlements; encourage energy efficiency; and provide small amounts of funding for studies and for its renewable-energy demonstration projects. This interesting initiative has a complex structure, calling for support from several international cooperation and finance agencies, including the World Bank, the International Finance Corporation, Korean Eximbank, the Spanish Agency for International Development Cooperation, the Latin America Investment Facility, the Central American Bank for Economic Integration, the European Investment Bank, and the Nordic Development Fund, which have expressed an interest in participating in financing the program.
- 2.17 While the project was being designed, efforts were coordinated with PNESER team leaders for the ECAMI project to be used as a pilot for future renewable-energy interventions. The Government of Nicaragua is familiar with the ECAMI project and has agreed to provide the company with information on PNESER's areas of influence and on those that will not be served, which, apparently, means the areas of the RAAS and RAAN included in this project.
- 2.18 As noted in paragraph 1.13, the project is part of the MIF's agenda of Expansion of Access to Clean and Efficient Energy. The project will spearhead the agenda and future operations to support the expansion of financing for small private enterprises interested in marketing clean energy to low-income population groups and in promoting efficient energy use.

G. Summary of the environmental and social impact review

- 2.19 The Bank carried out the environmental and social review of the project and classified it as a category C project (ESR Minute 19-10 of 10 May 2010). Nonetheless, the Bank deemed it necessary to include a mechanism to verify battery and lamp handling, disposal, and maintenance.
- 2.20 The project should incorporate the use of sealed batteries in all solar-power systems to be marketed. This technology will reduce the need for periodic maintenance and will increase the useful life of the batteries. However, two types of actions will ensure proper equipment maintenance. The price charged by ECAMI for the systems will include the cost of preventive maintenance (two visits during the term of the loan, for a total of US\$20 per system). In addition, technical-cooperation funds will be used to contract two consulting assignments to help ECAMI devise an incentives mechanism to ensure that used batteries and lamps are recovered from

the customers through discounts on the purchase of new batteries and lamps, and maintenance service will be provided by ECAMI-trained community suppliers, who will also be responsible for collecting the batteries and lamps. This requirement will be included in suppliers' contracts.

H. Special contractual conditions

- 2.21 Prior to signing the financing contract with the Bank, ECAMI must present: (i) evidence that its shareholders have provided an equity contribution of US\$200,000. In addition, the company's two majority shareholders will sign the loan contract with the Bank as personal guarantors of the operation.
- 2.22 The reimbursable financing will be executed in four tranches: an initial tranche of US\$60,000; a second tranche of US\$200,000; and two final tranches of US\$250,000 each. As a **condition for the execution** of tranches 2, 3, and 4 of the reimbursable financing in the amounts indicated above, ECAMI will be required to submit evidence that the shareholders have approved the project's Operating Regulations. These regulations will include, inter alia, a detailed description of the credit systems, technology, and payment system to be implemented through the project.
- 2.23 As a condition precedent to the first disbursement of the **technical-cooperation** funds, ECAMI must submit: (i) evidence that the project coordinator and administrative assistant have been selected, and (ii) the terms of reference for contracting the consulting assignments to design and adapt the lending methodology and to design and validate the collection-payment system.
- 2.24 In addition, the Bank will not disburse more than 50% of the reimbursable financing until it has expressed its agreement with the findings of the midterm evaluation and, if necessary, agreed with ECAMI on corrective measures to solve any difficulties encountered.
- 2.25 **Recognition of expenses paid out of the contribution.** As part of its interest in finding an innovative payment system, ECAMI has recently received consultancy and an initial transfer of knowledge of this technology from ARC Finance, an international agency based in the United States. Given that this technology will be the basis for assessing the project's viability, ECAMI has agreed that the cost of the consultancy assignment will be recognized retroactively as a counterpart contribution to the project. This recognition has been estimated at US\$35,000 starting on 30 April 2010 (the project eligibility date for the Bank), based on the copies of the contracts and the corresponding payments made by ECAMI.

I. Procurement and disbursements

- 2.26 **Procurement:** As a private company, ECAMI carries out procurement by following principles of savings and efficiency and the prevailing commercial practices. In procuring the equipment and materials required to set up the systems, ECAMI will follow procedures acceptable to the Bank in accordance with the provisions of document GN-2349-7 (Policies for the Procurement of Works and Goods Financed by the Inter-American Development Bank, Appendix 4, Policies

- for procurement by the private sector). In contracting consultancy services, ECAMI will abide by document GN-2350-7 (Policies for the Selection and Contracting of Consultants Financed by the Inter-American development Bank, Appendix 4, Policies for the procurement in loans to the private sector).
- 2.27 Before initiating project procurement, ECAMI will submit to the Bank for its consideration a procurement plan⁸ to be reviewed and updated annually. In the institutional analysis, ECAMI was evaluated as a low risk and therefore procurement supervision will be conducted annually and on an ex post basis. The Bank may modify the modality and frequency of the reviews in accordance with the findings of the reviews conducted and/or subsequent institutional analyses performed during project execution.
- 2.28 **Disbursements:** Disbursements of the reimbursable financing will be contingent on ECAMI's achievement of the institutional performance indicators agreed with the Bank when the operation was designed. The indicators will include portfolio at risk, return on assets, and IDB debt/equity. Annex V includes a list of the indicators and the formulas for calculating them. The financing will be disbursed in four tranches: an initial tranche of US\$60,000; a second tranche of US\$200,000; and two final tranches of US\$250,000 each.
- 2.29 The disbursements of the technical-cooperation component will be contingent on achievement of the milestones⁹ agreed between ECAMI and the IDB, which will be verified as set forth in the agreed media. Achievement of the milestones does not relieve ECAMI of the responsibility of meeting the project's targets. Disbursements for this operation will be made through fund advancements calculated on the basis of the cost of activities foreseen for six-month periods. If the milestones are not reached by the agreed deadline, the Bank will not disburse any new funds until this requirement has been met.
- 2.30 During the institutional analysis, ECAMI was deemed to pose a low risk. Therefore, the disbursement review will, in principle, be conducted annually and on an ex post basis. The Bank may modify the modality and frequency of the reviews in accordance with the findings of the reviews conducted and/or subsequent institutional analyses performed during project execution.

J. Reports, evaluations, procurement, and revolving fund

- 2.31 **Reports.** ECAMI will be responsible for submitting project progress reports to the IDB within 30 days following the close of each six-month period, or more frequently, on the dates determined by the IDB, as communicated to ECAMI at least 60 days in advance. Following a format previously agreed with the MIF, the reports will indicate the progress toward project execution, the achievement of milestones, and the outcomes and their contribution to achieving the project's objectives, as measured against the logical framework and other operational

⁸ A draft procurement plan is found in the project technical files (DOC 2).

⁹ A preliminary list of the milestones for the technical-cooperation component is also set forth in Annex V.

- planning tools. They will also indicate the problems encountered during implementation and the adopted solutions. Within 90 days after the end of the execution period, the executing agency will submit a final progress report to the IDB, highlighting the outcomes achieved, the sustainability plan, and the lessons learned.
- 2.32 **Evaluations.** The project calls for two evaluations, to be conducted by individual consultants selected and contracted by the Bank with technical-cooperation funding. A midterm evaluation will be conducted 18 months after the first disbursement under the project or after 50% of the resources have been disbursed, whichever occurs first, and a second evaluation will be performed 36 months after the first disbursement. The first evaluation will examine (i) the project's response to the problems originally identified that gave rise to the project; (ii) progress in achieving the project objectives and performance indicators; (iii) the application of the eligibility criteria foreseen for the beneficiary families on a representative sample; (iv) a satisfaction survey conducted among a small sample of users; (v) lessons learned and recommendations for improving the project; and (vi) the institutional capacity of the executing agency.
- 2.33 In addition to the areas specified for the first evaluation, the final evaluation will gauge and document (i) the project's effects on the groups examined for the midterm evaluation; (ii) the extent to which the project objectives have been met; (iii) lessons learned; and (iv) the project's sustainability.
- 2.34 Given that the project constitutes an important learning opportunity regarding the business model to be implemented and that it might be replicated in the future, the Country Office in Nicaragua will coordinate the participation of headquarters to contract the evaluation services and review the reports that result from these services.
- 2.35 **Audits and financial control.** ECAMI will commission annual audits for the reimbursable financing component. The audits will be conducted in accordance with applicable Bank policies and be paid for out of the technical-cooperation resources. ECAMI will cover the cost of a final financial report prepared by independent auditors accepted by the Bank, which will show how the technical-cooperation funds were used.
- 2.36 ECAMI will set up and maintain an adequate accounting system regarding the funds invested in the project, both from the Bank and from the counterpart contribution, in addition to being responsible for risk management, internal monitoring, and filing systems for each component of the project. In doing so, it will follow generally accepted accounting standards and financial reporting and auditing policies applicable to projects that receive Bank financing. During the term of the reimbursable financing, ECAMI must furnish the Bank with its institutional financial statements audited by an independent auditor.
- K. Exceptions to Bank policy**
- 2.37 None.