

No. 6940

**INTERNATIONAL DEVELOPMENT ASSOCIATION
and
NICARAGUA**

Development Credit Agreement—*Managua Water Supply Project* (with related letters and annexed Development Credit Regulations No. 1). Signed at Washington, on 7 September 1962

Official text: English.

Registered by the International Development Association on 24 September 1963.

**ASSOCIATION INTERNATIONALE
DE DÉVELOPPEMENT
et
NICARAGUA**

Contrat de crédit de développement — *Projet relatif à l'approvisionnement en eau de Managua* (avec lettres y relatives et, en annexe, le Règlement n° 1 sur les crédits de développement). Signé à Washington, le 7 septembre 1962

Texte officiel anglais.

Enregistré par l'Association internationale de développement le 24 septembre 1963.

No. 6940. DEVELOPMENT CREDIT AGREEMENT¹ (*MANAGUA WATER SUPPLY PROJECT*) BETWEEN THE REPUBLIC OF NICARAGUA AND THE INTERNATIONAL DEVELOPMENT ASSOCIATION. SIGNED AT WASHINGTON, ON 7 SEPTEMBER 1962

AGREEMENT, dated September 7, 1962, between REPUBLIC OF NICARAGUA (hereinafter called the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (hereinafter called the Association).

Article I

CREDIT REGULATIONS

Section 1.01. The parties hereto accept all the provisions of Development Credit Regulations No. 1² of the Association dated June 1, 1961, (said Development Credit Regulations No. 1 being hereinafter called the Regulations) with the same force and effect as if they were fully set forth herein.

Article II

THE CREDIT

Section 2.01. The Association agrees to make available to the Borrower, on the terms and conditions in this Agreement set forth or referred to, a development credit in an amount in various currencies equivalent to three million dollars (\$3,000,000).

Section 2.02. The Association shall open a Credit Account on its books in the name of the Borrower and shall credit to such Account the amount of the Credit. The amount of the Credit may be withdrawn from the Credit Account as provided in, and subject to the rights of cancellation and suspension set forth in, this Agreement and the Regulations.

Section 2.03. Notwithstanding the first sentence of Section 4.01 of the Regulations and except as the Borrower and the Association shall otherwise agree :

(a) The Borrower shall be entitled to withdraw from the Credit Account (i) amounts expended for the reasonable cost of goods to be financed out of the proceeds

¹ Came into force on 10 July 1963, upon notification by the Association to the Government of Nicaragua.

² See p. 332 of this volume.

of the Credit, and (ii) if the Association shall so agree, such amounts as shall be required to meet payments to be made for the reasonable cost of such goods.

(b) No withdrawals shall be made on account of (i) expenditures prior to July 1, 1962 or (ii) expenditures in the currency of the Borrower or for goods produced in (including services supplied from) the territories of the Borrower.

Section 2.04. Withdrawals from the Credit Account shall be in such freely convertible currency or currencies as the Association shall from time to time reasonably select.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one per cent ($3/4$ of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Service charges shall be payable semi-annually on March 1 and September 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Credit in semi-annual instalments payable on each March 1 and September 1 commencing September 1, 1972 and ending March 1, 2012, each instalment to and including the instalment payable on March 1, 1982 to be one-half of one per cent ($1/2$ of 1%) of such principal amount, and each instalment thereafter to be one and one-half per cent ($1\ 1/2\%$) of such principal amount.

Article III

USE OF PROCEEDS OF THE CREDIT

Section 3.01. The Borrower shall cause the proceeds of the Credit to be applied exclusively to financing the cost of goods required to carry out the Project described in the Schedule¹ to this Agreement. The specific goods to be financed out of the proceeds of the Credit and the methods and procedures for procurement of such goods shall be determined by agreement between the Borrower and the Association, subject to modification by further agreement between them.

Section 3.02. Except as the Borrower and the Association shall otherwise agree, the Borrower shall cause all goods financed out of the proceeds of the Credit to be used in the territories of the Borrower exclusively in the carrying out of the Project.

¹ See p. 326 of this volume.

Article IV

PARTICULAR COVENANTS

Section 4.01. (a) The Borrower shall enter into a Subsidiary Loan Agreement with Empresa Aguadora de Managua (hereinafter called the Empresa) satisfactory to the Association, providing for the relending of the proceeds of the Credit to the Empresa and containing appropriate provisions with respect to the financing and carrying out of the Project. Such Subsidiary Loan Agreement shall not be amended, assigned or abrogated, nor shall any material waiver of any provision thereof be given, without the consent of the Association.

(b) The Borrower shall cause the Project to be carried out with due diligence and efficiency and in conformity with sound engineering, financial and public utility practices.

(c) Except as the Association shall otherwise agree, in the carrying out of the Project the Borrower shall employ or cause to be employed engineering consultants acceptable to, and upon terms and conditions satisfactory to, the Borrower and the Association.

(d) Except as the Association shall otherwise agree, the Borrower shall cause the Project to be carried out by contractors satisfactory to the Borrower and the Association employed under contracts satisfactory to the Borrower and the Association.

(e) The general design assumptions to be used for the Project shall be as agreed between the Association and the Borrower.

(f) Upon request from time to time by the Association, the Borrower shall promptly furnish or cause to be furnished to the Association the plans, specifications and work schedules for the Project and any material modifications subsequently made therein, in such detail as the Association shall request.

(g) The Borrower shall at all times make or cause to be made available promptly as needed all sums which shall be required for the carrying out of the Project.

(h) The Borrower shall maintain or cause to be maintained records adequate to identify the goods financed out of the proceeds of the Credit, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Empresa and all financial transactions between the Borrower and the Empresa ; shall enable the Association's representatives to inspect the Project, all properties and facilities operated by the Empresa, the goods and any relevant records and documents ; and shall furnish or cause to be furnished to the Association all such information as the Association shall reasonably request concerning the expenditure of the proceeds of the Credit, the Project, the goods and the operations and financial condition of the Empresa.

Section 4.02. (a) The Borrower and the Association shall cooperate fully to assure that the purposes of the Credit will be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Credit. On the part of the Borrower, such information shall include information with respect to financial and economic conditions in the territories of the Borrower.

(b) The Borrower and the Association shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Credit and the maintenance of the service thereof. The Borrower shall promptly inform the Association of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Credit or the maintenance of the service thereof.

(c) The Borrower shall afford all reasonable opportunity for accredited representatives of the Association to visit any part of the territories of the Borrower for purposes related to the Credit.

Section 4.03. The principal of, and service charges on, the Credit shall be paid without deduction for, and free from, any taxes or fees imposed under the laws of the Borrower or laws in effect in its territories and free from all restrictions imposed under the laws of the Borrower or laws in effect in its territories.

Section 4.04. This Agreement shall be free from any taxes or fees that shall be imposed under the laws of the Borrower or laws in effect in its territories on or in connection with the execution, issue, delivery or registration thereof.

Section 4.05. The Borrower shall cause the Empresa to operate, maintain, repair and renew its plants, equipment and property in accordance with sound engineering standards and to conduct its operations and maintain its financial position in accordance with sound business and public utility practices.

Section 4.06. The Borrower shall take or cause to be taken all necessary action to assure that the Empresa shall at all times maintain water rates adequate to provide sufficient revenue :

(a) to cover operating expenses, including taxes, if any, and interest payments on borrowings, and to provide for adequate maintenance and depreciation based on realistic valuations of assets ;

(b) to meet repayments on long-term indebtedness to the extent that any such repayments exceed the provisions for depreciation ; and

(c) to finance the normal year to year extensions of the water supply system and to provide a reasonable part of the cost of future major expansion.

Section 4.07. The Borrower will cause the Project to be carried out and the Managua water supply system to be operated through the Empresa. For this purpose the Borrower undertakes :

(a) that the Empresa be given through a *Reglamento* authority to hire and discharge personnel, to keep separate accounts and to enter into contracts.

(b) that the water supply accounts of the Empresa be kept separate and distinct from those for other services, including sewerage.

(c) that the Empresa will have its accounts and records subjected to an annual audit by a qualified independent accountant or firm of accountants satisfactory to the Association and the Empresa.

(d) that the Empresa may retain for its own use in the water supply undertaking all the water revenues collected by it.

(e) the decrees and *Reglamentos* constituting and governing the operations of the Empresa will be altered only with the agreement of the Association.

Article V

REMEDIES OF THE ASSOCIATION

Section 5.01. (i) If any event specified in paragraph (a) or paragraph (c) of Section 5.02 of the Regulations shall occur and shall continue for a period of thirty days, or (ii) if any event specified in paragraph (b) of Section 5.02 of the Regulations shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower, then at any subsequent time the Association, at its option, may declare the principal of the Credit then outstanding to be due and payable immediately, and upon any such declaration such principal shall become due and payable immediately, anything in this Agreement to the contrary notwithstanding.

Article VI

EFFECTIVE DATE ; TERMINATION

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 8.01 (b) of the Regulations :

(a) Evidence satisfactory to the Association has been furnished to the Association that the Subsidiary Loan Agreement has been duly entered into.

(b) Arrangements satisfactory to the Association have been made for the provision of funds to the Empresa (in addition to the Credit) to be made available to the Empresa as required for the carrying out of the Project.

(c) Arrangements satisfactory to the Association have been made for the retention of engineering consultants for the carrying out of the Project.

(d) A *Reglamento* pursuant to Section 4.07 (a) satisfactory to the Association has been issued.

Section 6.02. The following is specified as an additional matter within the meaning of Section 8.02 (b) of the Regulations, to be included in the opinion or opinions to be furnished to the Association :

That the Subsidiary Loan Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and the Empresa respectively and is valid and enforceable in accordance with its terms.

Section 6.03. A date sixty days after the date of this Agreement is hereby specified for the purposes of Section 8.04 of the Regulations.

Article VII

MISCELLANEOUS

Section 7.01. The Closing Date shall be June 30, 1966, or such other date as may from time to time be agreed between the Borrower and the Association.

Section 7.02. The following addresses are specified for the purposes of Section 7.01 of the Regulations :

For the Borrower :

República de Nicaragua
Ministerio de Fomento y Obras Públicas
Apartado Postal 88
Managua, Nicaragua

Alternative address for cablegrams and radiograms :

Fomento
Managua, Nicaragua

For the Association :

International Development Association
1818 H Street, N.W.
Washington 25, D.C.
United States of America

Alternative address for cablegrams and radiograms :

Indevas
Washington, D.C.

Section 7.03. The Minister of Finance of the Borrower is designated for the purposes of Section 7.03 of the Regulations.

IN WITNESS WHEREOF, the parties hereto acting through their representatives thereunto duly authorized, have caused this Development Credit Agreement to be signed in their respective names and delivered in the District of Columbia, United States of America, as of the day and year first above written.

Republic of Nicaragua :

By J. C. ALEGRIA
Authorized Representative

International Development Association :

By W. A. B. ILIFF
Vice President

SCHEDULE 1

DESCRIPTION OF THE PROJECT

The Project consists of the expansion and improvement of the Managua water supply system. It will include the following facilities and services :

- (a) New low-pressure pumping facilities at Lake Asososca, conversion of existing pumping facilities for high-pressure service at Lake Asososca and flow meters to measure water pumped at these stations ;
- (b) New and improved chlorination facilities ;
- (c) Transmission mains leading from Lake Asososca to the distribution system and major improvements and extensions to the distribution system, including, *inter alia*, the construction of new distribution storage reservoirs ;
- (d) Improvement of the meter repair shop ;
- (e) The purchase and installation of about 8,000 new metered service connections in the new service areas and 3,350 new meters for existing unmetered service connections ;
- (f) A study of the dependable yield of the existing water source and for the development of new supplementary supply sources ;
- (g) Engineering services for the design of the Project and supervision of Project construction.

LETTERS RELATING TO THE DEVELOPMENT CREDIT AGREEMENT

I

EMBAJADA DE NICARAGUA
WASHINGTON 9, D.C.

September 7, 1962

International Development Association
1818 H Street, N.W.
Washington 25, D.C.

Gentlemen :

Re : *Water Rates*

With reference to Section 4.06 of the Development Credit Agreement (*Managua Water Supply Project*) of even date¹ between us, the Borrower undertakes that water rates charged by the Empresa Aguadora de Managua will be increased to yield average revenues of approximately C\$2.50 per thousand gallons effective no later than March 1, 1963. Until such rate increase shall have been put into effect, no withdrawals from the Credit Account will be made except for expenditures under paragraph (g) of Schedule 1 of the Credit Agreement.

For subsequent years it is agreed that the following operating ratios would provide a mutually acceptable test of the adequacy of water rates to be charged.

Beginning July 1, 1963, the Empresa will maintain an operating ratio, calculated on the basis of total operating costs and expenses during the preceding fiscal year, not to exceed 80% during the fiscal years 1964 through 1966, not to exceed 70% in fiscal 1967 and not to exceed 65% thereafter. This operating ratio is agreed to be the ratio of all of the Empresa's operating costs and expenses, excluding interest but including taxes (if any) and adequate depreciation, to the Empresa's total operating revenues (not to include service connection fees and meter installation charges).

Very truly yours,

Republic of Nicaragua :
By J. C. ALEGRIA
Authorized Representative

Confirmed :
International Development
Association :
Orvis A. SCHMIDT
Authorized Representative

¹ See p. 314 of this volume.

II

EMBAJADA DE NICARAGUA
WASHINGTON 9, D.C.

September 7, 1962

International Development Association
1818 H Street, N.W.
Washington 25, D.C.

Gentlemen :

Re : *Currency of Payment*

We refer to the Development Credit Agreement (*Managua Water Supply Project*) of even date between us and to Section 3.02 of the Regulations referred to therein. Pursuant to such Section, we hereby request your agreement as follows :

- (i) Except as hereinafter provided, the principal amount of, and service charges on, the Credit provided for in such Agreement shall be payable in the currency of the United States of America.
- (ii) If at any time we shall desire that, commencing with a given future payment date, such principal and service charges shall be payable in an eligible currency other than that specified in (i) or other than one designated under this clause (ii) we shall deliver to the Association, not less than three nor more than five months prior to such payment date, a notice in writing to that effect and designating such other eligible currency, whereupon the currency so designated shall, commencing with such payment date, be the currency in which such principal and service charges shall be payable.
- (iii) If at any time the Association shall determine that a currency payable pursuant to the provisions of this letter is not an eligible currency, the Association shall so notify us in writing and furnish us with a list of eligible currencies.
- (iv) Within thirty days from the date of such notice we shall notify the Association in writing of our selection of a currency from such list in which payment shall be made, failing which the Association shall select a currency for such purpose from such list, whereupon, in either case, such principal and service charges shall, commencing with the payment date next succeeding such thirty day period, be payable in the currency so selected.
- (v) Any designation or selection of a currency pursuant to the foregoing provisions shall be subject, in turn, to the provisions of this letter.
- (vi) For purposes of this letter, "eligible currency" means any currency of a member of the Association which the Association at the relevant time determines to be freely convertible or freely exchangeable by it for currencies of other members of the Association for the purposes of its operation.

Please confirm your agreement with the foregoing by signing the form of confirmation on the enclosed copy of this letter and returning it to us.

Very truly yours,

Republic of Nicaragua :
By J. C. ALEGRIA
Authorized Representative

Confirmed :
International Development
Association :
By Orvis A. SCHMIDT
Authorized Representative

III

EMBAJADA DE NICARAGUA
WASHINGTON 9, D.C.

September 7, 1962

International Development Association
1818 H Street, N.W.
Washington 25, D.C.

Gentlemen :

Re : *General Manager*

With reference to Section 4.05 of the Credit Agreement (*Managua Water Supply Project*) of even date between us, we wish to confirm to you our understanding that the Government will not nominate a new General Manager for the Empresa Aguadora de Managua without prior consultation with the Association.

Please confirm your agreement with the foregoing by signing the form of confirmation on the enclosed copy of this letter and returning it to us.

Very truly yours,

Republic of Nicaragua :
By J. C. ALEGRIA
Authorized Representative

Confirmed :
International Development
Association :
By Orvis A. SCHMIDT
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION
DEVELOPMENT CREDIT REGULATIONS No. 1, DATED 1 JUNE 1961

REGULATIONS APPLICABLE TO DEVELOPMENT CREDIT AGREEMENTS WITH MEMBER
GOVERNMENTS

[Not published herein. See United Nations, Treaty Series, Vol. 415, p. 68.]