

SUPPORT FOR AN ENVIRONMENTAL SANITATION PROGRAM FOR LAKE MANAGUA AND THE CITY OF MANAGUA

(NI-0142)

EXECUTIVE SUMMARY

Borrower and guarantor:	Republic of Nicaragua	
Executing agency:	Empresa Nicaragüense de Agua y Alcantarillado (ENACAL)	
Amount and source:	IDB (FSO):	US\$ 15,000,000
	Local:	US\$ 1,660,000
	Total:	US\$ 16,660,000
Financial terms and conditions:	Amortization period:	40 years
	Grace period:	10 years
	Disbursement period:	4 years
	Interest rate:	1% during grace period and 2% thereafter
	Inspection and supervision:	1%
	Credit fee:	0.5%
	Currency:	U.S. dollar from the Fund for Special Operations
Objectives:	The objective of the project is to supplement the financing provided under program NI-0027, so that funding will be available as needed to defray additional costs of approximately US\$16.6 million incurred since the Bank initially approved the program in 1996. The additional costs were largely attributable to the fact that the designs of the wastewater treatment works needed to be revised in the aftermath of Hurricane Mitch.	
Description:	This new project will supplement the Kreditanstalt für Wiederaufbau (KfW) financing for the water treatment plants. The financing will be used mainly to finance an additional sewer main for the new site of the Benito Escobar treatment plant, which has a direct construction cost of US\$14 million. The funding approved by the Bank for program NI-0027 and the Nordic Development Fund (NDF) financing will continue to be allocated as originally planned	

Bank's country and sector strategy:	<p>The Bank's strategy for Nicaragua is outlined in the country paper (GN-1931), in which prominence is given to the following components of the proposed project matrix: (i) support for modernization of the State and macroeconomic reform; (ii) participation by the private sector in the economy, particularly in the delivery of basic services; (iii) poverty reduction and social integration of marginalized groups; and (iv) environmental conservation. This strategy is intended to consolidate the process of water and sewer service reform, providing short-term support for ENACAL and seeking to broaden participation by the private sector in service delivery.</p>
Environmental and social review:	<p>The project was analyzed prior to approval of program NI-0027. It was found that the investments would have a favorable environmental impact and a monitoring plan was established. The financing includes the costs of this plan. Some families will have to be moved because of the construction works. Consequently, since program NI-0027 was approved provision has been made for all of the actions required under the Bank's policies.</p>
Benefits:	<p>The benefits of this supplemental operation should be analyzed in light of the total cost of the Lake Managua sanitation program, which will provide benefits in the form of less lake pollution and a reduction in sanitation problems along the shore. The sanitation program was reevaluated taking into account the findings of the most recent studies, which included the design modifications needed as a result of Hurricane Mitch.</p> <p>Based on this information, the project's internal rate of return at market prices is 14.5% and the net present value discounted at a rate of 12% is US\$9.8 million. Considering that the portion of the financing to be provided as a grant by the German government is conditional, in other words it would not be forthcoming unless the program materializes, the evaluation results improve substantially, showing a rate of return at market prices of 17.8% for benchmark level benefits and 14.94% for the lower level of benefits.</p>
Risks:	<p>At the time of preparation, the main risk associated with this operation was that the Nicaraguan government might be unable to secure financing from the KfW. However, this risk has been eliminated with the approval by the German government of supplementary financing of DM40 million (of which DM25 million would be in the form of a grant and DM15 million in concessional funding), or US\$21.6 million.</p>

Special contractual clauses:

In addition to any general conditions, the loan contract will contain, the following special contractual conditions:

1. Precedent to the first disbursement:

- (a) That a funds transfer agreement has been signed and executed between the borrower and ENACAL, as specified in paragraph 3.4;
- (b) That the special contractual conditions stipulated in IDB loan contract PO-978/SF-NI for the Lake Managua and city of Managua environmental upgrading program have been fulfilled (paragraph 3.5); and
- (c) That an agreement has been signed and executed between the borrower and the Government of the Federal German Republic, whereby the latter undertakes to transfer to ENACAL the cofinancing resources as specified in paragraph 3.6.

2. Conditions previously fulfilled:

The loan contract shall record the conditions fulfilled by the borrower before the operation was approved, to wit:

- (a) Evidence that the KfW has approved cofinancing in an amount equivalent to US\$25 million (see paragraph 3.7).

Poverty-targeting and social sector classification:

This operation qualifies as a social equity-enhancing project, as described in the indicative targets for the Bank's activity mandated by the Bank's Eighth Replenishment (document AB-1704). Furthermore, this operation qualifies as a poverty-targeted investment (PTI). The borrowing country will be using the 10 percentage points in additional financing (see paragraph 5.9).

Exceptions to Bank policy:

None.

Procurement:

The Bank's policies will apply to all procedures.

I. FRAME OF REFERENCE

A. Lake Managua sanitation program

- 1.1 In Managua, home to more than 40% of ENACAL's customers, the overall state of sewer service is particularly disturbing (for a detailed description of the situation see program NI-0027). Defects in the collector network often lead to spillage and seepage at many points in the city. The absence of a wastewater treatment plant (WWTP) means that raw sewage is discharged directly into the lake on which the city stands, posing a direct health risk to people living along its shores, most of whom are low income.
- 1.2 To address the pressing health and environmental problems brought about by this situation, in May 1996 the Bank approved an **environmental and sanitation program for Lake Managua and the city of Managua (NI-0027)**. The executing agency for that program was the former Instituto Nicaragüense de Acueductos y Alcantarillado (INAA). ENACAL, the successor to INAA - the program's initial executing agency - was created as a result of the process of institutional change that the Bank has been supporting in the country. The program provides for rehabilitation and additional sanitary sewer collector works and mains, construction of a wastewater treatment plant, and supplementary components for clean up around the lake and for monitoring water quality. Upon completion of the program, the quality of the water in Lake Managua is expected to be at a level acceptable for recreational use without direct contact. The program is also expected to have a significant impact in terms of reducing foci of infection and environmental problems in the vicinity of the lake. The program was designed as part of the studies for the master plan for expansion of the Managua sewer and wastewater treatment system. This plan was used to structure the program approved by the Bank.
- 1.3 The total cost of loan NI-0027, approved in 1996, was US\$47 million. The Bank is providing US\$15 million in financing, with the local counterpart funding amounting to US\$2 million. The program also includes cofinancing of US\$5 million from the Nordic Development Fund (NDF) and DM40 million (equivalent to US\$25 million in 1996) from the German Development Bank, Kreditanstalt für Wiederaufbau (KfW).
- 1.4 An initial breakdown shows that the KfW funding was used exclusively to finance the wastewater treatment plants and the associated resettlement costs. Also included are a grant of DM25 million and a soft loan of DM15 million repayable in 40 years. The KfW analyzed and approved the operation in December 1999. The German Ministry of Development and Cooperation (BMZ) has approved the operation and is making the final arrangements for obtaining formal approval from the German government.

- 1.5 The proceeds of the IDB and the NDF financing will cover the costs of sewer network rehabilitation, construction of collectors and interceptors for conveyance of wastewater to the treatment plants, and the Lake Managua shoreline sanitation program and water quality modeling and monitoring plan. Disbursement of the Bank financing will be conditional on supplementary financing being obtained from KfW.

B. Financing shortfall

- 1.6 The Bank approved the loan in 1996 on the understanding that the German government would grant financing through the KfW on the basis of a letter of intent signed by Germany. Before the German government financing can be approved, the KfW must analyze the operation, including a review of its technical, institutional, environmental, legal, and financial aspects. The process of hiring the team of consultants that performed some of these tasks and conducted the studies took approximately 18 months. On the basis of the project technical and environmental studies, the KfW team of consultants suggested modifications in the technology proposed for the two treatment plants (biological filters rather than optional ponds). Changing its site on the Lake Managua flood plain was not recommended given the low opportunity costs of the land.
- 1.7 The change in technology was justified on grounds that the lake's maximum level during the plant's useful life for the recurrence interval considered in such cases could be higher than projected in the master plan studies. Technologies that made it possible to reduce the pond area would therefore lower the cost of the surrounding embankments to prevent impounded water from mixing with water from Lake Managua.
- 1.8 In October 1998, when program adjustments based on the consultants' review were under discussion with the Nicaraguan authorities, the havoc wreaked by Hurricane Mitch made it necessary to alter key parameters in the plant design. The heavy rains from the hurricane caused the water in the lake to rise well above the level previously projected for the construction period, adding considerably to the construction costs. Also, the probability distribution of the maximum flows into the lake and the lake's maximum probable levels needed to be revised upwards because of the hurricane itself. As a result, it was felt that the embankments around the ponds would need to be higher than previously estimated, thus increasing the cost of the project.
- 1.9 Studies were conducted after the hurricane to determine how much additional funding would be needed for works at the two sites selected, and to compare these findings with the potential costs of alternative site known as Benito Escobar located at higher elevation beyond the lake's flood plain. Also considered was the possibility of building a single plant.

- 1.10 The most recent studies show that under the new conditions the least cost alternative would be a single treatment plant at the José Benito Escobar site, using a combination of optional ponds and biological filters. This new location, however, would increase the total costs associated with the collector and conveyance system – by US\$11 million for the treatment plant and by US\$16.6 million for the wastewater collector and drain.
- 1.11 Presented in the table below is the project budget given in the document approved by the Bank in 1996, with appropriate adjustments to the KfW financing to reflect the current exchange rate of US\$1= DM1.84, as well as the adjusted cost, the financing shortfall, and supplementary project contributions proposed to meet the shortfall. At the rate in effect in 1996, the KfW financing for this component of the earlier program (NI-0027) came to US\$25 million. At the present rate it is down to US\$21.6 million.

Table I-1
Adjusted program budget

Item	1996 Budget – NI-0027			Local	Total	Adjusted cost	Financing shortfall	Local contribution	Supplemental Financing NI-0142
	FSO	KfW	NDF						
Administration	582	904	115	771	2,372	2,772	400		400
Engineering and supervision	582	904	115		1,601	2,001	400		400
Executing Unit					771	771	0		
Direct costs	13,287	17,710	4,463	761	36,221	59,818	23,597	9,597	14,000
Sanitary sewers	11,053	17,710	2,276	140	31,179	54,776	23,597	9,597	14,000
a. Collectors and interceptors	11,053		2,276		13,329	27,329	14,000		14,000
b. Treatment plant		17,189			17,189	26,786	9,597	9,597	
c. Resettlement		521		140	661	661	0		
River sanitation			2,187	505	2,692	2,692	0	0	
Modeling plan	734			116	850	850	0	0	
PPF reimbursement	1,500				1,500	1,500	0	0	
Total	13,869	18,614	4,578	1,532	38,593	62,590	23,997	9,597	14,400
Unallocated	585	2,986	366	402	4,339	7,382	3,043	1,403	1,640
Contingencies	44	1,879	139	329	2,391	4,434	2,043	1,403	640
Escalation	541	1,107	227	73	1,948	2,948	1,000	0	1,000
Financial costs	546	0	56	66	668	1,288	620	0	620
Interest	396		56		452	852	400	0	400
Credit fee				66	66	136	70	0	70
Inspection and supervision	150				150	300	150	0	150
Total	15,000	21,600	5,000	2,000	43,600	71,260	27,660	11,000	16,660

Local counterpart matching the KfW contribution consists of US\$2.4 million in equivalent value to be provided by ENACAL and US\$8.6 million to be provided under a SWAP agreement, when the government will approve the use by Nicaragua of funds of equivalent value for consolidation of debts II and III as well as funds corresponding to the equivalent value of the spread in the ENITEL. This operation will be an integral part of the German government's financing package.

- 1.12 In negotiations with the country on a new Bank operation for the modernization of ENACAL (see paragraph 1.19) and in response to a formal request from the Nicaraguan government, it was considered important to support this program with an additional loan to supplement the existing resources and to meet budget shortfall mentioned in table I-1, because of the significant benefits that would accrue, the difficult situation in the country in the aftermath of the hurricane, and the possibility that the KfW funding would be forthcoming.
- 1.13 The Bank's new operation in the amount of US\$15 million will defray the additional costs of sewage collector and drain infrastructure works, supplemented by the KfW financing component which has been structured to go entirely on financing the costs of the José Benito Escobar treatment plant. These resources will be supplemented with a contribution of US\$8.6 million from the Nicaraguan government under a debt swap operation with the German government, and contribution of US\$2.4 million from ENACAL.

C. Operations with other international agencies in the sector

- 1.14 Several donors have been making contributions to assist the water and sewer sector in Nicaragua. The Japanese government, through JICA, has made substantial donations available to increase the production capacity of groundwater wells and water conveyance to the city in order to improve Managua's potable water system.
- 1.15 As noted earlier, the German government through KfW is assisting with the Lake Managua sanitation program and plans to support a management contract for one of ENACAL's regional offices, thus helping to deepen participation by the private sector in service delivery. The NDF has already approved financing for the program, which covers part of the cost of the sewer system rehabilitation and upgrading component and the entire cost of the lakeshore drainage and disease vector control component.

D. The Bank's strategy

- 1.16 The Bank's strategy for Nicaragua is outlined in the country paper (GN-1931), in which prominence is given to the following components of the proposed project matrix: (i) support for modernization of the State and macroeconomic reform; (ii) fostering participation by the private sector in the economy, particularly in the delivery of basic services; (iii) poverty reduction and social integration of groups outside the mainstream of society; and (iv) environmental conservation.
- 1.17 The Lake Managua sanitation program approved in 1996 and for which the Bank has granted three extensions so that the conditions precedent to disbursement could be fulfilled while KfW completed its analysis of the operation, is a priority for the sector given its impact on health and the environment in Managua.
- 1.18 Under the public enterprise modernization program (PMEP, loan 933/SF-NI), the Nicaraguan government with the Bank's support initiated in 1998 a comprehensive

modernization of the legal and institutional framework governing water and sewer service in the country. Thanks to these reforms, Nicaragua now has the most sophisticated sector framework in Central America. The reforms are rooted in the new Water and Sewer Services Act (Law 297), which: (i) separates the regulatory and operator service functions; (ii) introduces a self-sustaining rate-based system; and (iii) establishes a framework for concessions that allows the private sector to deliver services on the same terms and conditions as public providers.

- 1.19 The Bank has approved a new operation (modernization of water and sewer service — NI-0097) to consolidate the process of reform, providing short-term support for ENACAL and implementing a strategy for broadening participation by the private sector in service delivery. As part of this new operation, a management/services contract will be awarded to an international private operator to improve the information systems and manage ENACAL's western region office, activities that will have a significant impact on advancing the process of sector reform in Nicaragua.

II. THE PROJECT

A. Objectives

- 2.1 The objective of the project is to supplement the financing provided under program NI-0027, so that such funding as is needed would be available to defray the additional cost of the collector and conveyance works incurred since the program was initially approved by the Bank in 1996. These additional costs, estimated at approximately US\$16.6 million, are largely attributable to the need to revise the designs in the aftermath of Hurricane Mitch.
- 2.2 The project which the Bank is helping to finance is the first stage of the Managua Sewer System Master Plan, which is part of ENACAL's financial plans to expand and improve service. The project is a vital ingredient of ENACAL's development strategy for Managua since the investment will make it possible to install house connections in its effort to expand coverage particularly in low-income neighborhoods. Despite the high level of water service coverage, only 55% of homes have sewer connections. Furthermore, investment in rehabilitating the collector network, a collector and drain network, and sewage treatment will permit treated sewage to be discharged into Lake Managua, thus eliminating the health risk posed to inhabitants. The project will also permit industrial waste that is now dumped directly into the lake to be connected up to the city's sanitary sewer system and to apply sanitation standards for pretreatment.

B. Description of the project

- 2.3 The structure of the Lake Managua sanitation program remains the same. The program is divided into three components: sanitary sewers, lakeshore sanitation, and water monitoring and quality modeling plan. The sanitary sewer component consists of rehabilitation works and additional sanitary sewers and the wastewater treatment plant.
- 2.4 This new project will supplement the KfW financing for the water treatment plant. The US\$16.6 million in funding will go mainly to the sewage collector and conveyance system, which is to be extended to the site of the new treatment plant.
- 2.5 The funding approved by the Bank for program NI-0027 and the NDF financing will continue to be allocated as originally planned

C. Cost and financing

- 2.6 The cost of this supplementary project will be US\$16.6 million, as indicated in the following table.

Table II-1 Total cost of the program (in US\$000s)			
Item	IDB	Local	Total
1. Administration	400	0	400
1.1 Engineering and supervision	400	0	400
1.2 Executing Unit			
2. Direct costs	14,000	0	14,000
2.1 Sanitary sewers	14,000	0	14,000
a. Collectors and interceptors	14,000		14,000
b. Treatment plant		0	
c. Resettlement		0	
2.2 Lakeside sanitation			0
2.3 Modeling plan	0		
2.4 PPF reimbursement	0		
Subtotal	14,400	0	14,400
3. Unallocated	50	1,590	1,640
3.1 Contingencies	50	590	640
3.2 Escalation	0	1,000	1,000
4. Financial expenses	550	70	620
4.1 Interest	400	0	400
4.2 Credit fee		70	70
4.3 Inspection and supervision	150		150
Total	15,000	1,660	16,660

D. Preparedness

- 2.7 Feasibility studies have been concluded for the entire project and were used as a basis for estimating the cost adjustments for the wastewater treatment component. The design studies will be completed in the second half of 2000.

III. PROJECT EXECUTION

A. Execution

- 3.1 The Lake Managua sanitation program will be carried out by three different entities as originally planned: Instituto Nicaragüense de Acueductos y Alcantarillado (INAA), the Ministry of Health (MINSA), and Instituto Nicaragüense de Estudios Territoriales (INETER). All of the components assigned to the INAA will be carried out by ENACAL, its successor company created as a result of the institutional reform of the sector.
- 3.2 The activities to be financed under the present supplementary project will be carried out by ENACAL, using the same structure set out in the original design.

B. Conditions

- 3.3 In addition to any general conditions, the loan contract will contain the following special contractual conditions:

1. Precedent to the first disbursement

- 3.4 That a funds transfer agreement has been signed and executed between the borrower and ENACAL, whereby the latter assumes the obligations falling to it as executing agency of the program and it is established that the borrower will transfer to ENACAL, as a loan, the proceeds of the financing.
- 3.5 That the special conditions precedent to the first disbursement as specified in subparagraphs (a), (b), and (c) of clause 3.02 of IDB loan contract PO-978/SF-NI for the Lake Managua and city of Managua environmental upgrading program have been fulfilled.
- 3.6 That an agreement has been signed and executed between the borrower and the Government of the Federal German Republic, whereby the latter undertakes to transfer to ENACAL the proceeds of the cofinancing up to the equivalent of US\$25 million as provided in the contract for the aforesaid environmental upgrading program (PO-978/SF-NI).

2. Conditions previously fulfilled

- 3.7 The loan contract shall record the conditions fulfilled by the borrower before the operation was approved, to wit:
- a. Evidence that the KfW has approved cofinancing in an amount equivalent to US\$25 million.

IV. THE BORROWER AND THE EXECUTING AGENCY

A. The borrower and the executing agency

- 4.1 The borrower will be the Republic of Nicaragua and the executing agency will be ENACAL, as provided in the initial program design. This company was created pursuant to Law 276 of January 1998 from the assets of the former INAA as part of the sector reforms. ENACAL, a commercial company with legal personality and equity of its own, is managed by a board of seven directors who are appointed by the President of the Republic. The chairman of the board, who also serves as executive president, is responsible for management of the company and acts as its legal representative, with general powers of attorney. A special executing unit, now functioning within ENACAL, will carry out the project.

B. ENACAL's financial condition

- 4.2 The table below presents ENACAL's financial highlights and operating data since 1996:

Table IV-1
ENACAL's financial condition

ENACAL's financial highlights	1996	1997	1998	1999*
Water production (000s m ³)	185,835	203,649	209,578	216,746
Water invoiced (000s m ³)	98,957	102,193	109,431	113,299
Unmetered water (%)	46.8%	49.8%	47.8%	52.21%
Operating income (US\$)	\$30.4 M	\$33.2 M	\$39.2 M	\$54.3 M
Operating costs (US\$)	\$28.6 M	\$28.2 M	\$41.2 M	\$43.4 M
Net income (US\$)	\$1.7 M	\$5.0 M	(\$2.0 M)**	\$10.9 M
Operating margin (%)	99.4 %	87.6%	107.1%	85.8%
Net fixed assets (US\$)	\$151.8 M	\$153.5 M	\$148.0 M	\$172.8 M
Self funding (US\$)	\$5.51 M	\$8.51 M	\$4.17 M	\$16.46 M

* Estimated amounts for 1999.

** The highly negative result for 1998 is attributable to extraordinary adjustments to correct distortions in the financial statements for previous periods.

- 4.3 The substantial upward adjustment in ENACAL's rates in 1999 (the average rate rose from US\$0.25/m³ in 1998 to US\$0.39/m³ in 1999) made it possible, combined with an increase in invoiced volume, to increase revenue significantly in conjunction with a higher level of self-financing.

- 4.5 ENACAL's cash flow is now favorable, with an operating surplus equivalent to 30% of revenue for 1999 (operating ratio of 69%). The level of self-funding should continue to improve in the foreseeable future, as a result of the rate adjustment planned for the year 2000, improved corporate efficiency, and the effect of long-term marginal costs starting in 2001.
- 4.6 ENACAL's favorable financial situation for the next few years is also due to a lighter financial burden since most of its assets come from donations and/or soft loans transferred to the sector by the Nicaraguan government. The company's financial structure shows a debt to equity ratio of just 39%, with very low debt service, giving the company substantial borrowing capacity.

V. VIABILITY

A. Technical viability

- 5.1 The technical viability of the operation has been studied in terms of the master sewer plan and the subsequent reviews. The alternative selected is technically feasible and is the least-cost solution for the new design conditions.

B. Economic viability

- 5.2 The economic analysis of this supplemental operation should be done in light of the total cost of the sanitation program and its benefits. The Lake Managua sanitation program was evaluated during the analysis of program NI-0027 (approved in 1996) and it was found to have an internal rate of return of 16.2% and a net present value of US\$18.1 million, discounted at a rate of 12%. That evaluation was updated during the analysis of the new operation, using the same estimates as in the analysis of program NI-0027 and the updated costs of the most recent studies including the design modifications needed in the wake of Hurricane Mitch.
- 5.3 The previous estimates were reckoned on the basis of a contingent valuation of improvements in the water quality of Lake Managua conducted in 1995. It was found that the average willingness to pay of homes in Managua was \$C29.1 per month, an amount equivalent at the present time to approximately US\$3.72/month. This same study found that the willing to pay was less, at \$C24.1/household-month, or US\$3.03 per household-month as of June 1999. These benefits apply solely to improvements in the quality of the water in the lake and along its shores and do not take into consideration any expansion of sewer service since the program does not envisage investments in this area. The 25-year demographic projections based on the 1995 census were used to determine the benefits.
- 5.4 The costs considered include investment and operating costs of water treatment plants, investment and operating costs of collectors and drains in the city, and sanitation costs along the shore. The sewer collector system costs include investment to be made under the Lake Managua sanitation program (projects NI-0027 and NI-0142) and investment scheduled in the 2002-2015 master plan.
- 5.5 Based on this information, the internal rate of return for the benchmark willingness to pay (US\$3.72/month) at market prices is 14.5% and the net present value discounted at a rate of 12% US\$9.8 million. Using the lower benefit level (US\$3.03/month) gives an internal rate of return at market prices of 11.72% and a net present value discounted at negative 12% of US\$1.03 million.

- 5.6 If investment and operating costs are adjusted to take into account the same conversion factors used in the previous evaluation, the internal rates of return are 15.1% for the benchmark benefits and 12.3% for the lower level.
- 5.7 Considering that the portion of the financing granted as a donation by the German government is predicated on the existence of the project, in other words, it would not be forthcoming unless the project materializes, the evaluation results improve substantially. In this case, the rate of return at market prices is 17.8% for the benchmark level and 14.94% for the lower level benefits.
- 5.8 According to the foregoing analysis, the program is still attractive when the additional costs of the supplementary operation are factored in.

C. Distributive impact

- 5.9 The project does not entail any specific performance indicators to gauge poverty reduction and enhancements in social equity. The justification for a PTI classification for this operation is that its objectives and investments match those of program NI-0027, which was classified as a PTI.

D. Environmental viability

- 5.10 The program was analyzed prior to approval of program NI-0027, and it was found that the investments would have a favorable environmental impact and a monitoring plan was established. The financing for program NI-0027 includes the costs of this plan. Some families will have to be moved because of the construction works. Accordingly, all of the actions required under the Bank's policies have been planned since loan NI-0027 was approved.

RGII-NI166P
NI-0142
Original: Spanish

PROPOSED RESOLUTION

NICARAGUA. LOAN No. ____ / SF-NI TO THE REPUBLICA DE NICARAGUA.

**(Program of Support for the Execution of the Lake and City of Managua
Environmental Improvement Program)**

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the República de Nicaragua, as Borrower, for the purpose of granting it an additional financing to cooperate in the execution of the Program of Support for the Execution of the Lake and City of Managua Environmental Improvement Program. Such financing will be for the amount of up to US\$15,000,000, or its equivalent in other currencies, except that of Nicaragua, which are part of the resources of the Bank's Fund for Special Operations, and will be subject to the "Special Contractual Conditions" and to the "Financial Terms and Conditions" of the Executive Summary of the Loan Proposal.