June 8, 2010

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His Excellency
Alberto José Guevara Obregón
Minister of Finance and Public Credit
Ministry of Finance and Public Credit
Frente al Edificio de la Asamblea Nacional
Managua, Nicaragua

Re: NICARAGUA- (Rural Water Supply and Sanitation Project- PRASNICA)
Credit No. 4471-NI - Grant H407-0-NI

Amendment to the Financing Agreement

Excellency:

Please refer to the Financing Agreement (the Financing Agreement), dated July 25, 2008, between the Republic of Nicaragua (the Borrower) and the International Development Association (the Association) for the above referenced Project. Terms not otherwise defined herein shall have the meanings assigned to them in the Financing Agreement.

We are pleased to inform you that pursuant to your letter of request No. MHCP-DM-E-0598-03-10, dated March 12, 2010, the Association is hereby amending the above referenced Financing Agreement so as to change the implementing arrangements as necessary.

Consequently, the Financing Agreement is hereby amended as follows:

1. Section 3.01 (b) of Article III of the Financing Agreement is hereby replaced in its entirety and reads as follows:

   “the Eligible Municipalities and the Project Committee for purposes of Part 2 of the Project”.

2. Section 4.01(a)(vi) of Article IV of the Financing Agreement is deleted in its entirety.
3. Section 4.01(b) of Article IV of the Financing Agreement is hereby amended to read as follows:

   “Notwithstanding the rights contained in Section 6.02 of the General Conditions, it is understood that if any of the events specified in paragraph (a) (v) of this Section shall have occurred, the Association may, by notice to the Recipient, choose to suspend in whole or in part the right of the Recipient to make withdrawals from the Financing Account for expenditures solely in respect of the concerned Eligible Municipality.”

4. Section I.B.1(b)(iv) of Schedule 2 of the Financing Agreement is hereby amended to read as follows:

   “(iv) prior to the carrying out of any Municipality Subproject, enter into a Subproject Agreement with the respective Eligible Municipality, as provided in Section I.D.1(a) of Schedule 2 to this Agreement”.

5. Section I.D.1(a) of Schedule 2 of the Financing Agreement is hereby amended to read as set forth in the Annex to this Amendment Letter.

6. Section I.E.1(a) of Schedule 2 of the Financing Agreement is hereby replaced and reads as follows:

   “Subprojects shall be promoted, identified, appraised, approved, carried out and monitored by FISE and the respective Eligible Municipality Subprojects, in accordance with the procedures set forth in the Operational Manual, including the EMF and the IAPP.”

7. Section IV.B.1(b) of Schedule 2 of the Financing Agreement is hereby replaced and reads as follows:

   “payments made for expenditures covered by Categories 1 (b) and 2 (b) unless: (i) the Project Committee has been established and is operating; and (ii) the Operational Manual has been updated to reflect the detailed implementation criteria and procedures for Municipality Subprojects (including the respective Subproject cycle), all in a manner satisfactory to the Association.”

8. Section I.2 of the Appendix to the Financing Agreement is deleted in its entirety.

9. Section I.15 of the Appendix to the Financing Agreement is hereby replaced and reads as follows:
“Municipality Subproject or Subproject” means any group of activities under Parts 1 or 2 (or 3 if Section I.A.3 of Schedule 2 to this Agreement applies) of the Project, with respect to an Eligible Municipality as the case may be, which is included in the Subproject cycle referred to in the Operational Manual, as set forth in the respective Municipality Subproject Agreement.”

10. Section I.26 of the Appendix to the Financing Agreement is deleted in its entirety.

11. Section I.28 of the Appendix to the Financing Agreement is deleted in its entirety.

12. Section I.29 of the Appendix to the Financing Agreement is deleted in its entirety.

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 Bank of the countersigned Amendment Letter as of the date of countersignature.

Sincerely,

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Mr. Gregor Wolf
Acting Director
Central America Country Management Unit
Latin America and the Caribbean Region

AGREED:

REPUBLIC OF NICARAGUA

By /s/ Mr. Alberto José Guevara Obregón
Authorized Representative

Date: June 29, 2010
“D. Sub-projects

1. For purposes of carrying out Parts 1 and 2 of the Project, the Recipient shall cause FISE to:

(a) prior to carrying out each Subproject, enter into an agreement with the respective Eligible Municipality (a Municipality Subproject Agreement) under terms and conditions satisfactory to the Association, which shall include, inter alia:

   (i) the provision to the Eligible Municipality of the facilities, services and other resources required to enable the Eligible Municipality to participate in the respective Subproject, including the funds necessary to contract the works under the respective Subproject and the provision of the technical assistance under the respective Subproject;

   (ii) the obligation of the Eligible Municipality to: (A) cooperate in the carrying out of the respective Subproject with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association, including in accordance with the Operational Manual and the provisions of the Anti-Corruption Guidelines applicable to recipients of Financing proceeds other than the Recipient; (B) provide, promptly as needed, the resources required for the purpose, including without limitation the counterpart contribution in cash or in kind required for each type of investment under a Subproject in the percentages set forth in the Operational Manual; (C) cooperate with FISE to ensure that all goods, works and services to be financed out of the Financing are procured in accordance with the provisions of this Agreement; (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association, the progress of the Subproject and the achievement of its objectives; (E) enable the Recipient, FISE and the Association to inspect the Subproject, its operation and any relevant records and documents; (F) prepare and furnish to the Recipient, FISE and the Association all such information as the Recipient, FISE or the Association shall reasonably request relating to the foregoing; and (G) in the event that community participation is envisaged in the implementation of the respective Subproject, ensure that the criteria and procedures set forth in the Operational Manual for community participation in the implementation of Subprojects are complied; and
(iii) the right of FISE to suspend or terminate the right of the Eligible Municipality to participate in the Subproject and/or to benefit from the proceeds of the Financing, upon the Eligible Municipality’s failure to perform any of its obligations under the respective Subproject Agreement; and

(b) exercise its rights under each Subproject Agreement in such manner as to protect the interests of the Recipient, FISE, and the Association and to accomplish the purposes of the Financing, and, except as the Association shall otherwise agree, not to assign, amend, terminate, abrogate, waive or fail to enforce any Subproject Agreement or any provision thereof.

2. Without limitation to the provisions of paragraph 1 above, the Recipient shall cause FISE to ensure that prior to signing a Municipality Subproject Agreement, the respective Subproject has been approved by the Project Committee.