1. Country and Sector Background
Nicaragua, with 5.5 million inhabitants, is the second-poorest country in Latin America and the Caribbean with an estimated per capita income of US$957 in 2006. About 45 percent of the population is considered poor and 15 percent extremely poor. In rural areas, home to 41 percent of total population, poverty dropped substantially from 76 percent in 1993 to 69 percent in 1998. Today, as can be expected, poverty remains greater in rural areas, where about 64 percent of the population is poor and 25 percent extremely poor.

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.
Nicaragua’s rural\(^1\) water and sanitation sector is characterized by (a) low coverage levels; (b) an institutional framework in transition that leads to overlapping responsibilities both within institutions at the national government and among different levels of government; (c) coexistence of conflicting models for rural water and sanitation interventions and financing, depending on the donor source; and (d) lack of adequate technologies to respond to the demands from the different market segments in the rural areas.

- **Low coverage.** In 2004, according to the World Health Organization/United Nations Children’s Fund’s (WHO/UNICEF’s) Joint Monitoring Program (JMP), overall (piped and non-piped) water supply coverage stood at 90 percent in urban and 63 percent in rural areas while sanitation coverage reached 56 percent of urban and 34 percent of rural households. According to the 2005 Census, however, rural sanitation coverage was as high as 70 percent. The difference can be largely explained by the fact that the JMP definition takes into account only improved latrines with a complete structure and that are in service, while the Census also counts abandoned or traditional latrines. Although no dependable data exist for the autonomous regions of RAAN and RAAS, coverage for both rural water and sanitation services is the lowest in the country, with recent estimates based on the Census. Appropriate correction factors place rural water coverage below 20 percent and sanitation coverage below 30 percent\(^2\) in those two regions.

- **Institutional framework in transition.** Until recently, the water and sanitation sector was defined by the 1998 Water and Sanitation Services Law and the laws that created the institutions of the sector. A new Water Law was passed in 2007 and is being implemented.\(^3\) However, its implication for institutional responsibilities is not yet clear. There are currently three main public sector institutions: (a) the *Comisión Nacional de Agua Potable y Alcantarillado Sanitario* (National Water and Sanitation Commission, CONAPAS), the governing entity (*ente rector*) led by a committee chaired by the Presidency Secretariat. Theoretically, CONAPAS has the responsibility for strategic planning for the sector; (b) the Nicaraguan Water and Sewerage Institute (INAA) is the water regulatory agency responsible for regulating tariffs, promoting efficient and adequate service quality, and for defending the users from monopolistic abuse of service providers; and (c) the Nicaraguan Water and Sewerage Enterprise (ENACAL) is the national service provider and de facto strongest institution of the sector. It manages almost all the urban water systems in the country and, according to the 2007 Water Law’s regulation, is also responsible for supervision and control of service provision in rural areas. Water and sanitation services in rural areas are managed by small water user committees called *Comités de Agua Potable y Saneamiento* (Water and Sanitation Committees, CAPS), which, however, often are not formed as legal entities. The actual works are usually contracted by municipalities, with financing from and under the

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\(^1\) This document uses the term rural in the context of water and sanitation services to describe settlements below 5,000 inhabitants and not served by the National Urban Water Utility (ENACAL) in a range of situations extending from small towns to dispersed or agglomerated communities.

\(^2\) *Cobertura de Agua Potable y Saneamiento en Nicaragua en 2005*, WSP-BM, Managua, February 2008. This study uses the Census jointly with a limited household survey to establish corrective factors translating census data into JMP-equivalent coverage numbers, assuming among other things a certain proportion of latrines as dysfunctional.

\(^3\) The law is meant as a water resources management instrument but actually covers a number of water supply and sanitation aspects as well.
fiduciary and technical oversight of the Emergency Social Investment Fund (Fondo de Inversión Social de Emergencia, FISE). FISE, which is not a formal water and sanitation sector agency, also currently provides assistance to municipalities responsible for providing post-construction support to CAPS, although the consequences of the new water law on this activity are unclear. A strategy for the entire sector is under preparation by ENACAL—rather than CONAPAS—and should shed some lights on the institutional roles in the rural sector.

- **Conflicting models for rural water and sanitation interventions and financing.** Since 2004, FISE has been the only national investment vehicle for rural Water Supply and Sanitation (WSS) projects. It is currently implementing WSS projects financed by the German Development Bank (KfW), the Inter-American Development Bank (IDB), the Swiss Development Agency (COSUDE), and the Canadian International Development Agency (CIDA). Although the project cycle has been harmonized among donors—with FISE using one single Operations Manual for all of its rural WSS interventions—FISE uses different mechanisms for selecting its interventions, with different co-financing requirements from the municipalities for each donor, which creates tensions among municipalities.

- **Standardized approach that does not respond to the demands from the different market segments in the rural area.** Despite the broad spectrum of rural population, (from dispersed population living in small, remote communities to denser small towns of up to 5,000 inhabitants), FISE applies the same project cycle and the same set of technical options and management models. There is only limited scope to incorporate local conditions. As a result, FISE projects may promote sanitation options that do not necessarily correspond to what beneficiaries are able and willing to pay, that is, simplified sewerage systems for small towns and flush latrines for communities with access to water services instead of regular latrines, resulting in systems that are abandoned after a short time. The same is true for the management model offered. FISE is geared toward supporting the creation of or strengthening of CAPS even though, in many cases, other models such as small cooperatives or municipal utilities may exist or might be better suited to serve larger, denser small towns, and might be more sustainable over time.

2. Objectives
The Nicaragua Rural Water and Sanitation Project supports the following strategic objectives of the Bank’s Country Partnership Strategy (CPS) for Nicaragua (FY08–12): (a) infrastructure and sustainable development, and (b) human capital development—improving social equity and opportunity. This project also responds directly to the government’s development objectives, as improvements in water and sanitation have been explicitly outlined in the National Development Plan (PND). The Sectoral Strategy Area III of the PND—Infrastructure and Sustainable Development—aims to increase coverage and quality of infrastructure to support economic growth and attain the MDGs. The plan outlines the government’s intention to promote the sustainability of water and sanitation infrastructure and service expansion in rural areas through

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4 The large discrepancy between Census and JMP data on sanitation is mostly explained by the large number of abandoned latrines that attest to this problem.
community participation and education, and the coordination of agencies such as FISE and the municipalities.

Beyond the Bank’s CPS and the government’s PND and alignment with the Poverty Reduction Strategy Paper, the proposed project also supports progress toward the drinking water and sanitation targets contained in MDG No. 7, “Ensure Environmental Sustainability.” Because of its geographic scope targeting rural and indigenous areas, the project is expected to have a strong de facto poverty focus. Improving access to water services also has a much stronger impact on women and children because they traditionally are tasked with fetching water from and washing clothes and children in far-located water sources.

The Project Development Objective is to increase access by project beneficiaries to sustainable water and sanitation services in rural areas.

3. Rationale for Bank Involvement

The World Bank has been asked to take a leading role in supporting the Government of Nicaragua (GoN) to coordinate donor support in the sector. From its extensive lending in Latin America and other regions, the Bank has wide experience in increasing the poor’s access to water and sanitation services and in improving sustainability of service provision in rural areas. This experience allows the Bank—as a relative newcomer to the sector—to offer a fresh yet well-articulated menu of technical assistance to the GoN. Capitalizing on this expertise, the Ministry of Finance and Public Credit has asked the World Bank to take a leadership role in the sector through three new water projects and a more active policy support role. Specifically, it hopes that the World Bank will be able to assist the government in leveraging additional support from other donors, coordinating investments, and helping to reestablish a working roundtable on water. The 2008–12 Country Partnership Strategy (CPS)—which, at the GoN’s request, plans for three water and sanitation projects—confirms the World Bank’s intention to lead donor involvement in this sector, while ceding leadership to other donors in sectors such as energy, environment, and agriculture. The Bank, which has been consulting widely during the project preparation, intends to fulfill this role by working at two levels. At a project level, the Bank team will promote a consistent sector vision throughout its lending operations and include – in the project’s results framework – a few indicators that monitor the entire sector rather than only the project. At a higher level, the Bank will promote – through its on-going participation in the sector table – the organization of regular informal donor meetings to improve donor alignment in the sector and create a space for policy discussion with the government.

The World Bank’s involvement will complement the work of other donors. A number of donors including the IDB, the KfW, the European Union and, to a lesser degree, COSUDE and UNICEF, are involved in rural water and sanitation in Nicaragua. The number of donors working in Nicaragua’s water sector—as in many International Development Association (IDA) countries—makes it important that the work of those donors be coordinated. The Bank has

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5 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 the CAPS scorecard presented in Annex 3.

6 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.
established and will sustain close consultations with other donors to coordinate regional coverage and scope such that projects will complement each other without overlapping.

**Sector needs vastly exceed available funding.** The sector strategy 2005–15, which was published by the previous administration but retains its relevance in terms of sector needs, estimated that US$400 million was necessary to reach the Millennium Development Goals (MDGs) in terms of rural WSS coverage. This translates into yearly investments of US$40 million compared with a current investment level of US$10 million to US$15 million. This project is therefore a limited, but cost-effective contribution to a larger problem. In absolute terms, the target population is significant and the project will generate major economic benefits. Finally, through this project, it is expected that investment practices in the rural WSS sector can be improved and the sustainability of the sector’s investment be increased.

In addition, as a newcomer to the sector with a vast experience and institutional capacity on rural water and sanitation projects, the Bank is well positioned to provide support to FISE, the agency in charge of rural WSS investment, to assist it in harmonizing its project policies across donor agencies. IDB and KfW have a joint US$40 million rural investment project implemented by FISE, of which approximately 35 percent of the funds go to the rural water and sanitation sector. There are currently discussions about revisiting the eligibility criteria used, a “project auction” modality.7 Bank involvement, in close consultation with the other donors, will provide an excellent opportunity to strengthen the institution and reduce the burden of uncoordinated donor policies on FISE by moving toward a more uniform rural water and sanitation policy.

4. Description
The proposed credit in the amount of US$20 million is designed as a Specific Investment Loan (SIL), combining investment and technical assistance financing. This will be the first project to be financed by the Bank after a long absence from the water and sanitation sector in Nicaragua. The project can be seen as a first step in the development of a Sector-Wide Approach (SWAp) for the rural water and sanitation subsector, because it aims at developing, a unified approach to the provision of services to the different segments of the rural water and sanitation market. Two additional water and sanitation sector operations are planned for Nicaragua in the current CPS. An urban operation with ENACAL for Managua and a follow-up of the proposed project to scale-up the results of this project will pave the way to the development of a harmonized SWAp for the sector.

The proposed operation would assist the Government of Nicaragua in strengthening its ongoing effort to increase access to water and sanitation services in rural areas of the country. Since a formal decision in 2004,8 the FISE has been the governmental body in charge of investments in rural water and sanitation solutions. FISE is currently implementing several donor-funded rural WSS projects, of which among others is a large, multisector rural investment project funded by IDB and KfW for which WSS represents a key sector, and several smaller projects financed by CIDA and COSUDE.

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7 This modality, by which municipalities compete for investment funding by offering a higher percentage of co-financing, is seen by FISE as nonequitable and contrary to the poverty reduction mission of the institution.
8 Prior to that date, the national water and sewer utility, ENACAL, was in charge of rural investments in WSS.
For this purpose, the operation would finance investment to increase access to water and sanitation services in the country’s rural areas (Component 1) and the country’s two autonomous regions on the Atlantic Coast, the Región Autónoma del Atlántico Sur (RAAS) and the Región Autónoma del Atlántico Norte (RAAN), together with the Alto Coco region, which have the lowest levels of coverage and large proportions of indigenous populations (Component 2). The project would also develop a series of pilots to test concepts new to the country (Component 3). Finally Component 4 will finance institutional strengthening and project management activities.

The following section provides further details on the project’s components and subcomponents, and Annex 4 provides a complete project description. Amounts show total component costs with credit proceeds in parentheses.

**Component 1: Coverage Increases in Rural Areas – Cost US$11.5 million (IDA US$10 million)**

Current rural water coverage is estimated to be 62 percent (63 percent according to JMP) and rural sanitation coverage 70 percent (34 percent according to JMP), with important regional variations. This component will support municipalities in increasing coverage of water and sanitation services in their rural territory through investments and technical assistance to communities.

Donor coordination is important in rural WSS projects because projects that use different rules and implementation mechanisms may compete against each other and decrease the commitment of communities to participate in the project execution—creating unnecessary tensions between institutions and donors. In addition, the use of a consistent intervention framework can decrease costs and speed up implementation. Therefore, the project will initially follow implementation rules similar to other donor-funded projects currently under implementation by FISE, with a few adjustments to reflect some of the issues identified during project preparation. FISE and the other rural WSS donors have indicated an interest in learning from the project’s progress and incorporating lessons learned in FISE’s Operations Manual during implementation. More details are provided in Annex 4.

This component would be implemented by FISE (overall management and contracting of social and technical support) in partnership with the municipal governments (contracting of the works).

**Component 2: Coverage Increases in the South and North Autonomous Atlantic Regions – Cost US$5.7 million (IDA US$ 5 million)**

In 1989, the Government of Nicaragua created two autonomous regions on the Atlantic Coast, the Región Autónoma del Atlántico Sur (RAAS) and the Región Autónoma del Atlántico Norte (RAAN), to respond to the local population’s demands for a right to preserve their culture and their natural resources. Over the past few years the GoN has given more autonomy to the RAAS and RAAN, which now have relatively strong regional governments (executive and legislative) that are elected locally. In addition, the area of Alto Coco, which is administratively part of the Jinotega department, but ethnically linked with the population of the RAAN, will also be included in this component.
Both regions have only limited access ways to the rest of the country, and boast important indigenous populations. Poverty levels and access to basic services are lower than in the rest of the country. A 2005 census estimated rural water coverage to be 62 percent at the national level but only 42 and 36 percent, respectively, in RAAN and RAAS. The same census estimated national sanitation coverage at 70 percent, with RAAN and RAAS trailing the list at 48 and 49 percent, respectively.\(^9\)

Component 2 would pursue the same goals as Component 1 but would focus on the RAAS and RAAS and on the Alto Coco area, with a subproject cycle that would make use of local government structure and be adapted to the cultural and economic conditions in these regions. Several donors are either preparing new projects in one or both regions (KfW, UNICEF, European Commission) or have ongoing projects (BID/KfW, COSUDE). Most existing donors work either through FISE and the municipalities, or directly with nongovernmental organizations (NGOs); there is no consistent engagement mechanism. This component would, however, be strongly coordinated with both regional governments and other donors in order to create a quasi-SWAp for rural investment in the regions.

FISE and the regional governments will set up a Comité de Proyecto that will decide on funds allocations and implementation principles, together with other donors and municipal governments. The key principles for the implementation of this component are:

- Strong participation of local governments (regional, territorial, and municipal) in selecting beneficiary communities and defining the subproject cycle’s details.
- Strong community participation in the subproject cycle including engagement of local NGOs with understanding of local culture and languages in the capacity-building process and hygiene promotion, and use of community execution for technically simple projects.
- Use of appropriate, low-cost technologies and service levels, given the difficulty of access, small size, and dispersion of the rural communities. Decentralized workshops for material and/or prefabricated elements will be considered in strategic locations. Lessons learned from former projects including decentralized services (SanPlat, bomba de mecate [rope pump]) will contribute to the pilot project implementation. Facilities for individual greywater reuse will also be tested.\(^10\)

In an initial phase, this component would be implemented by the local FISE branch (overall management and contracting of social and technical support) in partnership with the regional government (funds allocation) and municipal governments (contracting of the works). The regional government of the RAAN will contract the works for the Alto Coco area given the cultural and geographic disconnects between this area and its municipal capital. At midterm review, these arrangements may be reviewed in light of the experience, and a stronger role may be given to the regional governments. Experience gained in terms of use of technologies and

\(^9\) The 2005 Census data do not use the internationally agreed JMP definition for water and sanitation coverage. The WSP in February 2008 published a study proposing correction factors to adjust the census data to JMP definitions. According to this study, access numbers for RAAN and RAAS are around 19 percent for water and 30 percent for sanitation.

\(^10\) For instance, taking into consideration recent experience in the northern part of the country, where individual small sand trenches are located downstream of laundry/bathing areas.
social intervention mechanisms will be also evaluated in order to determine whether adjustments are needed.

**Component 3: Pilot Projects—Cost US$3.3 million (IDA US$3.0 million)**

Despite the long engagement of several donors in the water sector, there are certain “market niches” that have not been properly catered to, and for which no best practice model of intervention exists in Nicaragua. This component therefore seeks to develop a series of pilot projects—and the accompanying intervention strategies—making best use of the Bank’s international experience and successful models developed in other countries in the region. These pilot projects could serve as the basis for some larger-scale activities in the follow-up rural water and sanitation project planned for FY10, or be picked up by other donors. This component will include complementary activities to ensure that the pilots are evaluated, documented, and shared properly. The following paragraphs describe two possible pilots for which the analytical groundwork exists; the need for others may emerge during project implementation.

**Simplified sewers in dense, small towns.** The possibility of building condominial and/or small-bore systems in concentrated communities where soil conditions and urban structure do not facilitate individual sanitation, and where the population agrees to the principle of connecting to and paying for such a service, will be explored. There is at least one case of a condominial system built in a small town in Nicaragua, but this experience has not been properly documented. In parallel, and given the additional complexity that the management of a sewer system brings, those towns will participate in a pilot for appropriate management models (see below).

**Appropriate management models in small towns.** While ENACAL is in charge of most larger towns in the country, and those small communities that have water supply systems usually have CAPS to manage them, there is a gap in the 2,000-to-5,000-inhabitants range, where management models relying on elected, unpaid boards reach their limits, but the income generated is too small to warrant a full autonomous operator. A recent study by the Water and Sanitation Program (WSP)\textsuperscript{11} showed that systems in this range of municipalities are operated by CAPS, municipalities, ENACAL, or municipal or private companies. Anecdotal evidence from the study shows that service quality is limited in most, calling for a different way to manage the services. This Pilot would consist of supporting a few small towns in developing a suitable management model addressing the weaknesses of their current situation.

This component would be implemented by the FISE (overall management and contracting of social and technical support) in partnership with the municipal governments (definition of management model, contracting of the works); local civil society organization actors may be involved in the decision process.

**Component 4: Institutional Strengthening and Project Management – Cost US$2.6 million (IDA US$2.0 million)**

This Component will finance all activities aimed at ensuring the sustainability and proper implementation of the project. A first sub-component addresses

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Subcomponent 4A: Institutional Strengthening – Cost US$1.4 million (IDA US$1.0 million)

In 2004, the GoN decided to give sole responsibility for the rural water and sanitation sector to FISE. ENACAL, which had previously been very active in the rural sector, stopped providing post-construction technical assistance to the CAPS. FISE has since been relying on municipalities to provide this support to the CAPS and has conducted limited capacity-building activities. In addition, in the recent Water Law (2007) and the related bylaws, the overall responsibility to control and supervise the CAPS returns to ENACAL. There is no clarity on whether ENACAL will continue working through municipalities at least in those areas where it does not operate the urban municipal system, or intends to retake complete control of the technical assistance services to rural WSS operators. ENACAL is preparing a strategy that is expected to address this question.

Therefore, this subcomponent will finance the support and strengthening of the institutions working in the rural WSS sector—whether ENACAL or the municipalities—in order to ensure that the existing and new WSS systems and their CAPS are made more sustainable through the provision of technical assistance and specific support in the long term. This institutional strengthening may take the form of studies, purchase of vehicle and equipment, working environment improvements etc. In addition, this component will finance exchanges of experience with other countries, training, and consultancies in order to move toward a more unified sector policy (financing policy, social intervention, and community participation).

Subcomponent 4B: Project Management and Monitoring – Cost US$1.2 million (IDA US$1.0 million)

This sub-component will finance the incremental cost of salary, travel, and the general operating costs of the team working on the project’s implementation within the Water and Sanitation unit of FISE. In addition, this component would also finance M&E activities, including the collection of information and development of reports for continued evaluation throughout the project cycle by both project management and the Bank’s supervision team. It will also cover audits and other project management activities required for the proper implementation of the project. Finally, this component will finance the strengthening of the implementing unit, through participation in trainings and study tours, purchase of vehicles and equipment, and upgrading of the working environment as needed.

This component will be entirely implemented by FISE. Should the pending sector strategy result in changes in terms of the institutional responsibility for long-term support to the water CAPS, the project may be restructured to allow other institutions to participate in component 4B.

5. Financing
Source: ($m)
BORROWER/RECIPIENT 3.1
International Development Association (IDA) 20.0
Total 23.1

12 The agreement with FISE is that salaries for the core incremental staff will be financed by the project following a decreasing schedule; from year 5 on, these salaries should be entirely financed from the national budget.
6. Implementation
The Republic of Nicaragua will be the borrower of the proposed credit. The main implementation agency for this project is the Emergency Social Investment Fund (FISE). FISE has the legal mandate of building rural water and sanitation systems in the country and is currently implementing several such projects financed by other donors such as IDB/KfW, CIDA, and COSUDE. FISE has also implemented World Bank-funded projects in the past, including a Poverty Reduction and Local Development project that closed in 2007 and included rural WSS investments.

Although FISE has been active in the water and sanitation sector for a number of years, it has only recently decided to create a formal rural water and sanitation unit at the national level. This unit will include all staff currently working on WSS-related themes, and will be the lead unit in charge of implementing this project. Fiduciary and safeguard functions will continue to be assumed by the line units within FISE. In addition, FISE is seeking to create—partly with the support of this project—small, dedicated WSS units in each of its departmental agencies. It is expected that a small number of consultants will be hired to strengthen FISE’s WSS team under the project. The professional staff involved in project implementation—whether existing or additional—will have qualifications and experience acceptable to the Bank according to the Project’s Operations Manual. The Bank will co-finance the salaries and other operational recurrent costs required for the implementation, while national counterpart financing will be used to cover the cost of strengthening FISE’s staff to ensure it complies with its legal mandate in the rural WSS sector.

7. Sustainability
The sustainability of the water and sanitation facilities to be financed under this credit will be supported by a comprehensive and integrated strategy that addresses the key institutional, financial, social, environmental, and technical building blocks required for the provision of sustainable water and sanitation services. Specific supporting elements include:

*Community Willingness and Capacity to Manage and Sustain Rural Water Supply Services.* In rural areas this will be achieved by requiring communities to demonstrate their commitment to service improvement up-front, including taking the initiative to present their request at the municipal level, selecting their preferred service level and management option, agreeing to an adequate tariff and starting to pay it up-front, and assuming organizational responsibilities (forming a CAPS) before construction funding is approved. Communities will also provide unskilled labor during the construction phase. The project will strengthen community capacity in the areas of organization, operations and maintenance, financial management, hygiene and environmental education, and effective water use and disposal. The project will also ensure that there are appropriate mechanisms for the provision of technical assistance to CAPS in the post-construction phase, both in the short term through contracted-out social and technical support, and in the long term through national and local institutions.

*Rural Demand, Willingness, and Capacity to Manage Household On-site Sanitation.* Key indicators for the sustainability of household-level sanitation service is that on-site sanitation infrastructure (VIP latrines, pour-flush latrines with septic systems, and so forth) is built, and
properly used by all family members and maintained. In rural communities, effective hygiene promotion activities will be carried out during the early stages of the project development phase to inform households about the importance of sanitation and hygiene in protecting health and to create an effective demand for household-level sanitation. Informed and motivated households will then select a sanitation solution based on a menu of options and their willingness and ability to pay for the selected option (higher levels of service will require a higher household financial and in-kind contribution). Support to CAPS will also include tailor-made hygiene promotion activities, based on a participatory community diagnostic.

**Municipal Government Support to Community Management of Rural Water Systems.** Municipal governments, too, will demonstrate their ownership by providing co-financing of the overall investment costs for the subprojects under their jurisdiction. Municipal governments will be strengthened to provide the required technical backstopping to CAPS, without taking over direct operational responsibilities.13

**Community Willingness and Capacity to Manage and Sustain Sewerage Services.** In more densely populated rural areas and/or small towns where community sewerage systems will be financed, sustainability will be achieved by strengthening existing CAPS to add management of community sewerage systems to their areas of responsibilities, with relevant training and technical assistance to be provided. Special care will be taken during the initial phase of the project to ensure that the sewerage technology that is chosen is within the financial, technical, and management capacity of a rural CAPS to operate and manage it. Sewerage systems will be financed only where communities agree to pay a tariff consistent with the needs for operation and maintenance and are currently adequately managing and paying for the water service.

8. Lessons Learned from Past Operations in the Country/Sector

**Lessons from last World Bank-funded project with FISE.** The Bank recently (2007) closed a “Poverty Reduction and Local Development Project” that had been implemented by FISE and included, among other things, water and sanitation projects. The project was rated satisfactory, as was the performance of the implementing agency during implementation (FISE). The main lessons learned (summarized below from the Implementation Completion Report are consistent with the design proposed for this operation.

- **Bottom-up and demand-driven initiatives can improve quality and relevance of social and economic investments.** This project therefore will use a demand-based approach rather than a supply-driven community targeting mechanism.
- **One model does not fit every situation.** Communities will be involved in the selection of their own level of service and technical design from a menu of options. Specific approaches are under development for indigenous areas.
- **Small-scale social investments implemented without appropriate complementary sectoral strategies have mixed impacts.** This project also includes a strong institutional strengthening component where the issue of post-construction sustainability will be tackled. Similarly, the

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13 The new water law seems to imply that ENACAL, rather than municipalities, should be providing post-construction support. A clear consensus on this issue should emerge in the coming months and the project will be adapted to reflect the final decision on this issue.
project includes strong hygiene promotion activities that will be complemented by the National Handwashing Initiative under preparation.

- **Coordination of social policies and strategies at the national level is still an unfinished agenda in Nicaragua.** During the preparation of this project particular emphasis has been put on donor coordination. The main implementation mechanisms (fund allocation mechanism, subproject cycle, eligibility, and co-financing) have been discussed by FISE with other donors and there is a general interest of all actors to move toward unified policies for the rural WSS sector.

9. Safeguard Policies (including public consultation)

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*By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties’ claims on the disputed areas.

**Environmental Safeguards**

The project is category B; since these are small-scale projects in rural areas, no significant or irreversible environmental or social changes are expected.

The key environmental safeguard policy issues are environmental assessment and physical cultural resources, since works, albeit small, will be constructed. In addition, the disposal of wastewater effluent, though in small amounts, is an issue that will be appropriately managed by the environmental management framework, which includes procedures that have been used by FISE for the past 12 years. FISE has drafted an environmental management framework specifically for the project based on their already existing above-mentioned procedures and in compliance with World Bank Safeguard requirements. Since exact subprojects and locations are not yet known, the framework is the appropriate level of environmental analysis and will establish the arrangements under which the environmental aspects of the project will be managed. The framework will contain details on the instruments FISE uses to monitor environmental benefits from the project.

FISE has a high capacity (more than sufficient) to implement the environmental safeguards in that it already has well-considered environmental management procedures and instruments in use. In addition, they have a presence in the field of 40 technical specialists (appropriately, architects and engineers) throughout their 17 territorial offices. These FISE technical specialists
are called municipal consultants/evaluators since they assist the municipalities to comply with FISE technical guidelines and requirements by providing advice and filling out the required forms such as the site evaluation form. The FISE territorial specialist assistance is extremely helpful in compensating for the lack of municipal technical and financial resources for environmental management. The municipalities find FISE environmental management tools so helpful that they use them even for non-FISE-sponsored projects when possible.

Consultations on the environmental framework were held April 1, 2008 in Bluefields, April 2, 2008 in Jinotega and April 11, 2008 in Managua. The environmental framework was made available in InfoShop and in-country in March 2008. In-country, the Framework was placed on the FISE website and hard copies will be made available in the 17 territorial offices and Managua. FISE placed their Manual for Environmental Management, the source document for most of the Environmental Framework for the project, on their website in February of 2008. Additionally, during the process of developing each sub-project, the community will be informed of the impending works. Before any studies are done or final designs made, the communities will be consulted in public meetings to determine if there is demand for a sub-project.

Indigenous People’s Plan

Consistent with Operational Policy 4.10 on Indigenous Peoples, the borrower carried out consultations nationwide, particularly in RAAN and RAAS and Jinotega, which have the largest deficits of water and sanitation facilities and where the bulk of the ethnic groups reside. Likewise, the GoN prepared an Indigenous and Afro-Caribbean Peoples Plan (IPP) to ensure (a) access and participation of ethnic groups in the project design, implementation, and the ex post sustainability phase of subprojects; and (b) culturally adequate participatory planning and delivery of water and sanitation services under the project. The IPP was agreed by FISE with the Regional and Territory Governments and the indigenous organizations of RAAN, RAAS, and Central Pacific regions (See Annex 10).

10. List of Factual Technical Documents

Project Preparation Documents

- Integrated Safeguards Data Sheet (Concept Stage), Report No. AC3320, 2008.
- Project Concept Note.
- Métodos de Focalización en Programas del FISE (Fondo de Inversión Social de Emergencia) en Nicaragua, Reporte Interno para el LAC-WSS Team, Maria Angélica Sotomayor y David S. Michaud, Maria Poli, 2007.
- Resumen de la Evaluación de la Capacidad de Ejecución en Adquisiciones de la Agencia Implementadora del Proyecto Fondo de Inversión Social de Emergencia (FISE), Nicaragua: Proyecto de Provisión de Agua y Saneamiento Rural, Informe Interno del Banco Mundial, 2008.
Other Bank Documents

- Implementation Completion and Results Report (IDA-35040 IDA-3504A, TF026597) on a Credit in the Amount of SDR46.7 Million (US$60.0 Million Equivalent) to the Republic of Nicaragua for a Poverty Reduction and Local Development Project, Report No. ICR0000526, World Bank, 2007.

Studies

- “22 Anos de Experiencia Recopilada sobre el Trabajo de Acueductos Rurales,” WSP, GAR-ENACAL, SNV, UNICEF.
Government Documents


Laws and Regulations


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