

No. 9366

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
and
NICARAGUA**

Guarantee Agreement—*Seventh Power Project* (with annexed Loan Regulations No. 4, as amended, Loan Agreement between the Bank and the Empresa Nacional de Luz y Fuerza, and related letters). Signed at Washington, on 21 June 1968

Official text: English.

Registered by the International Bank for Reconstruction and Development on 27 December 1968.

**BANQUE INTERNATIONALE POUR
LA RECONSTRUCTION ET LE DÉVELOPPEMENT
et
NICARAGUA**

Contrat de garantie — *Septième projet relatif à l'énergie électrique* (avec, en annexe, le Règlement n° 4 sur les emprunts, tel qu'il a été modifié, le Contrat d'emprunt entre la Banque et l'Empresa Nacional de Luz y Fuerza, et lettres connexes). Signé à Washington, le 21 juin 1968

Texte officiel anglais.

Enregistré par la Banque internationale pour la reconstruction et le développement le 27 décembre 1968.

No. 9366. GUARANTEE AGREEMENT¹ (*SEVENTH POWER PROJECT*) BETWEEN THE REPUBLIC OF NICARAGUA AND THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT. SIGNED AT WASHINGTON, ON 21 JUNE 1968

AGREEMENT, dated June 21, 1968, between REPUBLIC OF NICARAGUA (hereinafter called the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS by an agreement of even date herewith between the Bank and Empresa Nacional de Luz y Fuerza (hereinafter called the Borrower), which agreement and the schedules therein referred to are hereinafter called the Loan Agreement,² the Bank has agreed to make to the Borrower a loan in various currencies equivalent to fifteen million two hundred fifty thousand dollars (\$15,250,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan as hereinafter provided; and

WHEREAS the Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed so to guarantee such obligations of the Borrower;

NOW THEREFORE the parties hereto hereby agree as follows :

Article I

Section 1.01. The parties to this Guarantee Agreement accept all the provisions of Loan Regulations No. 4 of the Bank dated February 15, 1961 as amended February 9, 1967³ (said Loan Regulations No. 4 being hereinafter called the Loan Regulations), with the same force and effect as if they were fully set forth herein.

Article II

Section 2.01. Without limitation or restriction upon any of the other covenants on its part in this Agreement contained, the Guarantor hereby un-

¹ Came into force on 21 August 1968, upon notification by the Bank to the Government of Nicaragua.

² See p. 308 of this volume.

³ See p. 308 of this volume.

conditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and the interest and other charges on, the Loan, the principal of and interest on the Bonds and the premium, if any, on the prepayment of the Loan or the redemption of the Bonds, and the punctual performance of all the covenants and agreements of the Borrower, all as set forth in the Loan Agreement and in the Bonds.

Section 2.02. Whenever there is reasonable cause to believe that the funds available to the Borrower will be inadequate to meet the estimated expenditures required for carrying out the Project, the Guarantor undertakes to make arrangements or cause arrangements to be made to enable the Borrower promptly to be provided with such funds as are needed to meet such expenditures.

Section 2.03. Any funds supplied to the Borrower by the Guarantor pursuant to Section 2.02 or otherwise shall be provided under terms and conditions whereby repayment of principal and payment of interest and other charges, if required by the Guarantor, shall be met from surplus funds available to the Borrower only after meeting all obligations of the Borrower, including the obligations arising from the carrying out of the Project, the operation, maintenance and expansion of the plants, equipment and property of the Borrower, the building up of an adequate reserve fund, and the maintenance of service on the Loan and on any other long-term debt.

Article III

Section 3.01. It is the mutual intention of the Guarantor and the Bank that no other external debt shall enjoy any priority over the Loan by way of a lien on governmental assets. To that end, the Guarantor undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Guarantor as security for any external debt, such lien will *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds, and that in the creation of any such lien express provision will be made to that effect; provided, however, that the foregoing provisions of this Section shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property; or (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

As used in this Section: (a) the term "assets of the Guarantor" includes assets of the Guarantor or of any of its political subdivisions or of any Agency including the Banco Central de Nicaragua, and (b) the term "Agency" means any agency or instrumentality of the Guarantor or of any political subdivision of the Guarantor and shall include any institution or organization which is owned or controlled directly or indirectly by the Guarantor or by any political

subdivision of the Guarantor or the operations of which are conducted primarily in the interest of or for account of the Guarantor or any political subdivision of the Guarantor.

Section 3.02. (a) The Guarantor and the Bank shall cooperate fully to ensure that the purposes of the Loan 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 Loan. On the part of the Guarantor, such information shall include information with respect to the administration, operations and financial condition of the Borrower, financial and economic conditions in the territories of the Guarantor and the international balance of payments position of the Guarantor.

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

(c) The Guarantor shall afford all reasonable opportunity for accredited representatives of the Bank to visit any part of the territories of the Guarantor for purposes related to the Loan.

Section 3.03. The principal of, and interest and other charges on, the Loan and the Bonds shall be paid without deduction for, and free from, any taxes, and free from all restrictions, imposed under the laws of the Guarantor or laws in effect in its territories; provided, however, that the provisions of this Section shall not apply to taxation of payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Guarantor.

Section 3.04. This Agreement, the Loan Agreement and the Bonds shall be free from any taxes that shall be imposed under the laws of the Guarantor or laws in effect in its territories on or in connection with the execution, issue, delivery or registration thereof.

Section 3.05. The Guarantor covenants that it will not take, or permit any of its political subdivisions or any part of its agencies or any agency of any political subdivision to take, any action which would prevent or interfere with the performance by the Borrower of any of the covenants, agreements and obligations of the Borrower in the Loan Agreement contained, and will take or cause to be taken all reasonable action (including action with respect to prompt payment to the Borrower of monies due to the Borrower for electricity supplied by it)

which shall be necessary in order to enable the Borrower to perform such covenants, agreements and obligations.

Section 3.06. The Guarantor shall from time to time take all action necessary to enable the Borrower to maintain its rates at such levels as shall be necessary to provide revenue from the Borrower's operations sufficient to cover all its operating and administrative expenses, including taxes, adequate maintenance and depreciation, and to produce a reasonable return on the net fixed assets in operation of the Borrower. The provisions of this Section supersede all prior agreements between the Guarantor and the Bank relating to the rates of the Borrower.

Article IV

Section 4.01. The Guarantor shall endorse, in accordance with the provisions of the Loan Regulations, its guarantee on the Bonds to be executed and delivered by the Borrower. The *Ministro de Hacienda y Crédito Público* of the Guarantor and such person or persons as he shall designate in writing are designated as the authorized representatives of the Guarantor for the purposes of Section 6.12 (b) of the Loan Regulations.

Article V

Section 5.01. The following addresses are specified for the purposes of Section 8.01 of the Loan Regulations :

For the Guarantor :

República de Nicaragua
Ministerio de Hacienda y Crédito Público
Palacio Nacional
Managua, Nicaragua

Alternative address for cables :

Hacienda
Managua, Nicaragua

For the Bank :

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Alternative address for cables :

Intbafrad
Washington, D.C.

Section 5.02. The *Ministro de Hacienda y Crédito Público* of the Guarantor is designated for the purposes of Section 8.03 of the Loan Regulations.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Guarantee 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 Guillermo SEVILLA SACASA
Authorized Representative

International Bank for Reconstruction and Development :

By J. Burke KNAPP
Vice President

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
LOAN REGULATIONS No. 4, DATED 15 FEBRUARY 1961,
AS AMENDED 9 FEBRUARY 1967

REGULATIONS APPLICABLE TO LOANS MADE BY THE BANK TO BORROWERS OTHER THAN
MEMBER GOVERNMENTS

[*Not published herein. See United Nations, Treaty Series,
Vol. 598, p. 270.*]

LOAN AGREEMENT
(SEVENTH POWER PROJECT)

AGREEMENT, dated June 21, 1968, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and EMPRESA NACIONAL DE LUZ Y FUERZA (hereinafter called the Borrower).

Article I

LOAN REGULATIONS; SPECIAL DEFINITION

Section 1.01. The parties to this Loan Agreement accept all the provisions of Loan Regulations No. 4 of the Bank dated February 15, 1961 as amended February 9, 1967,¹ with the same force and effect as if they were fully set forth herein (said Loan Regulations No. 4 being hereinafter called the Loan Regulations).

¹ See above.

Section 1.02. The term "*Ley Constitutiva*" means the *Ley Constitutiva de la Empresa Nacional de Luz y Fuerza*, dated October 14, 1954 as amended to April 24, 1967.

Article II

THE LOAN

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in the Loan Agreement set forth or referred to, an amount in various currencies equivalent to fifteen million two hundred fifty thousand dollars (\$15,250,000).

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

Section 2.03. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ($\frac{3}{4}$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time from the Loan Account.

Section 2.04. The Borrower shall pay interest at the rate of six and one-quarter per cent ($6\frac{1}{4}$ %) per annum on the principal amount of the Loan so withdrawn and outstanding from time to time.

Section 2.05. Except as the Bank and the Borrower shall otherwise agree, the charge payable for special commitments entered into by the Bank at the request of the Borrower pursuant to Section 4.02 of the Loan Regulations shall be at the rate of one-half of one per cent ($\frac{1}{2}$ of 1%) per annum on the principal amount of any such special commitment outstanding from time to time.

Section 2.06. Interest and other charges shall be payable semi-annually on June 1 and December 1 in each year

Section 2.07. The Borrower shall repay the principal of the Loan in accordance with the amortization schedule set forth in Schedule I to this Agreement.

Article III

USE OF PROCEEDS OF THE LOAN

Section 3.01. The Borrower shall apply the proceeds of the Loan exclusively to financing the cost of goods required to carry out the Project, described in Schedule 2 to this Agreement. The specific goods to be financed out of the proceeds of the Loan and the methods and procedures for procurement of such goods shall be determined by agreement between the Bank and the Borrower, subject to modification by further agreement between them.

Section 3.02. Except as the Bank and the Borrower shall otherwise agree, the Borrower shall cause all goods financed out of the proceeds of the Loan to be imported into the territories of the Guarantor and there to be used exclusively in the carrying out of the Project.

Article IV

BONDS

Section 4.01. If and as the Bank shall from time to time request, the Borrower shall execute and deliver Bonds representing the principal amount of the Loan as provided in Article VI of the Loan Regulations.

Section 4.02. The General Manager (*Gerente General*) of the Borrower acting jointly with such person or persons as the Borrower shall appoint in writing are designated as authorized representatives of the Borrower for the purposes of Section 6.12 (a) of the Loan Regulations.

Article V

PARTICULAR COVENANTS

Section 5.01. (a) The Borrower shall carry out the Project with due diligence and efficiency and in conformity with sound engineering, financial and public utility practices.

(b) In the carrying out of the Project, the Borrower shall employ qualified and experienced engineering consultants acceptable to the Bank, on terms and conditions satisfactory to the Bank.

(c) Upon request from time to time by the Bank, the Borrower shall furnish promptly to the Bank, upon their preparation, the plans and specifications for the Project and any material modifications subsequently made therein, in such detail as the Bank shall request.

(d) Except as the Bank and the Borrower shall otherwise agree, all works included in the Project shall be constructed by contractors acceptable to the Bank and the Borrower, under contracts satisfactory to the Bank.

Section 5.02. (a) The Bank and the Borrower shall cooperate fully to ensure that the purposes of the Loan will be accomplished. To that end, the Bank and the Borrower shall from time to time, at the request of either party, exchange views through their representatives with regard to the progress of the Project, the performance by the Borrower of its obligations under the Loan Agreement, the administration, operations and financial condition of the Borrower and any other matters relating to the purposes of the Loan.

(b) The Borrower shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan, the maintenance of the service thereof or the performance by the Borrower of its obligations under the Loan Agreement.

(c) The Borrower undertakes that, if any action shall be proposed to be taken for a change in the Borrower's rate structure which would result in a reduction in the level of revenue of the Borrower, the Borrower shall inform the Bank of such proposal and, before the proposed action is taken, shall satisfy the Bank that the proposed adjustment would fulfill the conditions set forth in Section 5.01 of the Agreement.

Section 5.03. The Borrower shall at all times maintain its existence and right to carry on its operations and shall, except as the Bank shall otherwise agree, take all necessary steps that are required to acquire, maintain and renew all rights, powers, privileges and franchises which are necessary or useful in the conduct of its business.

Section 5.04 The Borrower shall at all times operate and maintain its plants, equipment and property, and from time to time make all necessary repairs or renewals thereof, in accordance with sound engineering and public utility practices.

Section 5.05. The Borrower shall at all times manage its affairs, carry on its operations and maintain its financial position in accordance with sound business and public utility practices.

Section 5.06. The Borrower shall take out and maintain with responsible insurers or make other provisions satisfactory to the Bank for insurance against such risks and in such amount as shall be consistent with sound practice. Without limiting the generality of the foregoing, the Borrower undertakes to insure the imported goods to be financed out of the proceeds of the Loan against marine, transit and other hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable by the Borrower to replace or repair such goods.

Section 5.07. The Borrower shall not, without the consent of the Bank, sell or otherwise dispose of all or substantially all of its property and assets or all or substantially all the property included in the Project or any plant the cost of which is financed in whole or in part out of the proceeds of the Loan.

Section 5.08. Except as the Bank and the Borrower shall otherwise agree, the Borrower shall not incur any long-term debt if, after such incurrence, the aggregate long-term debt of the Borrower would exceed two times the equity of the Borrower existing on the date of such incurrence.

For the purposes of this Section :

(a) The term "long-term debt" shall mean any debt maturing more than one year after the date on which it is originally incurred. Whenever it shall be necessary to value in currency of the Guarantor debt payable in another currency, such valuation shall be made on the basis of the rate of exchange at which such other currency is obtainable by the Borrower, at the time such valuation is made for the purposes of servicing such debt or, if such currency is not so obtainable, at the rate of exchange that will be reasonably determined by the Bank;

(b) the term "equity" shall include paid-in capital and surplus determined in accordance with sound accounting practices; it shall also include such advances made by the Guarantor to the Borrower as are to be serviced from surplus funds available to the Borrower only after meeting all obligations of the Borrower, including the obligations arising from the carrying out of the Project, the operation, maintenance and expansion of the plants, equipment and property of the Borrower, the building up of an adequate reserve fund, and the maintenance of service in the Loan and on any other long-term debt;

(c) debt shall be deemed to be incurred on the date of execution and delivery of the contract or loan agreement providing for such debt.

Section 5.09. The Borrower undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Borrower as security for any debt, such lien will *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loans and the Bonds, and that in the creation of any such lien express provision will be made to that effect; provided, however, that the foregoing provisions of this Section shall not apply to : i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property and (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after the date on which it is originally incurred.

Section 5.10. The Borrower shall from time to time adjust its rates or take all steps necessary or desirable to obtain such adjustments, so that revenue from its operations is sufficient to cover all operating and administrative expenses, including taxes, adequate maintenance and depreciation, and to produce a reasonable return on net fixed assets in operation. The provisions of this Section supersede all prior agreements between the Borrower and the Bank relating to the rates of the Borrower.

Section 5.11. The Borrower shall have its accounts regularly audited, and its annual financial statements certified, by independent auditors acceptable to the Bank.

Section 5.12. The Borrower shall maintain records adequate to identify the goods financed out of the proceeds of the Loan, 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 conditions of the Borrower; shall submit annually to the Bank the certified financial statements of the Borrower within 4 months following the close of the fiscal year; shall enable the Bank's representatives to inspect the Project, the goods, all other plants, equipment and property of the Borrower, and any relevant records and documents; and shall furnish to the Bank all such information as the Bank shall reasonably request concerning the expenditure of the proceeds of the Loan, the Project, the goods, and the administration, operations and financial condition of the Borrower.

Section 5.13. The Borrower shall pay or cause to be paid all taxes, if any, imposed under the laws of the Guarantor or laws in effect in the territories of the Guarantor on or in connection with the execution, issue, delivery or registration of the Agreement, the Guarantee Agreement or the Bonds, or the payment of principal, interest or other charges thereunder; provided, however, that the provisions of this Section shall not apply to taxation of payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Guarantor.

Section 5.14. The Borrower shall pay or cause to be paid all taxes, if any, imposed under the laws of the country or countries in whose currency the Loan and the Bonds are payable or laws in effect in the territories of such country or countries on or in connection with the execution, issue, delivery or registration of this Agreement, the Guarantee Agreement or the Bonds.

Article VI

REMEDIES OF THE BANK

Section 6.01. (i) If any event specified in paragraph (a), paragraph (e) or paragraph (f) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of thirty days, or (ii) if a default shall occur in the payment of principal or interest or any other payment required under any other loan agreement between the Bank and the Borrower or under any Bond delivered pursuant thereto or under any credit agreement between the Association and the Borrower and such default shall continue for a period of thirty days, or (iii) if a default shall occur in the payment of principal or interest or any other payment required under any loan agreement or under any guarantee agreement between the Guarantor and the Bank or under any bond delivered pursuant to any such agreement or under any credit agreement between the Association and the Guarantor under circumstances which would make it unlikely that the Guarantor would meet its obligations under the Guarantee Agreement and such default shall continue for a period of thirty days, or (iv) if any event specified in paragraph (c) of Section 5.02 of the Loan Regulations or in Section 6.02 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower, then at any subsequent time during the continuance thereof, the Bank, at its option, may declare the principal of the Loan and of all the Bonds 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 or in the Bonds to the contrary notwithstanding.

Section 6.02. For the purposes of Section 5.02 of the Loan Regulations, the following additional event is specified, namely, a change in the *Ley Constitutiva* shall have been made without prior agreement between the Bank and the Borrower.

Article VII

MISCELLANEOUS

Section 7.01. The Closing Date shall be March 31, 1973 or such other date as may from time to time be agreed between the Bank and the Borrower.

Section 7.02. The following addresses are specified for the purposes of Section 8.01 of the Loan Regulations :

For the Borrower :

Empresa Nacional de Luz y Fuerza
Managua, Nicaragua

Alternative address for cables :

Enaluf
Managua, Nicaragua

For the Bank :

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Alternative address for cables :

Intbafrad
Washington, D.C.

Section 7.03. If this Loan Agreement shall not have come into force and effect by August 12, 1968, this Loan Agreement and all obligations of the parties hereunder shall terminate, unless the Bank, after consideration of the reasons for the delay, establishes a later date for the purposes of this Section. The Bank shall promptly inform the Borrower of such date.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan 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.

International Bank for Reconstruction and Development :

By J. Burke KNAPP
Vice President

Empresa Nacional de Luz y Fuerza :

By Luis Manuel DEBAYLE
By Octavio SALINAS
Authorized Representatives

SCHEDULE 1

AMORTIZATION SCHEDULE

<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars) *</i>	<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars) *</i>
June 1, 1973	300,000	June 1, 1981	490,000
December 1, 1973	310,000	December 1, 1981	505,000
June 1, 1974	320,000	June 1, 1982	520,000
December 1, 1974	330,000	December 1, 1982	535,000
June 1, 1975	340,000	June 1, 1983	555,000
December 1, 1975	350,000	December 1, 1983	570,000
June 1, 1976	360,000	June 1, 1984	590,000
December 1, 1976	370,000	December 1, 1984	605,000
June 1, 1977	380,000	June 1, 1985	625,000
December 1, 1977	395,000	December 1, 1985	645,000
June 1, 1978	405,000	June 1, 1986	665,000
December 1, 1978	420,000	December 1, 1986	685,000
June 1, 1979	430,000	June 1, 1987	705,000
December 1, 1979	445,000	December 1, 1987	725,000
June 1, 1980	460,000	June 1, 1988	740,000
December 1, 1980	475,000		

* To the extent that any part of the Loan is repayable in a currency other than dollars (see Loan Regulations, Section 3.03), the figures in this column represent dollar equivalents determined as for purposes of withdrawal.

PREMIUMS ON PREPAYMENT AND REDEMPTION

The following percentages are specified as the premiums payable on repayment in advance of maturity of any part of the principal amount of the Loan pursuant to Section 2.05 (b) of the Loan Regulations or on the redemption of any Bond prior to its maturity pursuant to Section 6.16 of the Loan Regulations :

<i>Time of Prepayment or Redemption</i>	<i>Premium</i>
Not more than three years before maturity	1½%
More than three years but not more than six years before maturity	1¾%
More than six years but not more than eleven years before maturity	2½%
More than eleven years but not more than sixteen years before maturity	3¾%
More than sixteen years but not more than eighteen years before maturity	5%
More than eighteen years before maturity	6¼%

SCHEDULE 2

DESCRIPTION OF THE PROJECT

The Project consists in :

1. The installation in the Managua power of a complete 40 MW extension;
2. The Construction of a 50 MW hydroelectric plant (Santa Barbara) on the Viejo River;
3. (a) The Construction of 138 kV transmission lines between the Santa Barbara project and the load center, between Centroamerica (Tuma) and Sebaco and between Leon and Chinandega; and
(b) The installation of new substations and the extensions of existing substations at the terminals of these lines.

The Project is expected to be completed by the end of 1972.

LETTERS RELATING TO THE LOAN AGREEMENT

REPUBLIC OF NICARAGUA

EMPRESA NACIONAL DE LUZ Y FUERZA

June 21, 1968

International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington, D.C. 20433

Loan No. 543-NI (Seventh Power Project)
Rates

Dear Sirs,

We refer to Section 5.10 of the Loan Agreement (*Seventh Power Project*) between the Bank and Empresa Nacional de Luz y Fuerza and Section 3.06 of the Guarantee Agreement (*Seventh Power Project*) between the Republic of Nicaragua and the Bank, both of even date herewith, and wish to confirm the understanding reached between us during negotiations that on the basis of present forecasts an annual return on the Borrower's net fixed assets in operation of at least 9 per cent is considered reasonable for the purposes of said Sections of the Loan Agreement and Guarantee Agreement. The rate of return will be computed annually by relating operating income for the year in question to the average of the values of the net fixed assets in operation at the beginning and at the end of that year.

The "operating income" shall be determined by subtracting from gross operating revenue all operating and administrative expenses, including taxes, adequate maintenance and adequate depreciation, but not interest. The term "adequate depreciation" means straight-line depreciation over a reasonable useful life of each type of asset.

The "value of net fixed assets in operation" will be the value of such assets less accumulated depreciation. If these amounts should not reflect a true measure of value because of currency revaluations, changes in prices or similar factors, the value as shown will be adjusted, for the purpose of calculating the rate of return, so as to reflect adequately such currency revaluations, changes in prices or similar factors, in accordance with a method satisfactory to the Bank.

Very truly yours,

Republic of Nicaragua :
Guillermo SEVILLA SACASA
Authorized Representative

Empresa Nacional de Luz y Fuerza :
Luis Manuel DEBAYLE
Octavio SALINAS
Authorized Representatives

REPUBLIC OF NICARAGUA
EMPRESA NACIONAL DE LUZ Y FUERZA

June 21, 1968

International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington, D.C. 20433

Loan No 543-NI (Seventh Power Project)
Arrears

Dear Sirs,

With reference to Section 5.05 of the Loan Agreement (*Seventh Power Project*) between the International Bank for Reconstruction and Development (the Bank) and Empresa Nacional de Luz y Fuerza (the Borrower), and to Sections 2.01 and 3.05 of the Guarantee Agreement (*Seventh Power Project*) between the Republic of Nicaragua (the Guarantor) and the Bank, both of even date herewith, we wish to confirm the understanding reached between us during negotiations for the Loan regarding excessive accumulations of overdue accounts by the Borrower.

We recognize that the existence of such accumulations raises a question as to compliance by the Borrower with the requirement of said Section 5.05 that the Borrower conduct its operations in accordance with "sound business and public utility practices", and that failure on the part of the Borrower to comply with any covenant in the Loan Agreement entitles the Bank to suspend disbursements of the Loan.

In order to avoid future misunderstanding, we confirm our agreement that the total of accounts receivable on account of billings for electrical service, less the total of such billings for the previous 30 days but including any outstanding notes representing unpaid billings and before deducting any reserve for bad debts, will not exceed 120% of the average monthly billing in the 90 days immediately preceding the time of calculation. The regular quarterly reports of the Borrower to the Bank will contain the information necessary for the Bank to make the calculation.

Very truly yours,

Republic of Nicaragua :
Guillermo SEVILLA SACASA
Authorized Representative

Empresa Nacional de Luz y Fuerza :
Luis Manuel DEBAYLE
Octavio SALINAS
Authorized Representatives