



Millennium Challenge Corporation

Reducing Poverty Through Growth

June 22, 2005

CONGRESSIONAL NOTIFICATION

Pursuant to the requirements of Section 515 of Pub. L. 108-199, we wish to notify Congress of the Millennium Challenge Corporation's ("MCC") intent to enter into a Millennium Challenge Compact with the Government of the Republic of Nicaragua ("GON"), through which MCC will grant up to one hundred seventy-five million U.S. Dollars (USD \$175,000,000) of FY 2004 and/or FY 2005 Millennium Challenge Account ("MCA") funds. Although the full amount of these funds will be obligated at the time the agreement enters into force, funds will be disbursed in tranches over the course of the Compact's term upon satisfaction or waiver of relevant conditions precedent. This five-year Compact will implement a program, proposed by the Republic of Nicaragua, which will advance Nicaragua's progress towards achieving lasting poverty reduction through economic growth. The Program is designed to:

- Increase investment by strengthening property rights in the Department of León;
- Reduce transportation costs between the Departments of León and Chinandega and domestic, regional and global markets; and
- Increase value-added (i.e. increase profit and wages) of farms and enterprises in León and Chinandega.

Pursuant to Section 610(a) of the Millennium Challenge Act of 2003 (Section 610(a) Pub. L. 108-199, Division D) (the "Act"), the appropriate Congressional committees were notified of MCC's intent to commence negotiations with the GON on November 3, 2004. These negotiations have resulted in a mutually agreeable program described herein, which will be formalized in a Compact on substantially the terms of the text of the Compact that is being forwarded with this notification. A summary of key elements of the Compact is set forth in the accompanying "Executive Summary." MCC will provide the final agreed text of the Compact, along with a detailed summary of the text, to the appropriate Congressional committees no later than 10 days after the execution of the Compact, as provided in Section 610(b) of the Act.

**Millennium Challenge Compact between
the United States of America,
Acting through the Millennium Challenge Corporation, and
the Government of the Republic of Nicaragua**

Executive Summary

The Compact will support a Program that seeks to advance economic growth and poverty reduction in Nicaragua by funding three projects proposed by the Government of Nicaragua (“GON”) in the northwestern part of the country, a poor region that is an important source for generating the country’s future economic growth. These three projects include a (1) a property regularization project (\$26.5 million) to increase investment by strengthening property rights in León; (2) a transportation project (\$92.8 million) to reduce transportation costs between production centers in the region and domestic, regional, and global markets; and (3) a rural business development project (\$33.7 million) to significantly increase profits and wages from farms and enterprises in the region.

The proposed Program enjoys broad support from civil society and complements the efforts of other international donors in Nicaragua. The key expected results of the Program include:

- Improved property records for an estimated 43,000 land parcels in the department of León and a modern system of parcel maps and registered land titles, making property rights more secure and lowering the cost of doing business in the region;
- The upgrading of a 58 km stretch of the Pacific Corridor highway to better link producers in northwestern Nicaragua to commercial centers in Managua, Honduras, and El Salvador;
- The upgrading of up to 100 km of rural secondary roads to improve rural community access to markets and social services; and
- Higher value agricultural production that will significantly increase earnings for poor farm families and create thousands of new jobs in related services and enterprises.

The duration of the Compact is five years, during which time MCC will authorize, assuming satisfactory performance and satisfaction or waiver of other requirements, periodic disbursements of funds to an interest-bearing account in Nicaragua (some of these funds will be transferred periodically to another interest bearing account for conversion into local currency). A Fiscal Agent will certify re-disbursements from such accounts for project activities in accordance with agreed conditions.

The fiscal accountability mechanisms, governance structure, and audit and review requirements (including monitoring and evaluation) set forth in the Compact and to be further detailed in ancillary agreements and documents will ensure that appropriate oversight and accountability measures are built into the implementation of the Program. In accordance with its Congressional mandate, MCC will only disburse funds consistent with the limitations Congress has placed on the use and treatment of MCA assistance. These limitations are expressly set forth in the body of the Compact. MCC has also retained, through the Compact, approval rights over key agreements and implementation actions, e.g., selection of key service providers (such as the fiscal agent and auditor), certain payments, certain procurements, key personnel decisions for MCA-Nicaragua, detailed financial plans, and the monitoring and evaluation plan. Finally, prior to the Compact entering into force, the GON must, among other things, execute a Disbursement Agreement, a

Procurement Agreement, and term sheets in connection with certain ancillary agreements. Prior to MCC disbursing any Project-related funds, the GON must, among other things, execute the ancillary agreements needed to establish proper accountability and governance mechanisms, including the Fiscal Agent Agreement, Bank Agreement, Grant Agreement, and Governance Agreement.

Implementation of the proposed Program would be overseen by a new legal entity created by the GON. This independent entity will consist of a Board of Directors, with government and civil society representatives, and a technical secretariat staffed with competitively hired project specialists.

A competitively selected partnership of international private-sector accounting and consulting firms is expected to serve as the Fiscal/Procurement Agent (Agent) and will help ensure transparent administration of funds. The Agent will provide professional services for (1) funds control, disbursement documentation and management, cash management and accounting; and (2) the planning management and supervision of the procurement processes contemplated under the MCC Program. The Agent will be outside of MCA-Nicaragua and, as a control measure, will be the sole signatory to the MCA-Nicaragua bank account into which MCC funds will be disbursed.

Where To Find Key Provisions

Compact:

- Article I: Objectives; Term
- Article II: Funding and Disbursement Provisions; Government Contributions
- Article III: Implementation (including procurement, audit, reporting); Government Responsibilities and Assurances
- Article IV: Deliveries and Conditions Precedent to Entry in Force; Conditions Precedent to MCC Disbursement and Re-Disbursement
- Article V: Final Clauses, including Termination and Suspension
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- Annex I: Descriptions of the implementation framework and three program elements: (1) a property regularization project; (2) transportation project; and (3) a rural business development project
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- Annex II: Summary of Multi-Year Financial Plan
- Annex III: Description of the Monitoring and Evaluation Plan