

**PROJECT INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

Report No.: PIDA2367

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<b>Project Name</b>	NI Sustainable Rural Water Supply and Sanitation Sector (P147006)
<b>Region</b>	LATIN AMERICA AND CARIBBEAN
<b>Country</b>	Nicaragua
<b>Sector(s)</b>	Water supply (40%), General water, sanitation and flood protection sector (30%), Sanitation (30%)
<b>Theme(s)</b>	Other public sector governance (20%), Rural services and infrastructure (40%), Rural policies and institutions (40%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P147006
<b>Borrower(s)</b>	Government of Nicaragua, Ministry of Finance and Public Credit (MHCP)
<b>Implementing Agency</b>	Emergency Social Investment Fund (FISE)
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared/Updated</b>	02-Jan-2014
<b>Date PID Approved/Disclosed</b>	02-Jan-2014
<b>Estimated Date of Appraisal Completion</b>	18-Dec-2013
<b>Estimated Date of Board Approval</b>	17-Mar-2014
<b>Decision</b>	The chair authorized the team to declare the Project appraised by upgrading the pre-appraisal mission to appraisal mission.

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**I. Project Context**

**Country Context**

Poverty has declined in Nicaragua in recent years and Nicaragua is one of Latin America's outliers on shared prosperity; nevertheless, it remains one of the poorest countries in the region. The country has sustained an annual growth of roughly 3.2% of GDP over the past years, but its Gross National Income per capita was only US\$1,650 in 2012 . Approximately 42.5% of the country's 5.9 million inhabitants still live below the poverty line and 14.6% live in extreme poverty . During 2005-09, income for the bottom 40% grew at 4.8% per year -almost five times as fast as income for the population as a whole (1.02%), surpassing regional performance for Latin America and the Caribbean and for Central America . However, challenges remain on poverty reduction and shared prosperity given that most of the poor live in rural areas (43%), where poverty is particularly high , and many in remote communities where access to basic services is constrained by limited infrastructure. Indigenous peoples, at 5% of the total population, have historically experienced economic deprivation and social exclusion.

## **Sectoral and institutional Context**

Nicaragua still has important coverage gaps in water and sanitation services, particularly in poor rural areas. Nationally, Nicaragua had 85% of improved water coverage and 52% of improved sanitation in 2011, up from 80% and 48% respectively in 2000 . It is thus likely that Nicaragua will achieve the targets for water (87%), but not sanitation (72%). There is a large disparity between access in urban and rural areas, both for water (98% urban compared to 68% rural) and for sanitation (63% urban but only 37% rural). Within the country's departments, the Atlantic Coast (RAAN, RAAS regions, and Alto Wangki y Bokay) have the lowest coverage levels. There are also important disparities in access by income level. The economic costs of poor water and sanitation in 2009 were estimated at US\$95 million (1.5% of GDP) and preliminary projections carried out by the Republic of Nicaragua (RoN) suggest that the total investment needed to achieve a 20 percentage point increase in coverage levels for both rural water supply and for sanitation (WSS) may be in the order of US\$300 million .

In addition to coverage challenges, one of the central issues facing the sub-sector is the quality of the service provided and the medium and long term sustainability of rural WSS systems. Rural WSS systems in Nicaragua are managed by volunteer water boards elected at the community level (Comités de Agua Potable y Saneamiento, CAPS). This arrangement is fragile, especially as the CAPS and their WSS systems have traditionally received very precarious technical and social post-construction support from municipal or national authorities. This jeopardizes the sustainability and functionality of these systems, generating premature need for reconstruction. Data compiled in 2013 by Nicaragua's Social Investment Fund (Fondo de Inversión Social de Emergencia, FISE) reveals that only 48% of CAPS report monthly income greater than costs; only 29% of them receive technical assistance; and only 64% of communities with operational WSS systems receive above 16 hours of water service a day . Although Bank support has made headway on improving sustainability of rural WSS systems, there is still a need to better organize the sector, by strengthening the CAPS' support structure at municipal, regional and national levels and by building capacity at national level to lead sector policy.

In view of these challenges, the RoN has made sustainable rural WSS service provision a national priority and has appointed FISE to lead this effort. The increase of WSS access, associated with more sustainable and higher quality services, is one of the pillars of Nicaragua's 2012-2016 National Plan for Human Development and an essential element of the World Bank Group's Country Partnership Strategy (CPS) 2013-2017 .In 2013, the RoN developed a national plan to this effect ("Programa Integral Sectorial de Agua y Saneamiento Humano", PISASH) and officially confirmed FISE as the institution in charge of the rural WSS sector at national level. Although this decision has yet to be fully operationalized in terms of funds and staffing, FISE has a recognized role at the head of the sector, and is supported in this capacity by a valid legal mandate and by technical capacity developed through its experience as implementing agency of Bank-financed rural WSS projects. Nevertheless, FISE still requires specialized technical assistance to fulfill its role, and has requested the Bank's support to help it tackle the challenges identified in the PISASH. In response, the Bank has structured a package of technical assistance for the sector , running parallel to the proposed operation to inform its preparation and implementation, which includes development of the PISASH's rural component, an evaluation of the sector's performance using the Monitoring Country Progress in Rural Water and Sanitation (MAPAS) methodology, and other activities.

Other institutions are involved in the country's water sector, with which FISE must coordinate in its role as the Government agency in charge of rural WSS. These include the national water utility ENACAL (in charge of urban WSS), the WSS regulator (INAA), the recently-created National Water Agency (ANA), which has the mandate of protecting and managing the country's water resources, and the Ministry of Environment. Additionally, many NGOs and faith-based organizations are active in the rural WSS sector. One of FISE's objectives under the PISASH is to harmonize these actors' work in the sector.

The World Bank is the largest donor in Nicaragua's rural WSS sector, and has established itself as the RoN's leading partner in rural WSS. It currently finances the Rural WSS Project (PRASNICA, P106283), a US\$20 million IDA grant/credit for expanding WSS access in rural areas (launched in 2008), and an Additional Financing of US\$6 million (launched in early 2013). PRASNICA is implemented by FISE, with some activities also carried out by sub-national entities or communities. The Bank (through the Special Climate Change Fund) also finances the Adaptation of Nicaragua's Water Supplies to Climate Change Project (PACCAS, P127088). The other main donors in the rural WSS sector, active on a much smaller scale, are the Swiss Agency for Development and Cooperation and (until recently) UNICEF. The Bank coordinates closely with the sector's other donors to align implementation approaches.

PRASNICA has had a strong influence on the way rural WSS projects are implemented in Nicaragua. PRASNICA dedicates most of its funds to increase "sustainable" coverage, not only expanding access to WSS services, but ensuring that these are provided in a sustainable way. This includes providing adequate infrastructure, with technical solutions and level of service tailored to the context of each community. During PRASNICA's preparation, the rural WSS sector was characterized by conflicting intervention models, depending on the donor; and by an institutional framework in transition with overlapping responsibilities within national, regional and local Government institutions. PRASNICA has attempted to address these challenges. To date, PRASNICA has benefited 20,000 people with sustainable access to water and 21,000 people with access to improved sanitation. Institutional achievements include (i) development of a participatory project cycle with community involvement and strict financing policies defined in the Manual for WSS Projects Implementation (MEPAS) that guides intervention criteria and the project cycle for rural WSS, adopted by multiple donors, (ii) creation of a WSS sectoral bureau within FISE, (iii) a 100% increase (from 24% at baseline to 48% currently) in the numbers of CAPS in Project municipalities working in a sustainable way ; and (iv) support to the country's rural WSS institutional structure ('sustainability chain'). This sustainability chain is a support structure that links all rural WSS institutional levels, from FISE within the central Government (responsible for coordination of the sector, policymaking, financing and planning) to regional sector advisors (decentralized FISE staff that oversee the sector's needs at departmental level) to municipal/territorial WSS units (UMAS, in charge of providing technical assistance to CAPS within their municipality) and to the CAPS in each community (in charge of operating and maintaining the rural WSS systems). FISE's interaction with the other levels of the sustainability chain, in addition to providing financing for rural WSS systems, consists of providing training and guidance to UMAS, and supporting them in their role of assisting communities. The proposed Project would strengthen these arrangements by providing capacity building at each level of this chain, encouraging skills transfer to the local level, and helping FISE develop its leadership and coordination roles.

However, the rural WSS sector still requires further consolidation, which the Project aims to

achieve. With the Bank's assistance, the RoN and the donor community have developed a common intervention strategy for the sector, centered on the provision of sustainable WSS access. Nevertheless, creating a sustainable sector - in which institutional roles are clearly defined and integrated at all levels, and jointly contribute to the provision of lasting, high quality WSS services - still requires a concerted effort and substantial resources. Further consolidation of the institutional framework is needed, including an analysis of the optimal allocation of roles between actors at different stages of the project cycle, and improving FISE's structure to enable it to take on its new responsibility at the head of the sector. Therefore, the scope of the Project goes beyond the implementation of works, and seeks to improve the sustainability of the rural WSS sector as a whole - with the objective of providing more people in Nicaragua quality access to WSS services that are affordable, tailored to their context, and lasting.

## II. Proposed Development Objectives

The Project Development Objectives (PDOs) are: (a) to increase the access to sustainable WSS services in selected poor rural areas of Nicaragua through the consolidation of rural WSS sector institutions and the provision of adequate infrastructure; and (b) to improve Nicaragua's capacity to respond promptly and effectively to an eligible emergency.

## III. Project Description

### Component Name

Component 1: Strengthening the Rural Water Supply and Sanitation Sector

### Comments (optional)

This component would strengthen the rural WSS sector through institutional support to the national rural WSS agency and by building capacity to plan and manage WSS at municipal and community level.

### Component Name

Component 2: Increase Sustainable Water Supply and Sanitation Coverage in Rural Areas

### Comments (optional)

This component would increase sustainable WSS coverage, especially in municipalities with lowest coverage and highest extreme poverty, in both Atlantic and Pacific areas of the country.

### Component Name

Component 3: Innovations in Rural Water, Sanitation and Hygiene

### Comments (optional)

This component would undertake pilot projects to test new methodologies that enhance the sustainability of rural WSS investments in an innovative way.

### Component Name

Component 4: Immediate Response Mechanism (IRM) contingency

### Comments (optional)

This component would provide immediate response to an Eligible Emergency, as needed.

## IV. Financing (in USD Million)

Total Project Cost:	32.00	Total Bank Financing:	30.00
Financing Gap:	0.00		
<b>For Loans/Credits/Others</b>			<b>Amount</b>

BORROWER/RECIPIENT	2.00
International Development Association (IDA)	14.30
IDA Grant	15.70
Total	32.00

## V. Implementation

In Nicaragua, the sole governmental body in charge of investments and management of the rural WSS sector at the national level is FISE. FISE is the recognized agency in charge of the sector, and is supported in this capacity by several presidential decrees and by technical capacity developed through experience as implementing agency of the PRASNICA. FISE has performed satisfactorily as the rural WSS agency for the past decade, and has helped to strengthen municipal WSS units throughout the country. FISE will be the implementing agency for the proposed Project and will have sole responsibility for implementation of Component 1 (institutional strengthening). Although FISE will carry out this component with assistance and participation from WSS Sector support institutions, those institutions will not have fiduciary or implementation responsibilities, as this component will be implemented directly by FISE. Component 3 (pilot projects) will also be implemented directly by FISE, in coordination with eligible municipalities and WSS sector institutions, as applicable. However, depending on the nature of the pilot subproject, FISE may delegate implementation responsibilities (including financial management and / or procurement) to participating municipalities for certain activities.

Implementation arrangements for Component 2 (physical investments) aim at keeping a participatory project cycle and building local capacity. In Component 2, contracting and execution of works continue to be delegated to the municipalities, while the preparation of technical studies, engineering designs and social work will be led by FISE's Direction of Operations (due to its higher technical capacity), and developed in close coordination with municipalities to build local capacity and ownership. In some cases, municipalities may delegate works to the communities, through *Proyectos guiados por la comunidad* (PGCs - CDD methodology). Component 2 works will be implemented through transfers from FISE to the municipalities, and in some cases, from the municipalities to the communities. This will be regulated through *convenios* (agreements) and the funds will be provided through non-reimbursable grants. Although municipalities may be in charge of certain procurement and financial management of activities at WSS sub-projects level, the overall fiduciary responsibility of the Project lies with FISE. In the case of Alto Wangki y Bokay, considering the special structure of this zone (where there are no municipal Governments), implementation will be centralized in FISE for Component 2. In all cases, communities will play an active role throughout the project cycle, making decisions on service level and technical options, participating in construction, and managing completed systems. For sub-component 2.3 (alliances for sanitation), implementation will be centralized in FISE, which will work in coordination with the eligible municipalities and WSS institutions as applicable.

In the case of interventions in the RAAS, RAAN and Alto Wangki y Bokay areas, the Project will rely on Project Committees to decide on the selection of communities and implementation principles for activities. Each Project Committee (one for RAAS, one for RAAN and one for Alto Wangki y Bokay) is made up of representatives of the regional Governments, territorial Governments, municipalities and FISE.

Due to the particular relevance of the woman's role in rural WSS services, the Project will adopt a solid gender mainstreaming approach in its design, implementation and monitoring. This will occur through three dimensions: (i) assessment: gender-related questions and gender-focal groups were included in the social assessment carried out in Project preparation; (ii) actions: women's needs will be prioritized in the selection of technical options for WSS and in training opportunities, and also by promoting female participation in CAPS; (iii) monitoring: the Project includes two indicators related to the participation of women in community water boards, and one indicator on total number of female Project beneficiaries. The Project's impact evaluation will also include a gender-related focus.

## VI. Safeguard Policies (including public consultation)

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04	x	
Forests OP/BP 4.36	x	
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11	x	
Indigenous Peoples OP/BP 4.10	x	
Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50	x	
Projects in Disputed Areas OP/BP 7.60		x

**Comments (optional)**

## VII. Contact point

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