His Excellency
Mr. Iván Acosta
Minister
Ministry of Finance and Public Credit
Managua, Nicaragua

Re: NICARAGUA – Grant No. TF013410. Adaptation of Water Supplies to Climate Change Project
Amendment No. 1 to the Grant Agreement

Excellency:

Please refer to the Grant Agreement (the Grant Agreement), dated December 4, 2012 between the Republic of Nicaragua (the Recipient) and the International Bank for Reconstruction and Development acting as administrator of the Special Climate Change Trust Fund (the World Bank) for the above referenced Project. Please note that capitalized terms used in this letter (Amendment Letter) and not defined herein have the meaning ascribed to them in the Grant Agreement.

The World Bank has received the letter No. MHCP-DM-E-0168-12-15 dated December 11, 2015, requesting the amendment of the Grant Agreement for the purpose of: (a) changing the Project Development Objective (PDO); (b) reallocating Grant proceeds; and (c) modifying a few of the current institutional arrangements of the Project.

We are pleased to inform you that pursuant to the letter of request, the World Bank hereby agrees to amend the Grant Agreement as follows:

1. Schedule 1 to the Grant Agreement is hereby amended to read as follows:

   "The objective of the Project is to pilot water resources protection and drinking water supply systems with an integrated and participatory approach in selected climate vulnerable communities in Nicaragua."

2. Schedule 2, Section I to the Grant Agreement is hereby amended to add a new Part G that will read as follows:

   "1. To facilitate the carrying out of Project activities under Part 1.2. of the Project, the Recipient, through MARENA, shall enter into an agreement with FONADEFO (Cooperation Agreement), under terms and conditions acceptable to the World Bank, which shall include:

   (a) the obligation of the Recipient to provide to FONADEFO a portion of the proceeds of the Grant, facilities, services and other resources required to enable FONADEFO to support MARENA carrying out Part 1.2. of the Project;

   (b) the obligation of FONADEFO to: (i) carry out the Project activities mentioned in (a) above with due diligence and efficiency and in accordance with sound technical,
(c) economic, financial, managerial, environmental and social standards and practices (including the principles established in the Manual of Technical and Administrative Procedures for the Program for Compensation for Environmental Services) satisfactory to the World Bank, and in accordance with the Operational Manual and the provisions of the Anti-Corruption Guidelines applicable to recipients of Grant proceeds other than the Recipient; (ii) provide, as promptly as needed, funds, facilities, services and any additional resources within its control and as required for the purpose; (iii) procure or cause to be procured the goods, works and consultants' services to be financed out of the Grant in accordance with the provisions of this Agreement; (iv) maintain, throughout Project implementation, professional staff required for Project; (v) maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with indicators acceptable to the World Bank and set forth in the Operational Manual, the progress of the Project activities mentioned in (a) herein; (vi) take all the necessary actions to enable the Recipient to comply with its obligations as applicable to the participation of FONADEFO in the carrying out of the Project activities mentioned in (a) herein; (vii) (A) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the World Bank, both in a manner adequate to reflect its operations and financial condition, including operations, resources and expenditures related to said Project activities; (B) have such financial statements audited by independent auditors acceptable to the World Bank in accordance with consistently applied auditing standards acceptable to the World Bank (each audit covering one fiscal year of FONADEFO), and promptly furnish the statements as so audited to the Recipient and the World Bank; and (C) make such financial statements publicly available in a timely fashion and in a manner acceptable to the World Bank; (viii) enable the Recipient and the World Bank to inspect the Project, its operation and relevant records and documents; and (ix) prepare and furnish to the Recipient and the World Bank all such information as the Recipient or the World Bank shall reasonably request relating to the foregoing; and,

(d) the right of the Recipient to suspend or terminate the right of FONADEFO to use the proceeds of the Grant, including the right to obtain a refund from FONADEFO of all or any part of the amount of the Grant then withdrawn by FONADEFO, upon FONADEFO's failure to perform any of its obligations under the Cooperation Agreement.

2. The Recipient shall exercise its rights and carry out its obligations under the Cooperation Agreement in such manner as to protect the interests of the Recipient and the World Bank and to accomplish the purposes of the Grant. Except as the World Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate, waive or fail to enforce the Cooperation Agreement or any of its provisions.

3. The Recipient shall, and shall cause FONADEFO to maintain, throughout Project implementation, professional staff required for Project implementation as set forth in the Operational Manual, all with qualifications and experience satisfactory to the World Bank.

4. The Recipient shall, and shall cause FONADEFO to carry out, the Project activities under their responsibilities in accordance with the provisions of the Operational Manual, including the provisions of the Environmental and Social Management Framework, the
Indigenous Peoples Planning Framework and the Resettlement Action Plan, and except as the World Bank shall otherwise agree, the Recipient shall not amend or waive any provision of these documents without the World Bank's prior written approval. In case of any conflict between the terms of said documents and those of this Agreement, the terms of this Agreement shall prevail.

3. Schedule 2, Section I to the Grant Agreement is hereby amended to add a new Part H that will read as follows:

"To facilitate the carrying out of Project activities in Corn Island under Part 2.1. and 2.2. of the Project, the Recipient, through MARENA, shall enter into an agreement with FISE, ANA and INETER (INETER Cooperation Agreement), under terms and conditions acceptable to the World Bank, and further detailed in the Operational Manual".

4. The table in Section IV Paragraph A.2 of Schedule 2 to the Grant Agreement is hereby amended as set forth in the Annex to this Amendment Letter.

5. The Appendix to the Grant Agreement is hereby amended to add the following definitions:

"Cooperation Agreement" means the agreement referred to in Section G of Schedule 1 to the Grant Agreement.

"FONADEFO" means Fondo Nacional de Desarrollo Forestal, the Recipient's National Forestry Development Fund, a public and decentralized administrative and financing entity of the Recipient, attached to INAFOR, the National Forestry Institution, established and operating pursuant to the FONADEFO Legislation.


"INETER" means Instituto Nicaragüense de Estudios Territoriales, the Recipient's Institute for Territorial Studies, a public, autonomous and decentralized entity of the Recipient established and operating pursuant to the INETER Legislation.

"INETER Cooperation Agreement" means the agreement referred to in Section H of Schedule 1 to the Grant Agreement.


"Manual of Technical and Administrative Procedures for the Program for Compensation for Environmental Services" means the Recipient's manual for implementation of Part 1.2 of the Project, dated February, 2016, referred to in Section G (b) (i) of Schedule 1 to this Agreement, as the same may be amended from time to time with the prior written agreement of the World Bank.

Except as specifically amended in this Amendment Letter, all other terms and conditions of the Grant Agreement shall remain in full force and effect.
Please confirm your agreement with the foregoing amendment by signing, dating and returning to us the enclosed copy of this Amendment Letter. This Amendment Letter will be executed in two counterparts, each of which shall be an original. The provisions of this Amendment Letter will become effective upon the receipt by the World Bank of a countersigned original of the Amendment Letter.

Sincerely,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
Acting as Administrator to the Special Climate Change Trust Fund

By Humberto Lopez
Director
Latin America and the Caribbean Region

AGREED:

REPUBLIC OF NICARAGUA

By: [Signature]
(name)

Title: Minister of Finance

Date: August 12, 2016
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<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
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