

PROGRAM TO FIGHT POVERTY AND STRENGTHEN LOCAL CAPACITY

(NI-0108)

EXECUTIVE SUMMARY

Borrower and guarantor:	Republic of Nicaragua	
Executing agency:	Emergency Social Investment Fund (FISE)	
Amount and source:	IDB: (FSO)	US\$50,000,000
	Local:	US\$ 5,645,000
	Total:	US\$55,645,000
Financial terms and conditions:	Amortization period:	40 years
	Grace period	10 years
	Commitment period:	3 years ¹
	Disbursement period:	3.5 years ²
	Interest rate:	1% per annum for first 10 years, and 2% thereafter
	Inspection and supervision:	1% of loan amount
Objectives:	Credit fee:	0.5% per annum on undisbursed balance
	The main objective of the program is to help fight poverty by providing funding for basic social infrastructure through delegation and participation that improves access by the poor. The program's specific objectives are: (i) to strengthen community and local government capacity for implementing and maintaining basic social infrastructure; and (ii) to help FISE become more efficient and more effective in delegating its project cycle, ³ and in defining its role in implementing the enhanced poverty reduction strategy (EPRS).	
Description:	The program will finance basic social infrastructure aimed at improving living standards in poor communities. The program will	

¹ Under no circumstances may the commitment or disbursement periods, or any extension thereof, extend beyond the date of expiration of FISE (currently December 31, 2004).

² *Idem.*

³ Delegation means granting local governments decision-making and resource-management responsibilities in the project cycle financed by FISE.

also help FISE to enhance its impact on poverty reduction, by improving the way in which basic social infrastructure projects are executed and maintained. The investments in schools, health centers, and water supply and sanitation systems are the program's key EPRS priorities.

In addition, the proposed operation will give continuity to the activities of another operation currently under way to help FISE in its efforts to delegate its project cycle. In particular, it will support FISE's 2001-2004 investment program, which proposes raising the number of municipalities managing both project execution and FISE financial resources from nine to 50, and the number carrying out participatory micro-planning (PMP) processes from 60 to 100.

The funds available for local investments will play a dual role. First, they will finance viable local projects with satisfactory social rates of return. Second, they will provide incentives for local governments to adopt institutional practices which they would otherwise not do.

The program will have three components: (i) investments in social infrastructure and community training; (ii) strengthening of local capacity; and (iii) FISE institutional development.

Component 1. Investments in social infrastructure and community training (US\$45 million)

This component will finance three types of activity: (i) implementation of participatory micro-planning processes; (ii) investments in priority projects identified in the PMP at the municipal level and included in municipal investment plans (MIPs); and (iii) a strengthening of community groups to enable them to participate in PMP processes and activities related to social audits and maintenance of completed works.

Participatory micro-planning processes (PMP). The PMP, to be developed in municipalities, will be spurred and coordinated by local governments through their MTUs. FISE will lend technical and financial support to the MTUs throughout this process. The PMP will be carried out according to procedures that ensure participation by women and other vulnerable groups in identifying projects and according them priority.

FISE will assist with the implementation of the PMP in approximately 100 municipalities, of which the Bank program will finance approximately 40. The outcome of the PMP will be a municipal investment plan that identifies potential projects for financing by FISE as well as other sources of financing. Each MIP will have a three-year

horizon and be reviewed annually in order to update on a participatory basis municipal priorities and the programming of available financial resources.

Investments. Investment resources will be allocated using the FISE poverty map. The PMP process will include mechanisms to enable local governments, community leaders, delegates from line ministries and FISE representatives to work together with a view to targeting resources to the poorest population groups in each municipality.

As an incentive for introducing best practices, 70% of funds available for investment at the FISE level will be allocated to municipalities on the basis of the poverty map. The remaining 30% will be allocated to municipalities by FISE, based on the introduction and use by local governments of new practices that involve them in the fight against poverty.

All the projects to be financed will be the outcome of PMP processes and will be included in MIPs. In the case of investment projects included in plans that are not the outcome of processes based on the PMP manual, FISE will validate the mechanisms used to ensure consistency with those presented in the manual. In municipalities that have not implemented participatory micro-planning, project funding will be based on participatory programming processes carried out by local governments. In such cases, FISE will define the criteria to be used to facilitate and also validate such participatory programming exercises.

The project types on the FISE menu to be executed without prior Bank approval include the repair, expansion and purchase of equipment and materials for schools and health centers, water and sanitation systems, and social assistance and environmental projects.

Municipal projects such as markets and slaughterhouses which are usually financed under lines of credit may be financed out of program resources only in exceptional cases. When this occurs, FISE will be required to submit to the Bank the criteria used in justifying financing for a project of this kind.

Based on experience with the PMP and the definition of the MIPs, FISE may submit to the Bank for consideration new types of projects to be added to the menu. In this case, FISE will have sufficient funds to hire specialists to draw up the technical specifications and other relevant information.

Under the new Operating Regulations, FISE will be required to evaluate all of the projects to ensure their feasibility, taking into

account technical, financial, economic, and environmental considerations. In addition, FISE will assess the projects from a gender perspective. The new Operating Regulations will also impose a ceiling, in an amount equivalent to US\$1 million, on the financing for each project.

Community training. Community groups and project committees will be strengthened in project administration and management through training and technical assistance so that they can take part in participatory micro-planning; the execution, operation and maintenance of civil works; and social audits. Training is intended to strengthen the gender dimension and participation by women in these processes.

Component 2. Local capacity strengthening (US\$2.8 million)

This component will strengthen local technical capabilities. FISE will increase the number of Level 1 municipalities from nine to approximately 50, of which about 20 will be financed under the present program. To ensure that the proposed increase materializes, program resources will be used to finance the strengthening of the MTUs in the municipal structure and fees will be covered on a declining basis over a three-year period so that local governments are able to assume the entire cost by the end of the period. To strengthen the on-hands learning process, participating Level 1 municipalities will be permitted to manage projects valued at up to the equivalent of US\$1 million.

FISE will expand coverage amongst Level 2 municipalities from 16 to approximately 50, of which about 20 will be funded under the program. Level 1 and level 2 municipalities will receive technical assistance and training: (i) to strengthen them in project administration, preparation, execution, and supervision; (ii) to raise their capacity to promote more effective inter-agency coordination at the local level; (iii) to put in place systems of costs, bidding, bid awards and contracting, and project monitoring and the related training; (iv) to develop mechanisms for monitoring and updating MIPs; (v) to strengthen disbursement systems, accountability, and control processes relating to management of the Preventive Maintenance Fund (PMF); (vi) to encourage the use of micro-targeting techniques at the municipal level; and (vii) to implement the environmental management system (SISGA).

FISE will set up a municipal rating and graduation system with performance indicators to gauge such factors as progress made in municipal capacity in the areas of: (i) financial management, (ii) procurement; (iii) self-generated funding, (iv) PMP development and MIP updating; and (v) promotion of citizen participation.

In addition, the program will finance training for MTUs, NGOs and other local actors in development issues such as gender; environment; land-use planning and natural disaster mitigation; poverty; social management, ethnic diversity and poverty; and training for contractors (formulators, executing agencies, facilitators and supervisors) in project cycle technical standards. Also, financing will be provided for study trips and sharing of experiences for MTU personnel.

It will also make resources available to develop technical expertise so that local governments can cofinance technical assistance aimed at strengthening its institutional framework and developing technical capacities in project cycle administration and management.

Component 3. FISE institutional development (US\$1.2 million)

This component will finance technical assistance and training for: (i) developing FISE organization and structure to ensure execution of the proposed program; (ii) implementing an interagency coordination mechanism at the central and local levels to guarantee the sustainability and impact of the investment; (iii) preparing inputs for policy dialogue on poverty and development issues; and (iv) drafting a proposal on the institutional future of FISE and its role in implementing the EPRS. This proposal will be prepared some time in 2001, and in 2002 the borrower will outline an institutional strategy based on this proposal. The progress made in defining this strategy and taking decisions on it will be evaluated at the annual meetings.

Management. In addition to financing the three program components, the financing will be used to defray on a declining basis during program execution the costs incurred by FISE in hiring individual long-term experts. The initial report which will be submitted to the Bank will include a list of experts whose fees will be financed during year one of the program, and this number is expected to have diminished by 25% upon completion of the program. The proposal on FISE's institutional future will set out the government's strategy for providing administrative financing in line with the role that the country will assign to FISE. Financing will also be used to cover the cost of the annual evaluations and the program audits.

The Bank's country and sector strategy:

The program is consistent with the Bank's strategy of supporting the Nicaraguan Government's poverty reduction efforts. The Bank's activities in this area are focused on support for the design and implementation of the EPRS. The program is important because basic social infrastructure it furnishes to poor communities is a key element in poverty reduction. The program is also linked to the Bank's objective of enhancing efficiency in the use of public resources. This

will be achieved by increasing community and local government involvement and targeting resources towards the poorest sectors in each municipality. The strengthening of interagency coordination promoted by the program at the national and local level, as well as the training and technical assistance afforded to communities and municipalities in social audits and accountability, are in line with the Bank's strategy.

This program is also expected to put the Bank in a position to take part in discussions on the institutional future of FISE and its role in implementing the EPRS. The program will help FISE become more efficient and more effective, while introducing organizational and financial changes to make it sustainable in the long run.

This program reflects the importance placed by the Bank on developing and strengthening interagency coordination between public agencies. The program will support a review of the standards and procedures of coordination between FISE and line ministries in the areas of investment and maintenance. It will also finance activities needed to achieve coordination agreements between FISE and other locally executed programs.

The program will support coordination between FISE and INIFOM through a review of the PMP manual, the delivery of technical assistance services, and the development of policies on such issues as community participation in municipal planning and the relationship between decentralization and poverty reduction. To facilitate closer collaboration between FISE and INIFOM, the Bank is preparing a technical-cooperation operation to strengthen INIFOM's capacity to provide leadership to the municipal development process.

**Environmental
and social
review:**

The program is designed to increase local participation and accountability for investments in social infrastructure and poverty reduction. The PMP process will respond more effectively to the priorities of poor people – both men and women. It will train local actors in gender issues and will offer support for a review of FISE manuals to incorporate the gender dimension. It will also continue to train women as members of the different committees and will look for opportunities to involve them in the project cycle. PMP processes being carried out for the Atlantic Coast local development program (NI-0107) will also be included in FISE manuals.

The program will provide funding for small-scale infrastructure projects benefiting poor communities. The FISE environmental management system (SISGA) ensures that projects satisfy environmental requirements. Training and technical assistance for transferring FISE procedures to the MTUs will also cover the SISGA.

The program will support the development of expertise in land-use planning and natural disaster mitigation at the municipal level, which, over time, should result in greater compliance with environmental standards in the design, location and operation of community infrastructure.

Benefits:

The program will finance social infrastructure works and basic social services targeted to the poorest sectors of the Nicaraguan population. By improving access to education, healthcare, water supply and sanitation, these investments will have a direct impact on the living conditions of a substantial number of people, especially those living in rural areas.

The program's benefits at the local level will include opportunities for communities and municipal governments to participate jointly in identifying priority local investments. This will ensure more efficient use of public resources.

The components of the program contain several other elements that will help increase participation by women. Activities will largely continue the efforts of an operation currently under way to incorporate the gender perspective and increase women's participation in the work of FISE. By delegating project-cycle processes more extensively, FISE will ensure the capacity of local actors to promote gender equality and participation by women. The local actors will also begin to receive training on ethnic diversity as a means of encouraging sectors that have traditionally been left out of the decision-making process to be given a say in the use of public funds.

The program will also provide institutional support to FISE. A key aspect of the program is helping the organization to draft a proposal for its future institutional role within the EPRS. The Bank will watch this process closely through its annual monitoring of the program.

Risks:

The operation has been designed in a participatory fashion, with involvement by municipal authorities. The present authorities are due to step down in early 2001, at which time a new administration will be installed. The new authorities are expected to display the same levels of commitment to the program, as the present incumbents.

The shortage of technically skilled workers in local government is a major constraint that could affect the success of the program. The lack of a municipal career civil service, and the meager funds available to local governments has resulted in few professional opportunities in local government. A challenge facing the municipalities relates to the incentives needed to attract and retain qualified professional staff to work in the MTUs. The delegation of the project cycle and training

related to this activity will foster the development of a local market for different professions.

Municipal governments also lack financial resources. The sustainability of the MTUs will depend on more than each municipal government's capacity to generate greater income on its own. It will also depend on its ability to generate levels of investment that justify the hiring of technical staff. The program seeks to encourage the use of best practices in management, and to introduce ways to help municipalities increase their revenues.

**Special
contractual
clauses:**

Precedent to the first disbursement

- a. Presentation to the Bank of the new participatory micro-planning manual, agreed on in conjunction with INIFOM, including the minimum criteria to be applied to the Atlantic Coast project (paragraph 2.12).
- b. Evidence that the agreement between the Government of Nicaragua and FISE on funds transfer and program implementation is in effect (paragraph 3.1).
- c. Introduction of the new FISE Operating Regulations, previously agreed on with the Bank (paragraph 3.11).
- d. Presentation to the Bank of a detailed description of the process to be used, including the role to be played by different institutions, in drafting a proposal on the future role of FISE (paragraph 3.20).

Other conditions

- a. Introduction of Operating Regulations for the development of technical expertise to strengthen the institutional framework and technical development of municipal capacity will be an additional condition precedent to disbursement of funds earmarked for these activities (paragraph 2.27).
- b. The loan contract will contain other standard conditions, relating, among other things, to monitoring and evaluation, audits, maintenance, procurement and the contracting of services.

**Poverty-
targeting and
social sector
classification:**

This operation qualifies as a social-equity-enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704) (paragraphs 4.4, 4.5).

This operation also qualifies as a poverty-targeted investment (PTI) (paragraphs 4.1 to 4.3, 4.15). The borrower will be using the 10 percentage points in additional financing (paragraph 2.38).

**Exceptions to
Bank policy:**

None.

Procurement:

All contracting will be carried out in accordance with standard Bank policies. International competitive bidding will be required for contracts valued at over US\$1 million in the case of construction works, US\$250,000 in the case of goods and related services, and US\$200,000 in the case of consulting services. Civil works, goods and related services, and consulting services in lesser amounts will be subject to the procurement modalities described below, in accordance with the State Procurement Act (Law 323), and will be supervised on an ex post basis by the Bank in accordance with its policy in this area:

	MODALITY		
	Civil works	Goods and services	Consulting services
Competitive bidding	Between US\$195,001 and US\$1 million	Between US\$195,001 and US\$250,000	Between US\$195,001 and US\$200,000
Bidding by registered suppliers	Between US\$55,001 and US\$195,000	Between US\$55,001 and US\$195,000	Between US\$55,001 and US\$195,000
Limited bidding	Between US\$8,001 and US\$55,000	Between US\$8,001 and US\$55,000	Between US\$8,001 and US\$55,000
Purchase subject to quote	US\$8,000 or less	US\$8,000 or less	US\$8,000 or less

I. REFERENCE FRAMEWORK

A. Poverty in Nicaragua

1. Profile of poverty

- 1.1 Following a decade of economic recovery and social reconciliation, poverty is still widespread in Nicaragua. Although poverty levels declined in relative terms between 1993 and 1998, the absolute number of poor people has risen. Nearly 50% of the population (2.3 million) is poor and over 800,000 people (17%) live in conditions of extreme poverty.
- 1.2 There are significant regional differences in the incidence, intensity and trend of poverty. Generally speaking, poverty and extreme poverty are largely rural phenomena, although poverty has increased in urban areas, on the Atlantic coast (from 35% to 44%) and on the Pacific coast (from 28% to 39%), except in the city of Managua. Two out of every three people in rural areas are poor, compared to one out of three in urban areas. This, despite a significant reduction in rural poverty levels from 76% to 69%, and in extreme poverty from 36% to 29%. The exception has been the Atlantic coast, where poverty and extreme poverty in rural areas has increased from 30% to 41%.
- 1.3 There are sharp differences between the poor and the non-poor in terms of access to education, healthcare, and water and sanitation services. Nearly 50% of poor school-age children do not attend school, compared to just 16% of their non-poor counterparts. School-age children in rural areas fail to attend school primarily for economic reasons, and secondly because of lack of access. Children in rural areas and those living in extreme poverty generally have to travel further to get to school, which is indicative of the fact that the provision of schools has failed to keep pace with population growth and internal migration. It is estimated that over 7,000 classrooms need repair in primary schools nationwide, with a further 1,800 needing to be replaced. Another 1,200 classrooms need to be replaced or improved in municipalities devastated by Hurricane Mitch.
- 1.4 There is a wide and persistent difference between the poor and the non-poor in terms of access to health services, with members of extremely poor households having to travel three times the distance and spend three times more than members of non-poor households. One consequence of this is that children from extremely poor families are less likely to attend checkups with health service staff. Infant mortality indices run as high as 40 per 1000 live births with maternal mortality at 139 per 100,000. As many as 55% of the poor have no access to potable water, which contributes to high levels of chronic malnutrition. A further 30% do not have access to toilets.

2. The enhanced poverty reduction strategy (EPRS)

- 1.5 Reducing poverty is one of the greatest challenges facing Nicaragua. The government, with civil society participation and backing from the international community, is preparing an enhanced poverty reduction strategy (EPRS), which is a pre-condition for admission to the highly indebted poor country (HIPC) initiative. The goal of the EPRS is to reduce extreme poverty by 25% by 2005, and cut it by at least half by 2015. The EPRS also has targets for reducing infant mortality to 32 per 1,000 live births and maternal mortality to 126 per 100,000, as well as reducing the illiteracy rate to 17%. It has also set a target of increasing access to potable water in rural areas from 39% to 54%, and access to sanitation from 36% to 50% by 2005.
- 1.6 To achieve these goals, the EPRS has presented a four-pronged strategic plan: (i) economic development with growth in the rural economy; (ii) more and improved human capital investment, especially in the rural area; (iii) better protection for vulnerable populations; and (iv) governance and institutional development. This strategic plan underscores the need for program of macroeconomic stabilization and structural reform to pave the way for economic growth averaging 5.5% in 2000-2005, accompanied by low rates of inflation.
- 1.7 The EPRS stresses the need for local counterparts (local governments, and both private and civil-society institutions) with the technical capacity to formulate their own development plans in order to strengthen local social ties and promote municipal investment programs. The EPRS also recognizes a relation between reducing poverty and deepening democratic processes in the country. In this regard, it highlights the need to: (i) promote the decentralization of public administration to make it more responsive to citizens' needs; (ii) transfer more responsibility to the municipalities; and (iii) encourage civil society participation in public affairs, including decision-taking on the use of public funds at the local level. It also seeks to link local actions with national efforts to promote equity, improve the targeting of resources towards the most poor and promote transparency and accountability. For this purpose, it has drawn up a wide-ranging infrastructure and social service investment program, with a view to improving access and quality.
- 1.8 The country recognizes that to achieve the goals of the EPRS and meet the challenge of reducing poverty, it needs to mobilize all its institutional assets. The Emergency Social Investment Fund (FISE) has been identified as one of the key EPRS executing agencies, given its proven competency in providing basic social infrastructure targeted on poor populations. The importance of FISE in the EPRS framework also relates to the new intervention model based on delegating functions to municipalities and local communities, in an attempt to link the fight against poverty to the development of local capacities.

B. The Emergency Social Investment Fund

1. Background

- 1.9 The FISE was set up in 1990 as a temporary agency for mitigating structural-adjustment-induced poverty through investments in basic social infrastructure. Its life span has been extended three times and currently runs until 2004. The mandate established when the FISE was set up as a centralized agency in 1990, remains valid. To date it has administered funds amounting to US\$350 million, equivalent to 17% of public investment and 65% of social investment. In addition to funding from the World Bank, KfW and Sida, the FISE has executed four IDB loans totaling US\$110 million.
- 1.10 In a country with a weak execution record, FISE is characterized by its high technical and operational capacity (annual disbursements of between US\$35-US\$45 million), transparency in applying its procedures, and integrity in implementing its investment programs. Its technical capacity arises from the stability of its staff and the fact that 80% of its payroll expenses are covered by external resources. The FISE has succeeded in hiring and retaining high-quality professional staff, by being exempt from the State's administrative regulations on pay, recruitment and procurement. FISE's administrative costs have stabilized around 10% of its investment.

2. Targeting

- 1.11 The FISE has been using a poverty map to target its resources on poor populations. This map classifies all the country's municipalities by: (i) the number of rural and urban poor in each one (the magnitude of poverty); and (ii) the severity or depth of their poverty. The map has been updated with figures from the 1993 and 1998 national household standard of living surveys (EMNV).
- 1.12 Since 1990, the FISE has targeted 23% of its total resources on extremely poor municipalities, accounting for 18% of the national population. The proportion of annual investment targeted on extremely poor municipalities increased from 11% in 1991 to 33% in 1998. The enhanced capacity of FISE to target the poorest municipalities is the result of a change in institutional strategy, from that of a centralized body concentrating on project execution and supervision to one that promotes pre-investment activities, including participatory micro-planning at the municipal level.
- 1.13 Between 1998 and 2000, FISE has facilitated PMP processes in 60 municipalities. This has made it possible to identify micro-zones within a municipal area, rank them by the depth of their poverty and direct a higher percentage of investments and benefits to the poorest micro-zones. This has generated a bias in the programming of FISE funds, with 70% used in rural projects.

3. FISE investments and their impact¹

- 1.14 FISE has provided funding for 7,500 infrastructure projects in education, healthcare, and water and sanitation, as well as projects in the areas of social welfare, environment and municipal infrastructure. Of these investments, 55% have been in education, 16% in healthcare, 9% in water and sanitation, and the rest in social welfare, environment and municipal infrastructure. In sectoral terms, FISE investments in 1991-1998 accounted for 50% of total public investment in education, 25% in healthcare and 7% in sanitation.
- 1.15 The ability of FISE to reach the poor has varied at the community level, with a progressive distribution of investments in education and healthcare, but a regressive distribution in sanitation investments. Investments in education and healthcare have been effectively targeted on the most needy beneficiaries; in education, 40% of the poorest population receives over 40% of total investment, and in healthcare 57%. Sanitation investments are regressive since the 40% poorest population receives only 5% of the total.
- 1.16 At the household level, the ability of FISE to reach the most poor also varies by project type. Targeting is excellent in the case of toilets, good in the case of health centers, slightly progressive in primary schools, neutral for water, and regressive in sanitation projects. In education and healthcare, investment targeting is slightly more progressive at the household than at the community level, with the poorest households in each community benefiting most from FISE investments. Investments in toilets are highly pro-poor, pro-poorest even, as over one-third of investments is targeted on beneficiaries in the poorest quintile. Investments in potable water are distributed equally throughout the population.
- 1.17 FISE investments in education have helped to raise enrollment by 10%, narrowing the educational gap from 1.8 years to 1.5 years, and reducing the age of children entering first grade from 8.6 to 7.9. Repetition rates have also dropped to 7%. As regards the impact of investments by income quintile and gender, the data show that: (i) the increase in enrollment is greater among girls; (ii) the educational gap has narrowed most for children in the poorest quintiles; and (iii) the age of entry into first grade has fallen more among boys than among girls.
- 1.18 With regard to FISE investments in health centers, the greatest impact has been seen in rates of health center utilization by the under-sixes suffering from diarrhea. Investments in water projects and toilets have succeeded in extending coverage in poor areas.

¹ Ex-post Evaluation of the FISE, IDB, 1996; Ex-post Evaluation of the FISE, World Bank, Report No. 20400-NI, May 15, 2000; Ex-post Evaluation of a project sample, Charles MacDonald and Stephen Joseph, July 2000, Qualitative evaluation of FISE beneficiaries, Final report, May 2000, Instituto de Desarrollo Empresarial Asociativo (IDEAS).

- 1.19 In comparison to infrastructure built by other agencies, FISE- constructed primary healthcare units and primary schools are better maintained and their level of utilization is greater. *Ex-post* evaluations also confirm the high quality of the work.
- 1.20 A qualitative assessment of beneficiaries indicates that those living in high- and extreme-poverty municipalities perceive a positive impact on their standard of living and welfare, as a result of FISE projects. This evaluation also indicates that women value schools and health centers most highly, while men value potable water, healthcare and sanitation projects the highest. The priority for youth, and for boys and girls is to have a school.
- 1.21 **Environment.** An audit of the FISE environmental management system (SISGA) concluded that 80% of projects satisfy environmental requirements, which is considered a positive result. However, the audit also recommended a number of actions to be taken, including: (i) updating available tools and reviewing them annually; (ii) strengthening the SISGA by monitoring environmental performance indicators; and (iii) systemizing guides and records.

4. The FISE intervention model

- 1.22 The way in which FISE executes projects has evolved over time. Concern for the impact and sustainability of its investments has led the institution to increase community and local government participation in the project cycle. Firstly FISE introduced a system of priority project identification by using participatory micro-planning (PMP) to draw up municipal investment plans (MIP). It then introduced a preventive maintenance fund (PMF) managed by local governments and executed by the communities themselves. This was followed by delegation² to local governments of the tasks of contracting, implementing and supervising civil works. Taken together, this set of interventions comprises the FISE's municipal and community strengthening program (PFMC), which is being backed up by training for local governments and communities in contracting, social audit and maintenance, among other things.
- 1.23 The state of emergency caused by Hurricane Mitch interrupted delegation of the project cycle to local governments. However, the experience gained by FISE technical staff in the worst hit municipalities reconfirmed the key role of local governments in reconstruction and transformation activities and demonstrated the importance of them getting closer to their "clients". FISE classified municipalities into three groups (levels 1, 2 and 3) according to its estimation of each municipality's capacity to manage its project cycle and corresponding funds, and to generate the financial resources necessary to cover the additional costs of project cycle management. Level-1 municipalities have the capacity to manage and

² Delegation means granting local governments decision-making and resource-management responsibilities in the project cycle financed by the FISE.

administer all the activities in the project cycle, including financial resources; level-2 municipalities have partial capacity in project cycle management, excluding the capacity to manage and generate financial resources; and those in level 3 have limited technical capacity in all aspects. In late 1999, FISE initiated a pilot project to delegate its project cycle to groups of municipalities in level 1 and level 2.

- 1.24 In level 1, nine small and medium-size municipalities were selected,³ classified as poor and extremely poor. These were identified on the basis of their technical capacity and the possibility, over a three-year period, of increasing cofinancing for the additional operating costs of municipal technical units (MTUs), consisting of engineers, sociologists and administrators. The MTUs have assumed responsibility for: (i) carrying out the PMP process; (ii) hiring and supervising subcontractors (formulators, executing agencies, and supervisors); (iii) managing investment project resources under US\$100,000; (vi) administering the preventive maintenance fund; and (v) fostering interagency relations at the local level. So far the FISE has supported these MTUs through the technical office decentralization unit (DU) which has prepared procedural, systems and internal audit manuals, to enable municipalities to administer the project cycle. These municipalities will execute a project portfolio amounting to US\$12 million financed with FISE resources between 1999 and 2001.
- 1.25 At level 2, MTUs from 16 municipalities in Matagalpa and Jinotega are responsible for running the PMP, managing the preventive maintenance fund (PMF), and executing several investment projects with values under US\$50,000. Unlike level-1 MTUs, these do not manage FISE resources. They are backed by a regional technical office (RTO) located in Matagalpa, which reports to the operations office that drafted a procedural manual containing a condensed version of regular FISE processes. This manual is the basis for transferring knowledge to participating municipalities to enable them to graduate to level 1.
- 1.26 Municipalities in level 3 receive support in implementing participatory microplanning and managing the PMF. In these municipalities, however, FISE continues to manage the project cycle and corresponding financial resources directly.
- 1.27 So far the PPMC has resulted in the level-1 and level-2 pilot project being run in 25 of the country's 150 municipalities; 60 municipalities (half of which are extremely poor) have carried out PMP processes; 143 municipalities have participated in the PMF; and about 3,000 local committees have been trained in social audit, and project operation and maintenance.

³ The selected municipalities are Estelí, Matagalpa, La Dalia, Condega, Río Blanco, Sto. Tomás, Ciudad Darío, Somoto and Matiguas.

- 1.28 An evaluation⁴ of the components of the PFMC concluded that the program is generally moving in the right direction and is having a positive impact. Specifically, the pilot project for delegating project cycle execution responsibilities in level-1 and level-2 municipalities, has facilitated the transfer of knowledge and first experiences, enabling it to be extended to a larger number of municipalities.
- 1.29 Participatory micro-planning (PMP) has been beneficial for the municipalities, enabling them to: (i) formalize relations between local governments and FISE with regard to transparent *ex-ante* resource allocation; (ii) promote community participation; (iii) open communications between local governments and their respective communities; (iv) develop technical capacity; (v) develop municipal investment plans (MIPs); and (vi) achieve ownership of the process for municipal councils and communities. Nonetheless, it still remains to: (i) improve targeting within the municipalities; (ii) define a mechanism for monitoring and updating the PMP process; and (iii) develop a common methodological framework with broadly accepted basic criteria to avert duplication of effort with other programs.
- 1.30 MTU development and consolidation is central to execution of the decentralized system of resource management and administration. Initial experiences point to key role for MTUs in interagency coordination with ministerial delegates and international cooperation programs. MTUs are also beginning to develop good understanding of project cycle administration and management procedures. Nevertheless, there is a tendency for MTUs to “undertake” instead of “manage” local development processes, because of the difficulty of contracting outside agencies to formulate, execute and supervise projects. The sustainability of the MTUs is a cause for concern not only because each municipal government needs to generate greater income of its own to guarantee the hiring of additional technical staff, but also because of the need to generate levels of investment that justify the size of MTU staffing levels.
- 1.31 The PMF concept is a robust one, built on alliances with decentralized municipal schemes for promoting a maintenance culture to keep FISE-financed basic social infrastructure in education and healthcare in good condition. To date, the PMF is the only PFMC element that is fully devolved to local government. However, there is limited involvement by line ministries and a rate of turnover among committee members that could undermine the scheme’s long run sustainability. Approval of disbursements by the FISE is also slow, control procedures are weak and municipalities are slow to presenting accounts, which affects the repeat rate per municipality.
- 1.32 The FISE has promoted two levels of training in the municipalities. At the community level, the foundations have been laid for active participation by local

⁴ Analysis of the FISE municipal and community strengthening program, Stephen A. Grun and Pablo R. Schneider, July, 2000.

groups in project identification, monitoring and maintenance. However, this training is not always provided at the most convenient moments for the communities, materials are not always at the right educational level, and participation varies. At the local government level, MTUs have been trained in different aspects of the project cycle including the management of civil works contracting procedures.

- 1.33 The initial execution of pilot projects in levels 1 and 2 has been facilitated by setting up the decentralization unit (DU) and regional technical office (RTO) in the Technical and Operations Offices, respectively. This reflects current FISE structure, in which responsibilities for contracting and monitoring project cycle activities are separate from promotion, formulation, evaluation and execution activities. This functional separation slows down decision-taking and obstructs learning from PFMC experiences, which could hinder the transition from a pilot program to institutionalization of the delegated responsibility model for executing projects within FISE. To prevent this happening, FISE needs to make adjustments to its organizational structure and culture, including: (i) an organizational structure based on clear complementarity between the technical aspects of the project cycle and the administrative and financial support areas; (ii) preparation of a single procedural manual; and (iii) definition and implementation of performance indicators to enable municipalities not only to graduate to higher project cycle responsibility levels, but also to facilitate a comprehensive view of the process.

5. Coordination with other actors

- 1.34 The coordination mechanism for the design and management of social actions and policies is the Economic and Social Office. Members of the Social Office include representatives from the Ministry of Education, Culture and Sports (MECD); the Ministry of Health (MINSA); the Social Action Secretariat (SAS); the Ministry of Finance and Public Credit (MHCP); the Ministry of Labor, and FISE; and it is coordinated by the Technical Secretariat of the Presidency (SETEC).
- 1.35 FISE has coordination agreements with MECD, MINSA the Nicaraguan Water and Sewerage Authority (ENACAL), the Ministry of the Environment and Natural Resources (MARENA); the Ministry of Transport and Infrastructure (MTI); and the Ministry of Family Affairs (MIFAMILIA). These agreements, which run until 2001, establish the rules and coordination mechanisms for investments in the corresponding sectors. However, the agreements are all the same, they do not define operating responsibilities for the respective institutions, especially with regard to the preventive maintenance fund (PMF), and they fail to take account of the new FISE working modality defined by the PFMC.
- 1.36 Local government involvement in the project cycle has led the FISE to work together with the Nicaraguan Municipal Development Institute (INIFOM), which is responsible for setting standards, promoting and giving leadership to the municipal

development process. The two institutions jointly prepared the PMP manual and associated PMF procedures. Technical assistance provided by FISE to local governments is focused on delegation of project cycle management, whereby FISE seeks to complement its activities with those of INIFOM in areas such as municipal management, municipal finance, tax collection and land registry, in order to avoid duplication of effort and facilitate a consistent approach to local capacity development.

- 1.37 FISE and INIFOM have initiated discussions in four policy areas: (i) a national framework for community participation in municipal planning; (ii) a national training framework for municipal staff; (iii) a national strategy for local development; and (iv) decentralization and poverty reduction. In this latter area, a forum of debate is provided by the INIFOM-presided Sectoral Commission for Decentralization (SCD), of which FISE is a member.
- 1.38 To assure the future development of INIFOM, the Bank is preparing a technical cooperation for INIFOM to provide leadership to the process of preparing national policies in the municipal development area. The technical cooperation will support: (i) bylaws for the new INIFOM legislation; (ii) formulation and implementation of policies on fiscal decentralization and the formation of a municipal civil service career structure; and (iii) launch of a consultation process for developing national policies on local development, community participation in municipal micro-planning and municipal staff training. The expected results of this technical cooperation include stronger and broader interagency coordination between FISE and INIFOM.
- 1.39 There are other institutions also executing programs at the local level. These include the Rural Development Institute (RDI), and INIFOM. The first of these is expected to implement 18 rural production projects, amounting to US\$117 million, in the period 2001-2004. INIFOM, meanwhile, is implementing municipal development projects financed by GTZ and Sida. It is also executing the World Bank-funded PROTIERRA program, amounting to US\$50 million, the second stage of which is currently in the design process.
- 1.40 To date there is no recognition of MIPs as a way of identifying priority projects at the local level. FISE has made arrangements with some of the projects executed by the RDI to overcome these deficiencies, with a view to achieving consistency in local investments. However, these have not always resulted in operational agreements largely because of differences in methodologies for project identification and selection. This situation highlights the need for national frameworks to give orientation to investment programs to be carried out locally

6. The Bank's experience

- 1.41 Apart from financing social infrastructure investments, the fourth IDB operation (1998-2001) for US\$50 million is helping FISE to involve communities and local governments in the identification, execution and maintenance of civil works. It has also given support to the institution in three other areas: (i) PMP financing; (ii) funding for consulting services relating to manual revision, procedures and internal audit linked to project cycle delegation at the municipal level; and (iii) the financing of community and municipal training in areas including contracting, social audit, operation and maintenance.
- 1.42 This operation has also been supporting FISE on the gender issue. A consultancy project held workshops aimed at staff awareness-raising and training. A recent diagnostic study found that the institution had made progress in mainstreaming the gender issue, but there are still areas that need attention, especially the adoption of an institutional policy to form the basis for women's participation in participatory planning in the project cycle.
- 1.43 Generally speaking, the loan has been executed satisfactorily. At this writing, 87% of the program funds have been committed and 84% disbursed. The funds are expected to be fully committed by the end of 2000.
- 1.44 Nicaragua decided to appoint FISE as the execution unit for two programs financed by the Bank – the social protection network program (NI-0075), and the Atlantic Coast local development program (NI-0107). There are three reasons for this decision, related to poverty reduction: (i) the target population is the same; (ii) implementation methodologies are participatory and involve local governments and communities; and (iii) the activities to be financed by the programs are complementary to existing FISE work. Placing these two programs with FISE has begun to generate synergy through the definition and transfer of FISE procedures to the executing units, and through the sharing of experiences and lessons learned inside FISE.

7. Strategies and reasons for involvement

- 1.45 **The institutional role of FISE.** The Bank has supported FISE ever since its foundation, by providing basic social infrastructure for the poorest populations. It has also been supporting efforts to create local capacity for managing the different aspects of the project cycle, including participatory microplanning and preventive maintenance. With its municipal and community strengthening program it is clear that what FISE does, and the way it does it, is consistent with general EPRS guidelines.
- 1.46 The FISE investment program for 2001-2004 envisages an increase in the number of municipalities operating PMP processes, as well as project contracting, execution

and supervision. The decision to expand project cycle delegation to more municipalities is based on experience showing that greater involvement by local actors improves project sustainability.

- 1.47 Enhanced participation by local actors has a number of implications for FISE. In the first place, it means that apart from providing basic social infrastructure, FISE will need to strengthen its capacities to become more fully involved in the provision of training and technical assistance. Secondly, it means that FISE needs to review its skills mix and organizational structure. Thirdly, it also means that efforts to coordinate with other actors, both nationally and locally, will probably need to be strengthened and expanded.
- 1.48 The program will help FISE meet its new institutional challenges. In the short run the proposed program will help FISE to be more effective and more efficient in the provision of basic social infrastructure. At the same time, the program will support development of a proposal for the future role of FISE after 2004. This proposal will be presented for consideration by the new government administration scheduled to take office in early 2002. The proposal would take account of the fact that EPRS has a framework that is valid until 2015, and will cover future FISE functions, form and financing. The Bank has consulted the government on coordinating the process of preparing the proposal. Nicaragua is to advise the Bank whether the Technical Secretariat of the Office of the President (SETEC), the Public Service Reform Commission (CERAP), or some other government authority will be responsible for coordination.
- 1.49 **Coordination with international agencies.** The operation has been designed to help FISE define its investment program for 2001-2004 (US\$170 million), within the EPRS framework, with support from the main cooperation agencies, including IDB. To achieve this, preparation activities were executed jointly with Sida in the framework of Sida-IDB Partnership for Central America. Sida has signed an agreement with the Government of Nicaragua to support FISE to the tune of US\$3 million (2000-2003). At the same time, the Nicaraguan government has requested the World Bank to base its next operation with FISE, for US\$50 million, on the design of this IDB operation.
- 1.50 The technical content of the FISE 2001-2004 program was discussed and agreed at a Bank-supported strategic planning workshop attended by representatives from the World Bank, Sida, KfW and GTZ, held in Nicaragua in June 2000. The technical issues discussed and agreed were: (i) identification of priority investments via PMP; (ii) resource allocation based on poverty maps; (iii) the FISE menu covering basic social infrastructure; (iv) strengthening of local government and community capacities; (v) institutional development of FISE to manage the investment program; and (vi) application of new operating regulations for the institution, reflecting the delegation of responsibilities to local actors.

- 1.51 **The Bank's strategy.** The program is consistent with the Bank's strategy for supporting the government's poverty-reduction efforts within the ERPS framework. The program is consistent with EPRS because basic social infrastructure provided to poor communities is a key element in poverty reduction. The program also relates to the Bank's objective of enhancing efficiency and impact in the use of public resources by increasing community and local government involvement in the identifying, executing and maintaining priority projects. Directing resources towards the poorest sectors in each municipality, using micro-targeting tools, will also contribute to this objective. The national and local interagency coordination promoted by the program, together with training and technical assistance for communities and municipalities in social audit and accountability, are both in line with the Bank's strategy.
- 1.52 This program will also place the Bank in a position to take part in discussions on FISE's institutional future and its role in executing the EPRS. The program will help FISE improve its efficiency and efficacy, while introducing organizational and financial changes to make it sustainable in the long run. With this program, the Bank seeks to maintain FISE as an organization that uses best public-administration practices. At the same time, the operation will complement other Bank poverty programs, such as the supplementary social fund, the social protection network and the Atlantic Coast local development program, and generate synergy between them. It will also be complemented by a Bank technical cooperation to be executed by INIFOM. The State procurement efficiency and transparency program, supported by the Bank, will make it possible to integrate FISE into the new system of national procurement procedures.

II. THE PROGRAM

A. Objective

- 2.1 The main objective of the program is to contribute to the fight against poverty by providing funding for basic social infrastructure that improves access for poor people, and which is implemented in a participatory and delegated manner. The specific objectives are: (i) to strengthen community and local government capacity for identifying, executing and maintaining basic social infrastructure; and (ii) to help FISE to become more efficient and effective in delegating its project cycle, and to define its role in the EPRS.

B. Scope of the program

- 2.2 The program will help FISE increase its impact on poverty reduction by improving the way in which basic social infrastructure is identified, executed and maintained. The investments the program will finance in schools, health centers, and water and sanitation systems, are central to EPRS priorities. The proposed operation will give continuity to activities currently being executed under the Bank's fourth operation, which is supporting FISE efforts to delegate its project cycle in a participatory microplanning (PMP) and social audit framework.
- 2.3 The program will help define the relation between central government institutions and local bodies, especially local governments, in relation to EPRS execution. At the same time, the program is designed to strengthen the involvement of local actors with sustained and appropriate efforts for reducing poverty locally, and to define the role of FISE in developing local capacities to combat poverty. To achieve this, the program will encourage local actors to adopt best practices in relation to PMP, project cycle management and social audit. The loan proceeds will support the FISE 2001-2004 program, in raising the number of municipalities managing the project cycle from nine to 50, and the number carrying out PMP processes from 60 to 100.
- 2.4 The program will consolidate interagency relations with international cooperation, in order to ensure their support for FISE. This collaboration is needed in order to promote discussion on FISE's institutional future. The program will help the country establish FISE's mandate and function with regard to EPRS implementation.

C. Program components

- 2.5 The program will have three components: (i) Investments in social infrastructure and community training; (ii) Local capacity strengthening; and (iii) FISE institutional development.

1. Component 1. Investments in social infrastructure and community training (US\$45 million)

a. Participatory micro-planning (PMP) and municipal investment plans (MIPs)

- 2.6 PMP processes will be carried out at the municipal level and coordinated by local governments through their MTUs. FISE will support the MTUs in the technical and financial aspects of this process. Participatory microplanning will include procedures to ensure participation by women and other vulnerable groups in project identification and prioritization. The procedures will also ensure participation from organized local actors including NGOs and civil society organizations. PMP should result in a definition of responsibilities, commitments and contributions between municipal authorities, communities and other local and central bodies.
- 2.7 PMP will have two stages that could be aided by external facilitators financed by FISE. In the first stage, at the community and/or micro-zonal level, workshops will be held to identify problems, needs and possible solution alternatives. Participants will be members of the community and representatives of their organizations. The community workshops will produce an analysis of community problems, prioritize local needs, and set up a monitoring committee. In the second stage, workshops will be held at the municipal level with representatives from the monitoring committees, ministerial delegates and NGOs. The outcome of the second stage will be a municipal investment plan (MIP) consolidating priority projects in the framework of a strategic municipal development vision, to be presented to the Municipal Council for its approval and the allocation of counterpart resources.
- 2.8 An MIP identifies economic and social projects eligible for financing by the FISE and other funding sources. FISE is able to finance priority social projects. To encourage MIPs to become tools of municipal resource programming, FISE will work for interagency agreements to enable the other public and private programs operating at the municipal level to accept using PMP and MIPs for scheduling their investments.
- 2.9 The PMP process will begin in early 2001 with the arrival of newly elected mayors and municipal councilors. FISE will support PMP implementation in approximately 100 municipalities, of which the Bank program will finance approximately 40. The remaining municipalities will be covered by funds from other cooperation agencies. A PMP is expected to take an average of six months to be completed. Each MIP will have a three-year horizon coinciding with the municipal authorities' administrative term, and will be reviewed annually to ensure participatory updating of municipal priorities and the programming of available financial resources.
- 2.10 FISE is currently reviewing PMP procedures in the light of experiences acquired over the last three years. Changes to be introduced include mechanisms for

identifying the poorest sectors in each municipality, active participation from women and other vulnerable groups, and MIP monitoring mechanisms.

- 2.11 In the framework of the Atlantic Coast local development program (1051/SF-NI), FISE is participating in a roundtable to standardize the PMP process to be implemented on the Atlantic Coast. The outcome will be the identification of minimum criteria for carrying out participatory microplanning in this region, including the issues of ethnic diversity and poverty.
- 2.12 To ensure national coverage and avoid duplication of effort, FISE will coordinate its support for PMP with efforts made by other institutions, especially INIFOM. Updating the PMP manual will be done jointly by FISE and INIFOM. **Presentation, for the Bank's no-objection, of the participatory micro-planning manual, drafted jointly with INIFOM and including minimum criteria to be applied on the Atlantic Coast, will be a condition precedent to disbursement.**

b. Social infrastructure investments

(i) Resource allocation

- 2.13 FISE will continue to use the poverty map to allocate resources to the different municipalities. The map is in the process of being updated with the results of the 1998 national household standard of living survey. **The new poverty map, together with an explanation of the municipal resource allocation formula, will be included in the new FISE operating regulations to be presented to the Bank for its no- objection, and put into operation precedent to disbursement.**
- 2.14 The new PMP manual will contain mechanisms to enable local governments to target resources transparently within municipalities in favor of the poorest population sectors.
- 2.15 FISE will inform local governments of the formula for allocating funds and the amounts allocated to their respective municipalities for a three-year period. As an incentive for introducing best practices, the allocation of investment resources will be done on in two parts, with 70% of available funds at the FISE level being distributed on the basis on the new poverty map. The remaining 30% will be allocated to municipalities by the FISE on the basis of local governments' introduction and use of new practices involving them in the fight against poverty and the introduction and meeting of minimum performance indicators. **The system for allocating the remaining 30%, and the mechanisms to be applied will be included in the new FISE operating regulations to be presented to the Bank for its no-objection and put into operation precedent to disbursement.**

(ii) **Investment projects**

- 2.16 All the projects to be funded will be the outcome of PMP processes and will be included in the MIPs. In the case of investment projects included in plans that are not the outcome of processes based on the PMP manual, the FISE will validate the mechanisms used so as to ensure consistency with the mechanisms contained in the manual. In municipalities that have not implemented PMP, project funding will respond to other participatory programming exercises carried out by local governments. In these cases FISE will define the criteria for facilitating and validating such participatory programming exercises. **The criteria to be used for validating participatory programming processes not based on PMP processes, will be included in the new FISE operating regulations, to be presented to the Bank for its no- objection and put into operation precedent to disbursement.**
- 2.17 The program will finance the following menu of projects without prior Bank approval, including the training needed to ensure adequate maintenance and monitoring.
- (i) **Education.** Repair of preschool, primary and secondary schools, technical-vocational institutes, school equipment and materials, and school gardens; and training for school committees.
 - (ii) **Health.** Repair of health centers and primary care units, equipment and materials, training for health committees; toilet projects, basic preventive health care and training for health committees.
 - (iii) **Water and sanitation.** Potable water and basic sanitation in rural and marginal urban areas.
 - (iv) **Social projects.** Social welfare projects such as shelters and homes, and day care centers for the most vulnerable groups.
 - (v) **Natural resources and environment.** Projects such as reforestation, drainage channels and civil works to mitigate vulnerability to natural dangers.
- 2.18 To deepen the PMP processes and based on the MIP definition, FISE will be able to submit new type(s) of project for the Bank's consideration, for inclusion on the project menu, as well as financing for specific projects that ensue from the PMP processes that are not on the menu. In such cases, the FISE will have resources to hire specialists for drafting the respective technical specifications and other relevant aspects.
- 2.19 The program has not been designed to finance **municipal projects** such as markets and slaughterhouses that can be funded through credit lines. FISE will present to

the Bank the criteria to be used during program execution to justify funding for this type of project in exceptional cases.

- 2.20 The new operating regulations will set the maximum amount per project at US\$1 million.
- 2.21 The new operating regulations will require FISE to evaluate all projects to ensure their technical, financial, economic and environmental feasibility. FISE will also evaluate projects from the gender standpoint, including aspects such as: (i) women's participation rate in project-cycle processes; (ii) maintenance; and (iii) impact on men and women. Project proposals will: (i) be a priority defined in the MIP; (ii) provide the most feasible and least-cost solution to the specific problem; (iii) specify the responsibilities to be assumed by local actors during project execution and operation; (iv) satisfy technical standards set by the corresponding governing body; (v) include an operation and maintenance plan; (vi) include the corresponding environmental study, specifying mitigation and protection measures; and (vi) present an economic analysis covering future demand and financial sustainability.

c. Community training

- 2.22 Community groups and project committees will receive training and technical assistance to ensure their participation in PMP processes. This component will also finance training in project administration, management and social audit, the operation and maintenance of civil works and PMF management. Training will strengthen the role of women in these processes. The aim will be to achieve equal participation between men and women in training programs with a view to increasing active participation by women.

2. Component 2. Strengthening of local technical capacities. (US\$2.8 million)

- 2.23 This component will strengthen local technical capacities. FISE will raise the number of level-1 municipalities from nine to approximately 50, of which this program will cover approximately 20. To underwrite the proposed expansion, the program will provide funding for MTU strengthening, covering additional fees, basic equipment purchase (computer and photocopier) and vehicles/motorcycles. In order to achieve a sustainable integration of MTUs in the municipal structure, fees will be covered in declining proportion over a three-year period, to ensure that local governments absorb the entire cost by the end of that period. To strengthen the hands on learning process, municipalities taking part at the level 1, will be permitted to handle the execution of projects to a maximum of US\$1 million.
- 2.24 FISE will increase the number municipalities in level 2 from 16 to approximately 50 of which this program will cover approximately 20. Both level-1 and level-2

municipalities will receive technical assistance and training to: (i) strengthen their capacities in project administration, preparation, execution and supervision; (ii) strengthen their capacity to promote interagency coordination at the local level; (iii) install systems for cost management, bidding and contract award processes, and project monitoring, together with associated training; (iv) develop mechanisms for monitoring and updating MIPs; (v) strengthen systems of disbursement, accountability and control processes related to PMF management; (vi) use micro-targeting techniques at the municipal level; and (vii) install the environmental management system (SISGA).

- 2.25 The component will also finance: (i) training for MTUs, NGOs and other local actors on issues in such as gender, environment, land-use planning and mitigation of natural disasters, poverty and social management⁵ and ethnic diversity; (ii) study trips and sharing of experiences for MTU staff; and (iii) training for consultants (formulators, executing agencies, facilitators, and supervisors) in project cycle technical standards.
- 2.26 FISE will establish a municipal classification and grading system with corresponding performance indicators, to measure, among other things, progress made in each municipality in: (i) financial management; (ii) goods and services procurement; (iii) generation of own financial resources; (iv) PMP development and MIP updating, and (v) promotion of citizen participation. **The municipal classification and grading system with its respective indicators will form part of the new FISE operating regulations, to be presented to the Bank for its no-objection and put into operation precedent to disbursement.**
- 2.27 This component will also fund consulting services in response to demand from local governments (US\$300,000). This will enable them to hire technical assistance to strengthen their institutional frameworks and improve municipal technical management capacities. Access to these funds will be on a co-financing basis: 50% local government and 50% FISE. The latter will draft the operating regulations for using these resources, **presentation of which will be an additional condition precedent to fund disbursement.**

3. Component 3. FISE institutional development (US\$1.2 million)

- 2.28 This component will provide funding for technical assistance and training related to: (i) organizational and structural development to ensure execution of the proposed program; (ii) implementation of an interagency coordinating mechanism at the central and local level to guarantee the investment's sustainability and impact; (iii) the development of inputs for policy dialog on the issues of poverty,

⁵ Social management training activities will be coordinated with the INDES technical team in Nicaragua, which is implementing the training program in social policy management and design.

gender and development; and (iv) development of a proposal for the institutional future of FISE and its role in implementing the EPRS.

- 2.29 **FISE organizational development.** This subcomponent will support the organizational and structural adjustments needed to ensure program execution. It will finance technical assistance for: (i) development and implementation of a human resource strategy specifying the training needs of current technical staff and the incorporation of new skills; (ii) introduction of a project cycle management system; (iii) hiring of consulting services for adapting and/or preparing manuals, procedures, and training materials on the issues of gender, land-use planning, mitigation of natural disasters, and ethnic diversity; (iv) development and/or revision of project evaluation methodologies; (v) revision of monitoring and evaluation systems to include the municipal classification and grading system with corresponding indicators to measure the impact of project cycle delegation; (vi) review of PMF procedures to guarantee their sustainability and impact; (vii) a project control information system developed in conjunction with INIFOM; (viii) adaptation of the financial management system in relation to the delegated project cycle; (ix) establishment of a computerized communication network internally and between FISE and mayoral offices; (x) development of a communication strategy; and (xi) environmental audit to monitor changes introduced in the SISGA.
- 2.30 This subcomponent will also finance training for FISE staff in: (i) social management,⁶ governance and of municipal government modernization; and (ii) study trips and exchanges.
- 2.31 **Interagency coordination.** This subcomponent will fund consulting services to revise interagency coordination agreements. This will include a review of coordination norms and procedures for investments, together with operating mechanisms and incentives to be introduced to ensure participation by line ministries in the PMF. Funding will also be provided for activities needed to reach coordination agreements between FISE and other locally executed programs.
- 2.32 **Contributions to national policies.** This subcomponent will finance consulting services to enable FISE to contribute to the formulation of national policies in the following areas (i) national strategy for local development; (ii) community participation in municipal planning; (iii) a national training system for local actors; and (iv) the relation between decentralization and poverty reduction.
- 2.33 **FISE's institutional future.** This subcomponent will fund execution of an action plan, including a timetable for a strategic review of FISE, currently being prepared by a consultant, the outcome of which will be a proposal for the future mandate and

⁶ Social management training activities will be coordinated with the training program for the design and management of social program policies, currently being executed by INDES in Nicaragua.

role of FISE in EPRS implementation. This proposal will cover the institution's functions, form and financing, and will be presented to the new government in 2002. The country will advise the Bank of the government authority coordination the preparation of the proposal. The monitoring of the progress made in preparing and discussing the proposed future role of FISE will be one of the topics at the annual meetings of the IDB, FISE, and the government.

4. Management (US\$4.8 million)

- 2.34 Financial support from the Bank for hiring professional staff has guaranteed FISE's technical capacity and integrity in maintaining its current high operational levels. The program will maintain this support, but in decreasing amounts, in order to elicit greater commitment from the government to cover these expenses. The list of experts to be covered will be agreed on with the Bank. The initial report that FISE will submit to the Bank will include a list of professional staff that will be financed under the program in year one of the program. The number is expected to decline by approximately 25% by the end of the program. The proposal on FISE's institutional future will cover the government's strategy of administrative financing suited to the role that the country will assign to FISE. The program will also cover the costs of progress reports, a final evaluation, and the annual audits. The cost of the annual audits will be shared with the World Bank.

D. Size of the investment and training component

- 2.35 The size of this program's investment component is based on the effective demand from communities and the execution capacity of FISE and local governments. Experience with the PMP process in 60 municipalities has shown it to be an effective instrument for identifying and organizing demand in conjunction with the communities themselves. For example, the 60 MIPs drawn up for 1998-2001 identified projects worth US\$360 million, of which 34% was financed by FISE. Raising the number of municipalities producing MIPs from 60 to 100 will ensure the level of effective demand is maintained.
- 2.36 Program execution capacity will be based not only on the FISE's proven capacity to disburse between US\$35 and US\$45 million per year, but also on the potential capacity of the MTUs. The FISE's experience with the first nine level-1 municipalities points to a portfolio management capacity of US\$12 million over three years. Although the expansion from nine to 50 municipalities managing the project cycle could result in a slower rate of disbursement, while the MTUs develop their capacity to tender and award contracts, this is not expected to be a long-term trend, for the pilot project shows that MTUs learn to manage project cycle procedures relatively quickly.
- 2.37 The proposed program will form part of a global FISE program of investments in social infrastructure and training, amounting to US\$170 million for 2001-2004. The

Bank will contribute US\$50 million and Sida has approved a contribution of US\$3 million. A World Bank program for approximately US\$50 million is also currently being prepared.

E. Project cost and financing

- 2.38 The cost of the program has been estimated at US\$55,645,000. Bank financing, equivalent to US\$50 million, will come from the Fund for Special Operations (FSO) and will cover up to 90% of the total program cost, since the operation is classified as a geographical poverty-targeted investment and because the beneficiaries are poor.
- 2.39 The local counterpart funds, equivalent to US\$5,645,000 will be provided by central government to cover incremental FISE operating expenses and financial costs arising from the loan. Contributions from municipal governments and communities themselves will provide counterpart funding for investment projects, in cash, materials and/or labor. Community contributions will cover expenses related to maintenance of the civil works.

Cost chart (US\$ thousands)

Investment categories	IDB	Local	Total	%
1. Social investments and community training	41,000	4,000	45,000	80.9
1. PMP processes	2,000		2,000	
2. Civil works, formulation and supervision	39,000	1,000	40,000	
3. Preventive Maintenance Fund		3,000	3,000	
2. Local capacity strengthening	2,502	342	2,844	5.1
1. Consulting services	2,005	342	2,347	
2. Training	197		197	
3. Equipment and supplies	300		300	
3. FISE institutional development	1,190	0	1,190	2.1
1. Consulting services	1,010		1,010	
2. Training	90		90	
3. Equipment and supplies	90		90	
Total subcomponents	44,692	4,342	49,034	88.1
4. Program administration	3,776	1,043	4,819	8.7
1. Consulting services	3,476	1,043	4,519	
2. Annual evaluations	150		150	
3. External audits	150		150	
Subtotal program	48,468	5,385	53,853	96.8
Financial costs	1,532	260	1,792	
1. Interest	1,032		1,032	
2. Inspection and supervision fee	500			
3. Commitment fee		260	260	
Total program	50,000	5,645	55,645	100.0
Percentage	90%	10%	100%	

2.40 The terms and conditions of the proposed operation are as follows:

Financing source	FSO
	Currency
Terms:	
Amortization	40 years
Grace period	10 years
Commitment	3 years ⁷
Disbursement	3.5 years ⁸
Interest rate	1% first 10 years 2% subsequent years
Supervision	1%
Credit fee	0.5% per year on undisbursed balances

⁷ Under no circumstances may the commitment or disbursement terms, or any extension thereof, extend beyond the date of expiration of FISE (currently December 31, 2004)

⁸ Idem.

III. ORGANIZATION AND ADMINISTRATION

A. Borrower, guarantor and executing agencies

- 3.1 The Republic of Nicaragua is the borrower and guarantor of the loan. The Emergency Social Investment Fund (FISE) will be responsible for implementing the program. **Evidence that the agreement for transferring the funds and implementing the program is in place, is a condition precedent to disbursement.**

B. Institutional structure of the program

1. Emergency social investment fund (FISE)

- 3.2 FISE will be responsible to the Bank for implementing the program and it will coordinate all activities relating to execution, specifically: (i) monitoring and supervision of program objectives; (ii) compliance with operational regulations; (iii) efficient resource management; (iv) timely preparation and delivery to the Bank of periodical progress reports, including financial statements; (v) maintenance of financial accounts identifying the sources and uses of funds, as well as internal control procedures; and (vi) dissemination of program activities.

2. Other participating agencies

- 3.3 Other agencies participating in the program will include local governments, communities and their respective organizations, NGOs and specialized service providers. Relations and responsibilities between FISE and participating bodies, and between the different agents, will be laid down in formal agreements. **The new operating regulations will contain the model agreement, together with eligibility criteria for municipalities and local bodies to participate in the program. This will include evidence of legal status, approval by the corresponding local authorities and allocation of local resources, where appropriate.**

C. Interagency coordination

- 3.4 FISE relations with line ministries and other agencies such as MECD, MINSA, MARENA and INAA are already laid down in coordination agreements that run to the end of 2001. These establish the rules and coordination mechanisms for investments in the corresponding sectors. Renegotiation of these agreements will take account of the FISE's new mode of working, as defined in its municipal and community strengthening program, and its role in implementing the EPRS. The agreements will specify the operating responsibilities of the respective institutions, including their involvement in participatory microplanning. Agreements with

MECD and MINSA will define the responsibilities of the different parties in financing and managing the preventive maintenance fund.

- 3.5 FISE and INIFOM will coordinate their respective programs of technical assistance to local governments. This will ensure complementarity between FISE technical assistance in project cycle management and the assistance to be provided by INIFOM in areas such as: municipal management, municipal finance, tax collection and land registry. FISE and INIFOM will work together to revise the PMP manual and will coordinate its implementation.
- 3.6 FISE will support INIFOM in drafting proposals (identified in the TC currently being prepared by the Bank) in the following areas: (i) a national framework for community participation in municipal planning; (ii) a national framework for municipal staff training; (iii) a national strategy for local development; and (iv) a national framework linking decentralization to poverty reduction.
- 3.7 FISE will continue to work closely with INIFOM on the development of a project control information system at the municipal level.
- 3.8 FISE will continue to work together with INIFOM and make every effort to coordinate activities with other institutions that execute programs at the local level; with a view to using PMP and MIPs to allocate resources to specified priority investments.

D. Program execution

- 3.9 Program resources will be committed over a three-year period, with 3.5 years for disbursement. Resources transferred to the different participants will be nonrefundable.
- 3.10 Execution will be carried out in line with operational, technical and financial requirements, the rules and procedures established in the proposed agreements, and in the new FISE operating regulations.
- 3.11 The new regulations will specify the program's mechanisms, commitments and procedures for working with the different participating agents, and will cover, at least the following topics: (i) the mechanism for transferring funds to municipalities, and procedures for managing special accounts and justifying resource use; (ii) presentation of certified financial statements for the project; (iii) the functions and rules of the project cycle to be delegated to municipal authorities; (iv) bidding and procurement procedures for goods purchase, construction of civil works, hiring of services, and eligibility criteria for goods and service providers; (v) the rules for carrying out the PMP process and the criteria for validating other participatory programming exercises; (vi) the criteria to be used by the FISE in evaluating municipal investment plans drawn up by other institutions; (vii) eligibility criteria for each project type in terms of technical, economic, legal,

institutional, financial and environmental requirements; (viii) the municipal audit system; (ix) the incentive scheme for introducing best practices, including criteria for additional resource allocation (the remaining 30%); (x) the system for monitoring and evaluating the PFMC; (xi) the new poverty map and explanation of the municipal allocation formula; (xii) the municipal classification and grading system with its respective indicators; (xiii) the model agreement and eligibility criteria for participating in the program with municipalities and local entities; and (xiv) mechanisms to be applied in defining municipal income, in order to estimate local government counterpart funding. Preparation of the new operating regulations will include a gender perspective. **Presentation of the new FISE operating regulations for the Bank's no-objection, and their introduction, will be a condition precedent to disbursement.**

1. Component 1. Social infrastructure investments and community training

- 3.12 Community members will: (i) receive technical assistance and training in PMP processes; project management, administration and social audit; operation and maintenance of civil works installations; and PMF management; (ii) participate in PMP processes, and the auditing of civil works execution; (iii) form the committees needed for the execution/monitoring and maintenance of civil works; and (iv) contribute in kind, labor and/or cash to the implementation and/or preventive maintenance of the civil works.
- 3.13 Local governments and MTUs (depending on their level 1, 2 or 3 classification) will: (i) carry out PMP processes and draw up municipal investment plans (MIPs); (ii) prepare bidding documents and contracts for the supply of goods and services; (iii) keep separate and specific bank accounts for the administration of program funds; (iv) keep financial accounting systems that identify the use made of program funds as distinct from other types of expenditures; (v) establish adequate internal control systems and procedures; (vi) keep all documentation relating to each investment project, including vouchers for the purchase of goods and services, in appropriate files; (vii) present liquidated and audited project accounts to FISE; (viii) tender and contract subcontractors (civil works formulators, executing agencies and supervisors); (ix) provide counterpart funding, equivalent to 10% of their own income to cofinance project cycle activities.
- 3.14 **NGOs, private individuals and private-sector companies** will provide specialized services, including PMP facilitation.
- 3.15 **FISE** will: (i) delegate the functions of calling for bids, contracting and supervision, to municipal authorities capable of performing these tasks; (ii) provide lists of authorized service providers; (iii) monitor and supervise delegated project cycle processes; (iv) disburse program funds directly into special accounts opened by local governments; (v) contract concurrent audits to ensure adherence to the procedures governing the PMP, the delegated project cycle and the PMF, and to

ensure proper use of funds; (vi) manage the financial-accounting management and domestic control systems; (vii) check documentation supporting disbursements, including those made to level-1 local governments; (viii) keep files containing the corresponding original documentation; (ix) ensure preparation processes adhere to established procedures and make it possible to corroborate participation by the community at large, and by women particularly, in the identification and prioritization of projects; (x) evaluate projects *ex-ante* to ensure their technical, financial, economic, gender and environmental viability; (xi) monitor the progress of program execution; (xii) monitor fulfillment of counterpart contribution commitments made by local governments and communities; and (xiii) call for bids and contract project formulation, together with construction and civil works supervision for Level-3 municipalities.

2. Component 2. Local capacity strengthening

- 3.16 **Local governments** and their MTUs, (depending on their level 1, 2, or 3 classification) will: (i) contract engineers, architects, financial specialists, economists, sociologists and other professionals needed to set up or strengthen MTUs; (ii) purchase office equipment and furniture, together with vehicles/motorcycles, for use by MTU professional staff; (iii) contract technical assistance to strengthen, among other things, their administrative, financial and internal control systems, relating to the project cycle; and to strengthen their institutional framework and technical capacities in relation to municipal management; (iv) participate in training in PMP, project cycle and PMF management; targeting inside municipalities; gender aspects, issues of poverty and local development, environment, natural resource administration and land-use planning; and (v) carry out activities to improve their management and project execution capacities, including the participation of women in local development processes.
- 3.17 **NGOs and ministerial delegates** will participate in training related to: (i) the management of PMP and PMF processes; (ii) targeting within municipalities; and (iii) gender aspects, issues of poverty and local development, environment, natural resource management, and land-use planning.
- 3.18 **FISE** will: (i) transfer its cost management, contracting and project-monitoring systems to municipalities capable of assuming these functions; and (ii) give training in using these systems and manuals relating to the municipal and community strengthening program. It will also organize training on PMP management, the targeting of resources on the poorest in each municipality, gender aspects, and issues of poverty and local development, environment, resource management, land-use planning and the participation of women in local development.

3. Component 3. FISE institutional development.

- 3.19 This component, to support the transformation of the institution, will be executed by FISE, which will be responsible for: (i) training and strengthening its staff in social management, and promoting and transferring capacities to the MTUs; (ii) contracting technical assistance to adapt and/or prepare new procedural manuals relating to the PFMC, and the issues of gender, land-use planning and natural disaster mitigation; (iii) develop and/or revise its methodologies for evaluating projects and municipal performance, and monitoring the impact of project cycle delegation; (iv) hiring the technical assistance needed for executing this component; (v) providing training for staff through study trips and exchanges; (vi) preparing and submitting monitoring reports to the Bank; and (vii) hiring mid-term evaluation and annual audits. FISE will help draw up a proposal on its own future as an institution (paragraph 2.28).
- 3.20 Making available its experience in implementing the municipality and community strengthening program (PFMC), FISE will provide inputs for formulating national policies on linking decentralization to poverty reduction, national local development strategy, community participation in municipal planning, and the design of a national training framework. These studies will also serve as inputs for FISE in its own institutional transformation.
- 3.21 The EPRS sees FISE as one of its key executing institutions, but the latter's role after 2004 remains to be defined. **As a condition precedent to disbursement, the Nicaraguan government will present, for the Bank's no-objection, a detailed description of the process to be followed in preparing a proposal for the future role of FISE, which will include specifying the role of the relevant institutions, including SETEC, INIFOM and the Public Administration Reform Commission (CERAP), in this process**
- E. Procurement of civil works, goods and ancillary services, and consulting services**
- 3.22 International public bidding will be required for contracts exceeding: US\$1 million for construction work, US\$250,000 for goods and ancillary services, and US\$200,000 in the case of consulting services.
- 3.23 Civil works, goods and ancillary services and consulting services for lesser amounts will be subject to procurement modalities established in the State Procurement Law (Law 323), according to the following table and will be supervised by the Bank in accordance with its usual ex post evaluation policy:

MODALITY			
	Civil works	Goods and services	Consulting services
Public bidding	From US\$195,001 to US\$1,000,000	From US\$195,001 to US\$ 250,000	From US\$195,001 to US\$200,000
Bidding by registered suppliers	From US\$55,001 to US\$195,000	From US\$55,001 to US\$195,000	From US\$55,001 to US\$195,000
Limited bidding	From US\$8,001 to US\$55,000	From US\$8,001 to US\$55,000	From US\$8,001 to US\$55,000
Purchase subject to quote	US\$8,000 or less	US\$8,000 or less	US\$8,000 or less

- 3.24 In order to facilitate the process of delegating the project cycle to municipal governments in the framework of the municipality and community strengthening program (PFMC), the new operating regulations will include certain special applications acceptable to the Bank on certain procedural details, relating to the following aspects of the law in the case of local bidding processes: (i) the use of a single subcontractor registry; (ii) publication of the annual contracting program; (iii) establishment of bidding committees; (iv) mandatory discussion of bidding documents; (v) the process of calling for tenders in public bidding processes; (vi) composition of the review committee; (vii) publication of baseline prices; and (viii) the process of deciding project awards.

F. Disbursements

- 3.25 **Revolving fund.** A revolving fund will be set up for the program. It is recommended to make the equivalent of 5% of the Bank loan available, in accordance with current policy.
- 3.26 The proceeds of the loan and local counterpart funds will be paid directly into a special bank account operated by FISE. The latter, in turn, will make transfers to named accounts to be managed by municipal governments with the capacity to carry out this function. The municipal authorities will deposit their counterpart funds into the same named accounts. These accounts will be opened in the name of the Mayor/FISE. The legal and operational aspects of the transfers and their liquidation will be formalized in agreements between FISE and the participating municipal authorities, and will be set out in detail in the FISE operating regulations.
- 3.27 The fund transfer mechanism will be as follows: FISE will make an initial disbursements of funds assigned to the municipality for up to 5% of the total funds available, adding together the resources allocated to projects and resources for MTU strengthening. These and counterpart funds will only be used to cover expenses relating to the contracting of pre-investment (project formulation), the execution and supervision of civil works, and expenses relating to fees paid to professionals and the purchase of equipment for MTU consolidation. Subsequent disbursements will be requested from FISE by local governments through their

respective MTUs, supported by appropriate documentation. FISE will ensure that disbursement requests are accompanied by the necessary documentation, including contracts, purchase orders, invoices, receipts, payment vouchers, supplier statements and other documentation acceptable to the Bank.

- 3.28 FISE will present disbursement requests to the Bank, in accordance with established procedures.
- 3.29 Given the nature of the operations and the volume of transactions anticipated for the procurement of goods and hiring of services, FISE and/or municipal governments will keep on file the originals and/or copies of the documentation needed to verify the use of funds. This documentation will be duly identified and will be made available to authorized Bank staff and external auditors for their examination.
- 3.30 The Bank's country office in Nicaragua will carry out *ex-post* technical and financial inspections of the support documentation, including files and receipts relating to a random sample covering 10% of the projects. This will be a means of verifying that FISE and local governments are maintaining documents supporting disbursement request on their files, and that the funds were used as stipulated in the loan contract. In the event of discrepancies with respect to stipulated procedures being discovered, a broader sample will be examined and FISE will be notified of any amounts to be deducted from future orders.
- 3.31 The disbursement schedule will be as follows

Year 1	Year 2	Year 3	Year 4	Total
21%	29%	36%	14%	100%

G. Accountancy and Audit

- 3.32 FISE and the municipalities that will manage program resources, will set up and maintain proper accounts and records in accordance with accepted accounting procedures; and they will set up independent internal control mechanisms to guarantee compliance with the operating regulations. These accounts will be audited at the end of each fiscal year by an qualified firm of independent auditors acceptable to the Bank. The audited program financial statements submitted to the Bank will include an opinion on the accounts and records maintained by the different agencies and also on the use of program funds. Financial statements will be presented to the Bank throughout program execution, as from the first year of execution.

H. Initial report

- 3.33 The initial report to be presented to the Bank will include the list of consultants to be hired for FISE strengthening. The Bank reserves the right of no-objection in relation to candidates that will be financed out of program funds.

I. Monitoring, evaluation and reports

- 3.34 **Monitoring and evaluation.** The program's impact will be monitored and evaluated using information provided by the FISE monitoring and evaluation system. FISE will set up benchmarks to measure the progress of program implementation and its impact. The Bank's project team will hold annual review meetings with the FISE management team in the fourth quarter of each year. In 2001, this meeting will deal, among other things, with the proposal for FISE's future institutional role within the EPRS; in 2002, it will make a mid-term review of progress of the operation, the progress and decisions made by the government with respect to FISE's proposed institutional future, and consider the adjustments needed to achieve its objectives, among other issues; the 2003 meeting will include an evaluation of results of delegating the project cycle to municipalities, and the progress in implementing the national strategy; and the meeting in 2004 will consider the final project evaluation. The Bank and FISE will hold meetings six months before each annual meeting to define the specific technical studies to be undertaken to serve as inputs in those meetings. FISE will be responsible for preparing the corresponding reports and hiring the consultants.
- 3.35 **Reports.** FISE will present six- monthly reports, the form, scope and content of which will be agreed with the Bank's project team.
- 3.36 **Supervision by the Bank.** The Bank's office in Nicaragua will be responsible for supervising program execution and will receive support from Headquarters where necessary.

IV. BENEFITS AND RISKS

A. Benefits

- 4.1 The program will provide funding for social infrastructure projects and basic services targeted on the poorest sectors of the Nicaraguan population. By improving access to education, health, water and sanitation, FISE investments will have a direct impact on the living standards of a substantial number of people, especially those living in rural areas.
- 4.2 The program will have local benefits in terms of opportunities for communities and municipal governments to work together to identify priority local investments. The result will be greater efficiency in the use of public resources. Another source of efficiency will stem from the commitment by beneficiary groups to provide counterpart resources, which will promote ownership of the project and sustainability of the corresponding investments.
- 4.3 The program is intended to increase participation and local responsibility for investments in social infrastructure and poverty reduction. The PMP process will increase responsiveness to the priorities of poor people, both men and women. Changes made to micro-planning processes are designed to ensure maximum participation by women in the identification of priority investments.
- 4.4 The program components contain several other elements that will help to increase women's participation. The activities concerned will largely continue efforts being made under the current operation to incorporate a gender perspective and to increase women's participation in FISE work. With a more wide-ranging delegation of project cycle processes to local actors, FISE has to ensure the capacity of such actors to promote gender equity and participation by women.
- 4.5 The program will train local actors in gender issues, to enable them to take actions in favor of gender equity in poverty reduction and to increase women's participation. It will also continue to train women as members of the different committees and will seek opportunities to consolidate their involvement in the project cycle. Training will also begin to be provided local actors on ethnic diversity. In creating a deeper understanding, a basis will be established for including sectors that have traditionally been excluded from decision making on the use of public resources.
- 4.6 Review of the procedures and norms of project cycle delegation will be undertaken with a gender perspective. Indicators developed to monitor the program will incorporate a gender perspective with a view to reporting on progress in the participation of men and women in the program's different processes.

- 4.7 Municipal capacity building in project cycle management is a key to the success of the program. The effective transfer of FISE systems and procedures to municipal technical units will ensure the quality of civil work carried out under the delegated project cycle system. In addition, the successful implementation at the municipal level of FISE processes relating to transparent use of public resources and accountability, will help to encourage new standards of governance nationally. It is important to bear in mind that the capacities the program will create for managing public funds will be useful to other programs supporting local investment through municipal governments.
- 4.8 The funds available to local governments for investment will also play a key role. These will be used as incentives for introducing new institutional practices to improve participation by municipalities in the fight against poverty. In a key sense, financial resources will support efforts to transfer FISE project cycle procedures and systems to municipal technical units. Additional resources will be made available to local governments meeting performance targets in areas including financial administration and the generation of own resources.
- 4.9 Past experience of IDB programs with FISE suggests that the government will continue providing counterpart resources as stipulated in the proposed program. This trend will be reinforced by the fact that the FISE 2001-2004 program of US\$170 million is an integral part of the EPRS. For this reason, the high priority assigned to the EPRS by the government is expected to prevent any reduction in its budgetary contribution to the social sector.
- 4.10 The program has been designed to strengthen the role of local governments in the financing of actions to support poverty reduction at the local level. Specifically, all local governments participating in the proposed program will provide additional funds on top of the FISE allocation. The amount to be contributed by each municipality will be equivalent to 10% of their own incomes.
- 4.11 The program is expected to have a positive environmental impact. It will support the creation of knowledge in land-use planning and natural disaster mitigation at the municipal level, which, over time will lead to greater compliance with environmental standards in the design, location and operation of community infrastructure. Apart from developing these planning techniques at the local level, the program will also encourage transfer of the procedures of the Environmental Management System (SISGA) to municipal technical units. This transfer will improve the use of environmental evaluation tools and techniques not only in executing FISE-financed projects but in local investments generally.
- 4.12 The program will also provide benefits in terms of coordination between international coordination agencies. The operation was prepared within the framework of the Sida-IDB Partnership for Central America, thereby ensuring collaboration between the Bank and Sida. Subsequently, all major participating

agencies worked with FISE to draw up its investment program for 2001-2004 in a strategic planning exercise supported by the Bank. There is a shared commitment towards technical aspects of the investment program for 2001-2004 that will serve as the basis for ongoing collaboration during execution of the proposed operation.

- 4.13 The delegation of project cycle responsibilities from FISE to communities and local governments will require a deepening of existing interagency coordination and the creation of new institutional relations. There is recognition within FISE that additional efforts are needed in this area, and this will be supported by a technical cooperation currently being prepared by the Bank to support INIFOM institutional development.
- 4.14 The program will also provide institutional support to FISE. A key aspect of the program is support provided to the institution in drafting a proposal for its future role within the EPRS. The time is ripe for reconsidering the FISE's mandate, given the development of the EPRS itself and the need to define an institutional framework for its implementation, since its current mandate, dating from 1990, is unsuited to the country's institutional context.
- 4.15 Setting the program within the EPRS also entails considerable benefits. On the one hand, investment resources will help to start EPRS implementation. As a result, the program will demonstrate the government's commitment to reducing poverty, together with the Bank's clear support for this. It will also place FISE investments within a set of agreed poverty reduction priorities. In this respect, the FISE contribution to poverty reduction will be more firmly grounded in indicators arising from national EPRS processes.

B. Social equity and poverty reduction classification

- 4.16 The project establishes explicit performance indicators for measuring poverty reduction and improvements in social equity (see annex I). Its PTI classification is automatically justified.

C. Risks

- 4.17 The operation has been designed in a participatory way with involvement from the municipal authorities, who will be standing down in early 2001. It is assumed that, on taking office, the newly elected authorities will show the same commitment to participating in the program as the current incumbents. To ensure this, resources from the CABILICA fund will be used to support INIFOM and the country's mayoral association (Nicaraguan Municipalities Association - AMUNIC) in implementing a program to give new mayors training in their responsibilities and authority, and on local and municipal programs currently in execution.
- 4.18 The lack of qualified technical resources in local governments is a major shortcoming that could undermine successful execution of the program.

Furthermore, the lack of a municipal civil service career structure and the meager financial resources available to local governments have restricted professional opportunities within municipal government. The approval of a municipal civil service law will be a major step forward in laying the foundations for improvement in this area. Also, setting up MTUs is hindered by undeveloped labor markets for engineers, architects and planners in most Nicaraguan municipalities. A challenge for the municipalities relates to the incentives needed to attract and retain qualified professional staff to work in the MTUs. It is important to note, however, that the delegation of the project cycle and the training related to these activities will encourage a local market in different professions such as architects, contractors, auditors, and social promoters

- 4.19 Municipal governments also lack financial resources. Their capacity to increase their own resources is limited and the central government transfer system is inconsistent. The sustainability of MTUs and their trained staff will depend on the ability of municipal authorities to assume total responsibility for them after three years. This will depend not only on the capacity of each municipal government to generate greater income on its own account, but also on its capacity to generate investment levels that justify the hiring of technical staff. The program seeks to encourage the introduction of good management practices, including steps to increase municipal revenue itself.
- 4.20 The proposed program does not have the scope to work directly on the issues of municipal civil service and fiscal decentralization, highlighted as risks in the previous paragraphs. However, the program will benefit from the technical cooperation currently being prepared by the Bank to support INIFOM, as the key institution to follow up on these issues. This technical cooperation will have resources to support the formulation and implementation of policies on creating a municipal civil service career and fiscal decentralization.
- 4.21 FISE is an institution with proven capacity to learn from its experience and modify its procedures and systems. The proposed operation, which will intensify the delegation of project cycle responsibilities to local governments, will be a challenge to the FISE's capacity to adapt. A larger number of municipalities executing projects with delegated authority will require not only the development of new procedures and systems, but also changes in organizational structure. As a still-centralized institution meets the challenges of demands to delegate, institutional inertia will need to be taken into account when executing the operation.

POVERTY REDUCTION AND LOCAL CAPACITIES STRENGTHENING PROGRAM (NI-0108)
LOGICAL FRAMEWORK¹

Descriptive summary	Achievement indicators	Means of verification	Assumptions
Human capital, mainly in forest communities	1.1 Health/ education/water and basic sanitation indices in accordance with EPRS	1.1.1 Official statistics	
Infrastructure and improved services in terms of quality of sustainability, provided in a manner, coordinated by local authorities and targeted on the poorest	<p>1.1 Coverage of infrastructure and basic social services provided by FISE increased by 3% at the national level and 1.5% in extremely poor municipalities by end of program</p> <p>1.2 At least 100 (of 150) municipalities carrying out participatory micro-planning (MPP) by end of program, meeting agreed standards and procedures by 12/01</p> <p>1.3 100% of municipalities with preventive maintenance fund (PMP) installed and institutionalized by end of program</p> <p>1.4 100% of municipalities that have satisfied established criteria for the different levels and modalities of decentralization are carrying it out by end of program</p>	<p>1.1.1 FISE GIS</p> <p>1.2.1 FISE GIS 1.2.2 Participatory M&E workshop</p> <p>1.3.1 Participatory M&E workshop 1.3.2 FISE GIS</p> <p>1.4.1 Records of graduation system</p>	1. Poverty map employed as a mechanism for directing poverty reduction activities

¹ Participants in the logical framework exercise included: FISE middle and intermediate management; the international community (IDB, World Bank, KfW, GTZ, Sida); six representatives from INIFOM; three representatives of CSD; five representatives of MTUs; and two representatives of NGOs.

narrative summary	Achievement indicators	Means of verification	Assumptions
	<p>1.5 At least 75% of project monitoring committees functioning, and at least 75% of project maintenance committees functioning over a three-year period, comprising at least 40% women by end of program</p> <p>1.6 85% of civil works and services preserve their quality standard three years after delivery, being maintained by trained local and sector actors.</p>	<p>1.5.1 Interviews/Focus groups</p> <p>1.5.2 Surveys</p> <p>1.6.1 Ex-post evaluations</p> <p>1.6.2 Survey/interviews with trained local actors</p>	
s			
<p>structure and social service designed and executed in a orderly manner</p>	<p>1.1 100% of resources allocated and distributed to municipalities by FISE, according to official poverty map criteria, as from 01/01</p> <p>1.2 100% of projects financed in municipalities with participatory micro-planning (MPP) come from municipal investment plans (MIP) as from 01/01</p> <p>1.3 100% of projects financed in municipalities without MPP, come from participatory processes validated by FISE, based on minimum criteria, as from 01/01</p> <p>1.4 100% of projects formulated have been backed by project monitoring committees and municipal technical units (MTU) as from 01/01</p> <p>1.5 100% of committees trained in social control and maintenance functions by end of program (50% IDB)</p>	<p>1.5.1 Participant list</p> <p>1.5.2 Training evaluation forms</p>	

Narrative summary	Achievement indicators	Means of verification	Assumptions
	1.6 Additional resource incentive system (including local roundtables) defined and operating as from 02/01	1.6.1 Minutes of meetings	
training, technical assistance communication system communities and local units designed and implemented	2.1 40 municipalities trained in MPP, including gender and environmental issues by end of program 2.2 20 municipalities trained in project cycle by end of program 2.3 20 municipal technical units (MTUs) equipped and with human resources contracted by end of program 2.4 20 MTUs, sector delegations and civil society organizations trained in environment, gender and resource targeting at the local level by end of program 2.5 At least 200 subcontractors (formulators, executors and supervisors) trained in project cycle technical standards by end of program 2.6 Project cycle quality control system designed and operating by end of program (50% financed with Bank resources) 2.7 Project cycle management operating manuals designed and validated by 06/01	2.1.1 Participant list 2.1.2 Training evaluation forms 2.2.1 Participant list 2.2.2 Training evaluation forms 2.3.1 Participant list 2.3.2 Training evaluation forms 2.5.1 Participant list 2.5.2 Training evaluation forms 2.5.3 Annual mission review reports	
role, systems, capabilities organizational structures defined within the EPRS	3.1 Proposal on future role of FISE as part of the EPRS developed by year-end 2001; discussed and agreed on with government by year-end 2002	3.1.1 Document of approval	1. At least 75% of local actors maintain maintenance techniques, u skills

Narrative summary	Achievement indicators	Means of verification	Assumptions
	<p>3.2 Institutional role of FISE redefined in relation to other institutions by end of program</p> <p>3.3 Municipality graduation system established by 12/00, agreed on and operating by 06/01</p> <p>3.4 Monitoring and evaluations system (M&E) updated as from 12/01</p> <p>3.5 Human resource strategy formulated by end of program</p> <p>3.6 FISE staff trained in social management, and in municipal and related issues by end of program</p> <p>3.7 Organizational structure, functions, capability types and ancillary systems, updated and operating by mid-2002</p> <p>3.8 Information system for project control standardized with INIFOM by 03/01</p> <p>3.9 Project control subsystem developed and implemented in FISE by 07/01</p> <p>3.10 Financial management system updated and implemented in FISE by 09/02</p> <p>3.11 Internal FISE electronic communications network operating by a 05/01 and FISE-mayoral offices network by 12/01</p>	<p>3.5.1 FISE operating manual</p>	<p>2. Legislative bills on municipal service, citizen participation, municipal transfer, and municipal cadastre approved by the National Assembly and implemented at local level</p> <p>3. Legislative bill on decentralization strategy approved by the National Assembly and implemented</p> <p>4. Other complementary municipal development projects developed successfully</p> <p>5. Line ministries and other State adopt poverty map as a tool for targeting social spending</p>

Narrative summary	Achievement indicators	Means of verification	Assumptions
	<p>3.12 Communication strategy including audience impact, media to be used, products and services to deliver, designed and operating by 06/01</p> <p>3.13 Interagency agreements on the instruments to be used in the components of the community and municipal strengthening program PFMC (MPP, FMP, community training, project cycle delegation) adopted and put into practice by 02/01</p> <p>3.14 Interagency agreements on the financing of projects identified in MIPs adopted and implemented as from 06/02</p>		
<p>out MPP (including training in and environment)</p> <p>out municipality preinvestment and monitor civil works</p> <p>community groups and project teams in the execution, on, maintenance and social civil works</p>	Activity budgets	Program budget	<ol style="list-style-type: none"> 1. Local governments willing participate in the program 2. Other cooperation mechanism creating strategic alliances 3. Community groups willing participate in the program 4. Central government political carry out the program main 5. Municipal charter setting and procedures approved in 50% of municipalities by 0 6. Key FISE technical capacity maintained throughout the 7. Other cooperation agencies this operation as well as II

Narrative summary	Achievement indicators	Means of verification	Assumptions
<p>and facilitate human resources</p> <p>MTUs (wages, equipment and</p> <p>)</p> <p>0 MTUs in project cycle</p> <p>ment</p> <p>systems of cost control,</p> <p>ing, monitoring, including</p> <p>e, TA and associated training</p> <p>MTUs, sector delegates and</p> <p>n gender and environment</p> <p>and mechanisms for targeting</p> <p>es within the municipality</p> <p>social communication</p> <p>for communities and</p> <p>alities</p> <p>e social communication</p> <p>exchange of experiences</p> <p>n MTUs (study trips)</p>	<p>Activity budget</p>	<p>Program budget</p>	

Narrative summary	Achievement indicators	Means of verification	Assumptions
<p>role of FISE in the EPRS work</p> <p>FISE technical team in social assessment and capacity building at local level</p> <p>gender and environment operational manuals</p> <p>FISE human resource (TA)</p> <p>FISE staff (<i>internships, study visits</i>)</p> <p>develop policies on local governance strategy, poverty reduction and decentralization</p> <p>install and operate new computer systems, with associated training</p> <p>conduct project evaluation methodologies</p> <p>maintain and update M&E system</p>	<p>Activity budget</p>	<p>Program budget</p>	

PROCUREMENT SCHEDULE
PROGRAM TO FIGHT POVERTY AND TO STRENGTHEN LOCAL CAPACITY

Main procurement	Financing	Bidding method (US\$)	Pre-qualification	Forecast date of publication
Program administration				
Contracts with long-term FISE support contracts: US\$4,520,000 FISE consulting services	77% IDB 23% Government of Nicaragua	ICB greater than US\$200,000 CB from US\$195,001 to US\$200,000 BR from US\$55,001 to US\$195,000 LB from US\$8,001 to US\$55,000 PQ less than US\$8,000	No	I/2001
and long-term consulting services: US\$300,000 Program evaluations Internal audits	100% IDB	ICB greater than US\$200,000 CB from US\$195,001 to US\$200,000 BR from US\$55,001 to US\$195,000 LB from US\$8,001 to US\$55,000 PQ less than US\$8,000	No	II/2001 to II/2001
rent, goods and ancillary services: US\$90,000 al FISE communications network	100% IDB	ICB greater than US\$250,000 CB from US\$195,001 to US\$250,000 BR from US\$55,001 to US\$195,000 LB from US\$8,001 to US\$55,000 PQ less than US\$8,000	No	II/2001 to II/2001
Program execution				
ing services with long-term contracts in support of MTUs: 2,500 ineers, accountants, architects, etc.	84% IDB 16% Local	ICB greater than US\$200,000 CB from US\$195,001 to US\$200,000 BR from US\$55,001 to US\$195,000 LB from US\$8,001 to US\$55,000 PQ less than US\$8,000	No	II/2001

Main procurement	Financing	Bidding method (US\$)	Pre-qualification	Forecast date of publication of
<p>and long-term technical assistance: US\$1,244,523</p> <p>gn of interagency coordination mechanisms</p> <p>llation of systems of cost management, contracting and monitoring in Us.</p> <p>iew and adaptation of FISE operating manuals and preparation of uals for MTUs</p> <p>elopment of municipal poverty maps</p> <p>ility for development of technical knowledge</p> <p>elopment and implementation of FISE human resource strategy</p> <p>ptation and/or preparation of manuals and procedures</p> <p>elopment and/or review of project evaluation methodologies</p> <p>iew of monitoring and evaluation systems</p> <p>iew of PMF procedures</p> <p>allation of information systems for project control</p> <p>ating of financial-accounting and management systems in relation to gation of the project cycle</p> <p>ign and implementation of internal FISE communication system, and ween it and the municipalities</p> <p>elopment of communication strategy</p> <p>elopment of innovative activities</p> <p>iew of interagency agreements</p> <p>vities to reach agreements between FISE and other programs</p> <p>elopment of local development strategy</p> <p>elopment of national framework for community participation in local ning</p> <p>elopment of national training system for local actors</p> <p>earch on the relation between decentralization and poverty reduction</p> <p>plementation of action plan to develop a proposal for the future role of E in EPRS implementation</p>	100% IDB	<p>ICB greater than US\$200,000</p> <p>CB from US\$195,001 to US\$200,000</p> <p>BR from US\$55,001 to US\$195,000</p> <p>LB from US\$8,001 to US\$55,000</p> <p>PQ less than US\$8,000</p>	No	II/2001 to I/

Main procurement	Financing	Bidding method (US\$)	Pre-qualification	Forecast date of publication of the tender
Investment projects: US\$287,140 MTU technical staff and members of the community in PMP processes MTU technical staff in the use of micro-targeting techniques MTU and NGO staff on issues of gender, environment, land-use planning, natural disaster mitigation, poverty, social management and ethnic diversity, and poverty formulators, subcontractors and supervisors in project cycle rules and techniques courses, seminars, study trips and exchanges for FISE staff in social management, governance and the modernization of local governments	100% IDB	ICB greater than US\$200,000 CB from US\$195,001 to US\$200,000 BR from US\$55,001 to US\$195,000 LB from US\$8,001 to US\$55,000 PQ less than US\$8,000	No	11/2001 to 11/2002
Investment projects: US\$390,000 equipment, computers, software for MTUs, communication network office furniture and materials motorcycles for MTUs	100% IDB	ICB greater than US\$250,000 CB from US\$195,001 to US\$250,000 BR from US\$55,001 to US\$195,000 LB from US\$8,001 to US\$55,000 PQ less than US\$8,000	No	11/2001 to 11/2002
Investment projects: US\$45,000,000 technical assistance for PMP processes project formulation and supervision priority projects identified by communities and local governments in the areas of health, education, water and sanitation, social welfare, natural resources preventive Maintenance Fund	91% IDB 9% Local	ICB greater than US\$1,000,000 CB from US\$195,001 to US\$1,000,000 BR from US\$55,001 to US\$195,000 LB from US\$8,001 to US\$55,000 PQ less than US\$8,000	No	11/2001 to 11/2002

PROPOSED RESOLUTION

NICARAGUA. LOAN ____/SF-NI TO THE REPUBLICA DE NICARAGUA
Program to Fight Poverty and Strengthen Local Capacity

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the República de Nicaragua, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Program to Fight Poverty and Strengthen Local Capacity. Such financing will be for the amount of up to US\$50,000,000, or its equivalent in other currencies, except that of Nicaragua, which are part of the resources of the Bank's Fund for Special Operations, and will be subject to the "Special Contractual Conditions" and the "Financial Terms and Conditions" of the Executive Summary of the Loan Proposal.