

GRANT NO. NDF C32

**GRANT AGREEMENT**

**Developing Adaptive Capacity for Climate Change in the Transport Sector**

**under**

**Inter-American Development Bank's**

**Road Sector Support Program**

**between**

**THE REPUBLIC OF NICARAGUA**

**and**

**NORDIC DEVELOPMENT FUND**

Dated 28 Agosto/12

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## GRANT AGREEMENT

between THE REPUBLIC OF NICARAGUA (the "Recipient") and NORDIC DEVELOPMENT FUND (the "Fund").

### WHEREAS

- a) the Fund was established as a Nordic multilateral development financing institution pursuant to an agreement between the Governments of Denmark, Finland, Iceland, Norway and Sweden for the purpose of promoting economic and social development in developing countries through participation in financing on concessional terms of projects of interest to the Nordic Countries;
- b) the Recipient, having satisfied itself of the feasibility and priority of the project described in Annex 1 to this Agreement (the "Project"), has requested the Fund to assist in the financing of the Project;
- c) the Recipient has entered into a financing agreement on 3 December 2010 concerning the NI-L1049: Support to Transportation Sector I, approved on 27 October 2010, with the Inter-American Development Bank (the "Lead Agency") to assist in the financing of the Project;
- d) the Project will be carried out by the Ministry for Transport and Infrastructure (MTI) (the "Implementing Agency"). The Recipient will make the proceeds of the Grant (as defined in Article 1) available to the Implementing Agency as provided for in this Agreement;
- f) the Fund, in accordance with a co-operation agreement dated 26 January 2010, may request the Lead Agency to carry out on behalf of the Fund the monitoring and evaluation of the part of the Project to be financed by the Fund according to the Lead Agency's usual procedures;
- g) the Recipient and the Fund have on 19 May 1999 entered into an agreement on the legal status of the Fund in Nicaragua;
- h) the Fund has agreed, on the basis, inter alia, of the foregoing, to extend the Grant to the Recipient upon the terms and conditions set forth in this Agreement;

NOW IT IS AGREED:

## ARTICLE I

### Definitions

1.01 Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the Preamble to this Agreement have the meanings therein set forth, and the following additional terms have the following meanings:

"Agreement" means this particular grant agreement, including all annexes, schedules and agreements supplemental hereto, as such agreement may be amended from time to time;

"Banking Day" means, in relation to any place where transactions under this Agreement have to be carried out, a day on which commercial banks in such place are neither required nor authorised to be closed;

"Closing Date" means a date after which the right of the Recipient to make drawdowns under this Agreement may be terminated by the Fund;

"Contractor" means a supplier of goods, works and/or services for the Project, selected in accordance with Annex 1 to this Agreement;

"Grant" means the grant provided for in this Agreement or any part thereof, as the context requires;

"Dollar(s)", "USD" and the sign "\$" mean the currency of the United States of America;

"EUR" and the sign "€" mean euro, the lawful currency of the member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25th March 1957), as amended by the Treaty on European Union (signed in Maastricht on 7th February 1992);

"Taxes" includes imposts, levies, fees and duties of any nature, whether in effect at the date of this Agreement or imposed thereafter.

ARTICLE II  
The Grant  
Use of the Grant - Financing of Taxes  
Disbursements

2.01 The Fund agrees to grant to the Recipient, on the terms and subject to the conditions set forth or referred to herein, an amount of up to EUR 4400 000 (four million four hundred thousand euros).

2.02 The Recipient shall be entitled to draw down the Grant in accordance with the provisions of this Agreement, for the purpose of paying eligible expenditures incurred in respect of the reasonable cost of goods, works and services required for the Project and to be financed by means of the Grant.

2.03 Unless the Fund shall agree otherwise, no amount of the Grant shall be drawn or be applied, directly or indirectly, on account of expenditures incurred prior to the date of this Agreement.

The use of any of the proceeds of the Grant to pay for Taxes levied by, or in the territory of, the recipient on or in respect of eligible expenditures, or on the importation, manufacture, procurement or supply of goods, works and services for such eligible expenditures, if permitted pursuant to this Agreement, is subject to the Fund's policy of requiring economy and efficiency in the use of the proceeds of its grants. To that end, if the Fund at any time determines that the amount of any such Tax is excessive, or that such Tax is discriminatory or otherwise unreasonable, the Fund may, by notice to the Recipient, adjust the percentage of such expenditures to be financed out of the proceeds of the Grant, as required to ensure consistency with such policy of the Fund.

2.04 Drawdowns shall reflect the implementation of the Project. The proceeds of the Grant shall be paid [in accordance with the Fund's Disbursement Instructions] (i) directly to the Contractor(s), or (ii) to a third party for eligible expenditures under special commitments entered into, in writing, at the Recipient's request and on terms and conditions agreed between the Fund and the Recipient, or (iii) to one or more special accounts opened for the purposes of the Project on terms and conditions acceptable to the Fund.

2.05 Subject to the conditions of disbursement specified in Article III having been, and remaining, fulfilled to the Fund's satisfaction, disbursements under the Grant shall be made upon receipt by the Fund of (i) a disbursement request acceptable to the Fund, duly documented, and submitted by or on behalf of the Recipient, or (ii) in case of special commitment, a payment request submitted by the third party to whom the special commitment was provided by the Fund.

2.06 Each disbursement shall be made on a date determined by the Fund. Unless the Recipient has requested disbursement on a specified later date, disbursement will normally be made not later than 30 calendar days after receipt of the disbursement request, provided that all conditions precedent to disbursement set out in Article III hereof have been fulfilled.

2.07 The Closing Date shall be 31.12.2017, or such later date as the Fund shall establish. The Fund shall promptly inform the Recipient of such later date.

ARTICLE III  
Conditions of Disbursement

3.01 Unless otherwise agreed, the making of disbursements from the Grant shall be subject to the conditions precedent that

(a) this Agreement is in full force and effect, and no event, which would entitle the Fund to suspend disbursements under this Agreement, shall have occurred and be continuing;

(b) the Recipient has taken or caused to be taken all action necessary or advisable to enable the Recipient to receive the Grant and to perform its obligations hereunder, including obtaining all required exemptions, consents and permits; and

(c) the Fund has received and accepted

- (i) a legal opinion showing that this Agreement has been duly authorised or ratified by, and executed and delivered on behalf of, the Recipient and is legally binding upon the Recipient in accordance with its terms;
- (ii) if requested by the Fund, further evidence satisfactory to it that the execution and delivery of this Agreement on behalf of the Recipient has been duly authorised by all necessary authorities;
- (iii) evidence satisfactory to it of the authority of the person or persons authorised to sign disbursement requests and the authenticated specimen signature of any such person;
- (iv) evidence satisfactory to it that other financing contemplated for the Project, including financing from the Recipient, has been obtained, and that conditions precedent to the effectiveness of such financing have been met;
- (v) if relevant, certified copies of implementation agreements, acceptable to the Fund, whereby the Recipient makes the Grant available to the Implementing Agencies;
- (vi) if relevant, evidence that Special Account(s) have been opened on terms and conditions satisfactory to the Fund; and
- (vii) any other documentation the Fund reasonably requests relating to the execution of this Agreement or the implementation of the Project

ARTICLE IV  
Currency Provisions

4.01 The proceeds of the Grant shall be disbursed in freely convertible currency with reference to EUR in accordance with section 4.02 hereof.

4.02 Whenever it shall be necessary for the purpose of this Agreement to determine the value of one currency or unit of account with reference to another currency or unit of account as of a given date, such value shall be as reasonably determined by the Fund.

ARTICLE V  
Co-operation and Information  
Recipient's Undertakings and Representations

5.01 The Recipient and the Fund shall co-operate fully to ensure that the purpose of the Grant will be accomplished. To that end, each of them shall furnish to the other party all such information as it shall reasonably request with regard to the general status of the Project.

5.02 (a) The Recipient and the Fund declare their commitment to counteract corrupt practices in relation to the Grant and the execution of the Project. Whenever such corrupt practices are indicated, the Recipient and the Fund shall, at the request of either party, discuss the matter with a view to agree on the form, scope and schedule of investigations and actions and, if applicable, the financing thereof.

(b) The Recipient undertakes to take all necessary action to prevent corrupt practices within its territory and to pursue, by all appropriate means, any such practices whenever identified.

5.03 The Recipient shall promptly inform the Fund of (i) any condition which interferes or threatens to interfere with the accomplishment of the purpose of the Grant (including substantial increase in the cost of the Project), and (ii) any event which with the lapse of time or otherwise would entitle the Fund to suspend disbursements under this Agreement.

5.04 The Recipient recognises that the Fund follows policies similar to other multilateral financial institutions as regards project execution.

ARTICLE VI  
Execution of the Project

6.01 The Recipient shall take or cause to be taken all action which shall be necessary to execute the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, social, environmental and climate change mitigation and adaptation practices. These practices also include transparency in project operations and wide and

easy access to public information on the project. In particular, the Recipient shall make available to the public (i) project related safeguards assessments and plans related to environment, resettlement, and indigenous peoples; (ii) audited annual financial statements for the project; (iii) procurement plans; and (iv) results of procurement procedures.

6.02 (a) The Recipient shall ensure that the proceeds of the Grant shall be used only for the financing of the Project or, as applicable, Project component(s) for which the Grant is extended. Procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Annex 1 to this Agreement as said provisions may be further elaborated in the Procurement Plan.

(b) The Recipient shall prepare a Procurement Plan in accordance with procurement guidelines acceptable to the Fund for a period covering at least 18 initial months of the project execution, and update the Procurement Plan and furnish such update to the Fund for "no objection" not later than 12 months after the date of the preceding Procurement Plan.

(c) The Recipient shall ensure that in respect of procurement of goods, works and services for the Project, invitations to tender as well as procurement contracts shall, respectively, include clauses that gives the Recipient and the buyer the right to (i) demand investigations of the tenderer's/Contractor's books by independent auditors for the purpose of ascertaining whether or not corrupt practices have taken place, (ii) reject any tender and cancel any procurement contract in case any corrupt practices have taken place in connection with the procurement procedure related to the contract or the execution thereof, (iii) claim compensation for the damage or loss arising from any such rejection of tender or cancellation of contract, and (iv) exclude the tenderer/Contractor, either indefinitely or for a certain period of time, from competing for and participating in the execution of contracts in the territory of the Recipient.

6.03 In addition to the proceeds of the Grant the Recipient shall make available or cause to be made available promptly when needed, all other funds that are required for the execution of the Project (including any funds that may be required to meet any increase in cost).

6.04 The Recipient shall insure or cause to be insured, or make adequate provision for the insurance of, the imported goods to be financed out of the proceeds of the Grant against hazards incidental to the acquisition, transportation and delivery thereof to the place of use or installation. Any indemnity for such insurance shall be payable in a freely usable currency to replace or repair such goods.

6.05 The Recipient shall:

(i) maintain records and procedures adequate to record and monitor the progress of the Project (including its cost and the benefits to be derived from it), to identify the goods, works and services financed out of the proceeds of the Grant and to disclose their use in the Project;

(ii) enable the Fund's representatives to visit any facilities and construction sites included in the Project and to examine the goods, works and services financed out of proceeds of the Grant and any plants, installations, sites, works, buildings, property, equipment, records and documents relevant to the performance of the obligations of the Recipient under this Agreement; and



(iii) furnish to the Fund at regular intervals reasonably detailed information concerning the Project, its budgeted and actual cost, the budgeted and actual expenditure of the proceeds of the Grant, and the goods and services financed out of such proceeds. Audited accounts of the use of the Grant for the preceding financial year (July - June) shall be provided not later than six months after the end of financial year each year up to and including Project completion.

6.06 Promptly after completion of the Project, but in any event not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Fund, the Recipient shall prepare and furnish to the Fund a reasonably detailed report on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it.

## ARTICLE VII Suspension and Cancellation

7.01 If any of the following events of suspension shall have occurred and be continuing, the Fund may, by notice to the Recipient, suspend in whole or in part the right of the Recipient to draw down the Grant:

- (a) The Recipient shall have failed to perform any obligation under this Agreement.
- (b) The Recipient shall have failed to make payment of principal, charges or any other amount due to the Fund under any credit, grant or guarantee agreement between the Recipient and the Fund.
- (c) The Recipient shall have failed to perform any of its obligations (other than payment obligations) under any credit or grant agreement with the Fund which gives the Fund the right to suspend in whole or in part the right of the Recipient to make drawings under such agreement
- (d) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Project can be carried out or that the Recipient will be able to perform its obligations under this Agreement.
- (e) An extraordinary situation shall have arisen in which any further disbursement by the Fund would exceed its resources available for disbursement.
- (f) A representation made by the Recipient in or pursuant to this Agreement, or any statement furnished in connection therewith, and intended to be relied upon by the Fund in extending the Grant, shall have been incorrect in any material respect.
- (g)           (i)           (A) The right of the Recipient to draw down the proceeds of any grant or loan made to the Recipient (other than by the Fund) for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or

(B) any such grant shall have become repayable or any such loan shall have become due and payable prior to the agreed maturity thereof.

- (ii) Subparagraph (i) of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Fund that (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Recipient to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

(h) The Fund shall have determined, with respect to any contract to be financed in full or in part out of the proceeds of the Grant, that corrupt, fraudulent, collusive, coercive or obstructive practices, as determined by the Fund, were engaged in by representatives of the Recipient or any beneficiary of the Grant during the procurement of goods and services, consultants' selection or the execution of a contract, without the Recipient having taken timely and appropriate action satisfactory to the Fund to remedy the situation; or the Fund shall have determined that the procurement of any goods or services to be financed out of the proceeds of the Grant is inconsistent with the relevant procedure agreed on between the Recipient and the Fund.

(i) The Recipient has failed to pay any of its external debt to a multilateral financial institution.

(j) Payments to the Recipient are prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

The right of the Recipient to draw down the Grant shall continue to be suspended in whole or in part, as the case may be, until the event or events which gave rise to such suspension shall have ceased to exist, unless the Fund shall have notified the Recipient that the right to draw down has been restored in whole or in part, as the case may be.

7.02 If (a) the conditions precedent to the first disbursement have not been fulfilled 90 calendar days after the date of this Agreement, or (b) the right of the Recipient to draw down the Grant shall have been suspended for a continuous period of thirty days, or (c) at any time, the Fund determines, after consultation with the Recipient, that an amount of the Grant will not be required to finance the Project's costs to be financed out of the proceeds of the Grant, or (d) at any time the Fund determines, with respect to any contract to be financed in full or in part out of the proceeds of the Grant, that corrupt, fraudulent, collusive, coercive or obstructive practices, as determined by the Fund, were engaged in by representatives of the Recipient or any beneficiary of the Grant during the procurement of goods and services, consultants' selection or the execution of a contract, without the Recipient having taken timely and appropriate action satisfactory to the Fund to remedy the situation; (e) after the Closing Date, an amount of the Grant shall remain undrawn, the Fund may, by notice to the Recipient, terminate the right of the Recipient to draw down the Grant or, as

applicable, the relevant amount of the Grant. Upon the giving of such notice, the Grant or the relevant amount of the Grant, shall be cancelled.

7.03 Notwithstanding any suspension or cancellation, all the provisions of this Agreement shall continue in full force and effect except as specifically provided in this Article.

## ARTICLE VIII

### Repayment

8.01 The Recipient shall upon the Fund's demand promptly repay to the Fund (or, if applicable and agreed by the Fund, to the Special Account) any amount of the Grant used in a manner inconsistent with the provisions of this Agreement.

8.02 The Recipient shall upon the Fund's demand promptly repay to the Fund any amount of the Grant standing to the credit of a Special Account if the Fund determines, after consultation with the Recipient, that such amount will not be required to finance the Project's costs to be financed out of the proceeds of the Grant.

## ARTICLE IX

### Enforceability and Arbitration

#### Failure to Exercise Rights

#### Waiver of Immunity

9.01 The rights and obligations of the Recipient and the Fund under this Agreement shall be valid and enforceable in accordance with the terms hereof notwithstanding the law of any state or political subdivision thereof to the contrary. Neither the Recipient nor the Fund shall be entitled in any proceeding under this Article to assert any claim that any provision of this Agreement is invalid or unenforceable because of any provision of the Articles of Agreement or the Statutes of the Fund.

9.02 Any dispute, controversy or claim arising out of or relating to the interpretation, application or performance of this Agreement, including its existence, validity or termination, which has not been settled by agreement of the parties within 60 calendar days, shall be settled by final and binding arbitration under the Permanent Court of Arbitration Optional Rules for Arbitration Involving International Organizations and States, as in effect on the date of this Agreement.

The place of arbitration shall be Paris and the language of the arbitral proceedings shall be English.

9.03 Service of any notice of process in connection with any proceeding under this Article may be made in the manner provided for in section 10.02 hereof. The parties hereto waive any and all other requirements for the service of any such notice of process.

9.04 No delay in exercising or omission to exercise any right, power or remedy accruing to any party under this Agreement upon default or otherwise shall impair any such right, power or

remedy or be construed to be a waiver thereof, nor shall any action of such party in respect of any default affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

9.05 The parties hereby expressly waive any right of immunity they might have on the grounds of sovereignty or otherwise in connection with any arbitral proceeding pursuant to section 9.02 hereof or with the enforcement of any award pursuant thereto.

## ARTICLE X Miscellaneous Provisions

10.01 The Minister of the Recipient at the time responsible for finance is designated as representative of the Recipient for the purposes of signing and executing on behalf of the Recipient any documents used in connection with this Agreement. This notwithstanding, an Implementing Agency and the Fund may agree in writing upon any change to, or further specification of, Annex 1, Project Description, including the attached Procurement Schedule, provided that the amount of the Grant will not be increased, and any such change or further specification shall be deemed an integral part of this Agreement.

10.02 Any document, notice or request required or permitted to be given or made under this Agreement shall be made in writing in the English language and may be delivered (i) by airmail or internationally recognised courier service, (ii) by telefax, or (iii) by other electronic means to the party to which it is required or permitted to be given or made, at such party's address specified below or at such other address as such party shall have designated by notice to the other party. Any document, notice or request expressly required under this Agreement shall, if given by telefax or by other electronic means, promptly be confirmed by letter, and the Fund shall not be under any obligation to take any action until receipt of such letter.

For the Fund:

Nordic Development Fund

P.O. Box 185

FIN-00171 Helsinki

Finland

Tel: +358 10 618002

telefax: +358 9 622 1491

For the Recipient:

Ministry of Finance and Public Credit

Avenida Bolívar, Frente Asamblea Nacional

Apartado Postal No. 28

Managua, Nicaragua

tel: + 505 2222 6565

telefax: +505 222 3033/222 2934

For the Implementing Agency:

Ministry of Transport and Infrastructure (MTI)  
P.O. Box 26, frente al Estadio Nacional de Baseball  
Managua, Nicaragua

Tel: +505 2222 5111 / 5952 / 5955      telefax: (505) 2228-2060

10.03      The Fund may disclose this Grant Agreement and any information related to this  
Grant      Agreement in accordance with its policy on access to information, in effect at the time  
of          such disclosure.

10.04      This Agreement is made in two copies each of which shall be an original.

10.05      The following annex forms part of this Agreement:

Annex 1      Project Description

IN WITNESS WHEREOF the parties hereto, acting through their duly authorised representatives,  
have caused this Agreement to be signed with their respective names as of  
28, Agosto 2012.

THE REPUBLIC OF NICARAGUA

By: \_\_\_\_\_

◇ Ivan Acosta

NORDIC DEVELOPMENT FUND

By: \_\_\_\_\_

◇ HELGE SEMB

Managing Director

By: \_\_\_\_\_

◇ SATU SANJIRA  
Member of the Board

## ANNEX 1: PROJECT DESCRIPTION

**GRANT NUMBER NDF C 32**

### **Grant Agreement: Developing Adaptive Capacity for Climate Change in the Transport Sector, Nicaragua**

#### **Key Project Information:**

<b>Sector:</b>	Transport, climate change adaptation
<b>Recipient country:</b>	Nicaragua: Ministry of Transport and Infrastructure (MTI)
<b>Lead Agency/ Partner Agency:</b>	Inter-American Development Bank
<b>Project implementation period:</b>	10/2012-12/2017 (5 years). Closing date is 31 December 2017.
<b>Cost Estimate and Financing Plan:</b>	<p>The total budget for the Program is USD 59.2 million. Lead Agency share: USD 54 million. Government of Nicaragua will provide USD 0.26 million as counterpart funding.</p> <p><b>NDF-grant:</b> EUR 4.4 million for: <b>Technical Assistance: (Consultants' services)</b> Technical studies and consultancies: EUR 2,320,000 Evaluations: EUR 80,000 <b>Small-scale infrastructure and equipment: (Goods/Works)</b> Works (pilot projects): EUR 1,600,000 Equipment: EUR 120,000 <b>Capacity Building and Audit:</b> EUR 245,000 <b>Contingencies:</b> EUR 35,000</p>

#### **Relevance and rationale for**

**NDF's climate change mandate:** The project is a climate change adaptation project that is in line with NDF strategic focus areas: infrastructure and capacity building. The project is consistent with NDF's mandate, and satisfies the NDF project screening and general development criteria.

## **SCHEDULE I: PROJECT DESCRIPTION**

### **1.1 Introduction**

Three of the eleven NDF credits provided to Nicaragua have been within the road transportation sector: NDF 57, NDF 341 and NDF 423. The three projects focused on road construction, maintenance and environmental management. The implementing agency for these credits was the Ministry of Transportation and Infrastructure (MTI). To follow up and build on a positive sector experience and in the light of the NDF climate mandate, MTI and IDB invited NDF to participate in the new Road Sector Support Program. The role of NDF would be to assist with developing capacity for climate change adaptation into the road sector in Nicaragua. This role is also in line with the NDF *Regional Profile for Central America* (2010) which identifies a need for strengthening capacity at both national and local levels in addition to combining capacity-building with concrete adaptation efforts.

The IDB Road Sector Support Program is being approved in three stages as three loans under one umbrella programme. The first was the NI-L1049: Support to Transportation Sector I, approved on 27 October 2010, the second was prepared in 2011 and is planned to be fully approved in July 2012. NDF has met several times with representatives of MTI and the IDB team to discuss structure and contents of the programme. NDF assigned a Nicaraguan consultant to assist with project formulation and preparation.

The proposed adaptation project will enhance the IDB Program through development of adaptive capacity in the road sector and secure climate-proofing of works to be undertaken with support from the programme (upgrading of 380 km and maintenance of other 580 km of national roads). Practical experience will be gained through NDF-supported strategic pilot projects on addressing vulnerability to climate change in planning, design, construction and maintenance. The focus of the programme is on rehabilitation and maintenance of critical parts of the national road infrastructure network, which plays a key role in the country's development by providing essential transport and access services.

### **1.2 Relevance and Rationale**

Central America has coastline on both the Atlantic and Pacific Oceans, making the region subject to greater frequency and intensity of extreme climate phenomena. Climate projections for Central America show a steady increase in extreme weather events.

Nicaragua has one of the lowest road densities per person of any Latin American country. The road infrastructure is increasingly affected by climate change,<sup>1</sup> and the economic impacts, especially from severe rainfall events, are often substantial, mainly through loss of access due to damage to roads, culverts, and bridges.

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<sup>1</sup> Almost 2% of annual GDP in Nicaragua was lost due to extreme weather events in the period 1991-2010. Global Climate Risk Index 2012.

The Ministry of Transport and Infrastructure is the agency responsible for organising and directing transport policy and for planning, preparing, contracting and administering road improvement, construction and rehabilitation projects. MTI currently has no methodology for considering the impacts of climate change phenomena when planning its investments. The knowledge base in the Ministry is insufficient, technical capacity and tools are needed, norms and standards are outdated, and climate change aspects are not part of the present road planning system.

The National Road Maintenance Fund (FOMAV) was established in 2005 with support from the World Bank and IDB with the objective of providing regular maintenance of the existing road network. FOMAV is financed by a gasoline and diesel tax that at present amounts to an annual budget of USD 24 million. The ongoing efforts by MTI and FOMAV to maintain the national road network are not adequate since there is a large backlog of rehabilitation and maintenance needs exceeding the available funding. Furthermore, many existing roads are of sub-standard quality, and the weight control is insufficient. These issues are interrelated in the sense that they increase the climate vulnerability of the existing roads and decrease the life span of individual roads and the entire road network. This situation has led to an adaptation deficit in the road sector that will continue to grow unless an adaptation programme is put in place.

The IDB sector support program will address several of the key issues related to road quality, weight control, capacity and funding. NDF support will focus on the incremental changes in risks and the longer-term climate change impacts. This will be done through building institutional adaptive capacity, methodology and tools development, revision of norms and technical standards, and integration of climate change aspects into road planning and design.

The NDF component has been assessed according to the NDF climate change screening guidelines and the result was positive. The screening of the NDF component indicated that about 65% of the costs were directly climate-related.

At present, NDF supports three climate change projects in Nicaragua and six regional projects that include activities in Nicaragua. There are clear synergies with several of these ongoing projects such as the climate and disaster management project (NDF C17), which will develop down-scaled climate models and municipal adaptation plans. The cost scenarios and policy recommendations being developed in the regional project (NDF C23) on the economics of climate change could feed into the capacity and awareness activities in the proposed project.

### **1.3 Objective**

The Road Sector Support Program has the general objective of making road transport in Nicaragua more efficient in order to stimulate economic activity and contribute to the well-being of the population, while facilitating integration within the country and with the rest of Central America. The objective of the proposed adaptation component is to develop adaptive capacity in key institutions and integrate climate change aspects into planning and design of road transport infrastructure.



## 1.4 Project Activities and Expected Results

The IDB programme has five components: a) upgrading of 380 km of rural access roads and the trunk network, including paving work, structural reinforcement, drainage, geometric improvement, and replacement or construction of bridges; b) contribute to improving MTI management and control over vehicle weights and dimensions plus a strengthening of the MTI Municipal Roads Department; c) road safety including signage, sidewalks and bicycle paths; d) vulnerability and climate adaptation; and e) strengthening institutional planning and management capacity of FOMAV in addition to financing of 580 km special maintenance works.

## 1.5 NDF's Components

The NDF support will contribute to building adaptive capacity in the organisational culture of MTI and related institutions (FOMAV, INETER, MARENA and selected Municipalities). NDF funding will support MTI in mapping the sites in the national road network that are most vulnerable to threats such as hurricanes, flooding, landslides and sea-level rise. In addition, MTI will contract consulting services to formulate methodological tools for intervention, training and capacity-building, especially in its Environmental Management Unit. These actions will establish institutional conditions so that the present and future road works will include measures to deal with the system's vulnerability to climate change. The NDF component will have the following contents:

### 1) Increased adaptive capacity of MTI and related agencies to integrate climate change adaptation into their activities

Activities	Outputs
<ul style="list-style-type: none"> <li>• Map relevant stakeholder capacity at central and municipal level, and their readiness to undergo changes</li> <li>• Identify capacity needs and expected outputs</li> <li>• Develop training and capacity plan</li> <li>• Procurement of hardware and software to be able to downscale climate models</li> <li>• Review of the technical standards, manuals, and design criteria in order to include the issue of vulnerability to climate change in planning, design and operation of the road infrastructure</li> <li>• Disseminate and provide training on the revised technical standards and guidelines to relevant stakeholders including municipalities and private sector</li> <li>• Prepare and facilitate workshops and training sessions on climate change adaptation in the transport sector</li> </ul>	<ul style="list-style-type: none"> <li>• Baseline of current capacity regarding climate change adaptation within the relevant institutions established</li> <li>• Overall capacity development plan prepared</li> <li>• MTI, FOMAV, INETER, MARENA and selected Municipalities have strengthened technical and institutional capabilities to undertake road network adaptation to climate change impacts</li> <li>• Design standards revised, implemented and applied</li> <li>• All relevant MTI standards, manuals and design criteria revised to include adaptation to climate change</li> <li>• Revised technical standards known by relevant municipal staff and private sector entities.</li> </ul>

## 2) Improved knowledge base for planning and decision-making related to climate-proofing of roads

Activities	Outputs
<ul style="list-style-type: none"> <li>Establish inter-institutional cooperation between MTI, FOMAV, INETER, and other key institutions including universities and research centres</li> <li>Collect credible climate data and prepare climate change profile and vulnerability scenarios</li> <li>Downscaling of climate change models to refine the identification of potential climate impacts on road infrastructure</li> <li>Vulnerability mapping of road network</li> <li>Develop no-regret options for road adaptation measures that will provide win-win situations for involved stakeholders</li> <li>Develop priority/decision-making tool for climate-proofing that takes into account risks and economic assessments plus short- and long-term sustainability issues</li> <li>Use the climate-proofing tool to identify and screen possible candidates for selection of projects to pre-investment level.</li> </ul>	<ul style="list-style-type: none"> <li>Inter-institutional cooperation and exchange mechanism established</li> <li>Necessary climate change data made available, climate change profiles and vulnerability mapped</li> <li>List of adaptation measures developed</li> <li>Revised and updated vulnerability mapping of roads</li> <li>Climate-proofing tool for selection and prioritisation</li> <li>The road projects identified in vulnerability mapping screened with the climate-proofing tool</li> </ul>

## 3) Experience developed through pilot projects

Activities	Outputs
<ul style="list-style-type: none"> <li>Identification and selection of pilot projects and elaboration of pre-investment studies and design</li> <li>Implementation of 2-3 pilot projects to explore adaptation measures (methods, technology, approach and organisation)</li> <li>Monitor, collect and document lessons learned from pilot projects to feedback into policy-making and knowledge management processes.</li> </ul>	<ul style="list-style-type: none"> <li>Pilot project(s) identified, pre-investment studies elaborated and design completed with climate change adaptation measures</li> <li>Pilot projects implemented</li> <li>Knowledge and lessons learned in climate change adaptation from pilot projects collected and systematized</li> <li>Policy briefs prepared.</li> </ul>

## 1.6 Cost Estimates and Financing Plan

The costs of the NDF component will be EUR 4.4 million. The following two tables provide an overview of the financing to the programme plus a summary of the detailed NDF budget by cost category:

**Table 1: Overview of financing**

Financing	IDB	NDF	GoN	Total
EURO	45.0	4.4	0.1	49.5
Per cent	90.2%	9.7%	0,1	100%

**Table 2: Summary budget**

No.	Category	Budget EUR
1.	International long-term TA (30 months)	620,000
2.	Short-term TA, modelling and technical studies	1,700,000
3.	Training incl. study tour	200,000
4.	Equipment	120,000
5.	Pilot projects	1,600,000
6.	Mid-term and final evaluation	80,000
7.	Audits	45,000
8.	Contingencies	35,000
	Total	4,400,000

Cost category 2 includes vulnerability mapping, revision of norms and standards, down-scaling of climate models, data collection, technical studies and detailed design for investments, monitoring plus a pool of short-term Technical Assistance (economics, engineering, sociology, geology, hydrology, gender, etc.). Training includes national staff, municipal staff and private sector. Equipment includes GIS, mapping software, computers, GPS, and digital cameras. Pilot projects cover works (construction materials, slope protection, flood and drought management, climate monitoring). It is planned to have an external mid-term evaluation and a final evaluation.

It is planned to have one large consultancy contract that will cover cost categories 1, 2, 3 and 5 (long- and short-term TA, studies, training and pilot projects). The two evaluations (cost category 6), equipment (cost category 4) and audits (cost category 7) will be procured under separate contracts.

## **SCHEDULE II: IMPLEMENTATION ARRANGEMENTS, PROJECT MONITORING, REPORTING AND EVALUATION**

### **2.1 Project Organization**

The NDF component will be implemented by Ministry of Transport and Infrastructure through an existing Project Coordination Unit. This unit is in charge of coordinating projects financed by IDB. An International Technical Adviser (ITA) financed by NDF will be placed in this unit overseeing activities across the project. The ITA would be responsible for providing training and technical assistance to MTI, FOMAV, INETER and Municipalities. Additional specialist inputs will be provided through short-term TA.

A Steering Committee (SC) will be created in order to monitor progress and make decisions on the project. The SC will be composed of key appointed persons from each institution involved in the project. This includes MTI, INETER, FOMAV and MARENA. An ad-hoc technical committee will be established to coordinate studies and technical work.

### **2.2 Project Reports and Completion Report**

The implementing agency shall prepare Progress Reports in accordance with the provisions of Section 6.05 of the Grant Agreement and on the basis of indicators specified for the whole Road Sector Support Programme. Each progress report shall cover a six-month period and shall be furnished to NDF not later than 60 days after the end of the six-month period. The reporting of progress of the NDF-components will be integrated into the overall progress reports of the Programme.

The recipient shall prepare the Completion Report in accordance with the provisions of Section 6.06 of the Grant Agreement. The Completion Report shall be furnished to NDF not later than six months after the closing date and may be integrated in the overall Completion Report of the Road Sector Support Programme.

### **2.3 Financial Reporting/Audits**

The Project will be audited by the Auditor General of Nicaragua as is required for all government projects. The implementing agencies will submit an audit report to the Inter-American Development Bank and NDF within six months after the end of the financial year. This audit report will also include an audit of the NDF funded activities. The implementing agency MTI will furthermore contract the services of an independent auditing firm to perform the external audit of the financial statements of the project. The scope and Terms of Reference for the external audit shall be established according to the IDB rules for selecting and contracting of audit firms (OP-273-1) and shall be consulted with NDF prior to contracting. The external audit report must be submitted to the Inter-American Development bank and NDF each year no later than six months after the end of each financial year.

## **2.4 Monitoring and Evaluation**

Monitoring of outcome-based indicators will take place twice annually and compared against an agreed baseline. A baseline study will take place in the inception phase of the Project. MTI assisted by the International Technical Adviser and in close coordination with the other institutions will be responsible for establishing the baseline, collecting data for each indicator, and reporting. Mid-term and end-of-project evaluation are planned to take place during the second and fourth year of the Project. A draft results-based monitoring framework is in place for the NDF component.

## SCHEDULE III: GRANT PROCEEDS, DISBURSEMENT, ELIGIBLE EXPENDITURES

### 3.1 Disbursement

The Recipient may request disbursement of the grant proceeds in accordance with the provisions of the Grant Agreement, this Schedule and such additional instructions as NDF may specify by notice to the Recipient.

The disbursements are subject to the stipulations in the Grant Agreement and may be made to finance eligible expenditures for the project through direct payment to consultants, suppliers, contractors and service providers.

Requests by the Recipient for direct payments to consultants, suppliers, contractors and service providers shall be supported by copies of invoices, certificates and other necessary documents as well as by copies of or references to contracts signed with the payees.

The size of each transfer will eventually be determined in the contracts, and the timing will depend upon progress. The disbursement schedule is tentatively estimated to be as follows:

**Table 3: Provisional Disbursement Schedule (EUR million)**

	2012	2013	2014	2015	2016	2017	Total
<b>Per cent</b>	5%	10%	20%	25%	20%	20%	100%
<b>Amount EUR</b>	220,000	440,000	880,000	1,100,000	880,000	880,000	4,400,000

### 3.2 Eligible Expenditures

The following table specifies the categories of eligible expenditures that may be financed out of the proceeds of the Grant, the allocations of the amounts of the Grant to each category and the percentage of expenditures to be financed in each category.

**Table 4: Definition of Eligible Expenditures**

Category	Amount of the Grant Allocated (EUR)	Percentage of Expenditures to be Financed (including taxes)
<b>A. Component 4: Vulnerability and climate adaptation</b> <b>A.1 Consultants' fees and expenses</b> (foreign and local consultants, long-term and short-term technical assistance, modelling and studies)	2,320,000	100%

<b>A.2 Training and study tour</b>	200,000	100%
<b>A.3 Goods (equipment)</b>	120,000	100%
<b>A.4 Works (pilot projects)</b>	1,600,000	100%
<b>B: General</b>		
<b>B.1 Audit costs</b> (external audit company)	45,000	100%
<b>B.2 Consultants' fees and expenses</b> (foreign and local consultants, mid-term and final evaluation)	80,000	100%
<b>B.3 Contingencies A + B</b> (unallocated)	35,000	[100%]
<b>Total</b>	<b>4,400,000</b>	

The contingencies can with acceptance from NDF be used to finance eventual cost overruns in categories A1-A4 and B1-B2, respectively.

## SCHEDULE IV: PROCUREMENT

### 4.1 NDF General Procurement Guidelines

*All goods, works and services* (other than consultants' services) shall be procured in accordance with the provisions of Section 4 of the "NDF General Procurement Guidelines for Grant-financed Projects", and with the provisions of this Schedule.

*All consultants' services* shall be procured in accordance with Section 5 of the "NDF General Procurement Guidelines for Grant-financed Projects", and with the provisions of this Schedule.

### 4.2 Particular Methods of Procurement of Goods, Works and Services

#### A. International Competitive Bidding

Except as otherwise provided in Section 4.5 - Procurement Thresholds - or later in this Section, contracts shall be awarded on the basis of *International Competitive Bidding (ICB)*. The provisions of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Recipient and works to be carried out by local contractors

#### B. Other Procurement Procedures

1. Goods and Services which can only be purchased from a limited number of suppliers/ service providers may be procured under contracts awarded on the basis of *Limited International Bidding*.

2. *National Competitive Bidding (NCB) and Shopping* can be used in cases defined in the Procurement Thresholds Table (see section 4.5)

3. Goods which NDF agrees meet the requirements for *Direct Contracting* may be procured in accordance with the provisions of this procurement method.

4. *Procurement from UN Agencies*. Goods which NDF agrees may be procured directly from United Nations Agencies, in accordance with the provisions of the Procurement Guidelines, or as otherwise agreed by NDF.

### 4.3 Particular Methods of Procurement of Consultants' Services

A. Except as otherwise provided in Section 4.5 - Procurement Thresholds - or later in this Section, consultants' services shall be procured under contracts awarded on the basis of *Quality- and Cost-based Selection*. The shortlist of consultants for services estimated to cost less than €100,000 equivalent per contract may comprise of entirely national consultants.

#### B. Other Procedures

1. *Selection Under a Fixed Budget*. NOT APPLICABLE in this Project



2. *Least-cost Selection*. NOT APPLICABLE in this Project

3. *Selection Based on Consultants' Qualifications* can be used in cases defined in the Procurement Thresholds Table (see section 4.5)

4. Services for tasks in circumstances which meet the requirements of the Guidelines for *Single Source Selection*, may, with NDF's prior agreement, be procured under contracts awarded on the basis of this method in accordance with the provisions of the Guidelines.

5. *Individual Consultants*. Services for assignments that meet the requirements set forth in the Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of the Guidelines. Under the circumstances described in section V of the IDB Consultant Policy Guidelines (GN-2350-9), such contracts may be awarded to individual consultants on a sole-source basis.

### 4.3 Review by NDF of Procurement Decisions

Except as the NDF shall otherwise determine by notice to the Recipient, the contracts shall be subject to Prior Review by NDF in accordance with the **Procurement Thresholds Table** (see section 4.5). All other contracts shall be subject to Post Review by NDF.

In addition, all amendments of contracts raising the initial contract value by more than 15% of original amount or above the prior review thresholds will be subject to Prior Review by NDF.

### 4.4 Procurement Thresholds

Expenditure Category	Contract Value Threshold (EUR)	Procurement Method	Contracts Subject to Prior Review (EUR)
1. Works	Above EUR 1,200,000 Below EUR 1,200,000 Below EUR 50,000	ICB NCB Shopping	All contracts Above EUR 100,000 First two contracts
2. Goods	Above EUR 120,000 Below EUR 120,000 Below EUR 30,000	ICB NCB Shopping	All contracts Above EUR 50,000 First two contracts
3. Non-consulting Services	Above EUR 175,000 Below EUR 175,000 Below EUR 30,000	ICB NCB Shopping	All contracts Above EUR 40,000 First two contracts
4. Consulting Services with Firms	Above EUR 100,000 Below EUR 100,000	QCBS Qualifications/Other	All contracts Above EUR 30,000
5. Consulting Services with individuals		Individual	Above EUR 15,000
6. All types of contracts	All contracts	Single-source/Direct contracting and TORs	Above EUR 15,000