MILLENNIUM CHALLENGE COMPACT

BETWEEN

THE UNITED STATES OF AMERICA
ACTING THROUGH THE
MILLENNIUM CHALLENGE CORPORATION

AND

THE GOVERNMENT OF THE REPUBLIC OF NICARAGUA

Millennium Challenge Compact

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MILLENNIUM CHALLENGE COMPACT

This MILLENNIUM CHALLENGE COMPACT (the "***Compact***") is made between the United States of America, acting through the Millennium Challenge Corporation, a United States Government corporation ("***MCC***"), and the Government of the Republic of Nicaragua (the "***Government***") (referred to herein individually as a "***Party***" and collectively, the "***Parties***"). A compendium of capitalized terms defined herein is included in Exhibit A attached hereto.

RECITALS

WHEREAS, MCC, acting through its Board of Directors, has selected the Republic of Nicaragua ("***Nicaragua***") as eligible to present to MCC a proposal for the use of 2004 and 2005 Millennium Challenge Account ("***MCA***") assistance to help facilitate poverty reduction through economic growth in Nicaragua;

WHEREAS, the Government has carried out a consultative process with the country's private sector and civil society to outline the country's priorities for the use of MCA assistance and developed a proposal, which was submitted to MCC on October 25, 2004 (the "***Proposal***");

WHEREAS, the Proposal focused on, among other things, improving the property rights, infrastructure and competitiveness of rural businesses in the Nicaraguan departments of León and Chinandega (the "***León-Chinandega***");

WHEREAS, MCC has evaluated the Proposal and related documents to determine whether the Proposal is consistent with core MCA principles and includes proposed activities and projects that will advance the progress of Nicaragua towards achieving economic growth and poverty reduction; and

WHEREAS, based on MCC's evaluation of the Proposal and related documents and subsequent discussions and negotiations between the Parties, the Government and MCC determined to enter into this Compact to implement a program using MCC Funding to advance Nicaragua's progress towards economic growth and poverty reduction (the "***Program***");

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements set forth herein, the Parties hereby agree as follows:

ARTICLE I.
PURPOSE AND TERM

Section 1.1 Objectives. The overall objective of this Compact (the "***Program Objective***") is to increase income and reduce poverty in León-Chinandega, which is key to advancing the goal of economic growth and poverty reduction in Nicaragua (the "***Compact Goal***"). The Parties have identified the following project-level objectives (each, a "***Project Objective***" and together the "***Project Objectives***") to advance the Program Objective, each of which is described in more detail in the Annexes attached hereto:

(a) Increase investment by strengthening property rights in León (the "***Property Regularization Objective***");

(b) Reduce transportation costs between León-Chinandega and domestic, regional and global markets (the "***Transportation Objective***"); and

(c) Increase the value-added of farms and businesses in León-Chinandega (the "***Rural Business Development Objective***").

(The Program Objective and the individual Project Objectives are referred to herein collectively as the "***Objectives***" and each individually as an "***Objective***"). The Government expects to achieve, and shall use its best efforts to ensure the achievement of, these Objectives during the Compact Term.

Section 1.2 Projects. The Annexes attached hereto describe the specific projects and the policy reforms and other activities related thereto (each, a "***Project***") that the Government will carry out, or cause to be carried out, in furtherance of this Compact to achieve the Objectives and the Compact Goal.

Section 1.3 Entry into Force; Compact Term. This Compact shall enter into force on the date of the last letter in an exchange of letters between the Principal Representatives of each Party confirming that all conditions set forth in Section 4.1 have been satisfied by the Government and MCC (such date, the "***Entry into Force***"). This Compact shall remain in force for five (5) years from the Entry into Force, unless earlier terminated in accordance with Section 5.4 (the "***Compact Term***").

ARTICLE II.

FUNDING AND RESOURCES

Section 2.1 MCC Funding.

(a) MCC's Contribution. Subject to the terms and conditions herein, MCC shall grant to the Government an amount not to exceed One Hundred Seventy Five Million United States Dollars (USD $175,000,000) ("***MCC Funding***") during the Compact Term to enable the Government to implement the Program and achieve the Objectives; *provided, however*, MCC may elect, in its sole discretion, to grant all or any portion of MCC Funding directly to an entity to be organized and established pursuant to Nicaraguan law and in accordance with Section 3(d) of Annex I and the Governance Agreement ("***MCA-Nicaragua***") pursuant to a separate Supplemental Agreement (the "***Grant Agreement***") between MCC, the Government, and MCA-Nicaragua to enable the Government, through MCA-Nicaragua, to implement the Program and achieve the Objectives.

(i) Subject to Sections 2.1(a)(ii), 2.2(b), and 5.4(b), the allocation of the MCC Funding within the Program and among and within the Projects shall be as generally described in Annex II or as otherwise agreed upon by the Parties from time to time.

(ii) If at any time MCC determines that a condition precedent to an MCC Disbursement has not been satisfied, MCC may, upon written notice to the Government, reduce

the total amount of MCC Funding by an amount equal to the amount estimated in the applicable Detailed Financial Plan for the Program or Project activity for which such condition precedent has not been met. Upon the expiration or termination of this Compact, (A) any amounts of MCC Funding not disbursed by MCC to the Government shall be automatically released from any obligation in connection with this Compact and (B) any amounts of MCC Funding disbursed by MCC to the Government as provided in Section 2.1(b)(i), but not re-disbursed as provided in Section 2.1(b)(ii) or otherwise incurred as permitted pursuant to Section 5.4(e) prior to the expiration or termination of this Compact, shall be returned to MCC in accordance with Section 2.5(a)(ii).

(b) Disbursements.

(i) Disbursements of MCC Funding. MCC shall from time to time make disbursements of MCC Funding (each such disbursement, an "***MCC Disbursement***") to a Permitted Account or through such other mechanism agreed by the Parties under and in accordance with the procedures and requirements set forth in Annex I, the Disbursement Agreement or as otherwise provided in any other relevant Supplemental Agreement.

(ii) Re-Disbursements of MCC Funding. The release of MCC Funding from a Permitted Account (each such release, a "***Re-Disbursement***") shall be made in accordance with the procedures and requirements set forth in Annex I, the Disbursement Agreement or as otherwise provided in any other relevant Supplemental Agreement.

(c) Interest. Unless the Parties agree otherwise in writing, any interest or other earnings on MCC Funding that accrue or are earned (collectively, "***Accrued Interest***") shall be held in a Permitted Account and accrue or be earned in accordance with the requirements for the treatment of Accrued Interest as specified in Annex I or any relevant Supplemental Agreement. On a quarterly basis and upon the termination or expiration of this Compact, the Government shall return, or ensure the return of, all Accrued Interest to any United States Government account designated by MCC.

(d) Conversion; Exchange Rate. The Government shall ensure that all MCC Funding that is held in the Permitted Account(s) shall be denominated in the currency of the United States of America ("***United States Dollars***") prior to Re-Disbursement; *provided*, that a certain portion of MCC Funding may be transferred to a Local Account and may be held in such Local Account in the currency of Nicaragua prior to Re-Disbursement in accordance with the requirements of Annex I and any relevant Supplemental Agreement between the Parties. To the extent that any amount of MCC Funding held in United States Dollars must be converted into the currency of Nicaragua for any purpose, including for any Re-Disbursement or any transfer of MCC Funding into a Local Account, the Government shall ensure that such amount is converted consistent with Annex I, including the rate and manner set forth in Annex I, and the requirements of the Disbursement Agreement or any other Supplemental Agreement between the Parties.

(e) Guidance. From time to time, MCC may provide guidance to the Government through Implementation Letters on the frequency, form and content of requests for MCC Disbursements and Re-Disbursements or any other matter relating to MCC Funding. The Government shall apply such guidance in implementing this Compact.

Section 2.2 Government Resources.

(a) Necessary Resources. The Government shall provide or cause to be provided such Government funds and other resources, and shall take or cause to be taken such actions, including obtaining all necessary approvals and consents, as are specified in this Compact or in any Supplemental Agreement to which the Government is a party or as are otherwise necessary and appropriate to effectively carry out the Government Responsibilities or other responsibilities or obligations of the Government under or in furtherance of this Compact during the Compact Term and through the completion of any post-Compact Term activities, audits or other responsibilities.

(b) Reallocation; Allocation Reductions.

(i) If at any time during the Compact Term, the Government materially reallocates or reduces the allocation in its national budget, or any other Nicaraguan governmental authority at a departmental, municipal, regional or other jurisdictional level materially reallocates or reduces the allocation of its respective budget, of the normal and expected resources that the Government or such other governmental authority, as applicable, would have otherwise received or budgeted, from external or domestic sources, for the activities contemplated herein, the Government shall notify MCC in writing within fifteen (15) days of such reallocation or reduction, such notification to contain information regarding the amount of the reallocation or reduction, the affected activities, and an explanation for such reallocation or reduction.

(ii) If MCC determines, independently or otherwise, upon review of the executed national annual budget or budget of such other governmental authority, that such a material reallocation or reduction of resources has occurred, MCC shall notify the Government and, within fifteen (15) days after such notification, the Government shall provide, or cause to be provided, a written explanation for such reallocation or reduction.

(iii) After reviewing such explanation, MCC may (A) reduce, in its sole discretion, the total amount of MCC Funding or any MCC Disbursement by an amount equal to the amount estimated in the applicable Detailed Financial Plan for the activity for which funds were reduced or reallocated or (B) otherwise suspend or terminate MCC Funding in accordance with Section 5.4(b).

Section 2.3 Limitations on the Use or Treatment of MCC Funding.

(a) Abortions and Involuntary Sterilizations. The Government shall ensure that MCC Funding shall not be used to undertake, fund or otherwise support any activity that is subject to prohibitions on use of funds contained in (i) paragraphs (1) through (3) of section 104(f) of the Foreign Assistance Act of 1961 (22 U.S.C. 2151b(f)(1)-(3)), a United States statute, which prohibitions shall apply to the same extent and in the same manner as such prohibitions apply to funds made available to carry out Part I of such Act; or (ii) any provision of law comparable to the eleventh and fourteenth provisos under the heading "Child Survival and Health Programs Fund" of division E of Public Law 108-7 (117 Stat. 162), a United States statute.

(b) United States Job Loss or Displacement of Production. The Government shall ensure that MCC Funding shall not be used to undertake, fund or otherwise support any activity that is likely to cause a substantial loss of United States jobs or a substantial displacement of United States production, including:

(i) Providing financial incentives to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States;

(ii) Supporting investment promotion missions or other travel to the United States with the intention of inducing United States firms to relocate a substantial number of United States jobs or a substantial amount of production outside the United States;

(iii) Conducting feasibility studies, research services, studies, travel to or from the United States, or providing insurance or technical and management assistance, with the intention of inducing United States firms to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States;

(iv) Advertising in the United States to encourage United States firms to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States;

(v) Training workers for firms that intend to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States;

(vi) Supporting a United States office of an organization that offers incentives for United States firms to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States; or

(vii) Providing general budget support for an organization that engages in any activity prohibited above.

(c) Military Assistance and Training. The Government shall ensure that MCC Funding shall not be used to undertake, fund or otherwise support the purchase or use of goods or services for military purposes, including military training, or to provide any assistance to the military, police, militia, national guard or other quasi-military organization or unit.

(d) Prohibition of Assistance Relating to Environmental, Health or Safety Hazards. The Government shall ensure that MCC Funding shall not be used to undertake, fund or otherwise support any activity that is likely to cause a significant environmental, health, or safety hazard. Unless MCC and the Government agree otherwise in writing, the Government shall ensure that activities undertaken, funded, or otherwise supported in whole or in part (directly or indirectly) by MCC Funding comply with environmental guidelines delivered by MCC to the Government or posted by MCC on its website or otherwise publicly made available, as such guidelines may be amended from time to time (the "***Environmental Guidelines***"), including any definition of "likely to cause a significant environmental, health, or safety hazard" as may be set forth in such Environmental Guidelines.

(e) Taxation.

(i) Taxes, Budgetary Earmarking. As required by applicable United States law and in furtherance of the applicable requirement in the General Agreement for Economic, Technical and Related Assistance between the Government of the United States of America and the Government of Nicaragua, dated May 14, 1962, as amended from time to time (the "***Bilateral Agreement***") that assistance shall be exempt from taxes, the Government shall ensure that the Program, any Program Assets, MCC Funding and Accrued Interest shall be free from any and all

taxes, budgetary earmarking, withholding, charges, allocations, and other obligations and contributions imposed under the laws currently or hereafter in effect in Nicaragua during the Compact Term. This exemption shall (A) be implemented in an administratively efficient manner consistent with the principles that MCC Funding will be used only to fund the Program and to achieve the Objectives and to avoid, where possible, double taxation of Providers, irrespective of their nationality and place of residence and (B) apply to any use of any Program Asset, MCC Funding and Accrued Interest, including any Exempt Uses, and to any work performed under or activities undertaken in furtherance of this Compact by any person or entity (including contractors and grantees) funded by MCC Funding, and shall apply to all taxes, tariffs, duties, and other levies (each, a "***Tax***" and collectively, "***Taxes***"), including, except as otherwise provided herein:

(1) To the extent attributable to MCC Funding, income taxes and other taxes on profit or businesses imposed on organizations or entities, other than nationals of Nicaragua, receiving MCC Funding, including taxes on the acquisition, ownership, rental, disposition or other use of real or personal property, taxes on investment or deposit requirements and currency controls in Nicaragua, or any other tax, duty, charge or fee of whatever nature, except fees for specific services rendered; for purposes of this Section 2.3(e)(i)(1), the term "national" refers to organizations established under the laws currently or hereafter in effect in Nicaragua, other than MCA-Nicaragua or any other entity established solely for purposes of managing or overseeing the implementation of the Program or any wholly-owned subsidiaries, divisions, or Affiliates of entities not registered or established under the laws currently or hereafter in effect in Nicaragua;

(2) Customs duties, tariffs, import and export taxes, or other levies on the importation, use and re-exportation of goods, services or the personal belongings and effects, including personally-owned automobiles, for Program use or the personal use of individuals who are neither citizens nor permanent residents of Nicaragua and who are present in Nicaragua for purposes of carrying out the Program or their family members, including all charges based on the value of such imported goods;

(3) Taxes on the income or personal property of all individuals who are neither citizens nor permanent residents of Nicaragua, including income and social security taxes of all types and all taxes on the personal property owned by such individuals, to the extent such income or property are attributable to MCC Funding, and such individuals shall be accorded any special status required under Nicaraguan law to obtain the exemption to the taxes contemplated in this Section 2.3(e)(i)(3); and

(4) Taxes or duties levied on the purchase of goods or services funded by MCC Funding, including sales taxes, tourism taxes, value-added taxes (VAT), or other similar charges.

(ii) This Section 2.3(e) shall apply, but is not limited to (A) any transaction, service, activity, contract, grant or other implementing agreement funded in whole or in part by MCC Funding; (B) any supplies, equipment, materials, property or other goods (referred to herein collectively as "goods") or funds introduced into, acquired in, used or disposed of in, or imported into or exported from, Nicaragua by MCC, or by any person or entity (including contractors and grantees) as part of, or in conjunction with, MCC Funding or the Program; (C) any contractor, grantee, or other organization carrying out activities funded in whole or in part by

MCC Funding; and (D) any employee of such organizations (the uses set forth in clauses (A) through (D) are collectively referred to herein as "***Exempt Uses***").

(iii) If a Tax has been levied and paid contrary to the requirements of this Section 2.3(e), whether inadvertently, due to the impracticality of implementation of this provision with respect to certain types or amounts of taxes, or otherwise, the Government shall refund promptly to MCC to an account designated by MCC the amount of such Tax in the currency of Nicaragua, within thirty (30) days (or such other period as may be agreed in writing by the Parties) after the Government is notified of such levy and tax payment; *provided, however*, the Government shall apply national funds to satisfy its obligations under this paragraph and no MCC Funding, Accrued Interest, or any assets, goods, or property (real, tangible, or intangible) purchased or financed in whole or in part by MCC Funding ("***Program Assets***") may be applied by the Government in satisfaction of its obligations under this paragraph.

(iv) The Parties shall memorialize in a mutually acceptable Implementation Letter or Supplemental Agreement or other suitable document the mechanisms for implementing this Section 2.3(e), including (A) a formula for determining refunds for Taxes paid, the amount of which is not susceptible to precise determination, (B) a mechanism for ensuring the tax-free importation, use, and re-exportation of goods, services, or the personal belongings of individuals (including all Providers) described in paragraph (i)(2) of this Section 2.3(e), and (C) any other appropriate Government action to facilitate the administration of this Section 2.3(e).

(f) Alteration. The Government shall ensure that no MCC Funding, Accrued Interest, or Program Assets shall be subject to any impoundment, rescission, sequestration or any provision of law now or hereafter in effect in Nicaragua that would have the effect of requiring or allowing any impoundment, rescission or sequestration of any MCC Funding, Accrued Interest, or Program Asset.

(g) Liens or Encumbrances. The Government shall ensure that no MCC Funding, Accrued Interest, or Program Assets shall be subject to any lien, attachment, enforcement of judgment, pledge, or encumbrance of any kind (each a "***Lien***") by any person or entity, including by any government entity, except with the prior approval of MCC in accordance with Section 3(c) of Annex I. In the event of the imposition of any Lien not so approved, the Government shall promptly seek the release of such Lien and shall pay any amounts owed to obtain such release; *provided, however*, the Government shall apply national funds to satisfy its obligations under this Section 2.3(g) and no MCC Funding, Accrued Interest, or Program Assets may be applied by the Government in satisfaction of its obligations under this Section 2.3(g).

(h) Other Limitations. The Government shall ensure that the use or treatment of MCC Funding, Accrued Interest, and Program Assets shall be subject to and in conformity with such other limitations (i) as required by the applicable law of the United States of America now or hereafter in effect during the Compact Term, (ii) as advisable under or required by applicable United States Government policies now or hereafter in effect during the Compact Term, or (iii) to which the Parties may otherwise agree in writing.

(i) Utilization of Goods, Services and Works. The Government shall ensure that any Program Assets, services, facilities or works funded in whole or in part (directly or indirectly) by

MCC Funding, unless otherwise agreed by the Parties in writing, shall be used solely in furtherance of this Compact.

(j) Notification of Applicable Laws and Policies. MCC shall notify the Government of any applicable United States law or policy affecting the use or treatment of MCC Funding, whether or not specifically identified in this Section 2.3, and shall provide to the Government a copy of the text of any such applicable law and a written explanation of any such applicable policy.

Section 2.4 Incorporation; Notice; Clarification.

(a) The Government shall include, or ensure the inclusion of, all of the requirements set forth in Section 2.3 in all Supplemental Agreements to which MCC is not a party and shall use its best efforts to ensure that no such Supplemental Agreement is implemented in violation of the prohibitions set forth in Section 2.3.

(b) The Government shall ensure notification of all of the requirements set forth in Section 2.3 to any Provider and all relevant officers, directors, employees, agents, representatives, Affiliates, contractors, sub-contractors, grantees, and sub-grantees of the Government or any Provider.

(c) In the event the Government or any Provider requires clarification from MCC as to whether an activity contemplated to be undertaken in furtherance of this Compact violates or may violate any provision of Section 2.3, the Government shall notify, or ensure that such Provider notifies, MCC in writing and provide in such notification a detailed description of the activity in question. In such event, the Government shall not proceed, and shall use its best efforts to ensure that no relevant Provider proceeds, with such activity, and the Government shall ensure that no Re-Disbursements shall be made for such activity, until MCC advises the Government or such Provider in writing that the activity is permissible.

Section 2.5 Refunds; Violation.

(a) Notwithstanding the availability to MCC, or exercise by MCC of, any other remedies, including under international law, this Compact, or any Supplemental Agreement:

(i) If any amount of MCC Funding or Accrued Interest, or any Program Asset, is used for any purpose prohibited under this Article II or otherwise in violation of any of the terms and conditions of this Compact, any guidance in any Implementation Letter, or any Supplemental Agreement between the Parties, MCC may, upon written notice, require the Government to repay promptly to MCC to an account designated by MCC or to others as MCC may direct the amount of such misused MCC Funding or Accrued Interest, or the cash equivalent of the value of any misused Program Asset, in United States Dollars, plus any interest that accrued or would have accrued thereon, within fifteen (15) days after the Government is notified (or such other period as may be agreed in writing by the Parties), whether by MCC or otherwise, of such prohibited use; *provided, however*, the Government shall apply national funds to satisfy its obligations under this Section 2.5(a)(i) and no MCC Funding, Accrued Interest, or Program Assets may be applied by the Government in satisfaction of its obligations under this Section 2.5(a)(i); and

(ii) If all or any portion of this Compact is terminated or suspended and upon the expiration of this Compact, the Government shall, subject to the requirements of Sections 5.4(e) and 5.4(f), refund, or ensure the refund, to MCC the amount of any MCC Funding, plus any Accrued Interest, promptly, but in no event later than thirty (30) days after the Government receives MCC's request for such refund (or such other period as may be agreed in writing by the Parties); *provided*, that if this Compact is terminated or suspended in part, MCC may request a refund for only the amount of MCC Funding, plus any Accrued Interest, then allocated to the terminated or suspended portion; *provided, further*, that any refund of MCC Funding or Accrued Interest shall be to such account(s) as designated by MCC.

(b) Notwithstanding any other provision in this Compact or any other agreement to the contrary, MCC's right under this Section 2.5 for a refund shall continue during the Compact Term and for a period of (i) five (5) years thereafter or (ii) one (1) year after MCC receives actual knowledge of such violation, whichever is later.

(c) If MCC determines that any activity or failure to act violates, or may violate, any Section in this Article II, MCC may refuse any further MCC Disbursements for or conditioned upon such activity, and may take any action to prevent any Re-Disbursement related to such activity.

ARTICLE III.
IMPLEMENTATION

Section 3.1 Implementation Framework. This Compact shall be implemented by the Parties in accordance with this Article III and as further specified in the Annexes and in relevant Supplemental Agreements.

Section 3.2 Government Responsibilities.

(a) The Government shall have principal responsibility for oversight and management of the implementation of the Program (i) in accordance with the terms and conditions specified in this Compact and relevant Supplemental Agreements, (ii) in accordance with all applicable laws then in effect in Nicaragua, and (iii) in a timely and cost-effective manner and in conformity with sound technical, financial and management practices (collectively, the "***Government Responsibilities***"). Unless otherwise expressly provided, any reference to the Government Responsibilities or any other responsibilities or obligations of the Government herein shall be deemed to apply to any Government Affiliate and any of their respective directors, officers, employees, contractors, sub-contractors, grantees, sub-grantees, agents or representatives.

(b) The Government shall ensure that no person or entity shall participate in the selection, award, administration, or oversight of a contract, grant or other benefit or transaction funded in whole or in part (directly or indirectly) by MCC Funding, in which (i) the entity, the person, members of the person's immediate family (defined as relationships within the fourth degree of consanguinity or affinity) or household or his or her business partners, or organizations controlled by or substantially involving such person or entity, has or have a direct or indirect financial or other interest or (ii) the person or entity is negotiating or has any arrangement concerning prospective employment, unless such person or entity has first disclosed in writing to

the Government the conflict of interest and, following such disclosure, the Parties agree in writing to proceed notwithstanding such conflict. The Government shall ensure that no person or entity involved in the selection, award, administration, oversight or implementation of any contract, grant or other benefit or transaction funded in whole or in part (directly or indirectly) by MCC Funding shall solicit or accept from, or offer to a third party, or seek or be promised directly or indirectly for itself or for another person or entity, any gift, gratuity, favor or benefit, other than items of *de minimis* value and otherwise consistent with such guidance as MCC may provide from time to time.

(c) The Government shall not designate any person or entity, including any Government Affiliate, to implement, in whole or in part, this Compact or any Supplemental Agreement between the Parties (including any Government Responsibilities or any other responsibilities or obligations of the Government under this Compact or any Supplemental Agreement between the Parties), or to exercise any rights of the Government under this Compact or any Supplemental Agreement between the Parties, except as expressly provided herein or with the prior written consent of MCC; *provided, however*, the Government shall designate MCA-Nicaragua and may, with the prior written consent of MCC, designate such other mutually acceptable persons or entities, to implement some or all of the Government Responsibilities or any other responsibilities or obligations of the Government or to exercise any rights of the Government under this Compact or any Supplemental Agreement between the Parties (referred to herein collectively as "***Designated Rights and Responsibilities***"), in accordance with the terms and conditions set forth in this Compact or such Supplemental Agreement (each, a "***Permitted Designee***"). Notwithstanding any provision herein or any other agreement to the contrary, no such designation shall relieve the Government of such Designated Rights and Responsibilities, for which the Government shall retain ultimate responsibility. In the event that the Government designates any person or entity, including any Government Affiliate, to implement any portion of the Government Responsibilities or other responsibilities or obligations of the Government or to exercise any rights of the Government under this Compact or any Supplemental Agreement between the Parties in accordance with this Section 3.2(c), then the Government shall ensure that such person or entity (i) performs such Designated Rights and Responsibilities in the same manner and to the full extent to which the Government is obligated to perform such Designated Rights and Responsibilities, (ii) does not assign, delegate, or contract (or otherwise transfer) any of such Designated Rights and Responsibilities to any other person or entity and (iii) certifies to MCC in writing that it will so perform such Designated Rights and Responsibilities in accordance with this Compact and any other relevant Supplemental Agreement and will not assign, delegate, or contract (or otherwise transfer) any of such Designated Rights and Responsibilities to any person or entity without the prior written consent of MCC.

(d) The Government shall, upon a request from MCC, execute, or ensure the execution of, an assignment to MCC of any cause of action which may accrue to the benefit of the Government, a Government Affiliate, or any Permitted Designee, including MCA-Nicaragua, in connection with or arising out of any activities funded in whole or in part (directly or indirectly) by MCC Funding.

(e) The Government shall ensure that (i) no decision of MCA-Nicaragua is modified, supplemented, unduly influenced or rescinded by any governmental authority, and (ii) the authority of MCA-Nicaragua shall not be expanded, restricted or otherwise modified, except in

accordance with this Compact, applicable law, the Governance Agreement, the Governing Documents or any other Supplemental Agreement between the Parties.

(f) The Government shall ensure that all persons and individuals that enter into agreements to provide goods, services or works under the Program or in furtherance of this Compact shall do so in accordance with the Procurement Guidelines and shall obtain all necessary immigration, business and other permits, licenses, consents, and approvals to enable them and their personnel to fully perform under such agreements.

Section 3.3 Government Deliveries. The Government shall proceed, and cause others to proceed, in a timely manner to deliver to MCC all reports, documents or other deliveries required to be delivered by the Government under this Compact or any Supplemental Agreement between the Parties, in form and substance as set forth in this Compact or in any such Supplemental Agreement.

Section 3.4 Government Assurances. The Government hereby provides the following assurances to MCC that as of the date this Compact is signed:

(a) The information contained in the Proposal and any agreement, report, statement, communication, document or otherwise delivered or otherwise communicated to MCC by or on behalf of the Government on or after the date of the submission of the Proposal (i) are true, accurate and complete in all material respects and (ii) do not omit any fact known to the Government that if disclosed would (A) alter in any material respect the information delivered, (B) likely have a material adverse effect on the Government's ability to effectively implement, or ensure the effective implementation of, the Program or any Project or to otherwise carry out its responsibilities or obligations under or in furtherance of this Compact, or (C) have likely adversely affected MCC's determination to enter into this Compact or any Supplemental Agreement between the Parties.

(b) The MCC Funding made available hereunder is not part of and is in addition to the normal and expected resources that the Government usually receives or budgets for the activities contemplated herein from external or domestic sources.

(c) This Compact does not conflict and will not conflict with any international agreement or obligation to which the Government is a party or by which it is bound.

(d) No payments have been (i) received by any official of the Government or any other government body in connection with the procurement of goods or services to be undertaken or funded in whole or in part (directly or indirectly) by MCC Funding, except fees, taxes, or similar payments legally established in Nicaragua (subject to Section 2.3(e)) and consistent with applicable Nicaraguan law) or (ii) made to any third party, in connection with or in furtherance of this Compact, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended (15 U.S.C. 78a *et seq.*).

Section 3.5 Implementation Letters; Supplemental Agreements.

(a) MCC may, from time to time, issue one or more letters to furnish additional information or guidance to assist the Government in the implementation of this Compact (each, an "***Implementation Letter***"). The Government shall apply such guidance in implementing this Compact.

(b) The details of any funding, implementing and other arrangements in furtherance of this Compact may be memorialized in one or more agreements between (i) the Government (or any Government Affiliate or Permitted Designee) and MCC, (ii) MCC and/or the Government (or any Government Affiliate or Permitted Designee) and any third party, including any of the Providers or Permitted Designees, or (iii) any third parties where neither MCC nor the Government is a party, before, on or after the Entry into Force (each, a "***Supplemental Agreement***"). The Government shall deliver, or cause to be delivered, to MCC within five (5) days of its execution a copy of any Supplemental Agreement to which MCC is not a party.

Section 3.6 Procurement; Awards of Assistance.

(a) MCC Funding shall not be subject to applicable Nicaraguan procurement guidelines, including those established in Law 323, *Ley de Contrataciones del Estado*. The Government shall ensure that the procurement of all goods, services and works by the Government, MCA-Nicaragua or any other Provider in furtherance of this Compact shall be consistent with the procurement guidelines (the "***Procurement Guidelines***") reflected in a Supplemental Agreement between the Parties (the "***Procurement Agreement***"), which Procurement Guidelines shall include the following requirements:

(i) Open, fair and competitive procedures are used in a transparent manner to solicit, award and administer contracts, grants, and other agreements and to procure goods, services and works;

(ii) Solicitations for goods, services, and works shall be based upon a clear and accurate description of the goods, services or works to be acquired;

(iii) Contracts shall be awarded only to qualified and capable contractors that have the capability and willingness to perform the contracts in accordance with the terms and conditions of the applicable contracts and on a cost effective and timely basis; and

(iv) No more than a commercially reasonable price, as determined, for example, by a comparison of price quotations and market prices, shall be paid to procure goods, services, and works.

(b) The Government shall maintain, and shall use its best efforts to ensure that all Providers maintain, records regarding the receipt and use of goods and services acquired in furtherance of this Compact, the nature and extent of solicitations of prospective suppliers of goods and services acquired in furtherance of this Compact, and the basis of award of contracts, grants and other agreements in furtherance of this Compact, for a period of ten years, or such other period as the Parties may otherwise agree in writing.

(c) The Government shall use its best efforts to ensure that information, including solicitations, regarding procurement, grant and other agreement-related actions funded (or to be funded) in whole or in part (directly or indirectly) by MCC Funding shall be made publicly available in the manner outlined in the Procurement Guidelines or in any other manner agreed upon by the Parties in writing.

(d) No goods, services or works may be funded in whole or in part (directly or indirectly) by MCC Funding which are procured pursuant to orders or contracts firmly placed or entered into prior to the Entry into Force, except as the Parties may otherwise agree in writing.

(e) The Government shall ensure that MCA-Nicaragua and any other Permitted Designee follows, and uses its best efforts to ensure that all Providers follow, the Procurement Guidelines in procuring (including soliciting) goods, services and works and in awarding and administering contracts, grants and other agreements in furtherance of this Compact, and shall furnish to MCC evidence of the adoption of the Procurement Guidelines by MCA-Nicaragua no later than the time specified in the Disbursement Agreement.

(f) The Government shall include, or ensure the inclusion of, the requirements of this Section 3.6 into all Supplemental Agreements between the Government, any Government Affiliate, MCA-Nicaragua or other Permitted Designee or any of their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives or agents, on the one hand, and a Provider, on the other hand.

Section 3.7 Policy Performance; Policy Reforms. In addition to the specific policy and legal reform commitments identified in Annex I and the Schedules thereto, the Government shall seek to maintain, and use its best efforts to improve, its level of performance under the policy criteria identified in Section 607 of the Millennium Challenge Act of 2003, as amended (the "***Act***"), and the MCA selection criteria and methodology published by MCC pursuant to Section 607 of the Act from time to time ("***MCA Eligibility Criteria***").

Section 3.8 Records and Information; Access; Audits; Reviews.

(a) Reports and Information. The Government shall furnish to MCC, and shall use its best efforts to ensure that all Providers and any other third party receiving MCC Funding, as appropriate, furnish to the Government (and the Government shall provide to MCC), any records and other information required to be maintained under this Section 3.8 and such other information, documents and reports as may be necessary or appropriate for the Government to effectively carry out its obligations under this Compact, including under Section 3.12.

(b) Government Books and Records. The Government shall maintain, and shall use its best efforts to ensure that all Providers maintain, accounting books, records, documents and other evidence relating to this Compact adequate to show, to the satisfaction of MCC, without limitation, the use of all MCC Funding, including all costs incurred by the Government and the Providers in furtherance of this Compact, the receipt and use of goods and services acquired in furtherance of this Compact by the Government and the Providers, agreed-upon cost sharing requirements, the nature and extent of solicitations of prospective suppliers of goods and services acquired by the Government and the Providers in furtherance of this Compact, the basis of award of Government and other contracts and orders in furtherance of this Compact, the overall progress of the implementation of the Program and any other documents required by this Compact or any Supplemental Agreement between the Parties or reasonably requested by MCC upon reasonable notice ("***Compact Records***"). The Government shall maintain, and shall use its best efforts to ensure that all Covered Providers maintain, Compact Records in accordance with generally accepted accounting principles prevailing in the United States, or at the Government's option and with the prior written approval by MCC, other accounting principles, such as those (i) prescribed by the International Accounting Standards Committee (an affiliate of the International Federation of Accountants) or (ii) then prevailing in Nicaragua. Compact Records shall be maintained for at least five (5) years after the end of the Compact Term or for such longer period, if any, required to resolve any litigation, claims or audit findings or any statutory requirements.

(c) Access. The Government shall, at all reasonable times, permit, or cause to be permitted, authorized representatives of MCC, the Inspector General, the United States Government Accountability Office, any auditor responsible for an audit contemplated herein or otherwise conducted in furtherance of this Compact, and any agents or representatives engaged by MCC or a Permitted Designee to conduct any assessment, review or evaluation of the Program, the opportunity to audit, review, evaluate or inspect activities funded, in whole or in part (directly or indirectly) by MCC Funding or undertaken in connection with the Program, the utilization of goods and services purchased or funded in whole or in part (directly or indirectly) by MCC Funding, and Compact Records, including of the Government or any Provider, relating to activities funded or undertaken in furtherance of, or otherwise relating to, this Compact, and shall use its best efforts to ensure access by MCC, the Inspector General, the United States Government Accountability Office or relevant auditor, reviewer or evaluator or their respective representatives or agents to all relevant directors, officers, employees, Affiliates, contractors, representatives and agents of the Government or any Provider.

(d) Audits.

(i) Government Audits. The Government shall, on at least an annual basis and as the Parties may otherwise agree in writing, conduct, or cause to be conducted, financial audits of all MCC Disbursements and Re-Disbursements during the year since the Entry into Force or since the prior anniversary of the Entry into Force in accordance with the following terms, except as the Parties may otherwise agree in writing. As requested by MCC in writing, the Government shall use, or cause to be used, an auditor named on the approved list of auditors in accordance with the *Guidelines for Financial Audits Contracted by Foreign Recipients* ("***Audit Guidelines***") issued by the Inspector General of the United States Agency for International Development (the "***Inspector General***"), and as approved by MCC, to conduct such annual audits. Such audits shall be performed in accordance with such Guidelines and be subject to quality assurance oversight by the Inspector General in accordance with such Guidelines. An audit shall be completed and delivered to MCC no later than 90 days after the first period to be audited and no later than 90 days after each anniversary of the Entry into Force thereafter, or such other period as the Parties may otherwise agree in writing.

(ii) Audits of U.S. Entities. The Government shall ensure that Supplemental Agreements between the Government or any Provider, on the one hand, and a United States non-profit organization, on the other hand, state that the United States organization is subject to the applicable audit requirements contained in OMB Circular A-133, notwithstanding any other provision of this Compact to the contrary. The Government shall ensure that Supplemental Agreements between the Government or any Provider, on the one hand, and a United States for-profit Covered Provider, on the other hand, state that the United States organization is subject to audit by the cognizant United States Government agency, unless the Government and MCC agree otherwise in writing.

(iii) Audit Plan. The Government shall submit, or cause to be submitted, to MCC, no later than 20 days prior to the date of its adoption, a plan, in accordance with the Audit Guidelines, for the audit of the expenditures of any Covered Providers, which audit plan, in form and substance as approved by MCC, the Government shall adopt, or cause to be adopted, no later than sixty (60) days prior to the end of the first period to be audited (such plan, the "***Audit Plan***").

(iv) Covered Provider. A "***Covered Provider***" is (A) a non-United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) USD $300,000 or more of MCC Funding in any MCA-Nicaragua fiscal year or any other non-United States person or entity that receives (directly or indirectly) USD $300,000 or more of MCC Funding from any Provider in such fiscal year or (B) any United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) USD $500,000 or more of MCC Funding in any MCA-Nicaragua fiscal year or any other United States person or entity that receives (directly or indirectly) USD $500,000 or more of MCC Funding from any Provider in such fiscal year.

(v) Corrective Actions. The Government shall use its best efforts to ensure that Covered Providers take, where necessary, appropriate and timely corrective actions in response to audits, consider whether a Covered Provider's audit necessitates adjustment of its own records, and require each such Covered Provider to permit independent auditors to have access to its records and financial statements as necessary.

(vi) Audit Reports. The Government shall furnish, or use its best efforts to cause to be furnished, to MCC an audit report in a form satisfactory to MCC for each audit required by this Section 3.8, other than audits arranged for by MCC, no later than 90 days after the end of the period under audit, or such other time as may be agreed by the Parties from time to time.

(vii) Other Providers. For Providers who receive MCC Funding under this Compact pursuant to direct contracts or agreements with MCC, MCC shall include appropriate audit requirements in such contracts or agreements and shall, on behalf of the Government, unless otherwise agreed by the Parties, conduct the follow-up activities with regard to the audit reports furnished pursuant to such requirements.

(viii) Audit by MCC. MCC retains the right to perform, or cause to be performed, the audits required under this Section 3.8 by utilizing MCC Funding or other resources available to MCC for this purpose, and to audit, conduct a financial review, or otherwise ensure accountability of any Provider or any other third party receiving MCC Funding, regardless of the requirements of this Section 3.8.

(e) Application to Providers. The Government shall include, or ensure the inclusion of, at a minimum, the requirements of:

(i) Paragraphs (a), (b), (c), (d)(ii), (d)(iii), (d)(v), (d)(vi), and (d)(viii) of this Section 3.8 into all Supplemental Agreements between the Government, any Government Affiliate, MCA-Nicaragua, any other Permitted Designee or any of their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives or agents (each, a "***Government Party***"), on the one hand, and a Covered Provider that is not a U.S. non-profit organization, on the other hand;

(ii) Paragraphs (a), (b), (c), (d)(ii), and (d)(viii) of this Section 3.8 into all Supplemental Agreements between a Government Party and a Provider that does not meet the definition of a Covered Provider; and

(iii) Paragraphs (a), (b), (c), (d)(ii), (d)(v) and (d)(viii) of this Section 3.8 into all Supplemental Agreements between a Government Party and a Covered Provider that is a U.S. non-profit organization.

(f) Reviews or Evaluations. The Government shall conduct, or cause to be conducted, such performance reviews, data quality reviews, environmental audits, or program evaluations during the Compact Term or otherwise and in accordance with the M&E Plan or as otherwise agreed in writing by the Parties.

(g) Cost of Audits, Reviews or Evaluations. MCC Funding may be used to fund the costs of any audits, reviews or evaluations required under this Compact, including as reflected on Exhibit A to Annex II, and in no event shall the Government be responsible for the costs of any such audits, reviews or evaluations from financial sources other than MCC Funding.

Section 3.9 Insurance; Performance Guarantees; Indemnification Claims.

(a) Insurance; Performance Guarantees. The Government shall, to MCC's satisfaction, insure or cause to be insured all Program Assets, and shall obtain, or cause to be obtained, such other appropriate insurance and other protections to cover against risks or liabilities associated with the operations of the Program, including by requiring Providers to obtain adequate insurance and post adequate performance bonds or other guarantees. MCA-Nicaragua shall be named as the insured party on any such insurance and the beneficiary of any other such guarantee, including performance bonds. MCC shall be named as an additional insured on any such insurance or other guarantee, to the extent permissible under applicable laws. The Government shall ensure that any proceeds from claims paid under such insurance or any other form of guarantee shall be used to replace or repair any loss of Program Assets or to pursue the procurement of the covered goods, services, works, or otherwise; *provided, however*, at MCC's election, such proceeds shall be deposited in a Permitted Account as designated by MCA-Nicaragua and acceptable to MCC or as otherwise directed by MCC.

(b) Indemnification Claims. To the extent MCA-Nicaragua is held liable under any indemnification or other similar provision of any agreement between MCA-Nicaragua, on the one hand, and any other Provider or other third party, on the other hand, the Government shall pay in full on behalf of MCA-Nicaragua any such obligation; *provided, however,* the Government shall apply national funds to satisfy its obligations under this Section 3.9 and no MCC Funding, Accrued Interest or Program Assets may be applied by the Government in satisfaction of its obligations under this Section 3.9. If the Government believes in good faith that such liability is not caused primarily by the negligence or misconduct of MCA-Nicaragua or another Government Party, the Government shall so notify MCC in writing within fifteen (15) business days after such belief is formed, which notice shall contain sufficient information for MCC to independently assess the accuracy of the Government's position. If, within fifteen (15) business days after receiving such notice, MCC determines, in its sole discretion, that such liability is not caused primarily by the negligence or misconduct of MCA-Nicaragua or another Government Party, MCC will authorize MCA-Nicaragua, in writing, to use MCC Funding to fund such liability or refund to the Government the payment of the same.

Section 3.10 Domestic Requirements. The Government shall proceed in a timely manner to seek any required approval of this Compact or similar domestic requirement, which process the Government shall initiate promptly after the conclusion of this Compact. The absence of any

necessary approval of this Compact or noncompliance with any similar domestic requirement shall not prevent MCC from, or otherwise adversely affect MCC in, exercising of any of its rights under this Compact or any Supplemental Agreement. Notwithstanding anything to the contrary in this Compact, this Section 3.10 shall provisionally apply prior to the Entry into Force.

Section 3.11 No Conflict. The Government shall undertake not to enter into any agreement or other arrangement or take any action in conflict with this Compact or any Supplemental Agreement during the Compact Term.

Section 3.12 Reports. The Government shall provide, or cause to be provided, to MCC at least on each anniversary of the Entry into Force (or such other anniversary agreed by the Parties in writing), and otherwise within thirty (30) days of any written request by MCC, or as otherwise agreed in writing by the Parties, the following information:

(a) The name of each entity to which MCC Funding has been provided;

(b) The amount of MCC Funding provided to such entity;

(c) A description of the Program and each Project funded in furtherance of this Compact, including:

(i) A statement of whether the Program or any Project was solicited or unsolicited; and

(ii) A detailed description of the objectives and measures for results of the Program or Project;

(d) The progress made by Nicaragua toward achieving the Compact Goal and Objectives;

(e) A description of the extent to which MCC Funding has been effective in helping Nicaragua to achieve the Compact Goal and Objectives;

(f) A description of the coordination of MCC Funding with other United States foreign assistance and other related trade policies;

(g) A description of the coordination of MCC Funding with assistance provided by other donor countries;

(h) Any report, document or filing that the Government, any Government Affiliate or any Permitted Designee submits to any government body in connection with this Compact;

(i) Any report or document required to be delivered to MCC under the Environmental Guidelines, any audit plan, or any component of the Implementation Plan; and

(j) Any other report, document or information requested by MCC or required by this Compact or any Supplemental Agreement between the Parties.

ARTICLE IV.

CONDITIONS PRECEDENT; DELIVERIES

Section 4.1 Conditions Prior to the Entry into Force and Deliveries. As conditions precedent to the Entry into Force, the Parties shall satisfy the conditions set forth in this Section 4.1.

(a) The Government (or a mutually acceptable Government Affiliate) and MCC shall execute a Disbursement Agreement, which agreement shall be in full force and effect as of the Entry into Force.

(b) The Government (or a mutually acceptable Government Affiliate) and MCC shall execute one or more term sheets that set forth the material and principal terms and conditions of each of the Supplemental Agreements identified in Exhibit B attached hereto (the "***Supplemental Agreement Term Sheets***").

(c) The Government (or a mutually acceptable Government Affiliate) and MCC shall execute a Procurement Agreement, which agreement shall be in full force and effect as of the Entry into Force.

(d) The Government shall deliver a certificate signed and dated by the Principal Representative of the Government that:

(i) Certifies the Government has completed all of its domestic requirements for this Compact to be fully enforceable under Nicaraguan law;

(ii) Attaches thereto, and certifies that such attachments are true, correct and complete copies of all decrees, legislation, regulations or other governmental documents relating to its domestic requirements for this Compact to enter into force, which MCC may post on its website or otherwise make publicly available; and

(iii) Attaches a written statement as to the incumbency and specimen signature of the Principal Representative and each Additional Representative of the Government executing any document under this Compact, such written statement to be signed by a duly authorized official of the Government other than the Principal Representative or any such Additional Representative.

(e) MCC shall deliver a certificate signed and dated by the Principal Representative of MCC that:

(i) Certifies that MCC has completed its domestic requirements for this Compact to enter into force; and

(ii) Attaches a written statement as to the incumbency and specimen signature of the Principal Representative and each Additional Representative of MCC executing any document under this Compact such written statement to be signed by a duly authorized official of the Government other than the Principal Representative or any such Additional Representative.

Section 4.2 Conditions Precedent to MCC Disbursements or Re-Disbursements. Prior to, and as condition precedent to, any MCC Disbursement or Re-Disbursement, the Government shall satisfy, or ensure the satisfaction of, all applicable conditions precedent in the Disbursement Agreement.

ARTICLE V.

FINAL CLAUSES

Section 5.1 Communications. Unless otherwise expressly stated in this Compact or otherwise agreed in writing by the Parties, any notice, certificate, request, report, document or other communication required, permitted, or submitted by either Party to the other under this Compact shall be: (a) in writing; (b) in English; and (c) deemed duly given: (i) upon personal delivery to the Party to be notified; (ii) when sent by confirmed facsimile or electronic mail, if sent during normal business hours of the recipient Party, if not, then on the next business day; or (iii) two (2) business days after deposit with an internationally recognized overnight courier, specifying next day delivery, with written verification of receipt to the Party to be notified at the address indicated below, or at such other address as such Party may designate:

To MCC:

Millennium Challenge Corporation
Attention: Vice President for Country Programs
(with a copy to the Vice President and General Counsel)
875 Fifteenth Street, N.W.
Washington, D.C. 20005
United States of America
Facsimile: +1 (202) 521-3700
Telephone: +1 (202) 521-3600
Email: VPCountryRelations@mcc.gov (Vice President for Country Programs);
VPGeneralCounsel@mcc.gov (Vice President and General Counsel)

To the Government:

Secretary of Coordination and Strategy of the Presidency
Casa Presidencial
Managua, Nicaragua, C.A.

Notwithstanding the foregoing, any audit report delivered pursuant to Section 3.8, if delivered by facsimile or electronic mail, shall be followed by an original in overnight express mail. This Section 5.1 shall not apply to the exchange of letters contemplated in Section 1.3 or any amendments under Section 5.3.

Section 5.2 Representatives. Unless otherwise agreed in writing by the Parties, for all purposes relevant to this Compact, the Government shall be represented by the individual holding the position of, or acting as, the Secretary of the Presidency of Nicaragua, and MCC shall be represented by the individual holding the position of, or acting as, Vice President for Country Relations (each, a "***Principal Representative***"), each of whom, by written notice to the other Party, may designate one or more additional representatives (each, an "***Additional***

Representative") for all purposes other than signing amendments to this Compact. The names of the Principal Representative and any Additional Representative of each of the Parties shall be provided, with specimen signatures, to the other Party, and the Parties may accept as duly authorized any instrument signed by such representatives relating to the implementation of this Compact, until receipt of written notice of revocation of their authority. A Party may change its Principal Representative to a new representative of equivalent or higher rank upon written notice to the other Party, which notice shall include the specimen signature of the new Principal Representative.

Section 5.3 Amendments. The Parties may amend this Compact only by a written agreement signed by the Principal Representatives of the Parties.

Section 5.4 Termination; Suspension.

(a) Subject to Section 2.5 and paragraphs (e) through (h) of this Section 5.4, either Party may terminate this Compact in its entirety by giving the other Party thirty (30) days' written notice.

(b) Notwithstanding any other provision of this Compact, including Section 2.1, or any Supplemental Agreement between the Parties, MCC may suspend or terminate this Compact or MCC Funding, in whole or in part, and any obligation or sub-obligation related thereto, upon giving the Government written notice, if MCC determines, in its sole discretion, that:

(i) Any use or proposed use of MCC Funding or Program Assets or continued implementation of the Compact would be in violation of applicable law or U.S. Government policy, whether now or hereafter in effect;

(ii) The Government, any Provider, or any other third party receiving MCC Funding or using Program Assets is engaged in activities that are contrary to the national security interests of the United States;

(iii) The Government or any Permitted Designee has committed an act or omission or an event has occurred that would render Nicaragua ineligible to receive United States economic assistance under Part I of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2151 *et seq.*), by reason of the application of any provision of the Foreign Assistance Act of 1961 or any other provision of law;

(iv) The Government or any Permitted Designee has engaged in a pattern of actions or omissions inconsistent with the MCA Eligibility Criteria, or there has occurred a significant decline in the performance of Nicaragua on one or more of the eligibility indicators contained therein;

(v) The Government or any Provider has materially breached one or more of its assurances or any other covenants, obligations or responsibilities under this Compact or any Supplemental Agreement;

(vi) An audit, review, report or any other document or other evidence reveals that actual expenditures for the Program or any Project or Project Activity were greater than the projected expenditure for such activities identified in the applicable Detailed Financial Plan or are projected to be greater than projected expenditures for such activities;

(vii) If the Government (A) materially reallocates or reduces the allocation in its national budget or any other Government budget of the normal and expected resources that the Government would have otherwise received or budgeted, from external or domestic sources, for the activities contemplated herein, (B) fails to contribute or provide the amount, level, type and quality of resources required to effectively carry out the Government Responsibilities or any other responsibilities or obligations of the Government under or in furtherance of this Compact, or (C) fails to pay any of its obligations as required under this Compact or any Supplemental Agreement, including such obligations which shall be paid solely out of national funds;

(viii) If the Government, any Provider, or any other third party receiving MCC Funding or using Program Assets, or any of their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantee, sub-grantee, representatives or agents, is found to have been convicted of a narcotics offense or to have been engaged in drug trafficking;

(ix) Any MCC Funding or Program Assets are applied (directly or indirectly) to the provision of resources and support to, individuals and organizations associated with terrorism, sex trafficking or prostitution;

(x) An event or condition of any character has occurred, including any enactment or change of law, that: (A) materially and adversely affects, or is likely to materially and adversely affect, the ability of the Government, MCA-Nicaragua or any other party to effectively implement, or ensure the effective implementation of, the Program or any Project or to otherwise carry out its responsibilities or obligations under or in furtherance of this Compact or any Supplemental Agreement or to perform its obligations under or in furtherance of this Compact or any Supplemental Agreement or to exercise its rights thereunder; (B) makes it improbable that the Objectives will be achieved during the Compact Term; (C) materially and adversely affects the Program, any Program Asset, or any Permitted Account; (D) constitutes misconduct injurious to MCC, or constitutes a fraud or a felony, by the Government, any Government Affiliate, MCA-Nicaragua or any other Permitted Designee, any other Provider, or any officer, director, employee, agent, representative, Affiliate, contractor, grantee, subcontractor or sub-grantee of any of the foregoing; or (E) materially contradicts, violates or otherwise conflicts with any provision in this Compact or any Supplemental Agreement;

(xi) The Government, any Government Affiliate, MCA-Nicaragua or any other Permitted Designee, or any Provider has taken any action or omission or engaged in any activity in violation of, or inconsistent with, the requirements of this Compact or any Supplemental Agreement to which the Government, any Government Affiliate, MCA-Nicaragua or any other Permitted Designee, or any Provider is a party; or

(xii) There has occurred a failure to meet a condition precedent or series of conditions precedent to, or any other requirements or conditions in connection with, an MCC Disbursement as set out in and in accordance with any Supplemental Agreement between the Parties.

(c) MCC may reinstate any suspended or terminated MCC Funding under this Compact or any Supplemental Agreement if MCC determines, in its sole discretion, that the Government or other relevant party has demonstrated a commitment to correcting each condition for which MCC Funding was suspended or terminated.

(d) The authority to suspend or terminate this Compact or any MCC Funding under this Section 5.4 includes the authority to suspend or terminate any obligations or sub-obligations relating to MCC Funding under any Supplemental Agreement without any liability to MCC whatsoever.

(e) All MCC Funding shall terminate upon expiration or termination of the Compact Term; *provided, however*, reasonable expenditures for goods, services, and works that are properly incurred under or in furtherance of this Compact before expiration or termination of the Compact Term may be paid from MCC Funding, provided that the request for such payment is properly submitted within sixty (60) days after such expiration or termination.

(f) Except for payments which the Parties are committed to make under noncancelable commitments entered into with third parties before such suspension or termination, the suspension or termination of this Compact or any Supplemental Agreement, in whole or in part, shall suspend, for the period of the suspension, or terminate, or ensure the suspension or termination of, as applicable, any obligation or sub-obligation of the Parties to provide financial or other resources under this Compact or any Supplemental Agreement, or to the suspended or terminated portion of this Compact or such Supplemental Agreement, as applicable. In the event of such suspension or termination, the Government shall use its best efforts to suspend or terminate, or ensure the suspension or termination of, as applicable, all such noncancelable commitments related to the suspended or terminated MCC Funding. Any portion of this Compact or any such Supplemental Agreement that is not suspended or terminated shall remain in full force and effect.

(g) Upon the full or partial suspension or termination of this Compact or any MCC Funding, MCC may, at its expense, direct that title to Program Assets be transferred to MCC if such Program Assets are in a deliverable state; *provided,* for any Program Asset(s) partially purchased or funded (directly or indirectly) by MCC Funding, the Government shall reimburse to a U.S. Government account designated by MCC the cash equivalent of the portion of the value of such Program Asset(s).

(h) Prior to the expiration of this Compact or upon the effective termination of this Compact, the Parties shall consult in good faith with a view to reaching an agreement in writing on (i) the post-Compact Term treatment of MCA-Nicaragua, (ii) the process for ensuring the refunds of MCC Disbursements that have not yet been released from a Permitted Account through a valid Re-Disbursement or otherwise committed in accordance with Section 5.4(e), or (iii) any other matter related to the winding up of the Program and this Compact.

Section 5.5 Privileges and Immunities; Bilateral Agreement.

(a) MCC is an agency of the Government of the United States of America and its personnel assigned to Nicaragua will be notified pursuant to the Vienna Convention on Diplomatic Relations as members of the mission of the Embassy of the United States of America. The Government shall ensure that any personnel of MCC so notified, including individuals detailed to or contracted by MCC, and the members of the families of such personnel, while such personnel are performing duties in Nicaragua, shall enjoy the privileges and immunities that are enjoyed by a member of the United States Foreign Service, or the family of a member of the United States Foreign Service so notified, as appropriate, of comparable rank and salary of such personnel, if such personnel or the members of the families of such personnel are not a national of, or permanently resident in, Nicaragua.

(b) All MCC Funding shall be considered United States assistance furnished under the Bilateral Agreement.

Section 5.6 Attachments. Any annex, schedule, exhibit, table, appendix or other attachment expressly attached hereto (collectively, the "***Attachments***") is incorporated herein by reference and shall constitute an integral part of this Compact.

Section 5.7 Inconsistencies.

(a) Conflicts or inconsistencies between any parts of this Compact shall be resolved by applying the following descending order of precedence:

(i) Articles I through V

(ii) Any Attachments

(b) In the event of any conflict or inconsistency between this Compact and any Supplemental Agreement between the Parties, the terms of this Compact shall prevail. In the event of any conflict or inconsistency between any Supplemental Agreement between the Parties and any other Supplemental Agreement, the terms of the Supplemental Agreement between the Parties shall prevail. In the event of any conflict or inconsistency between Supplemental Agreements between any parties, the terms of a more recently executed Supplemental Agreement between such parties shall take precedence over a previously executed Supplemental Agreement between such parties. In the event of any inconsistency between a Supplemental Agreement between the Parties and any component of the Implementation Plan, the terms of the relevant Supplemental Agreement shall prevail.

Section 5.8 Indemnification. The Government shall indemnify and hold MCC and any MCC officer, director, employee, Affiliate, contractor, agent or representative (each of MCC and any such persons, an "***MCC Indemnified Party***") harmless from and against, and shall compensate, reimburse and pay such MCC Indemnified Party for, any liability or other damages which (a) are directly or indirectly suffered or incurred by such MCC Indemnified Party or to which any MCC Indemnified Party may otherwise become subject, regardless of whether or not such damages relate to any third-party claim, and (b) arise from or as a result of the negligence or willful misconduct of the Government, any Government Affiliate, MCA-Nicaragua or any other Permitted Designee, directly or indirectly connected with, any activities (including acts or omissions) undertaken in furtherance of this Compact; *provided, however,* the Government shall apply national funds to satisfy its obligations under this Section 5.8 and no MCC Funding, Accrued Interest, or Program Asset may be applied by the Government in satisfaction of its obligations under this Section 5.8.

Section 5.9 Headings. The Section and Subsection headings used in this Compact are included for convenience only and are not to be considered in construing or interpreting this Compact.

Section 5.10 Interpretation; Definitions.

(a) Any reference to the term "including" in this Compact shall be deemed to mean "including without limitation" except as expressly provided otherwise.

(b) Any reference to activities undertaken "in furtherance of this Compact" or similar language shall include activities undertaken by the Government, any Government Affiliate, any Permitted Designee, any Provider or any other third party receiving MCC Funding involved in carrying out the purposes of this Compact or any Supplemental Agreement, including their respective officers, directors, employees, Affiliates, contractors, grantees, sub-grantees, sub-contractors, agents or representatives, whether pursuant to the terms of this Compact, any Supplemental Agreement or otherwise.

(c) References to "day" or "days" shall be calendar days unless provided otherwise.

(d) The term "***U.S. Government***" shall mean any branch, agency, bureau, government corporation, government chartered entity or other body of the Federal government of the United States.

(e) The term "***Affiliate***" of a party is a person or entity that controls, is controlled by, or is under the same control as the party in question, whether by ownership or by voting, financial or other power or means of influence.

(f) The term "***Government Affiliate***" is an Affiliate, ministry, bureau, department, agency, government corporation or any other entity chartered or established by the Government.

(g) The term "***Provider***" shall mean (i) MCA-Nicaragua, any Government Affiliate or any other Permitted Designee involved in any activities in furtherance of this Compact or (ii) any third party who receives at least USD $50,000 in the aggregate of MCC Funding (other than employees of MCA-Nicaragua) during the Compact Term or such other amount as the Parties may agree in writing, whether directly from MCC, indirectly through Re-Disbursements, or otherwise.

(h) References to any Affiliate or Government Affiliate herein shall include any of their respective directors, officers, employees, affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives, and agents.

(i) Any references to "Supplemental Agreement between the Parties" shall mean any agreement between MCC on the one hand, and the Government or any Government Affiliate or Permitted Designee on the other hand.

Section 5.11 Signatures. Other than a signature to this Compact or an amendment to this Compact pursuant to Section 5.3, a signature delivered by facsimile or electronic mail in accordance with Section 5.1 shall be deemed an original signature, and the Parties hereby waive any objection to such signature or to the validity of the underlying document, certificate, notice, instrument or agreement on the basis of the signature's legal effect, validity or enforceability solely because it is in facsimile or electronic form. Such signature shall be accepted by the receiving Party as an original signature and shall be binding on the Party delivering such signature.

Section 5.12 Designation. MCC may designate any Affiliate, agent, or representative to implement, in whole or in part, its obligations, and exercise any of its rights, under this Compact or any Supplemental Agreement between the Parties.

Section 5.13 Survival. Any Government Responsibilities, covenants, or obligations or other responsibilities to be performed by the Government after the Compact Term shall survive the termination or expiration of this Compact and expire in accordance with their respective terms. Notwithstanding the termination or expiration of this Compact, the following provisions shall remain in force: Sections 2.2, 2.3, 2.5, 3.2, 3.3, 3.4, 3.5, 3.8, 3.9 (for one year), 3.12, 5.1, 5.2, 5.4(d), 5.4(e) (for sixty days), 5.4(f), 5.4(g), 5.4(h), 5.5, 5.6, 5.7, 5.8, 5.9, 5.10, 5.11, 5.12, this Section 5.13, 5.14, and 5.15.

Section 5.14 Consultation. Either Party may, at any time, request consultations relating to the interpretation or implementation of this Compact or any Supplemental Agreement between the Parties. Such consultations shall begin at the earliest possible date. The request for consultations shall designate a representative for the requesting Party with the authority to enter consultations and the other Party shall endeavor to designate a representative of equal or comparable rank. If such representatives are unable to resolve the matter within 20 days from the commencement of the consultations then each Party shall forward the consultation to the Principal Representative or such other representative of comparable or higher rank. The consultations shall last no longer than 45 days from date of commencement. If the matter is not resolved within such time period, either Party may terminate this Compact pursuant to Section 5.4(a). The Parties shall enter any such consultations guided by the principle of achieving the Compact Goal in a timely and cost-effective manner.

Section 5.15 MCC Status. MCC is a United States government corporation acting on behalf of the United States Government in the implementation of this Compact. As such, MCC has no liability under this Compact, is immune from any action or proceeding arising under or relating to this Compact and the Government hereby waives and releases all claims related to any such liability. In matters arising under or relating to this Compact, MCC is not subject to the jurisdiction of the courts or other body of Nicaragua.

Section 5.16 Language. This Compact is prepared in English and in the event of any ambiguity or conflict between this official English version and any other version translated into any language for the convenience of the Parties, this official English version shall prevail.

Section 5.17 Publicity; Information and Marking. The Parties shall give appropriate publicity to this Compact as a program to which the United States, through MCC, has contributed, including by posting this Compact, and any amendments thereto, on the MCC website and the MCA-Nicaragua Website, identifying Program activity sites, and marking Program Assets; *provided*, any announcement, press release or statement regarding MCC or the fact that MCC is funding the Program or any other publicity materials referencing MCC, including the publicity described in this Section 5.17, shall be subject to prior approval by MCC and shall be consistent with any instructions provided by MCC from time to time in relevant Implementation Letters. Upon the termination or expiration of this Compact, MCC may request the removal of, and the Government shall, upon such request, remove, or cause the removal of, any such markings and any references to MCC in any publicity materials or on the MCA-Nicaragua Website.

[Signature page begins on the next page.]

IN WITNESS WHEREOF, the undersigned duly authorized by their respective governments, have signed this Compact this 14th day of July, 2005 and this Compact shall enter into force in accordance with Section 1.3.

Done at Washington, D.C., in the English language.

FOR THE MILLENNIUM CHALLENGE CORPORATION, ON BEHALF OF THE UNITED STATES OF AMERICA

Name: Paul V. Applegarth
Title: Chief Executive Officer

FOR THE GOVERNMENT OF THE REPUBLIC OF NICARAGUA

Name: Norman José Caldera Cardenal
Title: Minister of Foreign Affairs

EXHIBIT A

COMPENDIUM OF DEFINED TERMS

The following compendium of capitalized terms that are used herein is provided for the convenience of the reader. To the extent that there is a conflict or inconsistency between the definitions in this Exhibit A and the definitions elsewhere in the text of this Compact, the definition elsewhere in this Compact shall prevail over the definition in this Exhibit A.

Accrued Interest *is any interest or other earnings on MCC Funding that accrues or are earned.*

Act *means the Millennium Challenge Act of 2003, as amended.*

Activity Indicator *is an Indicator of the M&E Plan that will measure the delivery of key goods and services in order to monitor the pace of Project Activity execution. A table of Activity Indicator definitions is set forth at Section 2(a)(iii) of Annex III.*

Additional Representative *is a representative as may be designated by a Principal Representative, by written notice, for all purposes other than signing amendments to this Compact.*

Affiliate *means the affiliate of a party, which is a person or entity that controls, is controlled by, or is under the same control as the party in question, whether by ownership or by voting, financial or other power or means of influence. References to Affiliate herein shall include any of their respective directors, officers, employees, affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives, and agents.*

Atlantic Corridor *is one of the main corridors of the International Network of Mesoamerican Highways that runs along the coast of the Atlantic Ocean.*

Attachments *are any annex, schedule, exhibit, table, appendix or other attachment expressly attached to this Compact.*

Audit Guidelines *means the "Guidelines for Financial Audits Contracted by Foreign Recipients" issued by the Inspector General of the United States Agency for International Development.*

Audit Plan *means a plan, in accordance with the Audit Guidelines, for the audit of the expenditures of any Covered Providers, which audit plan, in the form and substance as approved by MCC, the Government shall adopt, or cause to be adopted, no later than sixty (60) days prior to the end of the first period to be audited.*

Auditor *means the auditor(s) as described in, and engaged pursuant to, Section 3(h) of Annex I and as required by Section 3.8(d) of the Compact.*

Auditor/Reviewer Agreement *is an agreement between MCA-Nicaragua and each Auditor or Reviewer, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Auditor or Reviewer with respect to the audit, review or evaluation, including access rights, required form and content of the applicable content of the applicable audit, review or evaluation and other terms and conditions such as payment of the Auditor or Reviewer.*

Bank(s) *means any bank holding an account referenced in Section 4(d) of Annex I.*

Bank Agreement *means an agreement between MCA-Nicaragua and a Bank, satisfactory to MCC, that sets forth the signatory authority, access rights, anti-money laundering and anti-terrorist financing provisions, and other terms related to the Permitted Account.*

Baseline *means the value of each Indicator prior to undertaking any activity that affects the value of such Indicator.*

Beneficiaries *means the Nicaraguans who participate or are covered by the Program as identified in accordance with Annex I and further described in Section (2)(a) of Annex III.*

Bilateral Agreement *means the General Agreement for Economic, Technical and Related Assistance between the Government of the United States of America and the Government of Nicaragua, dated May 14, 1962, as amended from time to time.*

Board *means the independent board of directors of MCA-Nicaragua that oversees MCA-Nicaragua's responsibilities and obligations under this Compact (including any Designated Rights and Responsibilities) and further described in Section 3(d)(ii) of Annex I.*

Chairman *means the Chairman of the board of directors of MCA-Nicaragua.*

Civil Board Members *are the two representatives drawn from among the Civil Observers to serve as voting members on the Board.*

Civil Observer(s) *are representatives appointed by civil society organizations (as described in Section 3(d)(ii)(2)(B)(iii) of Annex I), which representatives cannot be a public official, to serve as Observers on the Board.*

Compact *means the Millennium Challenge Compact made between the United States of America, acting through the Millennium Challenge Corporation, and the Government of the Republic of Nicaragua.*

Compact Goal *means advancing economic growth and poverty reduction in Nicaragua.*

Compact Records *shall have the meaning set forth in Section 3.8(b).*

Compact Reports *are any documents or reports delivered to MCC in satisfaction of the Government's reporting requirements under this Compact or any Supplemental Agreement between the Parties.*

Compact Term *means that this Compact shall remain in force for five (5) years from the Entry into Force, unless earlier terminated in accordance with Section 5.4 of this Compact.*

Covered Provider *means (i) a non-United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) USD $300,000 or more of MCC Funding in any MCA-Nicaragua fiscal year or any other non-United States person or entity that receives (directly or indirectly) USD $300,000 or more of MCC Funding from any Provider in such fiscal year or (ii) any United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) USD $500,000 or more of MCC Funding in any MCA-Nicaragua fiscal year or any other United States person or entity that receives (directly or indirectly) USD $500,000 or more of MCC Funding from any Provider in such fiscal year.*

Designated Rights and Responsibilities *shall have the meaning set forth in Section 3.2(c).*

Detailed Financial Plan *means the financial plans that specify, respectively, the annual and quarterly detailed budget and projected cash requirements for the Program and each Project (including monitoring, evaluation and administrative costs), projected both on a commitment and cash requirement basis.*

Disbursement Agreement *is a Supplemental Agreement that MCC, the Government (or a mutually acceptable Government Affiliate) and MCA-Nicaragua shall enter into that (i) further specifies the terms and conditions of any MCC Disbursements and Re-Disbursements, (ii) is in a form and substance mutually satisfactory to the Parties, and (iii) is signed by the Principal Representative of each Party (or in the case of the Government, the principal representative of the applicable Government Affiliate).*

DR-CAFTA *means The Dominican Republic-Central America-United States Free Trade Agreement.*

Entry into Force *means the entry into force of this Compact, which shall be on the date of the last letter in an exchange of letters between the Principal Representatives of each Party confirming that all conditions set forth in Section 4.1 have been satisfied by the Government and MCC.*

Environmental Guidelines *means the environmental guidelines delivered by MCC to the Government or posted by MCC on its website or otherwise publicly made available, as such guidelines may be amended from time to time.*

ESI *means Environmental and Social Impact.*

Evaluation Component *means the component of the M&E Plan that specifies a methodology, process and timeline for the evaluation of planned, ongoing, or completed Project Activities to determine their efficiency, effectiveness, impact and sustainability.*

Exempt Uses *means (i) any transaction, service, activity, contract, grant or other implementing agreement funded in whole or in part by MCC Funding; (ii) any supplies, equipment, materials, property or other goods (referred to collectively as "goods") or funds introduced into, acquired in, used or disposed of in, or imported into or exported from, Nicaragua by MCC, or by any person or entity (including contractors and grantees) as part of, or in conjunction with, MCC Funding or the Program; (iii) any contractor, grantee, or other organization carrying out activities funded in whole or in part by MCC Funding; and (iv) any employee of such organizations.*

Expected Income Gains *means the increase in income that accrues to a group of Beneficiaries as a result of one or more Project Activities over a period of time.*

Final Evaluation *shall have the meaning set forth in Section 3(a) of Annex III.*

Financial Plan *means collectively, the Multi-Year Financial Plan and each Detailed Financial Plan and each amendment, supplement or other change thereto.*

Financial Plan Annex *means Annex II of this Compact, which summarizes the Multi-Year Financial Plan for the Program.*

Fiscal Accountability Plan *shall have the meaning set forth in Section 4(c) of Annex I.*

Fiscal Agent *shall have the meaning set forth in Section 3(g) of Annex I.*

Fiscal Agent Agreement *is an agreement between MCA-Nicaragua and each Fiscal Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Fiscal Agent and other appropriate terms and conditions, such as payment of the Fiscal Agent.*

FOMAV *means Nicaraguan Road Maintenance Fund or Fondo de Mantenimiento.*

General Director *means the General Director of MCA-Nicaragua.*

Goal Indicator *means the Compact Goal Indicator of the M&E Plan that will measure the impact of the Program on the incomes of the Beneficiaries. A table of Goal Indicator definitions is set forth at Section 2(a)(i) of Annex III.*

Governance Agreement *means the governance agreement entered into by the Government and MCA-Nicaragua, in a form and substance satisfactory to MCC, on or before the time specified in the Disbursement Agreement and based on the principles found in Section 3(d)(i) to Annex I.*

Governing Document *means any decree, legislation, regulation, contractual arrangement or other document establishing or governing MCA-Nicaragua, including the Governance Agreement.*

Government *means the Government of the Republic of Nicaragua.*

Government Affiliate *is an Affiliate, ministry, bureau, department, agency, government corporation or any other entity chartered or established by the Government. References to Government Affiliate shall include any of their respective directors, officers, employees, affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives, and agents.*

Government Board Member(s) *are the government members identified in Section 3(d)(ii)(2)(A)(i) of Annex I serving as voting members on the Board, and any replacements thereof.*

Government Observer(s) *are the government representatives appointed by the ministries of (i) MAGFOR, (ii) MTI and (iii) MARENA to serve as Observers on the Board.*

Government Party *means the Government, any Government Affiliate, MCA-Nicaragua, any other Permitted Designee or any of their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives or agents.*

Government Responsibilities *means the Government shall have principal responsibility for oversight and management of the implementation of the Program (i) in accordance with the terms and conditions specified in this Compact and relevant Supplemental Agreements, (ii) in accordance with all applicable laws then in effect in Nicaragua, and (iii) in a timely and cost-effective manner and in conformity with sound technical, financial and management practices.*

Grant Agreement *means a separate Supplemental Agreement to be entered into between MCC, the Government, and MCA-Nicaragua, wherein MCC shall grant to MCA-Nicaragua, an amount not to exceed one hundred seventy five million United States Dollars (USD $175,000,000) during the Compact Term to enable the Government, through MCA-Nicaragua, to implement the Program and achieve the Objectives.*

IDB *means the Inter-American Development Bank.*

Implementation Letter *is a letter that may be issued by MCC from time to time to furnish additional information or guidance to assist the Government in the implementation of this Compact.*

Implementation Plan *is a detailed plan for the implementation of the Program and each Project, which will be memorialized in one or more documents and shall consist of: (i) a Financial Plan; (ii) Fiscal Accountability Plan; (iii) Procurement Plan; (iv) Program and Project Work Plans; and (v) M&E Plan.*

Implementing Entity *means a Government Affiliate, nongovernmental organization or other public- or private-sector entity or person to implement and carry out the Projects or any other activities to be carried out in furtherance of this Compact.*

Implementing Entity Agreement *is an agreement between MCA-Nicaragua (or the appropriate Outside Project Manager) and an Implementing Entity, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of such Implementing Entity and other appropriate terms and conditions, such as payment of the Implementing Entity.*

Indicators *means the quantitative, objective and reliable data that the M&E Plan will use to measure the results of the Program.*

Inspector General *means the Inspector General of the United States Agency for International Development.*

León *means the department of León in Nicaragua.*

León-Chinandega *means the departments of León and Chinandega in Nicaragua.*

Lien *means any lien, attachment, enforcement of judgment, pledge, or encumbrance of any kind.*

Local Account *is an interest-bearing local currency of Nicaragua Permitted Account at the Commercial Bank to which the Fiscal Agent may authorize transfer from any U.S. Dollar Permitted Account for the purpose of making Re-Disbursements payable in local currency.*

M&E *means Monitoring and Evaluation.*

M&E Annex *means Annex III of this Compact, which generally describes the components of the M&E Plan for the Program.*

M&E Plan *means the plan to measure and evaluate progress toward achievement of the Compact Goal and Objectives of this Compact as generally described in Annex III.*

MAGFOR *means the Ministry of Agriculture and Forestry.*

MARENA *means the Ministry of the Environment and Natural Resources of Nicaragua.*

Material Agreement *shall have the meaning set forth in Section3(c)(i)(4) of Annex I.*

Material Re-Disbursement *means any Re-Disbursement that requires MCC approval under applicable law, the Procurement Agreement, the Governance Agreement, any other Governing Document, or any other Supplemental Agreement.*

Material Terms of Reference *means any terms of reference for the procurement of goods, services or works that requires MCC approval under applicable law, the Procurement Agreement, the Governance Agreement, any other Governing Document, or any other Supplemental Agreement.*

Mayor Board Member *means the mayor drawn from among the Mayor Observers.*

Mayor Observers *means the mayor representatives elected pursuant to Section 3(d)(ii)(2)(B)(iv) of Annex I.*

MCA *means the 2004 and 2005 Millennium Challenge Account.*

MCA Eligibility Criteria *means the MCA selection criteria and methodology published by MCC pursuant to Section 607 of the Act from time to time.*

MCA-Nicaragua *means an entity to be organized and established pursuant to Nicaraguan law and in accordance with Section 3(d) of Annex I and the Governance Agreement.*

MCA-Nicaragua Website *means the website operated by MCA-Nicaragua.*

MCC *means the Millennium Challenge Corporation.*

MCC Disbursement *means the disbursement of MCC Funding by MCC to a Permitted Account or through such other mechanism agreed by the Parties as defined in and in accordance with Section 2.1(b)(i) of this Compact.*

MCC Disbursement Request *means the applicable request that the Government and MCA-Nicaragua will jointly submit for an MCC Disbursement as may be specified in the Disbursement Agreement.*

MCC Funding *means an amount not to exceed one hundred seventy five million United States Dollars (USD $175,000,000).*

MCC Indemnified Party *means MCC and any MCC officer, director, employee, Affiliate, contractor, agent or representative.*

MCC Representative *is a representative appointed by MCC to serve as an Observer on the Board.*

Monitoring Component *means the component of the M&E Plan that specifies how progress toward the Compact Goal, Objectives and Project Activities will be monitored.*

MTI *means the Ministry of Transportation and Infrastructure.*

Multi-Year Financial Plan *means the multi-year financial plan for the Program and for each Project, which is summarized in Annex II to this Compact.*

Multi-Year Financial Plan Summary *is the Multi-Year Financial Plan summary attached to this Compact as Exhibit A of Annex II.*

N-I Road *is a 58 kilometer stretch of road between Izapa and Nejapa on the outskirts of Managua.*

NDP *means the National Development Plan (also known as the "PRSP II").*

Nicaragua *means the Republic of Nicaragua.*

Objective(s) *means the Program Objective and the individual Project Objectives, collectively.*

Objective Indicator *means the Indicator for each Objective that will measure the final results of the Projects in order to monitor their success in meeting each of the Objectives. A table of Objective Indicator definitions is set forth at Section 2(a)(ii) of Annex III.*

Observers *mean the non-voting observers of the Board.*

Officers *shall have the meaning set forth in Section 3(d)(iii)(3) of Annex I.*

Outcome Indicator *is an Indicator of the M&E Plan that will measure the intermediate results of goods and services delivered under the Project in order to provide an early measure of the likely impact of the Projects on the Objectives. A table of Outcome Indicator definitions is set forth at Section 2(a)(ii) of Annex III.*

Outside Project Manager *means the qualified persons or entities engaged by the Technical Secretariat, on behalf of MCA-Nicaragua, to serve as outside project managers in accordance with Section 3(e) of Annex I.*

Pacific Corridor *is one of the main corridors of the International Network of Mesoamerican Highways that runs along the Pacific Ocean.*

Parties *means the United States, acting through MCC, and the Government, except as otherwise provided in Annex III.*

Party *means (i) the United States, acting through MCC, or (ii) the Government.*

Permitted Account(s) *shall have the meaning set forth in Section 4(d) of Annex I.*

Permitted Designee *shall have the meaning set forth in Section 3.2(c).*

Pledge *means any pledge of any MCC Funding or any Program Assets, or any guarantee directly or indirectly of any indebtedness.*

PPP *means Plan Puebla-Panama, which is a plan to create a reliable Mesoamerican network of highways known as the International Network of Mesoamerican Highways.*

Principal Representative *means (i) for the Government, the individual holding the position of, or acting as, the Secretary of the Presidency of Nicaragua, and (ii) for MCC, the individual holding the position of, or acting as, the Vice President for Country Relations.*

Procurement Agent(s) *are the procurement agents that MCA-Nicaragua will engage to carry out and/or certify specified procurement activities in furtherance of this Compact on behalf of the Government, MCA-Nicaragua, any Outside Project Manager or Implementing Entity.*

Procurement Agent Agreement *is the agreement that MCA-Nicaragua enters into with the Procurement Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Procurement Agent with respect to the conduct, monitoring and review of procurements and other appropriate terms and conditions, such as payment of the Procurement Agent.*

Procurement Agreement *is a Supplemental Agreement between the Parties, which includes the Procurement Guidelines, and governs the procurement of all goods, services and works by the Government or any Provider in furtherance of this Compact.*

Procurement Guidelines *are the procurement guidelines reflected in the Procurement Agreement and shall include the requirements set forth in Section 3.6(a)(i-iv).*

Procurement Plan *means a procurement plan adopted by MCA-Nicaragua, which shall forecast the upcoming eighteen month procurement activities and be updated every six months.*

Procurement Supervisor(s) *are the procurement supervisors that MCA-Nicaragua shall engage to supervise specified procurement activities in furtherance of this Compact on behalf of the Government, MCA-Nicaragua, any Outside Project Manager or any Implementing Entity.*

Procurement Supervisor Agreement *is the agreement that MCA-Nicaragua shall enter into with the Procurement Supervisor, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Procurement Supervisor with respect to the conduct, monitoring and review of procurements and other appropriate terms and conditions, such as payment of the Procurement Supervisor.*

Program *means the program to be implemented under this Compact, using MCC Funding to advance Nicaragua's progress towards economic growth and poverty reduction.*

Program Annex *means Annex I to this Compact, which generally describes the Program that MCC Funding will support in Nicaragua during the Compact Term and the results to be achieved from the investment of MCC Funding.*

Program Assets *means (i) MCC Funding, (ii) Accrued Interest, or (iii) any assets, goods, or property (real, tangible, or intangible) purchased or financed in whole or in part by MCC Funding.*

Program Objective *means the overall objective of this Compact, which is to increase income and reduce poverty in León-Chinandega, which is key to advancing the Compact Goal.*

Project(s) *are the specific projects and the policy reforms and other activities related thereto that the Government will carry out, or cause to be carried out, in furtherance of this Compact to achieve the Objectives and the Compact Goal.*

Project Activity *means the activities that will be undertaken in furtherance of each Project as identified in the Schedules to Annex I.*

Project Objective(s) *means the project-level objectives that will advance the Program Objective, each of which is described in more detail in the Annexes to this Compact.*

Project Specialist *means the Infrastructure Specialist and the Rural Business Specialist.*

Property Regularization Objective *means the Project Objective of this Compact to increase investment by strengthening property rights in León.*

Property Regularization Project *is the Project described in Schedule 1 of Annex I, that the Parties intend to implement in furtherance of the Property Regularization Objective.*

Proposal *is the proposal for use of MCA assistance submitted to MCC by the Government on October 25, 2004.*

Provider *means (i) MCA-Nicaragua, any Government Affiliate or any other Permitted Designee involved in any activities in furtherance of this Compact or (ii) any third party who receives at least USD $50,000 in the aggregate of MCC Funding (other than employees of MCA-Nicaragua) during the Compact Term or such other amount as the Parties may agree in writing, whether directly from MCC, indirectly through Re-Disbursements, or otherwise.*

PRSP *is the Poverty Reduction Strategy that Nicaragua began developing in 2001 to work toward the Heavily Indebted Poor Countries initiative.*

Re-Disbursement *is the release of MCC Funding from a Permitted Account.*

Reviewer *shall have the meaning set forth in Section 3(h) of Annex I.*

Rural Business Development Objective *means the Project Objective of this Compact to increase the value-added of farms and businesses in León-Chinandega.*

Rural Business Development Project *is the Project described in Schedule 3 of Annex I, that the Parties intend to implement in furtherance of the Rural Business Development Objective.*

Rural Office *means the MCA-Nicaragua office that will be set up and equipped in León-Chinandega using MCC Funding to provide the services described in Section 2(a) of Schedule 3 of Annex I.*

Special Account *means a single, completely separate U.S. Dollar interest-bearing Permitted Account at a commercial bank that is procured through a competitive process to receive MCC Disbursements.*

Supplemental Agreement *is an agreement between (i) the Government (or any Government Affiliate or Permitted Designee) and MCC, (ii) MCC and/or the Government (or any Government Affiliate or Permitted Designee) and any third party, including any of the Providers or Permitted Designees, or (iii) any third parties where neither MCC nor the Government is a party, before, on or after the Entry into Force, which agreement memorializes details any funding, implementing and other arrangements in furtherance of this Compact.*

Supplemental Agreement between the Parties *means any agreement between MCC on the one hand, and the Government or any Government Affiliate or Permitted Designee on the other hand.*

Supplemental Agreement Term Sheets *means one or more term sheets that the Government (or mutually acceptable Government Affiliate) and MCC shall execute that set forth the material and principal terms and conditions of each of the Supplemental Agreements identified in Exhibit B attached to this Compact.*

Target *is the one or more expected results of an Indicator that specifies the expected value and the expected time by which that result will be achieved.*

Tax(es) *shall have the meaning set forth in Section 2.3(e)(i).*

Technical Secretariat *means a management team to have overall management responsibility for the implementation of this Compact and further described in Section 3(d)(iii) of Annex I.*

Transportation Objective *means the Project Objective of this Compact to reduce transportation costs between León-Chinandega and domestic, regional and global markets.*

Transportation Project *is the Project described in Schedule 2 of Annex I, that the Parties intend to implement in furtherance of the Transportation Objective.*

U.S. Government *shall mean any branch, agency, bureau, government corporation, government chartered entity or other body of the Federal government of the United States.*

United States Dollars *(USD) means the currency of the United States of America.*

Watershed Plan *means the watershed management action plan as described in Section 2(c)(i) of Schedule 3 of Annex I.*

Work Plans *means work plans for the overall administration of the Program and for each Project.*

EXHIBIT B

LIST OF CERTAIN SUPPLEMENTAL AGREEMENTS

1. Governance Agreement
2. Grant Agreement, if applicable
3. Fiscal Agent Agreement
4. Bank Agreement

ANNEX I

PROGRAM DESCRIPTION

This Annex I to the Compact (the "***Program Annex***") generally describes the Program that MCC Funding will support in Nicaragua during the Compact Term and the results to be achieved from the investment of MCC Funding. Prior to any MCC Disbursement or Re-Disbursement, including for the Projects described herein, MCC, the Government (or a mutually acceptable Government Affiliate) and MCA-Nicaragua shall enter into a Supplemental Agreement that (i) further specifies the terms and conditions of such MCC Disbursements and Re-Disbursements, (ii) is in a form and substance mutually satisfactory to the Parties, and (iii) is signed by the Principal Representative of each Party (or in the case of the Government, the principal representative of the applicable Government Affiliate) (the "***Disbursement Agreement***").

Except as specifically provided herein, the Parties may amend this Program Annex only by written agreement signed by the Principal Representative of each Party. Each capitalized term in this Program Annex shall have the same meaning given such term elsewhere in this Compact. Unless otherwise expressly stated, each Section reference herein is to the relevant Section of the main body of the Compact.

1. Background; Consultative Process.

(a) Background.

Nicaragua is one of the poorest countries in the Western Hemisphere. Over the last several decades, the country has experienced a dramatic rise and decline that has left approximately 70% of the country's rural population living in poverty. From 1958-1978, the country benefited from one of the stronger growth rates in Latin America, in part due to growth in agriculture in the northwestern part of the country. This period was followed by economic collapse from 1979-1994 that sent the country back 50 years. As the economy began to slowly recover during the late 1990s, corruption, weakening of democratic institutions, and natural disasters (notably, Hurricane Mitch) hampered the country's road to recovery. Despite the lack of growth over the last two decades, Nicaragua has recently shown signs of macroeconomic recovery. The potential impact of The Dominican Republic-Central America-United States Free Trade Agreement ("***DR-CAFTA***") and a customs union agreement with Guatemala, Honduras, and El Salvador provide a unique opportunity for the country to accelerate economic growth.

In 2001, Nicaragua began the process of developing a Poverty Reduction Strategy ("***PRSP***") to work toward the Heavily Indebted Poor Countries initiative. This strategy had a social emphasis and focused on structural reforms, human capital investment, greater protection of vulnerable groups, institutional development, environmental and social protection, and decentralization. Consultations in 2002 began a process of re-evaluating country priorities to achieve poverty reduction by accelerating economic growth. As a result, the Government complemented its PRSP with a National Development Plan[1] ("***NDP***") that consisted of a longer-term vision focused on productive development to accelerate growth and poverty reduction. The NDP was

[1] The National Development Plan also is known as the "PRSP II."

presented to the Nicaraguan consultative group in October 2003 and an updated draft is currently in circulation.

The objective of the NDP is "sustained economic growth through local development and productive clusters, democratic governance with citizen participation, transparency and accountability, and modernization of the state." To accomplish this objective, the NDP emphasizes actions to improve the investment climate, to facilitate productive development by leveraging regional competitive potential, and to link the country to international markets. This includes an emphasis on improving human productivity, investing in productive infrastructure, and strengthening governance capabilities at the local level. The NDP served as the foundation from which the Government launched a broad consultative effort to develop the MCC Proposal.

(b) **Consultative Process**.

A diverse group of stakeholders at the national, regional, and municipal levels provided input during the development of Nicaragua's Proposal, building on the Government's PRSP/NDP, which calls for strengthening local development and participation. The technical team charged with developing the Proposal held numerous meetings and work sessions in Managua and the country's regional departments with leaders in the political and private sectors, non-governmental organizations (NGOs), and various associations. Many of the consultations included Nicaragua's Local Development Council (LDCs), representative bodies at the regional department level whose members are elected from the public and private sector and civil society.[2] The LDCs were established to increase citizen participation in development planning. The technical team also spoke with local farm and women's cooperatives, local business associations, and NGOs about the Program's technical details.

Nicaragua's consultative process for the Proposal resulted in three key outcomes: (1) a shift from a national to a regional focus, (2) the prioritization of Proposal components, and (3) ongoing participation and ownership at the local level.

(1) As discussions at the national and regional level progressed about Nicaragua's constraints to economic growth and poverty reduction, stakeholders came to focus on the departments of León and Chinandega, a region believed to have the greatest potential for economic growth as well as some of the most extreme poverty.

(2) The León and Chinandega LDCs, which collectively represent over 100 civil society, private sector, and local government organizations, provided crucial assistance to the Government's technical team in developing and prioritizing the Proposal components. The team also solicited feedback from other private sector and civil society organizations at the regional and national level. The high level of participation by these LDCs marks the first time the Government has bestowed this level of authority to a region and fulfills the fundamental vision of the PRSP/NDP to strengthen local capacity and participation.

[2] Each of Nicaragua's regions and autonomous zones has a local development council that the central government recognizes through the Citizen Participation Law passed in July 2004.

(3) The Government's technical team continues to involve the LDCs and other local groups and expects them to play an important role in program oversight, including having representation on the Board of Directors of MCA-Nicaragua.

Nicaragua's Proposal focuses on creating a regional engine for economic growth in the northwestern part of the country (i.e., León-Chinandega) by transforming the rural business sector there into a high-value, sustainable one linked to regional and global markets. The regional focus builds on three important themes from the NDP and consultative process:

- Improving the investment climate and creating jobs;
- Facilitating productive development by leveraging regional competitive potential; and
- Linking the country more closely to international markets (i.e., trade-led growth).

The region encompassing León and Chinandega was a major engine for economic growth from 1958-1978 and today, benefits from the most fertile soil in the country, proximity to the country's Pacific coast port (Corinto) and Honduras' Atlantic coast port (Cortes), and a growing concentration of entrepreneurial capacity. Notwithstanding the region's potential, it suffers from serious constraints to economic growth and poverty reduction. Additionally, the northern mountainous part of the region and the peninsula of Cosiguina include some of the most extreme poverty in the country, where communities suffer from continuous land degradation, droughts, and isolation from domestic and international markets.

After broad consultations with the private sector and NGOs, discussions with other donors, and extensive meetings with local development council members in the region, the Government and MCC have agreed to an integrated development Program that will focus on removing three major constraints to economic growth and poverty reduction: (i) insecure property rights; (ii) under-developed transportation infrastructure; and (iii) low value-added rural business productivity.

2. Overview.

(a) **Program Objectives**. The Program involves a series of specific and complementary interventions that the Parties expect will achieve the Objectives and thus, advance the progress of Nicaragua towards the Compact Goal.

(b) **Projects**. The Parties have identified, for each Objective, Projects that the Government will implement, or cause to be implemented, using MCC Funding. Each Project is described in the Schedules to this Program Annex. The Schedules to this Program Annex identify the activities that will be undertaken in furtherance of each Project (each, a "***Project Activity***") as well as the various activities within a Project Activity. Notwithstanding anything to the contrary in this Compact, the Parties may agree to amend, terminate or suspend these Projects or create a new project by written agreement signed by the Principal Representative of each Party without amending this Compact; *provided, however*, any such amendment of a Project or creation of a new project (i) is consistent with the Objectives; (ii) does not cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1(a) of this Compact; (iii) does not cause the Government's responsibilities or contribution of resources to

be less than specified in Section 2.2 of this Compact or elsewhere in this Compact; and (iv) does not extend the Compact Term. The activities of the Program generally will be undertaken in León-Chinandega.

(c) **Beneficiaries**. The intended beneficiaries of each Project are described in the respective Schedule to this Program Annex and Annex III to the extent identified as of the date hereof. The intended beneficiaries shall be identified more precisely during the initial phases of the implementation of the Program. The Parties shall agree upon the description of the intended beneficiaries of the Program, and the Parties will make publicly available a more detailed description of these beneficiaries, including publishing such description on the MCA-Nicaragua Website.

(d) **Civil Society**. Civil society shall participate in overseeing the implementation of the Program through its representation on, and as Observers to, the Board, as provided in Section 3(d) of this Program Annex. In addition, the Work Plans and/or Procurement Plans for each Project shall note the extent to which civil society will have a role in the implementation of a particular Project or Project Activity. Finally, members of civil society may be recipients of training or other public awareness programs that are integral to the Project Activities.

(e) **Monitoring and Evaluation**. Annex III of this Compact generally describes the plan to measure and evaluate progress toward achievement of the Compact Goal and Objectives of this Compact (the "***M&E Plan***"). As outlined in the Disbursement Agreement and other Supplemental Agreements, continued disbursement of MCC Funding under this Compact (whether as MCC Disbursements or Re-Disbursements) shall be contingent, among other things, on successful achievement of targets set forth in the M&E Plan.

3. Implementation Framework.

The implementation framework and the plan for ensuring adequate governance, oversight, management, monitoring, evaluation and fiscal accountability for the use of MCC Funding is summarized below and in the Schedules attached to this Program Annex, or as may otherwise be agreed in writing by the Parties.

(a) **General**. The elements of the implementation framework will be further described in relevant Supplemental Agreements and in a detailed plan for the implementation of the Program and each Project (the "***Implementation Plan***"), which will be memorialized in one or more documents and shall consist of a Financial Plan, Fiscal Accountability Plan, Procurement Plan, Program and Project Work Plans, and M&E Plan. MCA-Nicaragua shall adopt each component of the Implementation Plan in accordance with the requirements and timeframe as may be specified in this Program Annex, the Disbursement Agreement or as may otherwise be agreed by the Parties from time to time. MCA-Nicaragua may amend the Implementation Plan or any component thereof without amending this Compact, provided any material amendment of the Implementation Plan or any component thereof has been approved by MCC and is otherwise consistent with the requirements of this Compact and any relevant Supplemental Agreement between the Parties. By such time as may be specified in the Disbursement Agreement or as may otherwise be agreed by the Parties from time to time, MCA-Nicaragua shall adopt one or more work plans for the overall administration of the Program and

for each Project (collectively, the "***Work Plans***"). The Work Plan(s) shall set forth the details of each activity to be undertaken or funded by MCC Funding as well as the allocation of roles and responsibilities for specific Project activities, or other programmatic guidelines, performance requirements, targets, or other expectations for a Project.

(b) **Government**.

(i) The Government shall promptly take all necessary and appropriate actions to carry out the Government Responsibilities and other obligations or responsibilities of the Government under and in furtherance of this Compact, including undertaking or pursuing such legal, legislative or regulatory actions, procedural changes and contractual arrangements as may be necessary or appropriate to achieve the Objectives, to successfully implement the Program, to designate any rights or responsibilities to any Permitted Designee, and to establish MCA-Nicaragua, which shall have the form, structure and other features to be determined and agreed upon by the Parties on or before the time specified in the Disbursement Agreement and which shall be responsible for the oversight and management of the implementation of this Compact on behalf of the Government. The Government shall promptly deliver to MCC certified copies of any documents, orders, decrees, laws or regulations evidencing such legal, legislative, regulatory, procedural, contractual or other actions.

(ii) During the Compact Term, the Government shall ensure that MCA-Nicaragua is duly authorized and organized, and sufficiently staffed and empowered, to fully carry out the Designated Rights and Responsibilities. Without limiting the generality of the preceding sentence, MCA-Nicaragua shall be organized, and have such roles and responsibilities, as described in Section 3(d) of this Program Annex and as provided in applicable law and in the Governance Agreement and any other Governing Documents; *provided, however*, the Government or another Permitted Designee may, subject to MCC approval, carry out any of the roles and responsibilities designated to be carried out by MCA-Nicaragua and described in Section 3(d) of this Program Annex or elsewhere in this Program Annex, applicable law, the Governance Agreement, or any other Governing Document or Supplemental Agreement prior to and during the initial period of the establishment and staffing of MCA-Nicaragua, but in no event longer than the earlier of (i) the formation of the Board, establishment of MCA-Nicaragua (including the Technical Secretariat) and engagement of each of the Officers and (ii) six months from the Entry into Force, unless otherwise agreed by the Parties in writing.

(c) **MCC**.

(i) Notwithstanding Section 3.1 of this Compact or any provision in this Program Annex to the contrary, and except as may be otherwise agreed upon by the Parties from time to time, MCC must approve in writing each of the following transactions, activities, agreements and documents prior to the execution or carrying out of such transaction, activity, agreement or document and prior to MCC Disbursements or Re-Disbursements in connection therewith:

(1) MCC Disbursements;

(2) Each component of the Financial Plan and any amendments and supplements thereto;

(3) Any Audit Plan;

(4) Agreements (i) between the Government and MCA-Nicaragua, (ii) between the Government, a Government Affiliate, MCA-Nicaragua or any other Permitted Designee, on the one hand, and any Provider or Affiliate of a Provider, on the other hand, (A) which require such MCC approval under applicable law, the Procurement Agreement, the Governance Agreement, any other Governing Document, or any other Supplemental Agreement, or (iii) in which the Government, Government Affiliate, MCA-Nicaragua or any other Permitted Designee appoints, hires or engages any of the following in furtherance of this Compact:

(A) Auditor and Reviewer;

(B) Fiscal Agent;

(C) Bank;

(D) Procurement Agent and Procurement Supervisor;

(E) Outside Project Manager;

(F) Implementing Entity; and

(G) Director, Observer, Officer and/or other key employee or contractor of MCA-Nicaragua, including any compensation for such person.

(Any agreement described in clause (i) through (iii) of this Section 3(c)(i)(4) and any amendments and supplements thereto, each, a "***Material Agreement***");

(5) Any modification, termination or suspension of a Material Agreement, or any action that would have the effect of such a modification, termination or suspension of a Material Agreement;

(6) Any agreement that is (A) not at arm's length or (B) with a party related to the Government, MCA-Nicaragua, or any of their respective Affiliates;

(7) Any Re-Disbursement (each, a "***Material Re-Disbursement***") that requires such MCC approval under applicable law, the Procurement Agreement, the Governance Agreement, any other Governing Document or any other Supplemental Agreement;

(8) Any terms of reference for the procurement of goods, services or works that require such MCC approval under applicable law, the Procurement Agreement, the Governance Agreement, any other Governing Document or any other Supplemental Agreement (each, a "***Material Terms of Reference***");

(9) The Implementation Plan, including each component plan thereto, and any material amendments and supplements to the Implementation Plan or any component thereto;

(10) Any pledge of any MCC Funding or any Program Assets or any guarantee directly or indirectly of any indebtedness (each, a "***Pledge***");

(11) Any decree, legislation, regulation, contractual arrangement or other document establishing or governing MCA-Nicaragua, including the Governance Agreement ("***Governing Document***");

(12) Any disposition (in whole or in part), liquidation, dissolution, winding up, reorganization or other change of (A) MCA-Nicaragua, including any revocation or modification of, or supplement to, any Governing Document related thereto, or (B) any subsidiary or Affiliate of MCA-Nicaragua;

(13) Any change in character or location of any Permitted Account;

(14) Formation or acquisition of any subsidiary (direct or indirect) or other Affiliate of MCA-Nicaragua;

(15) Any (A) change of a Director, Observer, Officer or other key employee or contractor of MCA-Nicaragua, or in the composition of the Board, including approval of the nominee for Chairman, or (B) filling of any vacant seat of the Chairman, a Director or an Observer or vacant position of an Officer or other key employee or contractor of MCA-Nicaragua;

(16) The management information system to be developed and maintained by the Technical Secretariat of MCA-Nicaragua, and any material modifications to such system;

(17) Any decision to amend, supplement, replace, terminate or otherwise change any of the foregoing; and

(18) Any other activity, agreement, document or transaction requiring the approval of MCC in this Compact, applicable law, the Governance Agreement, any other Governing Document, the Procurement Agreement, the Disbursement Agreement, or any other Supplemental Agreement between the Parties.

The Chairman of the Board (the "***Chairman***") and/or the General Director of MCA-Nicaragua (the "***General Director***") or other designated Officer, as provided in applicable law and the Governance Agreement, shall certify any documents or reports delivered to MCC in satisfaction of the Government's reporting requirements under this Compact or any Supplemental Agreement between the Parties (the "***Compact Reports***").

(ii) MCC shall have the authority to exercise its approval rights set forth in this Section 3(c) in its sole discretion and independent of any participation or position taken by the MCC Representative at a meeting of the Board. MCC retains the right to revoke its approval of any matter, agreement or action if MCC concludes, in its sole discretion, that its approval was issued on the basis of incomplete, inaccurate or misleading information furnished by the Government, any Government Affiliate, MCA-Nicaragua or any other Permitted Designee. Notwithstanding any provision in this Compact or any Supplemental Agreement to the contrary, the exercise by MCC of its approval rights under this Compact or any Supplemental Agreement shall not (1) diminish or otherwise affect the Government Responsibilities or any other obligations or responsibilities of the Government under this Compact or any Supplemental Agreement, (2) transfer any such obligations or responsibilities of the Government, or (3) otherwise subject MCC to any liability.

(d) **MCA-Nicaragua.**

(i) General. Unless otherwise agreed by the Parties in writing, MCA-Nicaragua shall, as a Permitted Designee, be responsible for the oversight and management of the implementation of this Compact. MCA-Nicaragua shall be governed by applicable law, a governance agreement to be entered into by the Government and MCA-Nicaragua, in a form and substance satisfactory to MCC, on or before the time specified in the Disbursement Agreement ("***Governance Agreement***"), and any other Governing Documents, based on the following principles:

(1) The Government shall ensure that MCA-Nicaragua shall not assign, delegate or contract any of the Designated Rights and Responsibilities without the prior written consent of the Government and MCC. MCA-Nicaragua shall not establish any Affiliates or subsidiaries (direct or indirect) without the prior written consent of the Government and MCC.

(2) Unless otherwise agreed by the Parties in writing, MCA-Nicaragua shall consist of (a) an independent board of directors (the "***Board***") to oversee MCA-Nicaragua's responsibilities and obligations under this Compact (including any Designated Rights and Responsibilities) and (b) a management team (the "***Technical Secretariat***") to have overall management responsibility for the implementation of this Compact.

(ii) Board.

(1) Formation. The Government shall ensure that the Board shall be formed, constituted, governed and operated in accordance with applicable law and the terms and conditions set forth in the Governance Agreement, any other applicable Governing Document, and any other relevant Supplemental Agreement.

(2) Composition. Unless otherwise agreed by the Parties in writing, the Board shall consist of (i) seven voting members, one of whom shall be appointed the Chairman as provided in applicable law, the Governance Agreement or any other Governing Document and subject to MCC approval, and (ii) non-voting observers (the "***Observers***").

(A) Unless otherwise agreed by the Parties in writing, the Board shall initially be composed of seven voting members as follows:

(i) Four (4) minister- or secretary-level representatives of the Government (each, a "***Government Board Member***"), each of whom shall be appointed by the President of the Republic of Nicaragua, which appointment shall be subject to MCC approval;

(ii) Two (2) representatives drawn from among the Civil Observers (each, a "***Civil Board Member***"); and

(iii) One (1) mayor drawn from among the Mayor Observers (the "***Mayor Board Member***").

(B) The Observers shall be:

(i) A representative (the "***MCC Representative***") appointed by MCC;

(ii) A representative (each, a "***Government Observer***" appointed by each of the following Government ministries:

a. The Ministry of Agriculture and Forestry ("***MAGFOR***");

b. The Ministry of Transportation and Infrastructure ("***MTI***"); and

c. The Ministry of the Environment and Natural Resources of Nicaragua ("***MARENA***");

(iii) A representative (each, a "***Civil Observer***") appointed by each of the following civil society organizations, which representative cannot be a public official:

a. León Local Development Council;

b. Chinandega Local Development Council;

c. Two (2) other civil society organizations, the selection of which shall be subject to MCC approval; and

d. Such other organization(s) to which the Parties mutually agree.

(iv) Two (2) mayor representatives (each, a "***Mayor Observer***"), one elected by all of the mayors of municipalities within the department of León, and the other elected by all of the mayors of the municipalities within the department of Chinandega.

(C) Each Government Board Member position shall be filled by the individual then holding the office identified, and such individuals shall serve in their capacity as the applicable Government official and not in their personal capacity. Each Government Board Member may be replaced by another government official of comparable rank from a ministry or other government body relevant to the Program activities, subject to approval by the Government and MCC. Each Mayor Observer may be replaced by another mayor elected by all of the mayors of municipalities within the department where such Mayor Observer is from.

(D) The Parties shall mutually agree on the individual who shall initially fill the seat of Chairman and any person who subsequently serves as Chairman.

(E) Each Observer shall have rights to attend all meetings of the Board, participate in the discussions of the Board, and receive all information and documents provided to the Board, together with any other rights of access to records, employees or facilities as would be granted to a member of the Board under applicable law, the Governance Agreement and any other Governing Document.

(F) The Chairman, in the presence of the other Government Board Members and the MCC Representative, shall choose by lot the initial two (2) Civil Board Members from among the four (4) Civil Observers, who shall serve as voting

members of the Board for two non-consecutive terms of fifteen (15) months each beginning on the Entry into Force and the day following the 30-month anniversary of the Entry into Force, respectively. The remaining two (2) Civil Observers shall serve as voting members of the Board for two non-consecutive terms of fifteen (15) months each beginning on the day following the expiration of the 15-month anniversary of the Entry into Force and the day following the 45-month anniversary of the Entry into Force, respectively. This Compact, applicable law, the Governance Agreement and relevant Supplemental Agreements between the Parties shall govern the terms and conditions of the participation of the Civil Observers on the Board. For purposes of this paragraph and the next, a "15-month" term shall equal 457 days for terms 1 and 2 and 456 days for terms 3 and 4. If the Parties mutually agree to more than four (4) Civil Observers, the Parties shall determine a mutually acceptable manner for modifying the procedure for choosing the Civil Board Members to allow, to the extent practical, all Civil Observers an equal opportunity to serve as a Civil Board Member.

(G) The Chairman, in the presence of the other Government Board Members and the MCC Representative, shall choose by lot the initial Mayor Board Member from among the two (2) Mayor Observers, who shall serve as a voting member of the Board for two non-consecutive terms of fifteen (15) months each beginning on the Entry into Force and the day following the 30-month anniversary of the Entry into Force, respectively. The other Mayor Observer shall serve as a voting member of the Board for two non-consecutive terms of fifteen (15) months each beginning on the day following the expiration of the 15-month anniversary of the Entry into Force and the day following the 45-month anniversary of the Entry into Force, respectively. This Compact, applicable law, the Governance Agreement and relevant Supplemental Agreements between the Parties shall govern the terms and conditions of the participation of the Mayor Observers on the Board. If the Parties mutually agree to more than two (2) Mayor Observers, the Parties shall determine a mutually acceptable manner for modifying the procedure for choosing the Mayor Board Members to allow, to the extent practical, all Mayor Observers an equal opportunity to serve as a Mayor Board Member.

(3) Role and Responsibilities.

(A) The Board shall oversee the Technical Secretariat, the overall implementation of the Program and the performance of the Designated Rights and Responsibilities.

(B) Certain actions may be taken, and certain agreements and other documents and instruments may be executed and delivered, by MCA-Nicaragua only upon the approval and authorization of the Board as provided under applicable law or as set forth in the Governance Agreement or any other Governing Document, including each MCC Disbursement Request, selection or termination of certain Providers, any component of the Implementation Plan, certain Re-Disbursements and certain terms of reference.

(C) The Chairman shall certify the approval by the Board of all Compact Reports or any other documents or reports from time to time delivered to MCC by MCA-Nicaragua (whether or not such documents or reports are required to be delivered to MCC), and that such documents or reports are true, accurate and complete.

(D) Without limiting the generality of the Designated Rights and Responsibilities that the Government may designate to MCA-Nicaragua, and subject to MCC's contractual rights of approval as set forth in Section 3(c) of this Program Annex or elsewhere in this Compact or any relevant Supplemental Agreement, the Board shall have the exclusive authority as between the Board and the Technical Secretariat for all actions defined for the Board under applicable law and in the Governance Agreement or any other Governing Document and which are expressly designated therein as responsibilities that cannot be delegated further.

(4) Indemnification of MCC Representative. The Government shall ensure, at the Government's sole cost and expense, that appropriate insurance is obtained and appropriate indemnifications and other protections are provided, acceptable to MCC and to the fullest extent permitted under the laws of the Republic of Nicaragua, to ensure that Civil Board Members and Observers shall not be held personally liable for the actions or omissions of the Board. Pursuant to Section 5.5 and Section 5.8 of this Compact, the Government and MCA-Nicaragua shall hold harmless the MCC Representative for any liability or action arising out of the MCC Representative's role as a non-voting observer on the Board. The Government hereby waives and releases all claims related to any such liability and acknowledges that the MCC Representative has no fiduciary duty to MCA-Nicaragua. In matters arising under or relating to the Compact, the MCC Representative is not subject to the jurisdiction of the courts or other

body of Nicaragua. MCA-Nicaragua shall provide a written waiver and acknowledgement that no fiduciary duty to MCA-Nicaragua is owed by the MCC Representative.

(iii) Technical Secretariat. Unless otherwise agreed in writing by the Parties, the Technical Secretariat shall report, through the General Director or other Officer as designated in applicable law and the Governance Agreement, directly to the Board and shall have the composition, roles and responsibilities described below and set forth more particularly in applicable law and the Governance Agreement and any other Governing Document.

(1) Appointment of General Director. The General Director of MCA-Nicaragua shall be selected and hired by the Board after an open and competitive recruitment and selection process, which appointment shall be subject to MCC approval.

(2) Appointment of Other Officers. Unless otherwise specified in the Government Agreement or any other Governing Document, the other Officers of MCA-Nicaragua shall be selected and hired by the General Director after an open and competitive recruitment and selection process, which appointment shall be subject to the approval of the Board and MCC.

(3) Composition. The Government shall ensure that the Technical Secretariat shall be composed of qualified experts from the public or private sectors, including such offices and staff as may be necessary to carry out effectively its responsibilities, each with such powers and responsibilities as set forth in applicable law and the Governance Agreement, any Governing Document and from time to time in any Supplemental Agreement between the Parties, including the following: (i) General Director; (ii) Administration and Finance Director; (iii) Monitoring and Evaluation Director; (iv) Environmental and Social Impact Specialist, (v) Management Information Systems Director; (vi) Communications Director; and (vii) Infrastructure Specialist and Rural Business Specialist (each, a "***Project Specialist***") (the persons holding the positions in sub-clauses (i) through (vii) and such other offices as may be created and designated in accordance with the Governance Agreement and any other Supplemental Agreement between the Parties, shall be collectively referred to as "***Officers***"). The Parties contemplate that for purposes of the initial period of operations, and in no event longer than six months, MCA-Nicaragua may appoint an acting General Director, subject to the prior approval of MCC; *provided*, during such period, the Board shall ratify the actions of such acting General Director and MCA-Nicaragua shall select a permanent General Director through a competitive selection process and subject to MCC prior approval in accordance with this Annex I.

(4) Role and Responsibilities.

(A) The Technical Secretariat shall assist the Board in overseeing the implementation of the Program and shall have principal responsibility (subject to the direction and oversight of the Board and subject to MCC's contractual rights of approval as set forth in Section 3(c) of this Program Annex or elsewhere in this Compact or any relevant Supplemental Agreement) for the overall management of the implementation of the Program.

(B) Without limiting the foregoing general responsibilities or the generality of Designated Rights and Responsibilities that the Government may designate to MCA-Nicaragua, the Technical Secretariat shall develop the components of the Implementation Plan, oversee the implementation of the Projects, manage and coordinate monitoring and evaluation, maintain internal accounting records, conduct and oversee certain procurements, and perform such other responsibilities as set forth in applicable law and the Governance Agreement or delegated to the Technical Secretariat by the Board from time to time.

(C) The Technical Secretariat shall have the obligation and right to approve certain actions and documents or agreements, including certain Re-Disbursements, MCC Disbursement Requests, Compact Reports, certain human resources decisions, and certain procurement actions, as provided in applicable law and the Governance Agreement.

(e) **Outside Project Manager**. The Technical Secretariat shall have the authority to engage qualified persons or entities to serve as outside project managers (each, an "***Outside Project Manager***") in the event that it is advisable to do so for the proper and efficient day-to-day management of a Project; *provided, however*, that the appointment or engagement of any Outside Project Manager after a competitive selection process shall be subject to approval by the Board and MCC prior to such appointment or engagement. Upon Board approval, the Technical Secretariat, on behalf of MCA-Nicaragua, may delegate, assign, or contract to the Outside Project Managers such duties and responsibilities as it deems appropriate with respect to the management of the Implementing Entities and the implementation of the specific Projects or Project Activities; and *provided, further,* that the Technical Secretariat shall remain accountable for those duties and responsibilities and all reports delivered by the Outside Project Manager notwithstanding any such delegation, assignment or contract and the Outside Project Manager shall be subject to the oversight of the Fiscal Agent and Procurement Agent. The Board may, independent of any request from the Technical Secretariat, determine that it is advisable to engage one or more Outside Project Managers and instruct the Technical Secretariat or, where appropriate, a Procurement Agent to commence and conduct the competitive selection process for such Outside Project Manager.

(f) **Implementing Entities**. Subject to the terms and conditions of this Compact and any other Supplemental Agreement between the Parties, MCA-Nicaragua may provide MCC Funding, directly or indirectly through an Outside Project Manager, to one or more Government Affiliates or to one or more nongovernmental organization or other public- or private-sector entities or persons to implement and carry out the Projects or any other activities to be carried out in furtherance of this Compact (each, an "***Implementing Entity***"). The Government shall ensure that MCA-Nicaragua (or the appropriate Outside Project Manager) enters into an agreement with each Implementing Entity, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of such Implementing Entity and other appropriate terms and conditions, such as payment of the Implementing Entity (the "***Implementing Entity Agreement***"). An Implementing Entity shall report directly to the Technical Secretariat or

Outside Project Manager, as designated in the applicable Implementing Entity Agreement or as otherwise agreed by the Parties.

(g) **Fiscal Agent**. The Government shall ensure that MCA-Nicaragua engages one or more fiscal agents (each, a "***Fiscal Agent***"), who shall be responsible for, among other things: (i) ensuring and certifying that Re-Disbursements are properly authorized and documented in accordance with established control procedures set forth in the Disbursement Agreement, the Fiscal Agent Agreement and other relevant Supplemental Agreements; (ii) Re-Disbursement and cash management, including instructing a Bank to make Re-Disbursements from a Permitted Account (to which the Fiscal Agent has sole signature authority), following applicable certification by the Fiscal Agent; (iii) providing applicable certifications for MCC Disbursement Requests; (iv) maintaining proper accounting of all MCC Funding financial transactions and certain other accounting functions; (v) producing reports on MCC Disbursements and Re-Disbursements (including any requests therefore) in accordance with established procedures set forth in the Disbursement Agreement, the Fiscal Agent Agreement or any other relevant Supplemental Agreements; (vi) funds control; and (vii) procurement functions, as may be specified from time to time. Upon the written request of MCC, the Government shall ensure that MCA-Nicaragua terminates a Fiscal Agent, without any liability to MCC, and the Government shall ensure that MCA-Nicaragua engages a new Fiscal Agent, subject to the approval by the Board and MCC. The Government shall ensure that MCA-Nicaragua enters into an agreement with each Fiscal Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Fiscal Agent and other appropriate terms and conditions, such as payment of the Fiscal Agent ("***Fiscal Agent Agreement***").

(h) **Auditors and Reviewers**. The Government shall ensure that MCA-Nicaragua carries out the Government's audit responsibilities as provided in Sections 3.8(d), (e) and (f) of this Compact, including engaging one or more auditors (each, an "***Auditor***") required by Section 3.8(d) of this Compact. As requested by MCC in writing from time to time, the Government shall ensure that MCA-Nicaragua also engages (i) an independent reviewer to conduct reviews of performance and compliance under this Compact pursuant to Section 3.8(f) of this Compact, which reviewer shall have the capacity to (A) conduct general reviews of performance or compliance, (B) conduct environmental audits, and (C) conduct data quality assessments in accordance with the M&E Plan, as described more fully in Annex III, and/or (ii) an independent evaluator to assess performance as required under the M&E Plan (each, a "***Reviewer***"). MCA-Nicaragua shall select the Auditor(s) or Reviewers in accordance with the Governance Agreement, any other Governing Document or other relevant Supplemental Agreement. The Government shall ensure that MCA-Nicaragua enters into an agreement with each Auditor or Reviewer, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Auditor or Reviewer with respect to the audit, review or evaluation, including access rights, required form and content of the applicable audit, review or evaluation and other appropriate terms and conditions such as payment of the Auditor or Reviewer (the "***Auditor / Reviewer Agreement***"). In the case of a financial audit required by Section 3.8(f) of this Compact, such Auditor / Reviewer Agreement shall be effective no later than 120 days prior to the end of the relevant fiscal year or other period to be audited; *provided, however*, if MCC requires concurrent audits of financial information or reviews of performance and compliance under this Compact, then such Auditor / Reviewer Agreement shall be effective no later than a date agreed by the Parties in writing.

(i) **Procurement Agent**. If requested by MCC, the Government shall ensure that MCA-Nicaragua engages one or more procurement agents (each, a "***Procurement Agent***") to carry out and/or certify specified procurement activities in furtherance of this Compact on behalf of the Government, MCA-Nicaragua, any Outside Project Manager or Implementing Entity. The role and responsibilities of such Procurement Agent and the criteria for selection of a Procurement Agent shall be as set forth in the applicable Implementation Letter or Supplemental Agreement. The Government shall ensure that MCA-Nicaragua enters into an agreement with the Procurement Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Procurement Agent with respect to the conduct, monitoring and review of procurements and other appropriate terms and conditions, such as payment of the Procurement Agent (the "***Procurement Agent Agreement***"). Any Procurement Agent shall adhere to the procurement standards set forth in the Procurement Agreement and Procurement Guidelines and ensure procurements are consistent with the procurement plan (the "***Procurement Plan***") adopted by MCA-Nicaragua, which plan shall forecast the upcoming eighteen month procurement activities and be updated every six months.

(j) **Procurement Supervisor**. If requested by MCC, the Government shall ensure that MCA-Nicaragua engages one or more procurement supervisors (each, a "***Procurement Supervisor***") to supervise specified procurement activities in furtherance of this Compact on behalf of the Government, MCA-Nicaragua, any Outside Project Manager or any Implementing Entity. The role and responsibilities of such Procurement Supervisor and the criteria for selection of a Procurement Supervisor shall be as set forth in the applicable Implementation Letter or Supplemental Agreement. The Government shall ensure that MCA-Nicaragua enters into an agreement with the Procurement Supervisor, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Procurement Supervisor with respect to the conduct, monitoring and review of procurements and other appropriate terms and conditions, such as payment of the Procurement Supervisor (the "***Procurement Supervisor Agreement***"). Any Procurement Supervisor shall ensure that the procurement standards set forth in the Procurement Guidelines are adhered to and ensure procurements are consistent with the Procurement Plan.

4. Finances and Fiscal Accountability.

(a) **Financial Plan**.

(i) Multi-Year Financial Plan. The multi-year financial plan for the Program and for each Project (the "***Multi-Year Financial Plan***") is summarized in Annex II to this Compact.

(ii) Detailed Financial Plan. During the Compact Term, the Government shall ensure that MCA-Nicaragua delivers to MCC timely financial plans that specify, respectively, the annual and quarterly detailed budget and projected cash requirements for the Program and each Project (including monitoring, evaluation and administrative costs), projected both on a commitment and cash requirement basis (each a "***Detailed Financial Plan***"). Each Detailed Financial Plan shall be delivered by such time as specified in the Disbursement Agreement or as may otherwise be agreed by the Parties. The Multi-Year Financial Plan and each Detailed

Financial Plan and each amendment, supplement or other change thereto are collectively, the "***Financial Plan***."

(iii) Expenditures. No financial commitment involving MCC Funding shall be made, no obligation of MCC Funding shall be incurred, and no Re-Disbursement shall be made or MCC Disbursement Request submitted for any activity or expenditure, unless the expense is provided for in the Detailed Financial Plan and unless uncommitted funds exist in the balance of the Detailed Financial Plan for the relevant period or unless the Parties otherwise agree in writing.

(iv) Modifications to Financial Plan. Notwithstanding anything to the contrary in this Compact, MCA-Nicaragua may amend or supplement the Financial Plan or any component thereof without amending this Compact, provided any material amendment or supplement has been approved by MCC and is otherwise consistent with the requirements of this Compact and any relevant Supplemental Agreement between the Parties.

(b) **Disbursement and Re-Disbursement**. The Disbursement Agreement (and disbursement schedules thereto), as amended from time to time, shall specify the terms, conditions and procedures on which MCC Disbursements and Re-Disbursements shall be made. The obligation of MCC to make MCC Disbursements or approve Re-Disbursements is subject to the fulfillment, waiver or deferral of any such terms and conditions. The Government and MCA-Nicaragua shall jointly submit the applicable request for an MCC Disbursement (the "***MCC Disbursement Request***") as may be specified in the Disbursement Agreement. MCC will make MCC Disbursements in tranches to a Permitted Account from time to time as provided in the Disbursement Agreement or as may otherwise be agreed by the Parties, subject to Program requirements and performance by the Government, MCA-Nicaragua and other relevant parties in furtherance of this Compact. Re-Disbursements will be made from time to time based on requests by an authorized representative of the appropriate party designated for the size and type of Re-Disbursement in accordance with the Governance Agreement and Disbursement Agreement; *provided, however*, unless otherwise agreed by the Parties in writing, no Re-Disbursement shall be made unless and until the written approvals specified herein or in the Governance Agreement and Disbursement Agreement for such Re-Disbursement have been obtained and delivered to the Fiscal Agent.

(c) **Fiscal Accountability Plan**. By such time as specified in the Disbursement Agreement or as otherwise agreed by the Parties, MCA-Nicaragua shall adopt as part of the Implementation Plan a fiscal accountability plan that identifies the principles and mechanisms to ensure appropriate fiscal accountability for the use of MCC Funding provided under this Compact, including the process to ensure that open, fair, and competitive procedures will be used in a transparent manner in the administration of grants or cooperative agreements and the procurement of goods and services for the accomplishment of the Objectives (the "***Fiscal Accountability Plan***"). The Fiscal Accountability Plan shall set forth, among other things, requirements with respect to the following matters: (i) funds control and documentation; (ii) separation of duties and internal controls; (iii) accounting standards and systems; (iv) content and timing of reports; (v) policies concerning public availability of all financial information; (vi) cash management practices; (vii) procurement and contracting practices, including timely payment to vendors; (viii) the role of independent auditors; and (ix) the roles of fiscal agents and procurement agents.

(d) **Permitted Accounts**. The Government shall establish, or cause to be established, such accounts (each, a "***Permitted Account***," and collectively "***Permitted Accounts***") as may be agreed by the Parties in writing from time to time, including:

(i) A single, completely separate U.S. Dollar interest-bearing account (the "***Special Account***") at a commercial bank that is procured through a competitive process to receive MCC Disbursements;

(ii) If necessary, an interest-bearing local currency of Nicaragua account (the "***Local Account***") at the Commercial Bank to which the Fiscal Agent may authorize transfer from any U.S. Dollar Permitted Account for the purpose of making Re-Disbursements payable in local currency; and

(iii) Such other interest-bearing accounts to receive MCC Disbursements in such bank as the Parties mutually agree upon in writing.

No other funds shall be commingled in a Permitted Account other than MCC Funding and Accrued Interest thereon. All MCC Funding held in an interest-bearing Permitted Account shall earn interest at a rate of no less than such amount as the Parties may agree in the respective Bank Agreement or otherwise. MCC shall have the right, among other things, to view any Permitted Account statements and activity directly on-line, where feasible, or at such other frequency as the Parties may otherwise agree. By such time as shall be specified in the Disbursement Agreement or as otherwise agreed by the Parties, the Government shall ensure that MCA-Nicaragua enters into an agreement with each Bank, respectively, satisfactory to MCC, that sets forth the signatory authority, access rights, anti-money laundering and anti-terrorist financing provisions, and other terms related to the Permitted Account, respectively (each a "***Bank Agreement***"). For purposes of this Compact, any bank holding an account referenced in Section 4(d) of this Program Annex are each a "***Bank***" and, are collectively referred to as the "***Banks***."

(e) **Currency Exchange**. The Bank shall convert MCC Funding to the currency of Nicaragua at a rate to which the Parties mutually agree with the Bank in the Bank Agreement.

5. Transparency; Accountability.

Transparency and accountability to MCC and to the beneficiaries are important aspects of the Program and Projects. Without limiting the generality of the foregoing, in an effort to achieve the goals of transparency and accountability, the Government shall ensure that MCA-Nicaragua:

(a) Establishes an e-mail suggestion box as well as a means for other written comments that interested persons may use to communicate ideas, suggestions or feedback to MCA-Nicaragua;

(b) Considers as a factor in its decision-making the recommendations of the Observers, particularly in MCA-Nicaragua's deliberations over pending key Technical Secretariat decisions and key Board decisions as shall be specified in applicable law, the Governance Agreement and any other Governing Document;

(c) Develops and maintains a website (the "***MCA-Nicaragua Website***") in a timely, accurate and appropriately comprehensive manner, such MCA-Nicaragua Website to include postings of information and documents in English and Spanish; and

(d) Posts on the MCA-Nicaragua Website and otherwise makes publicly available from time to time the following documents or information, including by posting on the MCA-Nicaragua Website, with links to and from the official website of the Government (http://www.presidencia.gob.ni) and the website of the Embassy of Nicaragua in the United States (http://managua.usembassy.gov):

(i) All minutes of the meetings of the Board;

(ii) The M&E Plan, as amended from time to time, along with periodic reports on Program performance;

(iii) All relevant Environmental Impact Assessments and supporting documents;

(iv) Such financial information as may be required by this Compact or as may otherwise be agreed from time to time by the Parties;

(v) All Compact Reports;

(vi) All audit reports by an Auditor and any periodic reports or evaluations by a Reviewer;

(vii) A copy of the Disbursement Agreement, as amended from time to time;

(viii) A copy of the Procurement Agreement (including Procurement Guidelines), Procurement Plan, procurement policies and standard documents, bid requests and awarded contracts; and

(ix) A copy of any documents related to the formation, organization and governance of MCA-Nicaragua, including the Governance Agreement and any other Governing Documents, and any amendments thereto.

SCHEDULE 1 to ANNEX I

PROPERTY REGULARIZATION PROJECT

This Schedule 1 generally describes and summarizes the key elements of a property regularization project that the Parties intend to implement in furtherance of the Property Regularization Objective (the "***Property Regularization Project***"). Additional details regarding the implementation of the Property Regularization Project will be included in the Implementation Plan and in relevant Supplemental Agreements.

1. Background.

Insecure property rights and high transaction costs in Nicaragua's land market and property registration system restrict enterprise development, investment and income growth, particularly in rural areas. The shortcomings of Nicaragua's ineffective property registration system are evidenced by the fact that more than sixty percent of all land in Nicaragua is estimated to lack adequate property records. This lack of secure property rights impedes national and international sources of investment and finance, hindering entrepreneurship and household asset growth. Land tenure insecurity also is an obstacle to investment in public infrastructure such as streets, electricity, and water and waste services. In recent years, the Government has taken steps to implement a systematic approach to land title regularization and to advance institutional and legal reforms, including new cadastre and property registration laws that will, if implemented properly, create a platform for significant progress in this area. Recent studies supported by the World Bank show that regularizing property rights in Nicaragua through land titling and property registration has been associated with a 30% increase in asset values and a 10% increase in the probability of landholders undertaking additional investments in that property. With support from the World Bank and Nordic Development Fund, the Government also has initiated work to modernize the property registration system to clarify rights and to update records so that beneficiaries in the Departments of Chinandega, Esteli and Madriz will have accurate and registered land titles. MCC Funding will be used to expand these reforms and strengthen property rights in the Department of León ("***León***") through the Project Activities described below.

2. Summary of Project Activities.

The Property Regularization Project is designed to increase investment by strengthening property rights in León. The key activities of the Property Regularization Project include:

- **Institutional Capacity Building**. Provide technical support to government institutions to implement and sustain tenure regularization reforms in León.

- **Cadastral Mapping**. Conduct area-wide cadastral mapping in León to obtain current property descriptions to be recorded in a geographic information system.

- **Land Tenure Regularization**. Clarify land tenure, resolve disputes, and improve formal documentation of property rights.

- **Database Installation**. Link municipal and national registry and cadastral databases by installing the Integrated System of Cadastral and Registration Information (SIICAR) in León.

- **Protected Area Demarcation**. Demarcate and legally validate the boundaries of four environmentally-sensitive protected areas, regularize land rights within the perimeter of each, and facilitate the adoption of land use management plans by occupants therein.

- **Analysis and Communications**. Fund short-term technical assistance, policy analysis and outreach to promote participation in, the use and the sustainability of the improved property registration system.

The M&E Plan (described in Annex III) will set forth anticipated results and, where appropriate, regular benchmarks that may be used to monitor implementation progress. Performance against these benchmarks and the overall impact of the Property Regularization Project will be assessed and reported at the intervals to be specified in the M&E Plan or as otherwise agreed by the Parties from time to time. The Parties expect that additional indicators will be identified during the implementation of the Property Regularization Project.

The following summarizes the contemplated Property Regularization Project Activities:

(a) ***Activity: Institutional Capacity Building***

To build the capacity of government institutions in León for recording property rights and providing related services for property transactions in León, MCC Funding will be used to:

(i) Expand the technical and administrative capacity of the Technical Secretariat of Proyecto de Ordenamiento de la Propiedad (PRODEP)[3] by hiring staff, procuring equipment and funding other operational expenses necessary to implement activities (b) – (d) below;

(ii) Provide technical assistance and training to registry and cadastral officials and technical staff hired or assigned to work on the Project; and

(iii) To the extent necessary to implement activities (b) – (d) below, locate, equip and staff (1) the León regional offices of the property registry, the cadastre, the office of alternative conflict resolution, the land titling agency, several municipal governments and (2) the national cadastre office in Managua.

[3] PRODEP, constituted by decree as a technical secretariat of the Ministry of Finance and Public Credit, was developed, and is supported, by the World Bank. PRODEP is responsible for, among other things, implementing donor programs to modernize Nicaragua's land registry and cadastral systems and to regularize land rights.

(b) ***Activity: Cadastral Mapping***

To provide an accurate and current physical description of all property in León, MCC Funding will be used to:

(i) Clarify municipal and urban administrative boundaries;

(ii) Prepare base maps on which parcel boundaries will be demarcated;

(iii) Perform parcel-by-parcel demarcation and mapping; and

(iv) Publish mapping results to enable owners and occupants to review demarcated parcel boundaries and request clarification and/or corrections, if needed.

(c) ***Activity: Land Tenure Regularization***

To achieve accurate, registered and secure land titles or other valid property records for property owners in León, MCC Funding will support:

(i) The gathering of legal and other information about each parcel, training of fieldwork teams, and consultation with local authorities in León;

(ii) A promotion and information campaign to educate León residents about the benefits of participating in the regularization process; and

(iii) Administrative and legal actions to facilitate land title clarification and registration and conflict mediation.

(d) ***Activity: Database Installation***

To integrate physical and legal descriptions of property and to develop a land information system, MCC Funding will be used for:

(i) Procurement and installation of SIICAR, a modern network of interconnected registry and cadastral databases that link municipalities in León to other databases;

(ii) Initial operation of SIICAR in León, including quality control; and

(iii) Technical assistance and training on the use of SIICAR in León.

(e) ***Activity: Protected Area Demarcation***

To enable the protection of environmentally sensitive areas and regularize land rights within such areas, MCC Funding will be used to:

(i) Demarcate and legally record the boundaries of four (4) environmentally-sensitive protected areas in León;

(ii) Provide assistance to communities to implement land use management plans for the protected areas;

(iii) Conduct outreach and education regarding these activities; and

(iv) Coordinate and supervise sub-activities (i) – (iii) above.

(f) ***Activity: Analysis and Communications***

MCC Funding will support the development of policies, strategies and technical measures to promote participation in, and the use and sustainability of, the improved property registration system, including:

(i) Implementation of a communications strategy about the overall objectives and approach of the Project;

(ii) Final development and implementation of PRODEP's draft gender strategy to improve awareness of women's rights in the regularization process;

(iii) Further development, in consultation with local communities, of a property tax strategy to prevent inappropriate taxation of regularized property rights and to improve municipal land tax administration;

(iv) Analysis of the impact of an improved property registration system on land markets;

(v) Clarification of the land tenure situation in the indigenous community in León and development of an appropriate approach to land tenure regularization in this community;

(vi) Development of a Project environmental plan to monitor potential negative impacts of the Project; and

(iv) Analysis of other potential administrative, technical and/or policy reforms related to topics such as secured lending, mechanisms for land acquisition and access, financial sustainability of the modernized registry and cadastre, and a national land policy framework.

The *expected results* from, and the *key benchmarks* to measure progress on, these activities are set forth in Annex III.

3. Beneficiaries.

The Property Regularization Project will directly benefit anyone who has a property interest in land in León and particularly the poor, who historically have had a limited ability to resolve land tenure irregularities. The Parties anticipate that roughly 40% of the beneficiaries of the Project will be women who, jointly or independently, have land rights. Residents and businesses in the area will benefit from an improved investment climate resulting from increased land tenure security and lower property-related transaction costs.

4. Coordination with USAID and Other Donors.

USAID\Nicaragua does not currently fund work on property rights regularization in Nicaragua. In the recent past, the mission supported policy-related research on land market development and on property registration with the Nicaraguan Ministry of Agriculture and the Inter-American Institute for Cooperation on Agriculture. USAID in Washington (Bureau for Latin America and the Caribbean) supports the exchange of information to help countries in the region achieve property registration goals set at the Summit of the Americas and has engaged with the Government of Nicaragua as part of this effort. The extension of PRODEP under this Compact complements USAID/Nicaragua's economic growth programs to diversify the rural sector in Nicaragua.

Despite past interventions by the World Bank, Inter-American Development Bank, USAID, Danish International Development Agency, United Nations Development Programme and other donors, Nicaragua still faces serious land tenure problems. To address these problems, the Government, through PRODEP, seeks to improve the legal and institutional framework for property rights. To strengthen consensus for reforms, PRODEP benefits from an inter-ministerial advisory committee.

Current funding from the World Bank and the Nordic Development Fund has allowed PRODEP to operate its program in Chinandega (in addition to Estelí and Madriz). Additional funding is required to meet the pressing property regularization needs of León to facilitate achievement of the Compact Goal. The Property Regularization Project will complement World Bank and Nordic Development Fund programs by providing the funds necessary for PRODEP to expand its efforts and operate in León. Finally, MCC-supported monitoring and evaluation will complement efforts to track progress in Nicaragua on land tenure security and land market development indicators that are currently under development with European Union support.

5. Sustainability.

The sustainability of the Project's results depends on the extent to which people use the improved registration system and fiscal capacity of the registry, cadastre and titling services. The incentives for people to use and pay for services as well as the quality and costs of services will need to be appropriate to the local context. Several recent policy reforms that have been

formally adopted (e.g., new cadastre and registry laws) or that are in process of being adopted (e.g., tenure regularization law) will bring about new institutional relationships and operational practices that will more effectively facilitate the process for keeping property records up-to-date. The Government's ability to maintain modern, computerized land records and maps and a well-trained staff will depend on both an adequate public budget and the Government's ability to set and collect fees for services. The World Bank suggests that incorporating up-to-date records for the 70% of all properties that are currently either unregistered or incorrectly registered will create a vastly expanded number of users. More accessible, reliable and efficient services will likely increase the willingness of these users to use the system and to pay for services. The new registry law will provide an autonomous budget for the registry so that it can more rationally project its costs and revenues and set fees and budget accordingly. The Project includes specific support for training, technical assistance and analysis of policy, fee structures and other measures to help ensure sustainability.

6. Policy and Legal Reform.

(a) **Performance Criteria**.

The Parties have identified the following policy, legal and regulatory reforms and actions that the Government shall pursue in support, and to reach the full benefits, of the Property Regularization Project, the satisfactory implementation of which will be conditions precedent to certain MCC Disbursements as provided in the Disbursement Agreement:

(i) Legislation that modernizes tenure regularization and clarifies the legal basis for solving irregularities in tenure regularization;

(ii) Measures to safeguard the Project from any laws, regulations or policies that may undermine the results of the Project, including those that (i) undermine private land ownership or impede transparent, clear transfer of land title, (ii) result in inappropriate taxation of regularized property rights, (iii) constitute political manipulation during the tenure regularization process, and (iv) result from the inappropriate or illegitimate use of supplementary titles (titulo supletorio); and

(iii) Legislation that maintains the integrity of the four (4) environmentally-sensitive protected areas in León demarcated under the Project.

(b) **Indicative Goals**.

To improve its level of performance under the policy criteria identified in Section 607 of the Act and the MCA Eligibility Criteria, the Government will pursue the following legislative and policy reforms:

(i) Legal, regulatory and administrative reforms to improve access to secured lending, including relevant aspects of the legal, regulatory and administrative framework for secured transactions.

SCHEDULE 2 to ANNEX I

TRANSPORTATION PROJECT

This Schedule 2 generally describes and summarizes the key elements of a transportation project that the Parties intend to implement in furtherance of the Transportation Objective (the "***Transportation Project***"). Additional details regarding the implementation of the Transportation Project will be included in the Implementation Plan and in relevant Supplemental Agreements.

1. Background.

High transportation costs are a significant impediment to economic growth in Nicaragua. Even as regional commercial agendas such as DR-CAFTA promise to create a more competitive environment for trade, the cost and efficiency of the country's transportation network continues to hold back its true productive capacity. With an average truck speed of 20 kilometers per hour, this inadequate infrastructure has driven transportation costs in the region to twice that of comparable transportation costs in the United States.

Consequently, the PRSP and NDP propose an ambitious plan to strengthen the Nicaraguan transportation network. This fits within the broader strategy developed in the Plan Puebla-Panama ("***PPP***") to create a reliable Mesoamerican network of highways known as the International Network of Mesoamerican Highways. This network comprises two main corridors on the Atlantic and the Pacific (the "***Atlantic Corridor***" and "***Pacific Corridor***," respectively) and a series of complementary routes. Under this initiative, member countries have pledged to work toward harmonizing transportation regulations and standards, modernizing customs procedures and border crossings, and strengthening airport security. The Atlantic and Pacific Corridors are vital to the integration of Central America and will have a significant economic impact on this region by creating an efficient connection between the production centers in Central America and major port facilities on the Atlantic and Pacific Oceans.

The 3,150 kilometer Pacific Corridor links Mexico, Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica and Panama. In Nicaragua, the Pacific Corridor connects the Honduran border at Guasaule to the Costa Rican border and major production and consumption centers in and around the cities of Managua, León and Chinandega. The World Bank, the Central American Bank for Economic Integration, and the Nordic Development Fund have financed the construction of a modern transportation route from the Honduran border to the town of Izapa, approximately 58 kilometers from the capital of Managua. This remaining 58 kilometer stretch of road between Izapa and Nejapa (the "***N-I Road***") on the outskirts of Managua is the final section needed to create an effective trade corridor linking producers and consumers in Managua to markets north in neighboring Honduras and El Salvador and linking producers in León and Chinandega to Managua and markets south. The current poor condition of the N-I Road has forced commercial traffic to be routed through highly populated centers along Lake Managua, negatively impacting service levels, maintenance, and safety.

Many productive areas in Nicaragua are connected to the main road arteries by unpaved secondary roads, whose uneven surfaces prohibit rapid transit, cause high vehicle operating

costs, and damage transported goods, thereby undermining the competitiveness of the producers who must use them. These roads are also expensive to maintain, requiring periodic re-grading following the rainy season. For these reasons, the paving of selective secondary roads is a sound investment which contributes to the economic potential of the areas they serve.

2. Summary of Project Activities.

The Transportation Project is designed to reduce transportation costs between Nicaraguan production centers and national, regional and global markets. The key activities of the Transportation Project include:

- **N-I Road**. The improvement of the 58 kilometer N-I Road.
- **Secondary Roads**. The upgrade of key secondary routes to improve the access of rural communities to domestic, regional and global markets.
- **Technical Assistance**. The provision of technical assistance to MTI and the Nicaraguan Road Maintenance Fund (*Fondo de Mantenimiento* or "***FOMAV***").

The M&E Plan (described in Annex III) will set forth anticipated results and, where appropriate, regular benchmarks that may be used to monitor implementation progress. Performance against these benchmarks and the overall impact of the Transportation Project will be assessed and reported at the intervals to be specified in the M&E Plan or as otherwise agreed by the Parties from time to time. The Parties expect that additional indicators will be identified during the implementation of the Transportation Project.

The following summarizes the contemplated Transportation Project Activities.

(a) ***Activity: N-I Road***

MCC Funding will support the following activities in connection with the improvements to the N-I Road:

(i) Final feasibility study, environmental impact assessment, and design;

(ii) Construction along the N-I Road, including building (A) appropriate base, sub-base and drainage structures, (B) a high-quality paved surface, and (C) entrance and exit lanes in appropriate places;

(iii) Environmental mitigation measures, as may be appropriate;

(iv) Signage and other safety improvements;

(v) Supervision of construction activities; and

(vi) Compensation for individuals, residences and businesses affected by the rehabilitation of the N-I Road consistent with the World Bank Policy on Involuntary Resettlement.

(b) ***Activity: Secondary Roads***

MCC Funding will fund the paving of key secondary roads with the most cost-effective and appropriate surfacing technique, which roads will be selected from among a portfolio of proposed roads by MCA-Nicaragua, with MCC approval, subject to the conditions that each selected road must:

(i) Have been included in the medium-term investment plan of MTI;

(ii) Be located in León and/or Chinandega;

(iii) Conform to the Environmental Guidelines;

(iv) Conform to the World Bank policy on Involuntary Resettlement, where relevant;

(v) Be fully designed to the satisfaction of MCA-Nicaragua and MCC and have technical construction plans that are capable of being completed during the Compact Term;

(vi) Reasonably conform to the priorities of the local development councils in León and Chinandega;

(vii) Be properly documented to the satisfaction of MCA-Nicaragua and MCC, including a description of the location of the proposed road, the type of construction, the estimated cost, a technical and economic assessment, land acquisition required, and the status of any necessary environmental permits and other requisite licenses; and

(viii) Be projected ex ante to achieve an economic rate of return of not less than eight percent (8%), computed on the basis of a benefit stream from decreased vehicle operating costs.

(c) ***Activity: Technical Assistance to MTI and FOMAV***

MCC Funding will fund technical assistance to build the sustainable operational capacity of MTI and FOMAV, an autonomous agency that was created within MTI in 2000 with funding from the World Bank and the Inter-American Development Bank ("***IDB***"). FOMAV is primarily responsible for all Nicaraguan maintainable roads, as classified by MTI.

The *expected results* from, and the *key benchmarks* to measure progress on, these activities are set forth in Annex III.

3. Beneficiaries.

The principal beneficiaries of the Transportation Project are expected to be (i) users of the improved roads, due to decreased transportation costs to markets and social service delivery points (e.g., hospitals, schools), and (ii) employees and owners of urban and rural businesses that rely on the Nicaraguan road network. The Transportation Project also promises to have a significant economic impact in the greater Central American region since it constitutes a key component of the Pacific Corridor.

4. Coordination with USAID and Other Donors.

(a) **Coordination during Project Development.**

In developing the Transportation Project, the Parties investigated the work of the donors described below in an effort to ensure that the Transportation Project complements, and does not duplicate, replace or harm such work.

A national plan for transport developed by MTI serves as the basis for donor-funded road projects in Nicaragua. A number of multi-lateral and bilateral donors and lenders are active in the sector – IDB, World Bank, Central American Bank for Economic Integration, Denmark, Spain, and Japan, among others.

The World Bank is in the process of preparing its fourth loan related to the Nicaraguan road sector, which is expected to total an additional $70-75 million. In addition to funding civil works for construction and maintenance of highways, the Bank has funded training of MTI and micro-enterprises to perform road maintenance. The Bank's Program for Sustainable Institutional Strengthening of the Road Sector seeks to institutionally strengthen MTI to improve the quality of road construction, the reliability of resources allocated to the sector, road safety, and environmental management. A proposed World Bank loan is expected to include conditions relating to road maintenance, local counterpart funds, and social studies.

In 2003, the World Bank and IDB began funding FOMAV to strengthen its capacity and to better ensure the sustainability of road investments. IDB is conditioning new projects under its ongoing PPP Highway Project to Promote Competitiveness on the Government's contributing money to FOMAV. In addition, IDB chairs, along with the Minister of Transport and Infrastructure, the Infrastructure Coordinating Council, a body that coordinates infrastructure policies and donor activities in Nicaragua.

(b) **Coordination during Project Implementation.**

In an effort to ensure that the Compact activities are adequately coordinated with the activities of other donors and financial institutions involved in road funding in Nicaragua, the Parties and

other donors will coordinate in the construction of various sections of the Pacific Corridor, including drafting clauses into their agreements to ensure regular meetings to conduct oversight and to monitor progress.

5. Sustainability.

The implementation of the Transportation Project is designed to support the development of local capacity by providing Nicaraguan professionals and institutions with experience in implementing the Program, while maintaining tight fiduciary risk controls. This design is expected to add to Nicaragua's soft infrastructure — the human capital base that is essential for the successful design, management and oversight of public and private projects. While most procurement for the Transportation Project will be managed by a private firm that will be selected through an international competitive bidding process, local staff will be involved in each step of the process.

Both the World Bank and IDB have, in recent years, funded programs to build the capacity of MTI to manage the transportation sector, make sound transportation investments (e.g., analytical capabilities, economic evaluation, etc.), provide maintenance, and expand the participation of the private sector in providing transportation services (e.g., maintenance contracting). Under this Project, MCC will provide additional technical assistance to MTI and FOMAV to build upon these earlier donor efforts.

Effective road maintenance will be the key to financial sustainability of the Transportation Project. The present condition of many primary and secondary roads in Nicaragua is below most acceptable standards due primarily to a lack of adequate funding and the lack of proper maintenance standards. Although FOMAV has not secured funds for 2006 or beyond to discharge its road maintenance responsibilities, MTI and the Ministry of Finance are considering several proposals to create permanent funding for FOMAV, and the Government has agreed to fund road maintenance in the amount of $15 million in year 2006, increasing to $35 million in year 2010. Funding from MCC for the Transportation Project shall depend on the satisfaction of conditions for ongoing road maintenance and the funding thereof set forth in relevant Supplemental Agreements.

The key to ensuring environmental and social sustainability of the Program and this Project is ongoing public consultation to ensure optimal design and implementation and to ensure full country-ownership of the Program. The Technical Secretariat will include an Environmental and Social Impact ("***ESI***") Specialist whose job will be to ensure that environmental and social mitigation measures (including resettlement and gender issues) are followed for all Project Activities in accordance with the provisions set forth in the Compact and other documents. The ESI Specialist also will serve as the point of contact for comments and concerns of Project-affected parties regarding the implementation of all segments of the Compact, and lead the effort to find feasible resolutions to those problems. The ESI Specialist will convene periodic public meetings to provide implementation updates and to identify and address public concerns.

6. Policy and Legal Reform.

The Parties have identified the following policy, legal and regulatory reforms and actions that the Government shall pursue in support, and to reach the full benefits, of the Transportation Project, the satisfactory implementation of which will be conditions precedent to certain MCC Disbursements as provided in the Disbursement Agreement:

(a) Legislation to ensure sustainable maintenance of the national road network, including adequate funding. Funding targets will be agreed upon in the Disbursement Agreement, and shall include adequate funding to FOMAV for road maintenance in accordance with generally accepted technical standards.

(b) Local governments to provide adequate funding for sustainable maintenance of the secondary roads that MCC Funding is used to improve. Funding targets will be agreed upon in the Disbursement Agreement, and shall include adequate funding for road maintenance in accordance with generally accepted technical standards.

(c) Legislation on national road safety and enforcement of such legislation.

SCHEDULE 3 to ANNEX I

RURAL BUSINESS DEVELOPMENT PROJECT

This Schedule 3 describes and summarizes the key elements of a rural business development project that the Parties intend to implement in furtherance of the Rural Business Development Objective (the "***Rural Business Development Project***"). Additional details regarding the implementation of the Rural Business Development Project will be included in the Implementation Plan and in relevant Supplemental Agreements.

1. Background.

Despite a comparative advantage in the production, processing and marketing of agricultural products, more than 70% of the rural population in León-Chinandega is poor. Producers, suppliers, service providers, processors, and marketing agents frequently work in isolation or are absent in the region. Women generally are less likely than men to participate in agricultural organizations, receive technical assistance or credit or plant higher profit-yielding crops, despite their significant presence as producers. The region also suffers from pronounced deforestation and inadequate irrigation for farming and other productive activities, especially the poor communities in the Northern Highlands and in the peninsula of Cosiguina.

The Rural Business Development Project will support services that help develop higher-profit agriculture and agribusiness enterprises. The Project will particularly focus on reaching poor farmers who require more help in making the transition into these businesses. In addition, the Project will help sustain these enterprises by linking and coordinating businesses throughout the farm to market value chain - producers, entrepreneurs, buyers, service providers, and investors. Investments in public goods such as applied research and investment promotion promise to attract investment and expand productivity in the region. Grants will support activities to improve water supply to facilitate higher-value, sustainable agriculture and forestry in the upper watershed areas of the region. This will help poor families that live in the degraded upper watersheds and, in the long term, protect business developed downstream from damages caused by environmental degradation on the hillsides.

2. Summary of Project Activities.

MCC Funding will be used to increase profits and wages in farms and non-farm businesses in León-Chinandega through the following activities:

- **Rural Business Development Services**. Expand higher-profit agriculture and agribusiness by providing business development services, disseminating market information, developing improved production techniques, and managing the two Project Activities described below;

- **Technical and Financial Assistance**. To help small- and medium-size farms and agribusinesses transition to higher-profit activities, provide technical and financial

assistance to these enterprises, including support that will directly offset certain costs of small farms; and

- **Grants to Improve Water Supply for Farming and Forest Production**. Based on a watershed management action plan, provide grants to improve the water supply for irrigation and facilitate higher value, sustainable agriculture and forestry in the upper watershed areas of the region.

The M&E Plan (described in Annex III) will set forth anticipated results and, where appropriate, regular benchmarks that may be used to monitor implementation progress. Performance against these benchmarks and the overall impact of the Rural Business Development Project will be assessed and reported at the intervals to be specified in the M&E Plan or as otherwise agreed by the Parties from time to time. The Parties expect that additional indicators will be identified during Project implementation. Estimated amounts of MCC Funding for each Project Activity for the Rural Business Development Project are identified in Annex II of this Compact.

The following summarizes the planned Rural Business Development Project Activities.

(a) ***Activity: Rural Business Development Services***

To assist farms and businesses in developing higher-profit enterprises, MCC Funding will be used to support rural business development services that MCA-Nicaragua provides in León-Chinandega, subject to review and approval by MCC. In addition to setting up and equipping an office of MCA-Nicaragua in León-Chinandega (the "***Rural Office***") that will provide these services, MCC funds will support the following Rural Office activities:

(i) Collection and dissemination of information about market demand for products that could be supplied from León-Chinandega and identification of farms and businesses that could produce these products;

(ii) Development of business plans for farmers and other businesses (including women-owned enterprises) to meet such market demand, which plans will identify, among other things, the technical and financial requirements needed to implement such plans and a specific implementation strategy and timeframe for doing so;

(iii) Based on the experience and needs of the farms and businesses supported by the Project, development of policy reform recommendations needed to help these enterprises grow into higher-profit enterprises;

(iv) Promotion of investment in León-Chinandega by (A) stimulating interest in the region's resources and geographic location, including through a promotional campaign directed by a specialized public private agency, Pro-Nicaragua, (B) providing investor services, and (C) coordinating with other donor program;

(v) Improvement of production techniques through research and development projects outsourced to local and international universities and research institutions;

(vi) Monitoring the performance of farms and other businesses that receive assistance from the Rural Office;

(vii) Management of Project Activities (b) and (c) below by the Rural Office's expert staff and consultants; and

(viii) Implementation of a gender strategy developed prior to the implementation of Project Activity (b) below.

The Rural Office will provide the services related to information dissemination and business plan development to farmers and other businesses without cost.

(b) ***Activity: Technical and Financial Assistance***

To help farmers and other businesses successfully transition to higher-profit activities, MCC Funding will help selected small farms and businesses to obtain specific technical assistance (e.g., agronomic and business assistance) and funding needed to successfully execute their businesses plans developed in coordination with the Rural Office. Technical assistance will include, among other things, training in complying with sanitary and phytosanitary standards, certification documentation and bioterrorism regulations, and ensure that businesses employ environmentally sustainable agricultural practices.

A review committee composed of key Rural Office staff and specialists from MCA-Nicaragua (including the Rural Business, ESI and Monitoring and Evaluation Specialists) will (i) develop criteria for selecting recipients of technical and financial assistance prior to any MCC Disbursement for the Project, subject to MCC approval, and (ii) make selections based on such criteria.

The Rural Office will identify independent contractors through a competitive selection process to provide the technical assistance funded under this Project Activity. The Rural Office will directly finance or assist selected farms and businesses to obtain financing through a network of financial institutions and other donor programs operating in the region.

(c) ***Activity: Grants to Improve Water Supply for Farming and Forest Production***

To improve the supply of water for irrigation and encourage producers to transition to more environmentally sustainable land use in the upper watershed areas of León-Chinandega, MCC funds will support:

(i) Preparation of a watershed management action plan (the "***Watershed Plan***") by a water and natural resource specialist that the Rural Office will employ and an implementing entity that the Rural Office engages through a competitive selection process. The Watershed Plan, which the Rural Office will adopt, subject to MCA-Nicaragua and MCC approval, will, among other things:

(1) Analyze the watershed in León-Chinandega;

(2) Prioritize sites and potential investments to address problems that cause water deficiencies, flooding, erosion and other water-related issues in the region; and

(3) Identify (A) potential risks to other parts of the watershed that may result from these investments and (B) proposed measures to mitigate these risks.

(ii) Based on the Watershed Plan, an implementing entity that the Rural Office engages through a competitive selection process will solicit proposals for projects in the following investment areas, which proposals can either be funded by grants using MCC Funding or developed for funding by other donors:

(1) Investments in site-specific, small-scale irrigation schemes, soil conservation structures, reforestation activities and other water management measures; and/or

(2) Investments in higher value farming and/or forestry in this region.

Proposed grants will be supported only if they (A) specifically fit within the Watershed Plan, (B) clearly demonstrate the potential to increase income in the community where the investment will be made, and (C) meet an investment criteria of at least an ten percent (10%) economic rate of return and an acceptable financial rate of return (at least eight percent (8%). The implementing entity will select the projects to be supported with MCC Funding, subject to the approval of the review committee described in Section 2(b) above, MCA-Nicaragua and MCC.

To ensure sustainability of the investments made with MCC Funding, the implementing entity will assist grant recipients to (i) build community support for a proposed investment, (ii) adopt sound business management practices for the development and operation of the investment, and (iii) establish the legal entities and financial mechanisms necessary to provide for maintenance, replacement and improvement of investments over time.

The *expected results* from, and the *key benchmarks* to measure progress on, these activities are set forth in Annex III.

3. Beneficiaries.

The principal direct Project beneficiaries are expected to be relatively poor households employed in agriculture or with small farms. Agribusinesses and other micro-, small- and medium-sized enterprises also will benefit from new or expanded market opportunities created under the Project. The Project Activities related to grants for improving water supply will expand income growth benefits to some of the poorest households in the region while protecting agricultural enterprises from future resource degradation.

4. Coordination with USAID and Other Donors.

(a) **USAID**. The Rural Office and USAID will coordinate in four strategic areas:

(i) Business development activities. The objectives of MCC- and USAID-supported agribusiness development activities are similar. Both will support technical assistance to help beneficiaries develop better business operations, overcome constraints to competitiveness, and work toward strengthening the linkages in the value chain. However, USAID's agribusiness development projects are national in scope while the MCC Project will focus intensively on León-Chinandega. MCC and USAID will coordinate closely to ensure their programs operate in a complementary fashion and benefit the largest possible number of farmers and agro-entrepreneurs. Together, U.S. Government efforts will offer a wider array of services and impact a larger client-base by encouraging implementing partners to coordinate effectively.

(ii) Development Credit Authority (DCA). The DCA guarantee program encourages banks to lend for the types of agricultural and agribusiness enterprises that will be supported by the Project. The Rural Office staff will engage financial institutions that qualify for the DCA program by encouraging Project farmers and agribusinesses with "bankable" business activities to take advantage of financial services from such financial institutions.

(iii) Advocacy for Policy Reform. The Rural Office will channel priority policy reform issues from León-Chinandega into national dialogue through USAID's partners, thereby magnifying USAID policy reform efforts.

(iv) SPS Capacity Building (SPSCB). USAID is supporting USDA to help the Government develop a national fee-based SPS certification system for a variety of agricultural products such as meats, dairy, seafood, poultry, fruits and vegetables. The SPSCB will be a strong Rural Office partner in building up regional capacity in these areas and increasing the region's export capacity.

MCC, USAID and other U.S. Government agencies will ensure ongoing coordination and optimization of U.S. Government funding by calling on their implementing partners to coordinate activity implementation plans and by continuing to participate in efforts like the trade capacity building process established in support of DR-CAFTA.

(b) **Other Donors**. Japan, Sweden, Denmark, other Nordic and European countries, the European Union, the Inter-American Development Bank and the World Bank support projects that complement the Rural Business Development Project, such as grants for productive infrastructure (rural roads, electrification, irrigation, reforestation, etc.), competitiveness of the agricultural and light manufacturing sector, and trade capacity building. The Rural Office will strive to improve operational-level coordination among donor programs in the region in relation to rural business development. Specifically, close collaboration with the IDB's "Rural Productive Infrastructure" and "POSAF" programs could help improve access to financing for the Rural Office's clientele. The World Bank's nation-wide technical assistance project could help strengthen national institutions and expand technical assistance to agriculture.

5. Sustainability.

The Rural Office's primary objective is to increase the economic viability of farmers and agribusinesses in León-Chinandega. Initially, the Rural Office will be established as a subsidiary entity to MCA-Nicaragua based on the view that the impacts, rather than the Rural Office itself, must be sustainable. Selection criteria for activities funded under the Project will include potential for self-sustaining business models. Similarly, expanded horticultural production will create economies of scale that reduce the unit costs of inputs and post-harvesting services. The Project is expected to improve rural access to finance through its financial literacy campaign and by promoting "bankable" business activities. As bankers understand the profit potential of new demand from Program farmers, they are likely to respond by developing the financial products and services needed.

A sustainable capacity to produce and market products from the region with relatively high earning potential will remain even if the Rural Office itself does not remain in operation at the end of the Compact Term. The Rural Office itself, however, may become a sustainable operation if its services fill a market demand.

The watershed management action plan will provide a basis for improving environmental sustainability of land uses throughout the region. The grants to improve water supply will not only allow more rural households to engage in higher value activities promoted by the Rural Office, but will also contribute to the sustainability of farming and forest production throughout the region over the long term. Beneficiaries will be assisted in establishing business models that will pay costs associated with maintaining investments over time.

Environmental and social sustainability of the Program will be achieved through ongoing public consultation to ensure optimal design and implementation and to ensure full country-ownership of the Program. The ESI Specialist within MCA-Nicaragua will ensure that environmental and social mitigation measures (including for gender issues) are followed for all Project Activities in accordance with the provisions set forth in the Compact and other documents.

6. Policy and Legal Reform.

(a) <u>Performance Criteria</u>.

The Parties have identified the following policy, legal and regulatory reforms and actions that the Government shall pursue in support, and to reach the full benefits, of the Rural Business Development Project, the satisfactory implementation of which will be conditions precedent to certain MCC Disbursements as provided in the Disbursement Agreement:

(i) Continue with customs union and tariff harmonization with other Central American countries; and

(ii) Expedite the approval procedures for the importation of seeds for planting.

(b) **Indicative Goals**.

To improve its level of performance under the policy criteria identified in Section 607 of the Act and the MCA Eligibility Criteria, the Government will pursue the following legislative and policy reforms:

(i) Improvement in bankruptcy laws so that creditors and debtors have predictable, equitable and transparent mechanisms for resolving creditor claims;

(ii) Improvement in the efficiency and predictability of contract enforcement, including by enacting effective alternative dispute resolution mechanisms; and

(iii) Legislation governing pledges of moveable and real property collateral so that (among other things):

(1) Such laws are updated, particularly to eliminate uncertainty and unnecessarily formalistic requirements;

(2) In the case of moveable property, the law allows for notice-based perfection of security interests through the filing of a general description of collateral in an easily-accessible centralized registry; and

(3) Such laws allow for enforcement of security interests through extra-judicial self-help and by speedy and reliable judicial processes.

The Government also will consider such other of legal or policy reforms that the Rural Office identifies as needed to improve competitiveness of its potential clients and their access to credit.

ANNEX II

FINANCIAL PLAN SUMMARY

This Annex II to the Compact (the "***Financial Plan Annex***") summarizes the Multi-Year Financial Plan for the Program. Each capitalized term in this Financial Plan Annex shall have the same meaning given such term elsewhere in this Compact.

1. General. A multi-year financial plan summary ("***Multi-Year Financial Plan Summary***") is attached hereto as Exhibit A. By such time as specified in the Disbursement Agreement, MCA-Nicaragua will adopt, subject to MCC approval, a Multi-Year Financial Plan that includes, in addition to the multi-year summary of anticipated estimated MCC Funding and the Government's contribution of funds and resources, an estimated draw-down rate for the first year of the Compact based on the achievement of performance milestones, as appropriate, and the satisfaction or waiver of conditions precedent. Each year, at least 30 days prior to the anniversary of the Entry Into Force, the Parties shall mutually agree in writing to a Detailed Financial Plan for the upcoming year of the Program, which shall include a more detailed plan for such year, taking into account the status of the Program at such time and making any necessary adjustments to the Multi-Year Financial Plan.

2. Implementation and Oversight. The Financial Plan shall be implemented by MCA-Nicaragua, consistent with the approval and oversight rights of MCC and the Government as provided in this Compact, the Governance Agreement and the Disbursement Agreement.[1]

3. Estimated Contributions of the Parties. The Multi-Year Financial Plan Summary identifies the estimated annual contribution of MCC Funding for Program administration, monitoring and evaluation, and each Project. The Government's contribution of resources to Program administration, monitoring and evaluation, and each Project shall consist of (i) "in-kind" contributions in the form of Government Responsibilities and any other obligations and responsibilities of the Government identified in the Compact, including contributions identified in the notes to the Multi-Year Financial Plan Summary, (ii) such other contributions or amounts as identified in notes to the Multi-Year Financial Plan Summary, and (iii) such other contributions or amounts as may be identified in relevant Supplemental Agreements between the Parties or as may otherwise be agreed by the Parties; *provided*, in no event shall the Government's contribution of resources be less than the amount, level, type and quality of resources required to effectively carry out the Government Responsibilities or any other responsibilities or obligations of the Government under or in furtherance of this Compact.

4. Modifications. The Parties recognize that the anticipated distribution of MCC Funding between and among the various Program activities and Project Activities will likely require adjustment from time to time during the Compact Term. In order to preserve flexibility in the administration of the Program, the Parties may, upon agreement of the Parties in writing and without amending the Compact, change the designations and allocations of funds between

[1] The role of civil society in the implementation of the Compact (including through participation on the Board of Directors), the responsibilities of the Government and MCC in achieving the Objectives, and the process for the identification of beneficiaries are addressed elsewhere in this Compact and therefore are not repeated here.

Program administration and a Project, between one Project and another Project, between different activities within a Project, or between a Project identified as of the entry into force of this Compact and a new Project, without amending the Compact; *provided, however*, that such reallocation (i) is consistent with the Objectives, (ii) does not cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1(a) of this Compact, (iii) does not cause the Government's obligations, responsibilities or overall contribution of resources to be less than specified in Section 2.2(a) of this Compact, this Annex II or elsewhere in the Compact, and (iv) does not extend the Compact Term.

5. Conditions Precedent; Sequencing. MCC Funding will be disbursed in tranches. The obligation of MCC to approve MCC Disbursements and Material Re-Disbursements for the Program and each Project is subject to satisfactory progress in achieving the Objectives and on the fulfillment or waiver of any conditions precedent specified in the Disbursement Agreement for the relevant Program activity, Project or Project Activity. The sequencing of Project Activities and other aspects of how the Parties intend the Projects to be implemented will be set forth in the Implementation Plan, including Work Plans for the applicable Project, and MCC Disbursements and Re-Disbursements will be disbursed consistent with that sequencing.

EXHIBIT A

Multi Year Financial Plan Summary
Financial Budget
(Millions of Dollars)

ITEM	DESCRIPTION		TIMELINE					Total[4]
			CY1	CY2	CY3	CY4	CY5[5]	
PROPERTY REGULARIZATION PROJECT			**6.4**	**10.2**	**6.4**	**3.5**	**0.0**	**26.5**
Activity A	Institutional Capacity Building		1.7	1.1	0.8	1.5	0.0	5.1
Activity B	Cadastral Mapping		0.3	1.5	1.0	0.6	0.0	3.3
Activity C	Land Tenure Regularization		3.1	4.5	2.2	0.0	0.0	9.8
Activity D	Database Installation		0.1	0.1	0.1	0.1	0.0	0.3
Activity E	Protected Area Demarcation		0.3	0.6	0.1	0.1	0.0	1.1
Activity F	Analysis and Communications		0.4	1.5	1.6	1.0	0.0	4.4
	Contingency		0.6	0.9	0.6	0.3	0.0	2.4
TRANSPORTATION PROJECT		(1)	**4.9**	**18.8**	**30.6**	**27.9**	**10.5**	**92.8**
Activity A	N-I Road (segment of Pacific Corridor)	(2)	1.7	6.5	10.7	9.8	3.2	32.0
Activity B	Secondary Roads	(3)	3.0	12.0	19.8	18.0	7.2	60.0
Activity C_1	Technical Assistance to FOMAV	(8)	0.1	0.1	0.0	0.0	0.0	0.3
Activity C_2	Technical Assistance to MTI	(8)	0.1	0.1	0.1	0.1	0.1	0.5
RURAL BUSINESS DEVELOPMENT PROJECT			**5.2**	**7.9**	**9.3**	**11.1**	**0.3**	**33.7**
Activity A	Rural Business Development Services		2.1	2.2	2.3	2.1	0.2	8.9
Activity B	Technical and Financial Assistance		0.8	2.5	2.5	2.5	0.0	8.5
Activity C	Grants to Improve Water Supply for Farming and Forestry Production	(6)	1.8	2.5	3.6	5.4	0.0	13.3
	Contingency		0.5	0.7	0.8	1.0	0.0	3.1
MCA PROGRAM ADMINISTRATION, MONITORING & EVALUATION			**2.4**	**1.8**	**2.7**	**1.9**	**1.9**	**10.6**
	Establishment and Operation of MCA-Nicaragua		1.0	0.8	0.8	0.8	0.6	4.0
	Monitoring and Evaluation	(7)	0.9	0.2	0.9	0.2	0.9	3.3
	Financial Audits		0.3	0.6	0.7	0.7	0.2	2.5
	Contingency		0.2	0.2	0.2	0.2	0.2	1.0
FISCAL / PROCUREMENT AGENT			**1.5**	**2.7**	**3.4**	**3.1**	**0.7**	**11.5**
TOTAL			**20.4**	**41.3**	**52.5**	**47.5**	**13.3**	**175.0**

EXHIBIT A: (Notes)

(1) Costs are based on U.S. Army Corp of Engineers' assessment using a "rough order of magnitude" (ROM) cost estimate which includes all feasibility studies and designs, construction (including bridges/drainage), procurement, and contingencies. MCC Funding will be disbursed only upon satisfaction of (i) completion of a detailed Project management plan and coordination plan by MCA-Nicaragua in conjunction with the Infrastructure Specialist, and (ii) other conditions set out in the Disbursement Agreement.

(2) Actual costs for construction of N-I Road will need to be fully developed during the feasibility stage of Project execution. Initial funds will be disbursed for design and feasibility studies. However, funds for construction will only be disbursed upon satisfaction of conditions for road maintenance as set forth in relevant Supplemental Agreements.

(3) Secondary road cost estimates are based on three candidate roads that are typical of the secondary roads that could be funded under the Compact. Actual roads funded may be different based on selection criteria, but the total amount allotted to this Project Activity is capped. Local governments shall dedicate adequate funding for sustainable road maintenance for the secondary roads in their jurisdictions as set forth in the Disbursement Agreement.

(4) Amounts shown are U.S. Dollars in millions.

(5) Although most Project Activities will take place from Year 1 through Year 4 (except for roads), the five-year Compact Term will allow additional time to ensure that Project Activities are completed. Monitoring and Evaluation will continue after the completion of the Project Activities.

(6) These amounts will be disbursed only upon satisfaction of obtaining requisite approvals by a review committee within the Rural Office and MCC as set forth in the Disbursement Agreement.

(7) The Government will provide in-kind contributions in the form of staff time and resources towards data collection and other monitoring and evaluation functions.

(8) The Government will provide in-kind contributions in the form of staff time and resources to work toward the expected results of this Project.

ANNEX III

DESCRIPTION OF THE M&E PLAN

This Annex III to the Compact (the "***M&E Annex***") generally describes the components of the M&E Plan for the Program. Each capitalized term used but not defined in this M&E Annex shall have the same meaning given such term elsewhere in this Compact; *provided, however,* that the term "***Parties***" in this M&E Annex shall mean MCC and the Government (or a mutually acceptable Government Affiliate or Permitted Designee).

1. Overview.

The Parties shall formulate, agree to, and the Government shall implement, or cause to be implemented, an M&E Plan that specifies (i) how progress toward the Compact Goal, Objectives and Project Activities will be monitored (the "***Monitoring Component***"), (ii) a methodology, process and timeline for the evaluation of planned, ongoing, or completed Project Activities to determine their efficiency, effectiveness, impact and sustainability (the "***Evaluation Component***"), and (iii) other components of the M&E Plan described below. Information regarding the Program's performance, including the M&E Plan, and any amendments or modifications thereto, as well as periodically-generated reports, will be made publicly available on the MCA-Nicaragua Website and elsewhere.

2. Monitoring Component.

To monitor progress toward the achievement of the Project Activities, the Objectives and the Compact Goal, the Monitoring Component of the M&E Plan shall identify (a) the Indicators, (b) the party or parties responsible, the timeline, and the instrument for collecting data and reporting on each Indicator to MCA-Nicaragua, and (c) the method by which the reported data will be validated.

(a) **Indicators**. The M&E Plan shall measure the results of the Program using quantitative, objective and reliable data ("***Indicators***"). Each Indicator will have one or more expected results that specify the expected value and the expected time by which that result will be achieved ("***Target***"). The M&E Plan will measure and report four types of Indicators. First, the Compact Goal Indicators (each, a "***Goal Indicator***") will measure the impact of the Program on the incomes of Nicaraguans who participate or are covered by the Program (collectively, "**Beneficiaries**"). Second, Objective Indicators (each, an "***Objective Indicator***") will measure the final results of the Projects in order to monitor their success in meeting the Objectives. Third, Outcome Indicators (each, an "***Outcome Indicator***") will measure the intermediate results of goods and services delivered under each Project in order to provide an early measure of the likely impact of the Projects on the Objectives. Fourth, Project Activity Indicators (each, an "***Activity Indicator***") will measure the delivery of key goods and services in order to monitor the pace of Project Activity execution. For each Outcome Indicator, Objective Indicator, and Goal Indicator, the M&E Plan shall define a strategy for obtaining and verifying the value of such Indicator prior to undertaking any activity that affects the value of such Indicator (such value, a "***Baseline***"). All Indicators will be disaggregated by gender, income level and age, to the extent practicable.

(i) Goal Indicator. The M&E Plan shall contain the Goal Indicators listed in the table below. The Project Activities undertaken by the Program are expected to increase the incomes of Beneficiaries. The increase in income that accrues to a group of Beneficiaries as a result of one or more Project Activities over a period of time constitutes expected income gains ("***Expected Income Gains***"). The M&E Plan shall contain Goal Indicators that shall measure the change in the income of Beneficiaries attributable to the relevant Projects. MCA-Nicaragua, with approval from MCC, must define a methodology for estimating an Expected Income Gain prior to the disbursement of funds for any Project Activity that may influence that Expected Income Gain. Such a methodology should measure the difference between the actual income of Beneficiaries and the estimated value of what their income would have been without the Program.

Compact Goal Increased Economic Growth and Reduced Poverty					
Indicators	**Year 5**		**Year 6**		**Year 10**
Total Expected Income Gains (All numbers are in millions of USD)	$20.94		$48.22		$51.91
Expected Income Gains of N-I Road Upgrade[1] *Beneficiaries: Users of roads and employees of businesses that use roads.*	$5.73		$6.96		$9.86
Expected Income Gains of Secondary Roads Upgrade[2] *Beneficiaries: Communities surrounding secondary roads and users of roads.*	$8.59		$7.73		$5.07
Expected Income Gains of Property Regularization[3] *Beneficiaries: Recipients of registered regularized titles.*	$3.88		$3.96		$4.21
Expected Income Gains of Rural Business Development[4] *Beneficiaries: Program businesses and employees of program farmers and businesses.*			$24.52		$27.73
Expected Income Gains of Rural Business Development[5] *Beneficiaries: Employees of businesses in value chain.*	$2.73		$5.05		$5.05
Expected Income Gains of Improvement of Water Supply for Farming and Forest Production[6] *Beneficiaries: Communities surrounding water supply project(s).*	This will be estimated at the end of Year 1 after completion of the Watershed Management Action Plan. All projects financed will require a minimum economic rate of return of 10% and an acceptable financial rate of return (at least 8%).				

Notes to Compact Goal Table:
1) For the N-I Road, the expected income gains are derived from savings due to reduced vehicle operating costs and travel time.
2) For secondary road upgrading, the expected income gains are calculated based on costs of $30 million per year in years 1 and 2, and benefits beginning in year 2, with a minimum return of 8% and annual depreciation of 10%. This estimate will be revised at the end of Year 1 when the roads selected are confirmed and all design studies and environmental assessments are completed. Income gains are derived from savings due to reduced vehicle operating costs and travel time.
3) Expected income gains are defined as annual increase in property value per manzana * the number of manzanas registered.
4) Expected income gains are defined as the increase in Value Added to the Firm, calculated as profits + labor costs, per manzana of a typical horticulture crop minus the value added per manzana of cattle grazing (US$100) * number of manzanas harvesting this typical horticulture crop. A typical horticulture crop is defined as the average of plantain, cashew and organic sesame, crops suitable for Nicaragua. Reporting on this indicator does not begin until Year 6, because tree crops do not produce yields for at least three years after planting.
5) Expected income gains are defined as Value Added from Employment, calculated as an average annual wage rate of $500 * the number of jobs created * 0.5 (0.5 = discount for wages earned of those previously employed).
6) Expected income gains will be determined when the specific improvement of water supply activities are specified, and will require a minimum economic rate of return of 10%. Specific improvement of water supply activities are expected to be determined by the end of Year 1.

(ii) Outcome and Objective Indicators. The M&E Plan shall contain the Objective and Outcome Indicators listed in the table below. MCA-Nicaragua, subject to prior written approval from MCC, may only add Objective and Outcome Indicators or refine the Targets of existing Objective and Outcome Indicators prior to any MCC Disbursement or Re-

Disbursement for any Project or Project Activity that may influence that Indicator, unless the Parties otherwise agree in writing.

Property Regularization Project[1]						
Objective: Increase investment by strengthening property rights.						
Objective Level Indicators (Metric of Project success observable by end of Compact.)	**Baseline[2]**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Value of investment on land	TBD			16% over baseline		32% over baseline
Value of land (urban)[3]	$519.00	$529.54	$540.30	$551.28	$562.47	$573.90
Value of land (rural)[3]	$404.00	$412.21	$420.58	$429.12	$437.84	$446.74
Outcome Level Indicators (Early indicators of Project Activities impact on objectives.)	**Baseline[2]**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Time to conduct a land transaction[4]	65 days		15.9 % decrease from baseline	29.3% decrease from baseline	40.5% decrease from baseline	50% decrease from baseline
Full cost to conduct a land transaction[4, 5]	6.50%		25% decrease from baseline			50% decrease from baseline
Perception of tenure security	TBD		30% increase over baseline			50% increase over baseline

Notes to Property Regularization Project Table:
1) Information in this table is based on survey data from the World Bank PRODEP Project in Nicaragua.
2) Final baselines will be established during the initial implementation of the Project.
3) Values are reported in constant U.S. Dollars.
4) Baselines for time and cost to conduct a land transaction are preliminary.
5) Cost to conduct a land transaction targets are expressed as a percent of the value of the transaction.

Transportation Project						
Objective: Reduce transportation costs between León and Chinandega and national, regional and global markets.						
Objective Level Indicators (Metric of Project success observable by end of Compact.)	**Baseline**		**Year 5**		**Year 10**	
Annual average daily traffic volume[1,2]	R1	2,146	R1	2,639	R1	3,416
	R2	1,156	R2	1,422	R2	1,841
	Secondary Roads: TBD		Secondary Roads: TBD		Secondary Roads: TBD	
Gap between farm-gate price and free-on-board price[3]	TBD					
Price of basket of goods[4]	TBD					
Outcome Level Indicators (Early indicators of Project Activities impact on objectives.)	**Baseline**		**Year 5**		**Year 10**	
Cost per journey (Travel time)[5]	Secondary Roads: TBD		Secondary Roads: TBD		Secondary Roads: TBD	
Cost per journey (International roughness index)[6]	R1	7.2	R1	2.4	R1	2.7
	R2	8.3	R2	2.4	R2	2.7

Notes to Transportation Project Table:
1) R1 and R2 represent different sections of the N-I Road being upgraded.
2) This information will be a requirement of the secondary roads proposals submitted to the Program. Information will be verified as part of the secondary roads selection process, prior to disbursement of Project funds.
3) Farm-gate prices and free-on-board prices will depend on type of crop grown and will be confirmed by implementing entity(ies) as part of reporting requirements.
4) Price of basket of goods will depend on where secondary roads are upgraded and will be determined when secondary roads are selected.
5) Secondary roads.
6) N-I Road.

Rural Business Development Project Objective: Increase the value added of farms and enterprises in the region.						
Objective Level Indicators (Metric of Project success observable by end of Compact)	Baseline[1]	Year 1	Year 2	Year 3	Year 4	Year 5
Number of program businesses, including farms, engaged in higher profit businesses by year end	0		720	1,800	3,090	4,720
Number of program manzanas transitioned to higher-value crops by year end	0		5 manzanas per Farm	5 manzanas per Farm	5 manzanas per Farm	5 manzanas per Farm
Annual percentage increase in value added of clients of business center[2]	0		17%	17%	17%	17%
Number of jobs created	0		250	1,750	3,850	7,000
Number of program manzanas harvesting higher-value crops or reforesting under improvement of water supply activities[3]	0		1,500	4,000	7,750	10,000
Outcome Level Indicators (Early indicators of Project Activities impact on objectives)	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5
Number of business plans prepared by clients with assistance of Rural Business Center (year end)[4]	0	790	1,340	1,830	2,280	300
Dollars of new investment in León and Chinandega						

Notes to Rural Business Development Project Table:
1) Baseline data for each Indicator will be verified prior to undertaking any activity that affects the value of such Indicator.
2) Annual percentage increase will be calculated against the baseline value added of client business activity, as reported on intake survey.
3) These numbers will be revised at the end of Year 1 after completion of the Watershed Management Action Plan.
4) Project will not work with any new businesses in Year 5.

(iii) Activity Indicators. Prior to the disbursement of MCC Funding for any Project Activity, the Implementing Entity of that Project Activity must propose a set of Activity Indicators that is approved in writing by its Project Manager, MCA-Nicaragua and MCC. The M&E Plan shall be amended to reflect the addition of such Indicators. The table below shows a notional list of Activity Indicators that the M&E Plan may contain.

Property Regularization Project						
Activity Level Indicators	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Property Regularization						
Automated registry-cadastre database installed	25%	75%				100%
Number of parcels with a registered title, rural and urban (total of 21,000 and 22,000, rural and urban, respectively)	1,000 978	8,754 8,250	7,400 7,272	3,846 5,500		21,000 22,000
Protected areas demarcated	0.4	3.6				4
Number of protected area management plans implemented	1	1	1	1		4
Number of conflicts resolved by program mediation	500	2,000	1,500			4,000
Number of manzanas covered by cadastral mapping	172,288	394,000	174,286			740,574

Transportation Project			
Activity Level Indicators	**Year 3**	**Year 5**	**Total**
N-I Road Kilometers of road upgraded	0	58	58
Secondary Roads[1] Kilometers of road upgraded		Up to 100	Up to 100

Notes to Transportation Project Table:
1) Kilometers of secondary roads upgraded will be confirmed by the end of Year 1, when design studies and environmental assessments are completed.

Rural Business Development Project						
Activity Level Indicators	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Total**
Rural Business Development Centers						
Value of TA and support services delivered to program businesses[1]	$344,081	$1,376,323	$2,064,485	$3,096,728		$6,881,617
Improvement of Water Supply for Farming and Forest Production[2]						
Watershed Management Action Plan	Completed					
Funds disbursed for improvement of water supply for farming and forest production projects		$1,770,000	$2,950,000	$4,425,000	$2,655,000	$11,800,000

Notes to Rural Business Development Project Table:
1) This indicator will be disaggregated by source of funding, including MCA-Nicaragua.
2) Indicators will be verified at the end of Year 1, after the Watershed Management Action Plan is completed and projects are developed.

(b) **Data Collection and Reporting**. The M&E Plan shall establish guidelines for data collection and a reporting framework, including a schedule of Program reporting and responsible parties. The Technical Secretariat shall conduct regular assessments of program performance to inform MCA-Nicaragua, Project Managers and the MCC of progress under the Program and to alert these parties to any problems. These assessments will report the actual results compared to the Targets on the Indicators referenced in the Monitoring Component, explain deviations between these actual results and Targets, and in general, serve as a management tool for implementation of the Program. With respect to any data or reports received by MCA-Nicaragua, MCA-Nicaragua shall promptly deliver such reports to MCC along with any other related documents, as specified in this Annex III or as may be requested from time to time by MCC. With respect to the Rural Business Development Project, the Rural Business Development Center will conduct intake surveys to establish baselines for value added of either farms or firms or value chains. With the assistance of an on-site data quality reviewer, the Center will track the same information over time and use this information for performance evaluations and managing the resources of the Center.

(c) **Data Quality Reviews**. From time to time, as determined in the M&E Plan or as otherwise requested by MCC, the quality of the data gathered through the M&E Plan shall be reviewed to ensure that data reported are as valid, reliable, and timely as resources will allow. The objective of any data quality review will be to verify the quality and the consistency of performance data across different implementation units and reporting institutions. Such data quality reviews also will serve to identify where those levels of quality are not possible, given

the realities of data collection. The data quality reviewer shall enter into an Auditor/Reviewer Agreement with MCA-Nicaragua in accordance with Annex I.

3. Evaluation Component.

The Program shall be evaluated on the extent to which the interventions contribute to the Compact Goal. The Evaluation Component shall contain a methodology, process, and timeline for analyzing data in order to assess planned, ongoing, or completed Project Activities to determine their efficiency, effectiveness, impact, and sustainability. This component should use state-of-the-art methods for addressing selection bias and should make provisions for collecting data from both treatment and control groups, where practicable. The Evaluation Component, which shall contain two types of reports, (a) a Final Evaluation and (b) Ad Hoc Evaluations, shall be finalized prior to any MCC Disbursement or Re-Disbursement for specific Project Activities.

(a) **Final Evaluation**. MCA-Nicaragua, with the prior written approval of MCC, may engage an independent evaluator to conduct an evaluation at the expiration or termination of the Compact Term ("***Final Evaluation***") at MCC's election, MCC may engage such independent evaluator. The Final Evaluation must at a minimum (i) evaluate the efficiency and effectiveness of the Project Activities; (ii) estimate, in a statistically valid way, the causal relationship between the Projects and the Compact Goal; (iii) determine if and analyze the reasons why the Compact Goal was or was not achieved; (iv) identify positive and negative unintended results of the Program; (v) provide lessons learned that may be applied to similar projects; and (vi) assess the likelihood that results will be sustained over time. To the extent engaged by MCA-Nicaragua, such independent evaluator shall enter into an Auditor/Reviewer Agreement with MCA-Nicaragua in accordance with Annex I.

(b) **Ad Hoc Evaluations**. Either MCC or MCA-Nicaragua may request ad hoc or interim evaluations or special studies of Projects, Project Activities, or the Program as a whole prior to the expiration of the Compact Term. If MCA-Nicaragua engages an evaluator, the evaluator will be an externally contracted independent source selected by MCA-Nicaragua, subject to the prior written approval of MCC, following a tender in accordance with the Procurement Guidelines, and otherwise in accordance with any relevant Implementation Letter or Supplemental Agreement. The cost of an independent evaluation or special study may be paid from MCC Funding. If MCA-Nicaragua requires an independent evaluation or special study at the request of the Government for any reason, including for the purpose of contesting an MCC determination with respect to a Project or Project Activity or to seek funding from other donors, no MCC Funding or MCA-Nicaragua resources may be applied to such evaluation or independent study without MCC's prior written approval.

4. Other Components of the M&E Plan.

In addition to the Monitoring and Evaluation Components, the M&E Plan shall include the following components for the Program and each Project and Project Activity, including, where appropriate, roles and responsibilities of the relevant parties and Providers:

(a) **Costs**. A detailed cost estimate for all components of the M&E Plan Plan.

(b) **Assumptions and Risks**. Any assumptions and risks external to the Program that underlie the accomplishment of the Objectives; *provided*, however, such assumptions and risks shall not excuse performance of the Parties, unless otherwise expressly agreed to in writing by the Parties.

5. Implementation of the M&E Plan.

(a) **Approval and Implementation**. The approval and implementation of the M&E Plan, as amended from time to time, shall be in accordance with the Program Annex, this M&E Annex, the Governance Agreement, and any other relevant Supplemental Agreement.

(b) **MCC Disbursement and Re-Disbursement for a Project Activity**. Unless the Parties otherwise agree in writing, prior to, and as a condition precedent to, any initial MCC Disbursement or Re-Disbursement with respect to a certain Project or Project Activities, the baseline data or report with respect to such Project or Project Activity, as applicable and as specified in the Disbursement Agreement, must be completed in form and substance satisfactory to MCC. As a condition to each MCC Disbursement or Re-Disbursement, there shall be satisfactory progress on the M&E Plan for the relevant Project or Project Activity, and substantial compliance with the M&E Plan, including any reporting requirements, as further specified in the Disbursement Agreement.

(c) **Modifications**. Notwithstanding anything to the contrary in the Compact, including the requirements of this M&E Annex, MCC and the Government (or a mutually acceptable Government Affiliate or Permitted Designee) may modify or amend the M&E Plan or any component thereof, including those elements described herein, without amending the Compact; *provided*, any such modification or amendment of the M&E Plan has been approved by MCC in writing and is otherwise consistent with the requirements of this Compact and any relevant Supplemental Agreement between the Parties.