

**IMMEDIATE
ATTENTION**ARCHIVES
ROOM IS11-400 0451

EBS/00/281

CONFIDENTIAL

December 22, 2000

To: Members of the Executive Board

From: The Secretary

Subject: **Nicaragua—First and Second Reviews Under the Second Annual Arrangement Under the Poverty Reduction and Growth Facility and Requests for Waiver of Performance Criteria and for Extension of Commitment Period, and Decision Point Under the Enhanced Initiative For Heavily Indebted Poor Countries**

At EBM/00/126 (12/18/00), the Executive Board approved in principle the proposed decisions on Nicaragua's request for the completion of the first and second reviews under the second annual arrangement under the PRGF, and the decision point under the enhanced HIPC Initiative that appeared in EBS/00/189, Supplement 1 (12/14/00), and EBS/00/259, Supplement 1 (12/8/00) (see Attachment II). The figure on assistance in paragraph 1D of the decision on the decision point under the enhanced HIPC Initiative has been corrected to indicate the precise amount. Mr. Milleron's chair abstained on the decision on the PRGF, and Mr. Cippà's chair abstained on both decisions. It was agreed that the decisions would become effective on the date on which the Fund decided that the World Bank had concluded that the Interim Poverty Reduction Strategy Paper (I-PRSP) provides a sound basis for the development of a full, participatory PRSP and for Bank concessional assistance, and that Nicaragua is eligible and qualifies for assistance under the enhanced HIPC Initiative.

On December 21, 2000, the World Bank's Board concluded that the I-PRSP for Nicaragua provides a sound basis for the development of a full, participatory PRSP and Bank concessional assistance, and that Nicaragua is eligible and qualifies for assistance under the enhanced HIPC Initiative. Accordingly, the attached draft decision (Attachment I) is being circulated for approval by the Fund's Executive Board.

It is not proposed to bring this matter to the agenda of the Executive Board for discussion unless an Executive Director so requests by 10:30 a.m. today, Friday, December 22, 2000. In the absence of such a request, the draft decision that appears on page 1 will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Att: (2)

Other Distribution:
Department Heads

Nicaragua—Proposed Decision

December 21, 2000

The following draft decision is proposed for adoption by the Executive Board:

1. Pursuant to Paragraph 2 of the Decision adopted on December 18, 2000 set forth in EBS/00/259, Supplement 1, the Fund decides that the World Bank (i) has concluded that the Interim PRSP for Nicaragua provides a sound basis for the development of a fully participatory PRSP, for reaching the decision point and for Bank concessional financial assistance; and (ii) Nicaragua has reached its decision point under the enhanced HIPC Initiative. Accordingly, Paragraph 1 of the Decision adopted on December 18, 2000 set forth in EBS/00/259, Supplement 1, shall become effective on the date of this decision.

2. Pursuant to Paragraph 4 of the Decision adopted on December 18, 2000 set forth in EBS/00/189, Supplement 1, the Fund decides that the World Bank has concluded that the Interim PRSP for Nicaragua provides a sound basis for a fully participatory PRSP and for World Bank concessional financial assistance. Accordingly, the Decision adopted on December 18, 2000 set forth in EBS/00/189, Supplement 1, shall become effective on the date of this decision.

Revised Proposed Decision

The following revised draft decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. Nicaragua has consulted with the Fund in accordance with paragraph 2(d) of the second annual arrangement for Nicaragua under the Poverty Reduction Growth Facility (PRGF) (EBS/99/164, Supplement 1) and paragraph 4 of the letter dated August 19, 1999 from the Minister of Finance and the President of the Central Bank of Nicaragua in order to review program implementation.

2. The letter from the Minister of Finance and the President of the Central Bank of Nicaragua dated August 30, 2000, together with its Memorandum of Economic and Social Policies (the "Memorandum"), and the letter from the Minister of Finance and the President of the Central Bank of Nicaragua dated December 13, 2000, shall be attached to the second annual PRGF arrangement for Nicaragua, and the letter dated August 19, 1999 from the Minister of Finance and the President of the Central Bank of Nicaragua, together with its attached Memorandum of Economic and Financial Policies, shall be read as supplemented and modified by the letters dated August 30, 2000, and its attached Memorandum, and December 13, 2000, respectively.

3. Subject to paragraph 4 below, the Fund decides that:

(a) The first and second reviews contemplated in paragraph 2(d) of the second annual PRGF arrangement for Nicaragua are completed upon the condition that the information provided by Nicaragua regarding the implementation of the prior actions specified in Box 1 of the Memorandum attached to the letter dated August 30, 2000 is accurate;

(b) Nicaragua may request the disbursement of the second and third loans specified in paragraphs 1(b) and (c), respectively, of the second annual arrangement, notwithstanding the non-observance, with regard to the second loan, of the quantitative performance criteria for December 31, 1999 referred to in paragraph 2(a)(i), (ii), (iii), and (iv) of the second annual arrangement and the structural performance criteria relating to the approval of the social security reform law, the invitation for final bids for ENITEL, and on the issuance of final bid documents for ENEL's generation and distribution units, referred to in paragraph 2(b) of the arrangement, and, with regard to the third loan, of the quantitative performance criteria for June 30, 2000 referred to in paragraph 2(a)(i), (ii), (iii), and (iv) of the second annual arrangement, on the condition that the information provided by Nicaragua to assess the observance of these performance criteria is accurate; and

(c) The commitment period of the three-year arrangement under the PRGF for Nicaragua approved on March 18, 1998 (EBS/98/7, Supplement 2) is extended to March 17, 2002.

4. This decision is adopted in principle and shall become effective on the date in which the Fund decides that the World Bank has concluded that the Interim Poverty Reduction Strategy Paper for Nicaragua (I-PRSP) provides a sound basis for a fully participatory PRSP and for World Bank concessional financial assistance.

Nicaragua—Proposed Decision

December 18, 2000

The following draft, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. Based on the external debt sustainability analysis for Nicaragua (EBS/00/259), the Fund, as Trustee (the “Trustee”) of the Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations (the “Trust”), established by Decision No. 11436-(97/10), February 4, 1997, decides in principle that:

A. in accordance with Section III, paragraphs 1 and 2 of the Trust Instrument (the “Instrument”), Nicaragua is eligible and qualifies for assistance under the enhanced HIPC Initiative pursuant to the terms of the Instrument;

B. the completion point for Nicaragua will be reached on the date when the Trustee determines that:

(a) Nicaragua has satisfactorily implemented the structural measures described in Box 6 of Nicaragua’s Decision Point Document under the enhanced HIPC Initiative (EBS/00/259);

(b) Nicaragua has a stable macroeconomic position and has kept on track with its Fund-supported program; and

(c) Nicaragua has prepared a Poverty Reduction Strategy Paper and has satisfactorily implemented its poverty reduction strategy for at least one year;

C. the external debt sustainability target for Nicaragua is 150 percent for the present value of debt-to-export ratio;

D. in accordance with Section III, paragraphs 3(a) and 3(b) of the Instrument, the equivalent of SDR 62,978,836 of assistance shall be made available by the Trustee to Nicaragua in the form of a grant to permit a reduction in the net present value of the debt owed by Nicaragua to the Fund, subject to satisfactory assurances regarding the exceptional assistance to be provided under the enhanced HIPC Initiative by Nicaragua's other creditors; and

E. in accordance with Section III, paragraph 3(e) of the Instrument, the Trustee shall disburse the assistance committed to Nicaragua under paragraph 4 of this decision at the completion point, together with interest on amounts committed, calculated at the average rate of return per annum on investment of resources held by or for the benefit of the Trust.

2. Paragraph 1 above shall become effective on the date on which the Fund decides that the World Bank has concluded that:

A. the Interim PRSP provides a sound basis for the development of a fully participatory PRSP for reaching the decision point under the enhanced HIPC Initiative and for Bank concessional financial assistance; and

B. Nicaragua has reached the decision point under the enhanced HIPC Initiative.

3. The Fund determines that the Interim PRSP for Nicaragua set forth in EBD/00/82 provides a sound basis for the development of a fully participatory PRSP, for reaching the decision point under the enhanced HIPC Initiative and for Fund concessional financial assistance.