

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

Report No.: AB7180

Project Name	Nicaragua Rural Water Supply and Sanitation Project – Additional Financing
Region	LATIN AMERICA AND CARIBBEAN
Country	Nicaragua
Sector	Water supply (50%); Sanitation (50%)
Lending Instrument	Specific Investment Loan
Project ID	P103102
Parent Project ID	P106283
Borrower(s)	GOVERNMENT OF NICARAGUA
Implementing Agency	Emergency Social Investment Fund (FISE) Altamira D'Este Contiguo a la Clinica Tiscapa Managua, Nicaragua
Environmental Screening Category	{ }A { X }B { }C { }FI
Date PID Prepared	11/14/2012
Estimated Date of Appraisal Completion	10/1/2012
Estimated Date of Board Approval	01/22/2013
Decision	Project authorized to proceed to negotiations upon agreement on any pending conditions and/or assessments.

I. Country Context

Nicaragua remains the second poorest country in Latin America after Haiti. Although economic gains have reduced the scale and severity of poverty in Nicaragua, the poverty rate is still high with 42 percent of the population living below the poverty line and one out of every five Nicaraguans living in extreme poverty as of 2011¹.

Nicaragua has 189 urban localities with population of 2,000 to 1 million inhabitants and approximately 7,500 dispersed rural communities. Of the 189 urban localities there are 105 localities each with a population of less than 5,000, which are considered small towns. Nicaragua has three main geographic areas: (a) the Pacific coast, (b) the Central area, and (c) the Atlantic coast, which present large disparities across regions. Poverty levels are higher in the Atlantic coast—formed by the autonomous governments of the North Atlantic Region (RAAN) and South Atlantic Region (RAAS)—which is home to most of the country's indigenous population.

II. Sectoral and Institutional Context

Nicaragua will likely achieve its MDGs in access to improved water sources; however, this gain belies continuing challenges, including frequent water rationing, high system losses, lack of

¹ World Bank Group's Country Partnership Strategy 2013–2017, DRAFT (Report No. 39637-NI).

domestic metering, low collection rates, and poor water quality, especially in rural areas.² The situation is worse for access to improved sanitation: despite having made progress in this area in recent years, Nicaragua is still likely to fall short of the 2015 target. Furthermore, as outlined by the World Bank Group's Country Partnership Strategy 2013-2017 (Report No. 39637-NI, discussed by the Executive Directors on November 13, 2012), great disparities exist between urban and rural areas in access to both water (98% urban coverage versus 68% rural) and sanitation (63% urban coverage versus only 37% rural).

In view of these challenges and the need to achieve the MDGs on health and environmental sustainability, the Government of Nicaragua (GoN) has defined the increase of Nicaragua's water supply and sanitation access, associated with better service quality, as one of the pillars of the country's 2008-2012 National Development Plan and as an essential element of the World Bank Group's Country Partnership Strategy (CPS) 2008-2012 (Report No. 39637-NI, discussed by the Executive Directors on October 11, 2007). Moreover, one of the two pillars of the World Bank Group's Country Partnership Strategy 2013-2017 (Report No. 39637-NI, discussed by the Executive Directors on November 13, 2012) is enhancing social welfare by improving access to quality basic services, in particular by poor rural households. The 2013-2017 CPS aims to concentrate new IDA financing in rural water and sanitation, amongst other areas. The activities under the PRASNICA and the proposed Additional Financing are fully aligned with both CPSs and stand to especially benefit women, children, and the poor in the most vulnerable areas of Nicaragua, who are disproportionately affected by the health and time costs of unimproved water provision and lack of safe sanitation. In the water sector, the Bank has a leading role and has been providing regular policy advice to the Government. The Bank is expected to continue to provide policy advice and to assist mobilization of additional financial resources for the rural sector, in order to reduce the current gaps.

III. Project Development Objectives

The Project Development Objective for the Additional Financing remains the same as in the parent Project, the Nicaragua Rural Water Supply and Sanitation Project (PRASNICA). PRASNICA consists of an SDR 12 million (approx. US\$19.7 million equivalent) Grant and an SDR 0.2 million (approx. US\$0.3 million equivalent) Credit, both approved on June 12, 2008 to the Republic of Nicaragua. The Project's development objective is to increase access by Project beneficiaries to sustainable³ water and sanitation services in rural⁴ areas.

The Additional Financing comes as a result of a request from the Borrower dated May 9, 2012, and further discussions between the Bank, national officials, and other donors. The proposed activities are fully consistent with the Project's development objective (which remains unchanged), and would serve to maximize the impact of investments and implementation structures already in place. Furthermore, they would allow the Project to complete its originally planned activities and most of its beneficiary targets in traditionally vulnerable and under-served

² World Bank Group's Country Partnership Strategy 2008-2012 (Report No. 39637-NI).

³ The concept of sustainable access goes beyond the mere provision of physical infrastructure and includes a series of dimensions capturing the sustainability of such service provision, as defined by Annex 1 of the Additional Financing Project Paper.

⁴ Rural areas in the context of the water and sanitation sector in Nicaragua are defined as dispersed communities and small towns with less than 5,000 inhabitants that are not served by ENACAL.

areas, particularly afro-descendant and indigenous communities in RAAN, RAAS and Alto-Coco and Bocay. The proposed activities are expected to be completed in the Project's original timeframe.

IV. Project Description

The parent Project's components are⁵: (i) Component 1: Coverage increases in rural areas (US\$10 million), which supports municipalities in increasing coverage of WSS services through investments and social and technical assistance to communities, including through a majority of community-driven development (CDD) projects; (ii) Component 2: Coverage increases in the South and North Autonomous Atlantic Regions (US\$5 million), which pursues the same goals as Component 1 but focuses on the RAAS (Región Autónoma Atlántico Sur), RAAN (Región Autónoma Atlántico Norte), and Alto-Coco and Bocay area, with a subproject cycle tailored to fit local government structures; (iii) Component 3: Pilot Projects (US\$3 million), which develops "market niches" that have not been properly catered for in the rural WSS sector; and (iv) Component 4: Institutional Strengthening and Project Management (US\$2 million), which finances activities aimed at ensuring the sustainability of the rural WSS sector, and Project management and monitoring.

PRASNICA is the flagship rural WSS program in the country. It has established an efficient implementation structure for investments in the sector, which should be capitalized upon by scaled-up activities in areas where implementation has been most successful to date. On the other hand, a shortage of funds emerged during the course of implementation, resulting from underestimation of original costs at appraisal. As implementation has progressed, the technical and social assistance firms contracted by the Project have carried out updated analyses of the demand for WSS services and of the current levels of service, and have elaborated detailed engineering designs. This work revealed real costs to be approximately 25% higher than originally estimated. The cost increase can also be partially explained by an increase in construction costs during this period. Institutional strengthening activities under Component 4 also consumed more funds than originally expected, due to the need to develop and implement institutional WSS sector arrangements linking FISE to network of regional, local and community-level WSS actors (including municipal units and community boards), all with institutional strengthening needs.

The rationale for Project implementation encouraged activities to begin in the Pacific region before moving to the Atlantic; the cost overruns caused Component 1 to consume more resources than expected, thus affecting activities of Components 2, which was at a later implementation stage. Consequently, it is proposed that the Additional Financing scale up activities for which targets are on track (Components 1, 3 and 4), and finance the cost overruns affecting Component 2, in order to ensure the completion of all original Project activities and the achievement of almost all originally set out indicators and targets.

As the parent Project, the Additional Financing includes investments in the four components described above:

Component 1. The Additional Financing will scale up existing PRASNICA activities in the Pacific region.

⁵ Figures presented in this paragraph include IDA funds only.

Component 2. The Additional Financing will cover technical cost overruns in order to complete planned PRASNICA activities in these areas.

Component 3. The Additional Financing will scale up the PRASNICA’s Corn Island integrated sustainable development pilot project.

Component 4. The Additional Financing will scale up existing PRASNICA institutional strengthening activities.

V. Financing

	(\$m.)
Source:	
Borrower/Recipient	
IBRD	
IDA	6
Others (municipalities co-financing)	0.39
	Total 6.39

VI. Implementation

The Implementation and Fiduciary arrangement for the PRASNICA parent project will be maintained for the Additional Financing. The Project’s main implementing agency is the Emergency Social Investment Fund (FISE), which receives Project funds and has overall coordination, technical and fiduciary responsibility for the Project. FISE has a legal mandate of building rural water and sanitation systems in the country, although it is not formally the agency responsible for the rural water and sanitation sector. FISE works closely with the Project municipalities, which are responsible for contracting and implementing local interventions with the support of FISE’s local staff. Many projects apply a community driven-development methodology, named “*Proyectos guiados por la comunidad*” (PGC), whereby implementation and maintenance of works is carried out by local water and sanitation committees.

Implementation is expected to progress speedily once the Additional Financing is effective, given the simple technical nature of the proposed activities and FISE’s familiarity with the implementation arrangements.

VII. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP 4.01)	X	
Natural Habitats (OP/BP 4.04)		X
Pest Management (OP 4.09)		X
Physical Cultural Resources (OP/BP 4.11)	X	
Involuntary Resettlement (OP/BP 4.12)		X
Indigenous Peoples (OP/BP 4.10)	X	
Forests (OP/BP 4.36)		X
Safety of Dams (OP/BP 4.37)		X

Projects in Disputed Areas (OP/BP 7.60) [*]		X
Projects on International Waterways (OP/BP 7.50)	X	

VIII. Contact point at World Bank and Borrower

World Bank

Contact: Ms Lilian Pena P. Weiss / Mr. David Michaud
 Title: Water and Sanitation Specialist / Senior Water and Sanitation Specialist
 Tel: 202 473-7048 / 202 473-7339
 Email: lpereira1@worldbank.org / dmichaud@worldbank.org

Borrower/Client/Recipient

Contact: Ivan Acosta
 Title: Minister, Ministry of Hacienda and Public Credit
 Tel: 505- 2222-7061
 Email: ivan.acosta@mhcp.gob.ni

Implementing Agencies

Contact: Alberto Jarquín
 Title: Director of Institutional Development Division, FISE
 Tel: 505-278-1664
 Email: AJarquin@fise.gob.ni

IX. For more information contact:

The InfoShop
 The World Bank
 1818 H Street, NW
 Washington, D.C. 20433
 Telephone: (202) 458-4500
 Fax: (202) 522-1500
 Web: <http://www.worldbank.org/infoshop>

^{*} By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas