

Y. SEYNABOU SAKHO
Director
Central America

January 30, 2018

His Excellency
Iván Acosta
Minister
Ministry of Finance and Public Credit
Republic of Nicaragua

Re: **NICARAGUA: FCPF Grant No.TF 099264**
Readiness Fund of the FCPF Grant Agreement for Readiness
Preparation Proposal
Letter Agreement

Excellency:

I refer to the Grant Agreements between the Republic of Nicaragua (“Recipient”) and the International Bank for Reconstruction and Development (“World Bank”), dated August 22, 2011 and December 26, 2013 (“Readiness Grant Agreements”) pursuant to which the World Bank agreed to provide the Recipient grants in the amount not to exceed US\$200,000 (“R-PP Formulation Installment) and US\$3,600,000 (Second Installment) respectively, for formulating the Readiness Preparation Proposal (“R-PP”).

I also wish to refer to Resolution PC2008-2 of the Participants Committee of the Forest Carbon Partnership Facility (“FCPF”) regarding selection of REDD Country Participants (“Resolution PC2008-2”). REDD refers to reducing emissions from deforestation and forest degradation.

Resolution PC2008-2 provides that subject to the availability of the funds, certain REDD Country Participants may receive grant funding of up to an additional five million United States Dollars (US\$5,000,000) for formulating and carrying out a Readiness Preparation Proposal (“R-PP”).

The Recipient was selected as a REDD Country Participant. The Participants Committee of the FCPF (“PC”) has reviewed the R-PP submitted by the Recipient and acknowledge the great efforts made by the Recipient in formulating its R-PP. Accordingly the PC, through its Resolution PC/22/2016/8 decided to allocate grant funding to the Recipient in the amount of up to an additional five million United States Dollars (US\$5,000,000) to enable it to continue with its preparation for readiness, subject to terms and conditions set out in said Resolution.

In response to the request for financial assistance made on behalf of the Recipient and the decision of the PC referred to above, I am pleased to inform you that the World Bank, acting as a Trustee of the Readiness Fund for the FCPF (“Trustee”) agrees to extend to the Recipient a grant in an amount not to exceed five million United States Dollars (US\$ 5,000,000) (“Third Installment” or “Grant”) on the terms and conditions set forth or referred to in this letter agreement (“Agreement”), to assist in the financing of Readiness Preparation Activities (as defined in the Annex to this Agreement. The Third Installment is in addition to the R-PP Formulation Installment and the Second Installment, which have already been fully disbursed in accordance with the terms of their respective First Grant Agreement and Second Grant Agreement.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Readiness Preparation Activities in accordance with the terms and conditions set forth or referred to in this Agreement.

Please confirm the Recipient's agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank.

This Agreement shall become effective upon receipt by the World Bank of an original copy of this Agreement countersigned by the Recipient. Upon compliance with the abovementioned condition, the World Bank will send a notice of effectiveness to the Recipient.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
Acting as Trustee of the Readiness Fund of the Forest Carbon Partnership Facility

By *Seynabou Sakho*
Y. Seynabou Sakho
Director
Central America
Latin America and the Caribbean

AGREED:

REPUBLIC OF NICARAGUA

By *[Signature]*
Authorized Representative

Name Iván Acosta Montalván

Title Ministro de Hacienda y crédito Público

Date: 30 enero 2018

Enclosures:

- (1) Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated February 15, 2012
- (2) Disbursement Letter of the same date as this Agreement, together with "Disbursement Guidelines for Investment Project Financing", dated February 2017
- (3) Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011 and as of July 1, 2016

- (4) World Bank Procurement Regulations for IPF Borrowers” dated July 2016, as revised November 2017

Article I
Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds dated February 15, 2012 (“Standard Conditions”), with the modifications set forth in paragraphs (a), (b) and (c) below, constitute an integral part of this Grant Agreement.

- (a) The following term shall be inserted as paragraph 6(bis):

6bis. “Charter” means the Charter Establishing the Forest Carbon Partnership Facility, as may be amended from time to time;”

- (b) The definition of the term “Project” shall be deleted and replaced to read as follows:

11bis ‘Readiness Preparation Activities’ means the proposed activities, for which the World Bank as the Trustee of the Readiness Fund of the Forest Carbon Partnership Facility has made the R-PP Formulation Installment, for the formulation by the Recipient of a Readiness Preparation Proposal.”

- (c) All references to the term “Project” shall be construed to read “Readiness Preparation Activities”.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement, and the following definitions shall have the following meanings:

(a) “ENDE REDD+ Strategy” means *Estrategia Nacional para Reducir la Deforestación y Degradación Forestal*, the Recipient’s national strategy to reduce deforestation and forest degradation published in the Recipient’s territory and the Forest Carbon Partnership Facility external website on September 19, 2017, as amended to the date of this Agreement.

(b) “ESMF” or “Environmental and Social Management Framework” means the environmental and social framework, dated and duly published in the Forest Carbon Partnership Facility external website on September 19, 2017, setting forth mitigation, monitoring, and institutional measures to address environmental and social impacts of Readiness Preparation Activities, including impacts on natural habitats, forests, pest management, physical cultural resources, involuntary resettlement, indigenous peoples or economically displaced persons, offset negative impacts, or reduce them to acceptable levels, or enhance positive environmental and social impacts, as said ESMF may be modified from time to time with the prior written agreement of the World Bank, and such term includes any schedules or annexes to such framework, including the guidelines for preparing and implementing Environmental and Social Management Plans (ESMPs) if applicable.

(c) “INAFOR” means *Instituto Nacional Forestal*, the Recipients’ National Forestal Institute, or any successor thereto.

(d) “INETER” means *Instituto Nicaraguense de Estudios Territoriales*, the Recipient’s Institute of Territorial Studies or any successor thereto.

(e) “Indigenous Peoples Planning Framework (IPPF)” means framework dated and duly published in the Forest Carbon Partnership Facility external website on September 19, 2017, which sets forth, the measures to ensure that where indigenous peoples affected in the implementation of the ENDE REDD+ Strategy, ensuring that any intervention related to the implementation of the Readiness Preparation Activities, whether it has positive or adverse impacts, will be adequately addressed by the relevant implementing agencies in such a way that affected indigenous peoples will have opportunities to participate in and benefit equally (as the rest of the Recipient’s population) from the ENDE REDD+ Strategy, and includes guidelines for preparing and implementing Indigenous People Plans (IPPs) if applicable.

(f) “Involuntary Resettlement” means any direct economic and social impact caused by: (a) the involuntary taking of land resulting in (i) relocation or loss of shelter, (ii) loss of assets or access to assets, and (iii) loss of income sources or means of livelihood, whether or not the affected persons must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas resulting in adverse impacts on the livelihoods of such person.

(g) “Involuntary Resettlement Policy Framework (RPF)” means a framework dated and duly published in the Forest Carbon Partnership external website on September 19, 2017, which sets forth, *inter alia*: the measures, mechanisms, procedures and compensation entitlements to be applied to address any land acquisition and resettlement impacts identified based on the final design, or temporary impacts during implementation of the Readiness Preparation Activities, or emerging land acquisition and resettlement issues during implementation for the ENDE REDD+ Strategy, a description of the anticipated groups of affected persons, an assessment of the legal framework and principles for land acquisition and resettlement, procedures for redress of grievances, as well an outline of the monitoring of the land acquisition and resettlement impacts during the implementation of the ENDE REDD+ Strategy.

(h) “MARENA” means *Ministerio del Ambiente y Recursos Naturales*, the Recipient’s Ministry of Environment and Natural Resources and any successor or successors thereto.

(i) “MHCP” means *Ministerio de Hacienda y Crédito Público*, the Recipient’s Ministry of Finance and Public Credit.

(j) “Operations Manual” means the manual including all appendices and schedules thereto, satisfactory to the World Bank, dated February 28, 2014, setting forth the policies and procedures that apply to the carrying out of the Readiness Preparation Activities, which include, *inter alia*: (a) the roles and responsibilities of each of the agencies or entities involved in implementation of the Readiness Preparation Activities; (b) the staffing requirements for the Readiness Preparation Activities; (c) the estimated implementation schedule; (d) procedures for accessing, disbursing and accounting for funds; (e) the indicators to be used in the monitoring and evaluation of the Readiness Preparation Activities; (f) procedures monitoring, supervision and evaluation, including the format and content of the reports for the Readiness Preparation Activities; and (g) the procurement and financial management procedures; as the same may be amended from time to time with the prior written approval of the World Bank.

(k) “Partner Entities” means, *inter alia*, INETER, INAFOR, the Recipient’s Presidential Secretariat for National Policies, the Recipient’s National Agency for Promotion of Foreign Investments (PRONICARAGUA), and the Recipient’s Presidential Secretariat for Development of the Caribbean Coast.

(l) “PF” or “Process Framework” means the framework, dated and duly published in the Forest Carbon Partnership Facility’s external website on September 19, 2017, which sets forth, *inter alia*, the measures and participatory processes by which communities and the relevant authorities or agencies will jointly recommend resource-use restrictions and decide on measures to mitigate any significant adverse impacts of these restrictions.

(m) “Safeguards Information System” means a system for providing information on how the seven safeguards followed when undertaking REDD+ activities are addressed and respected throughout the implementation of activities as per Decision 1/CP.16 Appendix 1 Paragraph 2 of the UNFCCC COP held in Cancun in 2010 and Decision 1/CP.16 Paragraph 71 (d) of the UNFCCC COP held in Durban in 2011.

(n) “SESA” or “Strategic Environmental and Social Assessment” mean the assessment carried out by the Recipient to integrate key environmental and social considerations into REDD+.

(o) “SESA Plan” means the instrument carried out by the Recipient that provides guidance how the recommendations from the SESA will be implemented and by whom, helps in refining the ENDE REDD+ Strategy by assessing the responsiveness of the strategy options to environmental and social priorities in the forests sector and the opportunity cost of conserving forests, means the instrument that provides guidance how the recommendations from the SESA will be implemented and by whom.

(p) “UNFCCC” means the United Nations Framework Convention on Climate Change (UNFCCC) an international environmental treaty adopted on 9 May 1992 and opened for signature at the Earth Summit in Rio de Janeiro from 3 to 14 June 1992.

(q) “World Bank’s Safeguards Policies” means the operational policies and procedures of the World Bank set forth in the World Bank’s Operational Manual relating to Environmental Assessment (OP/BP 4.01), Natural Habitats (OP/BP 4.04), Indigenous Peoples (OP/BP 4.10), Cultural Property (OP/BP 4.11), Involuntary Resettlement (OP/BP 4.12), Forestry (OP/BP 4.36), Projects on International Waterways (OP/BP 7.50), and Projects in Disputed Areas (OP/BP 7.60).

Article II

Readiness Preparation Activities Execution

2.01. ***Readiness Preparation Activities Objectives and Description.*** The objective of Third Installment is to help the Recipient become ready for future ENDE-REDD+ Strategy implementation by preparing its key elements, systems, and/or policies needed, in a socially and environmentally sound manner.

The Readiness Preparation Activities, consist of the following parts:

Part 1. Readiness Organization and Consultation

(a) Provision of support to MARENA to, *inter alia*: (i) strengthening the existing ENDE REDD+ Strategy management arrangements in the Caribbean Coast, Northern and Central regions of the Recipient's territory; (ii) completing the development of a feedback redress grievance mechanism for ENDE-REDD+ Strategy; and (iii) strengthening inter-institutional coordination with the Partner Entities, to ensure alignment of the ENDE-REDD+ Strategy with national priorities, and improve the engagement of the agriculture public sector institutions.

(b) Carry out outreach and consultation activities with relevant stakeholders in the Northern, and Central regions of the Recipient's territory, aimed at, *inter alia*, (i) strengthening the national cross-sectoral dialogue on sustainable land-use to counter deforestation and forest degradation; and (ii) providing support to finalize the ENDE-REDD+ Strategy in collaboration with the Recipient's Ministry of Agriculture (MAG) and the Ministry of Family Economy (MEFFCA).

Part 2. REDD+ Strategy Preparation

Strengthening MARENA's capacity through:

(a) carrying out an assessment of the drivers of deforestation; and an analysis of legal, institutional, and forest governance to identify barriers to the ENDE-REDD + Strategy;

(b) carrying out an assessment of alternatives to reduce deforestation and forest degradation in indigenous and afro-descendant territories, within the Recipient's territory, including Bosawas and Indio-Maiz Biosphere Reserves;

(c) carrying out an assessment of the economic feasibility of the ENDE-REDD+ Strategy and design incentives to promote REDD+ activities, including the participation of the private sector;

(d) analyzing the legal, institutional and forest governance framework of the ENDE-REDD+ Strategy, draft bylaws for the Recipient's National Carbon Fund, and coordinate with the MHCP in the ENDE-REDD+ Strategy process to develop the different elements of the ENDE-REDD+ Strategy; and

(e) finalizing the preparation of: (i) the SESA, including the preparation and implementation of a SESA Plan for the Central and Northern regions of the Recipient's territory; and (ii) the ESMF, including the RPF, the IPPF, PF; and (iii) the Safeguards Information System.

Part 3. Forests Reference Emissions Levels

Strengthening MARENA's capacity to: (a) finalize the Recipient's national Forest Reference Emissions Level (FREL) a component of the ENDE-REDD+ Strategy; and (b) contribute to the preparation of a national communication document to report the Green House Gas (GHG) emissions inventory before the UNFCCC.

Part 4. Monitoring systems for forests and safeguards

Strengthening MARENA's capacity to:

(a) design and operationalization of the Recipient's national forest and safeguard systems, including the Forest Monitoring System (NFMS) and the Information System for Multiple Benefits and Safeguards; and

(b) improve the Recipient's national environment information system and define the systems to monitor non-carbon aspects of the ENDE-REDD+ Strategy.

Part 5: Readiness Preparation Activities monitoring system.

Provision of support to MARENA in the implementation, monitoring and evaluation of the Readiness Preparation Activities, including to complete the existing ENDE-REDD+ Strategy monitoring and evaluation plan.

2.02. ***Readiness Preparation Activities Execution Generally.*** The Recipient declares its commitment to the objectives of the Readiness Preparation Activities. To this end, the Recipient, through MARENA, shall carry out the Readiness Preparation Activities, in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011 and as of July 1, 2016 ("Anti-Corruption Guidelines"); and (c) this Article II.

2.03. ***Institutional Arrangements.*** The Recipient shall, through MARENA; (a) maintain key staff for the implementation of the Readiness Preparation Activities, all with experience and qualifications acceptable to the World Bank; and

(b) update and thereafter carry out the Readiness Preparation Activities in accordance with the Operations Manual and in coordination with the Partner Entities.

2.04. ***Safeguards.*** the Recipient, through MARENA shall ensure that:

(a) the Readiness Preparation Activities are implemented according to the SESA and the ESMF, including the RPF, PF and the IPPF;

(b) no Readiness Preparation Activities involve Involuntary Resettlement;

(c) all terms of reference for any technical assistance or studies carried out under the Readiness Preparation Activities and frameworks prepared on the basis of the SESA are consistent with the World Bank's Safeguards Policies, as well as the Recipient's own laws relating to the environmental and social aspects; and

(d) any regulations drafted by the Recipient under the Readiness Preparation Activities shall be consistent with said Safeguard Policies and laws.

2.05. ***Readiness Preparation Activities, Monitoring, Reporting and Evaluation.*** (a) The Recipient shall monitor and evaluate the progress of the Readiness Preparation Activities and prepare Readiness Preparation Activities Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators acceptable to the World Bank. Each

Readiness Preparation Activities Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than forty-five (45) days after the end of the period covered by such report.

(b) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than four (4) months after the Closing Date.

2.06. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Readiness Preparation Activities are prepared and furnished to the World Bank not later than forty-five days (45) after the end of each calendar semester, covering the semester, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements for the Project audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than (6) six months after the end of such period.

2.07. **Procurement.** All goods, non-consulting services and consulting services required for the Readiness Preparation Activities and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in the “World Bank Procurement Regulations for IPF Borrowers” dated July 2016, as revised on November 2017 (“Procurement Regulations”), and the provisions of the Recipient’s procurement plan for the Readiness Preparation Activities (“Procurement Plan”) dated November 13, 2017 provided for under Section IV of the Procurement Regulations, as the same may be updated from time to time in agreement with the World Bank.

Article III Withdrawal of Grant Proceeds

3.01. **Eligible Expenditures.** (a) The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (i) Article III of the Standard Conditions; (ii) this Section; and (iii) such additional instructions as the World Bank may specify by notice to the Recipient (including the “Disbursement Guidelines for Investment Project Financing”, dated February 2017, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance 100% Eligible Expenditures consisting of goods, non-consulting services, consulting services, Training and Workshops, and Operating Costs, inclusive of Taxes.

(b) For purposes of Section 3.01, the term: (i) “Training and Workshops” means the costs associated with training and workshop participation of personnel involved in the implementation of the Readiness Preparation Activities including travel and subsistence costs for training and speakers, rental of training and workshop facilities, preparation and reproduction of training and workshop materials, and other costs related to training courses and workshops preparation and implementation; and (ii) “Operating Costs” means operating costs incurred on account of the implementation of the Readiness Preparation Activities, including office supplies and consumables, utilities, communications, mass media and printing services, vehicle rental, operation and maintenance, charges for the opening and operation of the bank accounts required

for the Readiness Preparation Activities, and travel, lodging and *per diems*, but excluding salaries of officials of the Recipient's civil service.

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of this Agreement.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is June 30, 2020.

Article IV Effectiveness

4.01. **Effectiveness.** This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the Operations Manual has been updated in a manner acceptable to the World Bank.

Article V Recipient's Representative; Addresses

5.01. **Recipient's Representative.** The Recipient's Representative referred to in Section 7.02 of the Standard Conditions is its Minister of Finance and Public Credit.

5.02. **Recipient's Address.** The Recipient's Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of Finance and Public Credit
Frente al Edificio de la Asamblea Nacional
Managua, Republic of Nicaragua

Telephone:
+505-22227231

4.03. **World Bank's Address.** The World Bank's Address referred to in Section 7.01 of the Standard Conditions is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Telex:	Facsimile:
248423 (MCI) or 64145 (MCI)	1-202-477-6391