

# MODERNIZATION PROGRAM FOR THE MUNICIPALITY OF MANAGUA

(NI-0111)

## EXECUTIVE SUMMARY

<b>Borrower:</b>	Republic of Nicaragua	
<b>Executing agency:</b>	Municipality of Managua	
<b>Amount and source:</b>	Borrower:	US\$0.63 million
	IDB (FSO resources):	US\$5.67 million
	Total:	US\$6.30 million
<b>Financial terms and conditions:</b>	Amortization Period:	40 Year
	Grace Period:	10 Year
	Disbursement Period <sup>1</sup> :	5 Year
	Interest rate:	1% for the first 10 years 2% thereafter
	Inspection and supervision:	1%
	Credit fee:	0.5%
<b>Objectives:</b>	<p>The program seeks to strengthen the institutional capacity of the municipality by promoting further decentralization and greater public participation in the design and implementation of pilot projects of high socioeconomic importance, as well as by promoting the modernization of the municipal government in order to make it more efficient and transparent. This strategic objective is embodied in the following specific objectives: (i) strengthening the municipality's capacity in such areas as service planning, tax and financial administration, and environmental management; (ii) greater public involvement and transparency in allocating public resources; and (iii) improvement in the coverage and quality of the municipal solid waste collection service and the expansion of municipal services in poor neighborhoods within a framework of greater public participation and cooperation with service providers.</p>	

<sup>1</sup> As well as six additional months for the evaluation of pilot projects and the final evaluation of the program.

**Description:** The program will fund technical assistance and investment in pilot projects in order to strengthen the municipality's institutional capacity and improve the delivery of basic services. In pursuit of the above, the modernization of the municipality will not be undertaken through the application of a theory of institutional reengineering, but through concrete improvements in the provision of basic services.

The program is composed of two components described in detail in a Technical Cooperation Plan that the Bank and the municipality have been developing since November 1998.

The institutional modernization component (US\$1.9 million) will support the municipality in: **A)** Increasing administrative efficiency and transparency through the improvement of strategic planning, tax administration, and financial planning, and the implementation of the General Information System Plan; **B)** Increasing public participation by funding technical assistance for the institutional strengthening of municipal district offices and improving their capacity to interact with the public through investment programs featuring participatory processes; **C)** Strengthening the Department of the Environment (DGA)—the municipal environmental regulation and control entity—and implementing an environmental education campaign.

The service improvement component (US\$3.5 million) will support the implementation of participatory programs. In particular, the component will fund: **A)** Three pilot projects to improve poor neighborhoods in cooperation with the institutions involved in neighborhood and community improvement. Each project is based on a package of improvements to basic city services and a package of social and environmental programs to educate the public and strengthen community participation. The program will fund technical assistance to strengthen and consolidate project coordination, as well as investments to improve the municipality's capacity to repair streets and sidewalks, legalize lots, connect homes to clean water and drainage systems, and construct parks and green areas. The other service providers (ENACAL, ENEL) will fund investments in their areas of responsibility. **B)** Pilot projects for solid waste collection, both in poor neighborhoods through service contracts with microenterprises and in District 2 through a concession to a private company. The program will fund technical assistance for implementing the prepared action plan, strengthening the oversight capacity of the municipality and improving its ability to recover service costs.

**The Bank's  
country and  
sector strategy:**

This operation is consistent with the Bank's strategy for Nicaragua as described in Country Paper GN-1931. This document indicates three Bank priorities to be advanced through this program by strengthening the institutional capacity of the municipal government: (i) improvement in the provision of basic services; (ii) the inclusion of marginalized populations; and (iii) the conservation and improvement of the environment.

During the programming mission of November 1999, the Bank entered into an agreement with the Government of Nicaragua (GON) to fund operations in the areas of governance, transparency, and decentralization, and to make this program a priority.

**Environmental  
and social  
review:**

The planned investments will have a largely positive impact on social and environmental conditions by improving deteriorating sections of the city and strengthening municipal services. The environmental and social impact of the component for improving municipal services was determined by means of preliminary projects, the appropriate EIAs, and meetings with the affected communities. Appropriate mitigation measures were developed for the projects. In addition, the program will fund the strengthening of the municipal environmental institution to make it more dependable and sustainable. The study for environmental strengthening of the municipality and the EIAs for the neighborhood improvement and a solid waste sub components were made public and on December 13, 1999. CESI approved the program at its March 10, 2000, meeting, and its recommendations have been incorporated into the program (see Section IV).

**Benefits:**

The program will benefit the entire city, increasing the governing capacity of the municipality, strengthening the districts, improving living conditions in several very poor neighborhoods, and expanding the private-sector supply of public services. This operation makes effective use of the limited resources available by focusing on actions likely to have a strong impact on the transparency, efficiency, and openness of the municipal government. The program does not attempt to solve the problems of Managua through a major investment in infrastructure but to establish conditions enabling the government to address these problems and to conduct pilot projects in high-priority sectors. The successful implementation of this program will make the municipality stronger, more efficient, more transparent, more open to public participation, and better able to address the serious problems related to Managua's insufficient urban infrastructure and inadequate basic services. Furthermore, despite its limited amount, this operation could have a wide-ranging effect through its use of pilot projects to address socioeconomic problems common to all of the municipalities of Nicaragua, such as the

situation of poor neighborhoods and the collection of solid waste. During the preparation of the program, several important mechanisms for coordinating action between the municipality, the government, and the private service providers were instituted, and these mechanisms will make it possible to repeat the pilot projects in other areas of Managua and in other municipalities throughout the country.

**Risks:**

The primary risks of the program are:

**Insufficient management capacity.** The implementation of this program will require a strong capacity for strategic management on the part of the implementing entity and efficient coordination of activities. It is anticipated that the technical cooperation plan currently being implemented and the planned implementation structure of the program will enable the municipality to fulfill these requirements satisfactorily.

**Inadequate coordination with other service providers.** In order for the neighborhood improvement component to be successfully implemented, it is vital that there be close cooperation between the municipality and other service providers. To reduce the risk of inadequate inter-institutional coordination, a working group composed of professionals from each of the entities was formed during the preparation of the program. The program will continue to provide this working group with technical assistance.

**Reduced public participation.** The success of the projects to improve city services funded under Component 2 depends on the continued active participation of the benefiting residents, which was decisive in the design phase. To mitigate the risk of reduced public participation over time, the residents were directly included in the implementation process, and educational campaigns were developed.

Other aspects that could affect the implementation of the project include:

A change in the structure of the municipal government. As described in Section I(D), the bill to divide the municipality was radically altered and adjusted by the Legislative Assembly, which enacted the Law on Establishing the Municipalities of Ciudad Sandino and El Crucero in December 1999. The law left the metropolitan area of the capital intact under the responsibility of the Municipality of Managua, which accounts for approximately 91% of the city's population. As a result, the risk that the city might be divided into five municipalities has ceased to exist, and no problems with the implementation of any of the components are anticipated. Nevertheless, the process of establishing the two new municipalities could be long and complicated. The

program will indirectly benefit this process by strengthening the administrative capacity of the Municipality of Managua, which will be legally responsible for the entire urban area during the transition. It is also important to emphasize that the program will address socioeconomic problems common to all of the municipalities of Nicaragua, that it will contribute to establishing inter-institutional coordinating mechanisms, and that it will lead to successful work experiences that could be replicated in other municipalities.

A change in administrations. The municipal elections of November 2000 and the change in administrations in Managua in February 2001 could cause a delay in program implementation. However, there is broad agreement among all sectors represented on the Municipal Council that it is urgent to address the problems of solid waste, poor neighborhoods, and administrative modernization of the municipality. As a result, no change in the focus of the program is anticipated. In addition, the program has been thoroughly discussed and shared with all of the sectors represented in the municipality and with the candidates for mayor, all of whom have expressed their interest and support. Specific support activities have been planned in order to ensure continuity during program implementation (see paragraph 3.6).

**Special  
contractual  
clauses:**

1. The loan contract will stipulate the following special conditions precedent to the first disbursement:
  - a. The entry into force (legislative approval and execution) of the Agreement between the Municipality of Managua and the Government of Nicaragua on the implementation of this program and for the transfer of loan funds.
  - b. The establishment of the Municipal Implementing Entity (MIE), the designation of the Coordinator, and selection of the two consultants to the MIE (see Section V).
2. In addition to the standard conditions on reports and audits, a concurrent audit will be required (see paragraph 5.3).

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

This operation qualifies as a project that promotes social equity, as described in the key objectives of the activities of the Bank in the Report on the Eighth General Increase in Resources. This operation also qualifies as a poverty-targeting project, given that approximately 70% of the operation's total resources are directed toward people with very low incomes in poor neighborhoods of Managua. A socioeconomic study of the residents of these neighborhoods indicated that virtually all of the households were below the Bank's poverty line for Nicaragua. The borrower has requested the use of an additional 10% of the Bank funding;

consequently, the counterpart funds will be 10% of the cost of program.

**Exceptions to  
Bank policy:**

None

**Procurement:**

All procurement and contracting processes will be governed by the standard procedures of the Bank. An international competitive bidding process will be conducted to award construction works contracts valued at more than US\$1 million, to procure related goods and services valued at more than US\$250,000, and to hire consulting services valued at more than US\$200,000. The procurement plan is attached to this document as an annex.

## **I. BACKGROUND**

### **A. Demographic and economic data**

- 1.1 With 1.4 million inhabitants and an area of 540 km<sup>2</sup>, Managua is the largest urban center in Nicaragua, accounting for 26% of the country's total population and 37% of its urban population. It is the political capital and economic center of the country, and its GDP is approximately 45% of the national total. Its importance in relation to the rest of the country is increasing due to its annual population growth rate of nearly 5%, as compared to 3% for the country as a whole.

### **B. Legal and institutional background**

- 1.2 Under the Constitution of the Republic of Nicaragua, the country's municipalities are autonomous. Their organization and functions are set forth in the Law on Municipalities (Laws 40 and 261 of 1997). The municipalities are responsible for the direct or indirect provision of urban street construction and maintenance services, storm drains, the collection and disposal of solid waste, the planning and control of urban development and land use, and environmental protection. In providing these services, the municipality employs 2,700 people and manages an annual budget of approximately US\$28 million, which is collected entirely from taxes and fees, since the annual transfers from the national government envisaged under the Constitution (Art. 177) have not yet begun.
- 1.3 The municipal government is administered by a council and headed by a popularly-elected mayor. The municipal government is composed of eight central departments and five district offices corresponding to each of Managua's five districts. The current administration, whose term began in 1997 and will end at the beginning of 2001 (see paragraph 6.6), has made significant modernization efforts directed toward increasing public participation in decision-making, improving urban planning, and normalizing the municipality's financial situation. A program to improve public services has been initiated, with annual investments that are five times higher in real terms than those that were made in 1996.

### **C. Key problems to be addressed**

- 1.4 Managua is affected by a low level of economic activity and high unemployment, a severe lack of basic infrastructure and housing, and the low coverage and poor quality of city services. The program does not attempt to solve these problems, which require specific attention and a large amount of time and resources. Rather, the program seeks to address the problems that are at the heart of municipality's inability to attend to the needs of the population; specifically, the lack of institutional capacity, the concentration of functions, and meager public participation in determining the needs of, and ways of improving, municipal services and infrastructure. In other words, the program seeks to strengthen the institutional capacity of the municipal government, not only through institutional training, but also by providing support in implementing pilot projects aimed at

improving solid waste collection and attending to the needs of poor neighborhoods while efforts are under way to fully modernize the municipal government.

**D. Recent developments in the structure of the municipal government**

- 1.5 The destruction of central Managua during the 1972 earthquake and immigration from rural areas primarily caused by the civil war have led to irregular development and urban sprawl. During the last few years, efforts have been made to study alternative methods of reforming the municipal government in order to deal with the problems created by the city's irregular growth. In December 1998, a bill was presented to the Legislative Assembly that proposed that the municipality of Managua be divided into five municipalities as of 2001. The government formed a working group to study the effects of such a division and requested that the Bank fund independent consultants to consider the issue.
- 1.6 The working group concluded that the proposal to divide the city into five municipalities was unfeasible due to its high cost, the financial unsustainability of the proposed municipalities, and other restrictions of a legal nature. The Bank supported further study of alternatives for decentralizing the city and expressed the view that it was necessary to maintain a metropolitan perspective with regard to the provision of city services and infrastructure, emphasizing the need to strengthen the municipal district offices. As a result of these considerations, the bill to divide the municipality was radically altered and adjusted by the Legislative Assembly, which enacted the Law on Establishing the Municipalities of Ciudad Sandino and El Crucero in December 1999.<sup>2</sup> These two communities, which have small populations and are geographically separate from the city of Managua, ceased to be city districts and once again became two of the nine municipalities comprising the Department of Managua.<sup>3</sup> The law left the metropolitan area of the capital intact under the responsibility of the Municipality of Managua, which accounts for approximately 91% of the city's population.<sup>4</sup>
- 1.7 It is important to note that the Bank and the municipality have been working together since November 1998 on the preparation and implementation of a Technical Cooperation Plan that has resulted in short-term improvements in several areas of municipal responsibility and in detailed planning of the projects included in this program. The Plan has received nearly US\$1 million in funding from the Spanish and Belgian Technical Cooperation Funds and from the FSO<sup>5</sup>, and it is being successfully implemented.

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<sup>2</sup> Law No.329 of December 15, 1999, published in the Official Gazette on January 11, 2000.

<sup>3</sup> The Department of Managua includes the municipalities of Managua, Tipitapa, San Rafael del Sur, Mateare, San Francisco Libre, Villa Carlos Fonseca, Ticuantepe, Ciudad Sandino, and El Crucero.

<sup>4</sup> Under Law No. 329, the Municipality of Managua is responsible for temporarily administering El Crucero and Ciudad Sandino and for facilitating their transition to becoming established municipalities. In addition, the law assigns responsibility for covering the necessary costs of establishing the two new municipalities to the Government of Nicaragua.

<sup>5</sup> ATN/SI-6548-NI Finances and Systems; ATN/SI-6549-NI Planning and Organization; ATN/ BF-6546-NI Neighborhood Improvements; ATN/SF-6608-NI Solid Waste; ATN/SI-6623-NI Environment; TC9812015 Public Transportation.



## **II. BANK ACTION IN NICARAGUA**

- 2.1 The Bank recently approved project NI-0097, Development and Modernization of the Nicaraguan Water and Sewer Company (ENACAL), in order to legalize and expand the coverage of water and sewerage connections in poor neighborhoods. This effort complements Component 2 of this program; consequently, a working group composed of representatives of the municipality and ENACAL has been established in order to coordinate action. In addition, the Bank has provided the Government of Nicaragua (GON) with a loan for the purpose of cleaning up Managua Lake (978/SF-NI, implementation pending); this loan will finance investment in water treatment pools and sewer system collectors, and includes plans for installing storm drains.
- 2.2 This operation is consistent with the Bank's strategy for Nicaragua as described in Country Paper GN-1931. This document underscores three Bank priorities that this program seeks to promote by strengthening the institutional capacity of the municipal government: (i) improvement in the provision of basic services; (ii) the inclusion of marginalized populations; and (iii) the conservation and improvement of the environment.
- 2.3 During the programming mission of November 1999, the Bank entered into an agreement with the GON to fund operations in the areas of governance, transparency, and decentralization in Nicaragua, and the GON agreed to make this program a priority given that it will contribute to making the municipal government more open and transparent.

### **III. OBJECTIVES AND DESCRIPTION OF THE PROGRAM**

#### **A. Objectives**

- 3.1 The program seeks to strengthen the institutional capacity of the municipality by promoting further decentralization and greater public participation in the design and implementation of pilot projects of high socioeconomic importance, as well as by promoting the modernization of the municipal government in order to make it more efficient and transparent. This strategic objective is embodied in the following specific objectives: (i) strengthening the capacity of the municipality in such areas as service planning, tax and financial administration, and environmental management; (ii) greater public involvement in assigning public resources in order that these resources might be used more effectively; and (iii) an expansion in the coverage and quality of the municipal solid waste collection service and municipal services in support of poor neighborhoods within a framework of greater public participation and cooperation with service providers.

#### **B. Description of the program**

- 3.2 The program will fund technical assistance and investment in pilot projects in order to strengthen the municipality's institutional capacity and improve the delivery of basic services. In pursuit of the above, the modernization of the municipality will not be undertaken through the application of a theory of institutional reengineering, but through concrete improvements in the provision of basic services. In particular, the program will finance specific projects in which the districts take an active role in design and implementation and that strengthen public supervision of monitoring and control. This operation makes effective use of limited resources available for carrying out actions that are very likely to have an impact in the future. The program does not attempt to solve all of the problems of Managua; rather, it seeks to establish the governmental conditions that are needed to confront these problems.

#### **C. Component 1. Institutional Modernization (US\$1.9 million)**

##### **1. Subcomponent 1.1 Efficiency, transparency, and administrative improvements (US\$1 million)**

- 3.3 Current situation. The current municipal government has taken innovative steps to improve administrative efficiency and increase public participation in the implementation of projects through the district offices. In the financial area, the municipal government has succeeded in improving the efficiency of tax collections, and revenues have increased 37% in three years, reaching US\$28 million in 1999. Spending has declined in real terms due to an extension of the repayment period for bank debt and a reduction in debt to suppliers. Spending has also declined as a result of the municipality's successful implementation of a voluntary retirement

program, which reduced the staff by 600 employees; the staff currently consists of 2,700 employees. The municipality is showing a small surplus and is making regular debt service payments, which will continue to absorb an acceptable percentage of revenues (approximately 13%) over the next 10 years.<sup>6</sup> The administrative problems that remain to be solved are primarily the result of insufficient clarity in the distribution of responsibilities, poor internal coordination, and very limited use of information systems.

- 3.4 **Modernization strategy.** The municipality would like to continue to improve its capacity to perform its administrative functions, which are the basis for increasing the coverage and quality of public services. The program will support various initiatives primarily directed toward modernizing administrative functions and increasing the efficiency and transparency of municipal activities. While the program was being prepared, the municipality made substantial improvements in annual financial planning, financial management, and tax administration.<sup>7</sup>
- 3.5 **Use of program resources.** The program will support the implementation of a municipal government modernization plan designed during the preparation of the program<sup>8</sup>, funding technical assistance for:
- 3.6 *Strategic planning and support during the transition.* A package of technical assistance measures has been prepared to assist the municipality with developing and extending a number of strategic action plans intended to improve its capacity to provide services and increase its transparency and efficiency. This process will include the convening of roundtables and participatory events in order to discuss the municipal strategy with other public institutions and representatives of the private sector. The technical assistance will be carried out with the municipal authorities that will take office at the beginning of 2001 and will include detailed discussions on the components of the program in order to facilitate the transition between municipal administrations and the program's implementation. All of the components of the program were thoroughly discussed with the various levels of the municipal government and there is broad agreement on each component. The current municipal authorities also held bilateral meetings with the leading

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<sup>6</sup> The municipality has contracted a new long-term bank loan, but the debt service will continue to absorb approximately 13% of annual revenues over the next several years (in line with the last three fiscal years) because the bank debt that was inherited from the previous municipal administration has been paid.

<sup>7</sup> A new financial model was developed that has already been used to perform financial planning for the 2000 fiscal year. The process of cross-referencing the taxpayer database with National Revenue Department has been started. Collection procedures have been strengthened, and tax collection has been outsourced in some parts of the city.

<sup>8</sup> During program preparation, diagnostic assessments were conducted in each of the areas summarized below and an execution plan was designed including terms of reference for the services to be performed under contract.

candidates for mayor and gained their support for the program. The purpose of this stage is therefore to ensure continuity of action in this direction.

- 3.7 *Improvements in tax administration, land registration, and financial management.* The program will assist the municipality by providing technical assistance for: (i) the formulation of a draft law on reforming municipal regulations and ensuring more effective tax auditing; (ii) training employees assigned to tax collection; (iii) revising the legal framework of the municipal land registry and assisting the municipality with tendering the management of the land registry to a private firm.
- 3.8 During the preparation of the program, the municipality developed the internal capacity to make progressive improvements in the area of financial management. The program will therefore support the process that is already under way, providing funding for timely technical assistance to produce and distribute a financial summary for each department and published audited annual financial statements each year.
- 3.9 *Outsourcing the municipal maintenance service.* The program does not attempt to solve the problem of the oversized municipal payroll (which currently absorbs about 70% of the total budget). Instead, it seeks to assist the municipality with a plan to outsource the Maintenance Department (3% of municipal employees). The efficiency of this service will be improved, the regulatory capacity of the municipality will be strengthened, and the experience gained from this process will be useful in reorganizing other municipal services. The mechanics of the Municipal Maintenance Department will form a cooperative, which will be granted a service contract to perform maintenance on municipal equipment. The program will provide technical and organizational assistance with regard to the transition and business administration, as well as specific advice to the worker cooperative, and it will support the creation of a regulatory entity under the Department of Administration that will be responsible for monitoring the service contract.<sup>9</sup>
- 3.10 *Implementation of the General Information System Plan.* Currently, due to insufficient procedures and systems for sharing information between departments, each department must enter each page of information by hand into its information system, which is a major waste of time and resources and an obstacle to decision-making. This component will provide support for implementing a General Information System Plan aimed at developing and putting into service a common informational database, establishing a link between the municipal departments and the district offices, and training municipal employees in the use of an integrated accounting system network to manage procurement, warehouses, human resources, and budgetary control. The program will provide funding: to purchase software licenses, ensuring that all of the software currently in use by the municipality is

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<sup>9</sup> During the preparation of the program, meetings were held with affected municipal employees (see Section IV).

used legally; to purchase equipment; and to finance technical assistance for implementation of the plan and staff training.

## **2. Subcomponent 1.2 Strengthening the district offices and increasing public participation (US\$500,000)**

- 3.11 **Current situation.** The city of Managua has five district offices, each headed by a delegate of the mayor. The law on municipalities stipulates that the district offices are responsible for public sanitation and street cleaning, managing the cemeteries, promoting public education, culture, and sports, carrying out minor public works, and granting construction permits under a specified value. The manner in which the district offices are currently organized and operated could be improved in order to make them effective centers for serving public needs and efficient administrators of public requests, and also to increase public control over the use of municipal resources.
- 3.12 **Modernization strategy.** The municipality wishes to strengthen the district offices in order to make them effective centers for serving public needs. It also plans to gradually increase municipal funding through participatory mechanisms and increase public participation with respect to quality control and municipal service coverage.
- 3.13 **Use of program resources.** To increase public participation, the program will support institutional strengthening of the municipal district offices by funding technical assistance for the purpose of improving the administrative organization of the district offices, establishing a public service office<sup>10</sup>, and strengthening supervision of the provision of municipal services by private operators.
- 3.14 With regard to the objective of increasing public participation, the program will fund technical assistance to implement a simple participatory budgeting mechanism. For this purpose, the program will fund the preparation and distribution of district budgeting regulations, the implementation of a participatory budgeting methodology for district projects, and training for district employees and community representatives in the latest budgeting practices.

## **3. Subcomponent 1.3 Environment (US\$400,000)**

- 3.15 **Current situation.** The Department of the Environment (DGA), the municipal environmental regulatory and control agency, operates under an insufficiently defined legal and institutional framework, has a weak structure, and has limited resources and technical capacity. The DGA has not formulated clear policies with

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<sup>10</sup> The public service office would have the following functions: (i) attending to complaints about urban services provided within each district; (ii) serving as the initial contact point for all processes relating to direct public services (construction permits, inspections, collections, burials); and (iii) public advisory assistance. These activities were designed during program preparation.

regard to environmental rules, regulations, and inspections, and it lacks a clear strategy for informing and educating the private sector and the public about environmental issues.

3.16 **Modernization strategy.** The municipality has developed two reform strategies with regard to the environment. The first focuses on strengthening the DGA by clarifying its powers, reorganizing it, and reorienting its involvement in projects within its purview around performing environmental and social impact assessments, planning and implementing mitigation strategies, and monitoring their implementation. The second consists of providing the business community and the public with information on environmental issues by sponsoring informational and educational events. The objective of this subcomponent is to support this modernization strategy in order to improve the municipality's capacity to manage social and environmental aspects of projects carried out by the municipal government as well as projects financed by the program, thereby promoting sustainable development in the area of Managua.

3.17 **Use of program resources.** During the preparation of the program, the DGA, its legal framework, and the environment of the municipal area were evaluated. As a result of this work, a detailed plan was developed that will be supported by the program (see paragraph 4.4 for details).

**D. Component 2. Participatory projects to improve municipal services (US\$3.5 million)**

**1. Subcomponent 2.1 Pilot projects aimed at attending to the needs of poor neighborhoods (US\$2.5 million)**

3.18 **Current situation.** The exodus from rural areas to Managua over the last two decades and the country's high birth rate have led to the chaotic growth of poor neighborhoods. These neighborhoods currently contain some 38,000 homes, or 20% of the total number of homes in Managua, most of which lack legal titles. Approximately 30,000 homes are located in areas that are at high risk of seismic activity or are in danger of flooding, and most of them lack many public services. Only half of the potable water connections and two thirds of the electricity connections are registered with the utility companies, and half of the population is without sewerage service. A coordinated response to these problems by the municipality, the national government, and the utility companies did not exist until a few months ago. A recent law<sup>11</sup> seeks to rectify this situation by giving the municipalities broad responsibilities to coordinate efforts to improve poor neighborhoods.

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<sup>11</sup> Law on the regulation, organization, and issuance of titles of spontaneous human settlements (Law No.309 of July 28, 1999).

- 3.19 **Modernization strategy.** In 1999, the municipality took steps to solve these problems by developing land use guidelines, making maps of the risk in various neighborhood, and formulating a coordinated plan for improving poor neighborhoods (the Urban Renewal Program or URP). This plan includes active public participation and will be supported by this component.
- 3.20 With the support of a technical cooperation loan from the Bank, the municipality formed an inter-institutional technical working group composed of each of the institutions involved in improving neighborhoods; namely, the National Water and Sewer Company (ENACAL)<sup>12</sup>, the National Electric Company (ENEL), the Ministry of the Environment (MARENA), the National Urban and Rural Housing Institute (INVUR), and the National Land Study Institute (INETER) of the Urban Title Office of the Finance Ministry. This inter-institutional working group has been formally established and has led the formulation of a pilot neighborhood improvement plan that has been approved by the governing bodies of each institution. The existence of this working group is of great importance, since it will make it possible to extend this pilot program to other poor neighborhoods of Managua and other municipalities in the future. The Municipality of Managua has expressed interest in requesting the support of bilateral and multilateral cooperative entities in expanding this pilot program.
- 3.21 The URP consists of two action packages: a package designed to improve basic city services (improving neighborhoods, supporting the legalization of landholdings, connecting homes to clean water and drainage systems, improving streets and sidewalks, managing parks and green areas, and providing electricity), and a package of social and environmental programs designed to educate the public and raise public consciousness about matters such as waste disposal, home improvement, primary health programs, training in public equipment maintenance, and the strengthening of community organization.
- 3.22 The inter-institutional working group has entrusted the technical entity that was established in the municipality with coordinating the URP. It was decided to test the methodology of the URP by beginning with three pilot projects including areas at risk. During the preparation of the program, three urban neighborhoods were chosen with the consent of each of the institutions involved in order to ensure the technical and financial participation of each. A socioeconomic study, an environmental impact assessment, and detailed preliminary projects were performed. In each neighborhood, a group composed of representatives elected by the people who will be responsible for implementing the project has been established, and this group will be supported by a municipal district official.

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<sup>12</sup> The actions contemplated in program NI-0097 (see paragraph 2.1) complement this project very well, particularly with respect to the issuance of titles, which is a prerequisite for legalizing land users, and the street paving that must be carried out in conjunction with construction work related to connecting service.

- 3.23 **Use of program resources.** The program will fund technical assistance and investments for the purpose of implementing these three pilot projects; in particular: (i) US\$350,000 to strengthen and provide technical assistance in consolidating the URP execution mechanism at all levels; and (ii) US\$2.15 million to support the implementation of three pilot projects covering approximately 8,000 people. These amounts represent 50% of the total cost of the URP in the three chosen neighborhoods, since, in addition to the municipal contribution, a significant contribution will be made by ENACAL, ENEL, and the people benefiting from the program, who will provide both labor and financial support.
- 3.24 The URP technical unit in the municipality will receive advisory support in managing the three pilot projects, and will guide the expansion of the URP after the three pilot projects have ended. It will also strengthen cooperation between the institutions that comprise the inter-institutional working group, proposing project selection criteria and approving budgets. The program will fund technical assistance for the implementing entity to be established in each neighborhood in order to ensure the continuation of the process of increasing public participation.
- 3.25 In addition, the program will fund investments in the areas of responsibility of the municipality as part of the three pilot projects. These include investments for repairing streets and sidewalks, administrative costs related to the legalization of lots, storm drainage connections, and the construction of parks and green areas. The other institutions will fund investments in their areas of responsibility (electrification, clean water and sewerage connections) in accordance with their agreements under the URP. The program will be implemented in close collaboration with program NI-0097, Development and Modernization of the Nicaraguan Water and Sewer Company (ENACAL).
- 3.26 The URP does not attempt to be financially self-sustaining, and any efforts to expand the pilot projects to other neighborhoods of the city will require additional municipal funding. However, it is anticipated that the beneficiaries of program funding in the three pilot neighborhoods will make financial contributions, enabling a portion of the costs to be recovered (approximately 20% of the URP) and promoting efficient use of resources. These resident contributions will primarily consist of payments for the legalization of lots, payments for sanitation services, payments for connection to water and sewerage services, and the labor that will be provided. Various alternatives for recovering costs have been studied, and these alternatives have been openly discussed and agreed to in meetings with the beneficiaries. In each neighborhood, the residents have elected a four-person project execution unit (composed of two men and two women), which will not only be responsible for the local implementation of the URP but also for periodically collecting a contribution from each household based on the ability of the family to pay; these contributions will be deposited in a URP account to be opened by the municipality at a local bank. These contributions will be used in part to improve the neighborhood in accordance with the priorities established by the residents



themselves and in part to expand the URP to other neighborhoods of the city. Each of these aspects, as well as the requirements for transparency and publicity in the neighborhoods with respect to the use of resources, will be included in the URP master plan, a draft copy of which was prepared in the course of designing the program.

## **2. Subcomponent 2.2. Pilot project for the collection of solid waste (\$1 million)**

- 3.27 **Current situation.** Under the law, the municipality is responsible for the collection and disposal of solid waste and is working actively in both areas. With regard to waste collection, actions have been planned with the support of the Bank (ATN/SF-6608-NI) to solve the three main problems pertaining to this service: (i) poor-quality collection service throughout the city of Managua; (ii) low service coverage in poor neighborhoods; and (iii) insufficient promotion of the service and inadequate public education with regard to the negative consequences of mishandling solid waste. With regard to waste disposal, feasibility studies for a new landfill have begun and steps are being taken to obtain financing from bilateral sources to clean up the existing landfill and construct a new one.
- 3.28 **Modernization strategy.** The long-term objective of the program is to establish a competitive and successful waste collection model that can be applied to the rest of the city. This model is composed of two parts. (a) The municipality will tender waste collection in the formal districts to a private company, beginning with District 2 of the city of Managua. During the preparation of the program, technical studies on the quantity and composition of the waste, economic and financial studies aimed at determining the cost of the service and the ability and willingness of the residents to pay, and an environmental impact assessment were performed. A private company to be selected through a competitive bidding process will operate the waste collection service under a multiyear contract; it will bear all of the related costs and will charge the municipality an annual fee. The municipality will collect payments for the service and will supervise the company in District 2 in accordance with the terms of the service contract. To ensure payment of the contract, the municipality will establish a trust fund at a local bank, and all of the revenue deriving from the collection of waste in the city will be deposited in this fund. The bank entrusted with administering the fund will remit the contractually-agreed amount to the company and then transfer the remainder to the municipality.<sup>13</sup> (b) The municipality will contract microenterprises to collect waste in the three poor neighborhoods in which the Urban Renewal Program (URP) will be carried out. A social and environmental impact assessment of this activity has been prepared, and the model of waste collection by microenterprises has been discussed

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<sup>13</sup> This mechanism has been recommended by international experts on concessions of this type as a way to ensure payment of the contract by the municipality, even when the population's ability to pay is low and improving the collection of service payments takes time.

with the residents of the neighborhood in order to ensure their cooperation and participation in cost recovery, taking into account the population's limited capacity to pay. Business administration and worker training manuals and modules have been prepared, along with environmental education campaigns in each of the areas in question.

- 3.29 **Use of program resources.** The program will support the implementation of the action plan as follows: (i) providing the municipality with funding for technical assistance to improve payment collection for the sanitation service and strengthen the municipality's capacity to regulate and supervise the service; (ii) with regard to the waste collection concession for District 2, providing funding for technical assistance to prepare the service contract bidding guidelines, assisting the municipality with selecting and contracting the company, and developing and implementing the financial mechanism to ensure payment of the contract by the municipality; (iii) providing funding for advisory support with respect to the legal formation of waste collection and urban cleaning microenterprises in the URP neighborhoods, the preparation of business plans, employee training, and business consulting services during the first two years; and (iv) funding for technical assistance to help the municipality evaluate the various options for locating, building, and operating the new city landfill and decommissioning and stabilizing the current landfill with a view to environmental liabilities, seeking to involve the private sector in both activities. These initiatives will be accompanied by campaigns to educate the public about social and environmental issues; these campaigns will be carried out in schools and specific workshops in the districts.

**E. Cost and financing of the program**

- 3.30 The total cost of the program is US\$6.3 million. The Bank will finance 90% of these costs, or US\$5.67 million, with resources from the Fund for Special Operations. Annex III-1 (Procurement Plan) details the main procurements and contracts to be undertaken with program resources and provides a tentative schedule. The following table summarizes the costs of the program and the respective source of financing<sup>14</sup>.

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<sup>14</sup> A detailed cost table is available in the technical files of the program.

**COST TABLE**  
**(IN THOUSANDS OF US\$)**

	<b>IDB</b>	<b>LOCAL CONTRIBUTION</b>	<b>TOTAL</b>
<b>Component 1. Institutional modernization</b>	<b>1,696</b>	<b>204</b>	<b>1,900</b>
<b>Subcomponent 1.1. Administrative efficiency and transparency</b>	<b>946</b>	<b>54</b>	<b>1,000</b>
Consulting services	450		450
Equipment	296	54	350
Training	200		200
<b>Subcomponent 1.2. Strengthening district offices and public participation</b>	<b>450</b>	<b>50</b>	<b>500</b>
Consulting services	180	20	200
Equipment	90	10	100
Training	180	20	200
<b>Subcomponent 1.3 Environment</b>	<b>300</b>	<b>100</b>	<b>400</b>
Consulting services	150		150
Equipment	100	100	200
Training	50		50
<b>Component 2. Participatory projects to improve basic services</b>	<b>3,175</b>	<b>298</b>	<b>3,473</b>
<b>Subcomponent 2.1 Improving poor neighborhoods</b>	<b>2,250</b>	<b>223</b>	<b>2,473</b>
Consulting services	350		350
Equipment and construction	1,700	123	1,823
Training	150		150
General support and services	50	100	150
<b>Subcomponent 2.2 Waste collection</b>	<b>925</b>	<b>75</b>	<b>1,000</b>
Consulting services	325	75	400
Equipment	150		150
Training	200		200
General support and services	250		250
<b>Subtotal</b>	<b>4,871</b>	<b>502</b>	<b>5,373</b>
Municipal implementing entity	300	80	380
Auditing	200		200
Evaluation of pilot projects	100		100
<b>Financing costs</b>	<b>198</b>	<b>48</b>	<b>247</b>
Interest	142		142
Credit fee		48	48
Inspection and supervision	56.7		56.7
<b>Total</b>	<b>5,670</b>	<b>630</b>	<b>6,300</b>

#### IV. SOCIAL AND ENVIRONMENTAL ASPECTS

- 4.1 The Municipality of Managua is confronting disorderly urban growth that is not in line with environmental conservation and protection standards. These problems are partially caused by: (i) the lack of a municipal environmental management strategy; (ii) insufficient technical capacity in the areas of environmental regulation, assessment, and monitoring; (iii) insufficient institutional coordination between the municipality and the national government in taking social and environmental aspects into account in relation to physical projects and other activities within the municipality; and (iv) insufficient public awareness of environmental issues.
- 4.2 The program, through the component on strengthening the Department of the Environment (DGA) and the subcomponents on improving poor neighborhoods and solid waste collection, will assist the municipality with a modernization strategy that is expected to significantly improve the current situation. In this way, the program is expected to have a positive impact on the environment. Examples of the positive effects of the program include improving public hygiene and health conditions, reducing the dumping of trash in community areas, increasing environmental education, reducing bad odors, and improving the appearance of the neighborhood. The negative effects of the program are primarily local and minor in nature, and they can be mitigated in well-known ways. Examples include insufficient community involvement in implementing the projects, water pollution beneath construction areas, and the deterioration of the sustainability of the investments.
- 4.3 The social and environmental impact of the program, along with measures to prevent and mitigate this impact, were identified by means of: (i) a study on strengthening the DGA; (ii) preliminary projects in the three URP neighborhoods, including the relevant EIAs and meetings with the affected communities; and (iii) the evaluation and design of urban solid waste collection systems, an EIA, and an environmental management plan. The preliminary versions of the DGA environmental study and the EIAs that were prepared for the neighborhood improvement and solid waste subcomponents were made available to the public on December 13, 1999. The final draft and the Implementation Plan for the Strengthening of the DGA were sent to the PIC on February 29, 2000. CESI approved the program during its meeting on March 10, 2000, and the ESIR was sent to the PIC on March 21, 2000.
- 4.4 The component on strengthening the Department of the Environment will fund technical assistance for: (i) drafting and enacting a Special Law on the Environment

for the Municipality of Managua<sup>15</sup>; to determine, *inter alia*, the division of responsibilities between the DGA and the national agencies (such as MARENA); (ii) establishing a Municipal Environmental Council, whose responsibilities will include the incorporation of environmental procedures in the investment projects of other municipal entities; and (iii) reorganizing and strengthening the DGA (carrying out training workshops on matters such as EIAs for DGA employees, the employees of other departments, and private sector technicians; preparing an environmental management plan; developing a database/registry of pollution-producing industries; preparing an environmental procedures manual; and designing and implementing an environmental education campaign for the companies and the general public). The first step in executing this subcomponent will be to hire an environmental consultant to advise the DGA on implementing these elements in accordance with terms of reference agreed to by the municipality and the Bank.<sup>16</sup> The consultant will have experience in urban environmental issues and will be hired during the first month of the component's implementation with the approval of the Bank. The total cost of this subcomponent is US\$400,000.

- 4.5 Groups affected by the outsourcing of the maintenance service (subcomponent 1.1) and the creation of a concession for solid waste collection in District 2 (subcomponent 2.2) have been identified. In the first case, municipal employees who work in the maintenance workshops have played a leadership role in the outsourcing project and have organized themselves to form a cooperative that will operate the service under a contract with the municipality (see paragraph 3.10). In the second case, the municipal employees who work in District 2 will be reassigned to the municipal sanitation service in other districts of the city, where there is a lack of personnel.
- 4.6 During the URP, the following process has been used to determine the projects to be implemented in each action area:
- (i) General identification of the projects to be included in the URP by an interinstitutional committee;
  - (ii) Identification of the projects that the residents and the community organizations believe will have the most effect on them and in which they will have the greatest interest in participating; and

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<sup>15</sup> During the preparation of the program, the DGA, with the support of the TC, prepared the respective draft law; during the first year of implementation, the work will involve the Ministry of the Environment (MARENA) and other institutions of relevance to the environment, such as the Ministry of Health (MINSa). The approval and enactment of the law at the end of the first and second years of implementation, respectively, will be specified as subcomponent performance indicators.

<sup>16</sup> See document "Proyecto de gestión ambiental municipal para el fortalecimiento de la Dirección General de Ambiente".

- (iii) As a result of the analysis carried out by the technical team responsible for planning this process, identification of the projects which are considered to be technically and socially viable and which can be carried out with the financial resources available for implementation.

Meetings and open discussions were held in each neighborhood to determine the characteristics of the URP, the investment package, and the manner in which the residents will be involved. In each neighborhood, the residents have elected a committee (composed of two men and two women) that will be responsible for implementing the project in collaboration with a municipal district official.

- 4.7 As a result of the above process, two project packages were prepared with respect to each area, as detailed in the following table:

<b><u>PACKAGE ONE</u></b> <b><u>SOCIAL AND ENVIRONMENTAL</u></b> <b><u>PROJECTS</u></b>	<b><u>PACKAGE TWO</u></b> <b><u>BASIC SOCIAL SERVICES</u></b>
<ul style="list-style-type: none"><li>• Neighborhood improvement</li><li>• Support for the legalization of landholdings.</li><li>• Clean water and drainage systems.</li><li>• Storm drains and channels.</li><li>• Street and sidewalk improvement.</li><li>• Parks and green areas.</li><li>• Public and household electricity.</li><li>• Mobilizing social and institutional participation in the URP.</li></ul>	<ul style="list-style-type: none"><li>• Education for healthful community life.</li><li>• Vocational training (plumbing, construction).</li><li>• Strengthening of community organization and participation.</li><li>• Waste disposal and treatment.</li><li>• Health center and primary school improvement.</li></ul>

- 4.8 A direct consequence of the process of improving neighborhoods is that some families in areas at risk will have to be moved to other properties *exclusively* within the community, where the family will be in less danger and will not impede urban functions—for example, where they will not obstruct freedom of movement or water drainage. The families were consulted beginning with the first meetings, and they are in agreement with this relocation. The families are being relocated in accordance with the relocation policy of the Bank, OP-710. In each neighborhood, only a small number of families are affected: 10, 6, and 80, or 2.6%, 1.2%, and 8.1% of the benefiting families in each neighborhood (5.2% of the total of 1,839 benefiting families).
- 4.9 The URP Environmental Report contains the relevant environmental management plan and the criteria to be fulfilled by the final action plans. In addition, the budget includes funding to perform a separate environmental assessment for each physical action in each neighborhood as an integral part of these designs. The bid conditions for the construction company will contain the specifications to be fulfilled for this assessment.

- 4.10 During the preparation of the solid waste subcomponent the program, an EIA was prepared that deals exclusively with the environmental issues that affect the area of Managua, particularly the issue of waste. An environmental mitigation program was prepared on the basis of this assessment and a sectorial assessment was prepared by a consulting firm. The EMP contains: (i) the EMP administrative and institutional coordination system; (ii) the mitigation measures; (iii) the methods for managing and reviewing environmental policy; (iv) control and auditing of the waste collection company; and (v) funding for technical assistance (US\$100,000) to assist the municipality with evaluating the various options on the location and construction of the new city landfill, including external cooperation proposals.<sup>17</sup> A survey was administered on the waste collection service in District 2 in order to ensure that the priorities of the population were reflected in the design of the program. For the collection of waste in the three URP neighborhoods, environmental factors to be considered in the project have been identified, including the initial elimination of illegal drains, the proper placement of waste transfer sites in the neighborhoods, and precautions related thereto.
- 4.11 Gender focus. Although the project does not focus on women, it will have a positive effect on women insofar as it will tend to reduce the burden of work related to the household (such as obtaining water) and work related to childcare (hygiene and health matters), and it will tend to lessen inequalities related to land use and property rights. Women have been directly involved in the URP execution unit in each neighborhood and in the neighborhood meetings held during preparation of the projects.
- 4.12 Classification with regard to social equity and poverty reduction. This operation qualifies as a project that promotes social equity, as described in the key objectives of the activities of the Bank in the Report on the Eighth General Increase in Resources. This operation also qualifies as a poverty reduction project, given that approximately 70% of the operation's total resources are directed toward people with very low incomes in poor neighborhoods of Managua. A socioeconomic study of the residents of these neighborhoods indicated that virtually all of the households were below the Bank's poverty line for Nicaragua.

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<sup>17</sup> This assistance will include preparation, *inter alia*, of the terms of reference for evaluating the environmental liabilities of the old landfill.

## **V. IMPLEMENTATION AND FINANCING MECHANISM**

### **A. Implementation**

- 5.1 The borrower will be the Republic of Nicaragua, and the implementing entity will be the Municipality of Managua, each of which jointly undertakes to provide the counterpart funds.<sup>18</sup> An agreement will be entered into by the government and the municipality (the Agreement). A draft copy of the Agreement was reviewed during the programming mission in order to establish responsibilities during program implementation and determine transfer mechanisms. This Agreement between the Bank and the government will stipulate: (i) the conditions precedent to disbursement, (ii) transfer mechanisms, (iii) the information to be submitted on an annual and biannual basis by the municipality; and (iv) the repayment obligations of the municipality to the government.
- 5.2 The municipality will manage the program through the Modernization Committee, which is composed of the municipal department directors responsible for the activities planned in each component. This committee is responsible for strategic management, reports directly to the mayor, and has been operating successfully; the committee has taken a leadership role in designing and implementing the technical cooperation plan that preceded this program. The committee will be assisted by a Municipal Implementing Entity (MIE) that will be responsible for monitoring the program on a daily basis; its responsibilities will include: (i) selecting, contracting, and procuring construction work, related goods and services, and consulting services in accordance with Bank procedures; (ii) the preparation and processing of disbursement requests to be presented to the Country Office of the Bank in Nicaragua for approval; (iii) managing the availability of local counterpart funds provided by the municipality<sup>19</sup>; and (iv) handling the accounts and financial management of the program resources and preparing program financial and operational reports. The MIE will be headed by a full-time municipal employee (the Program Coordinator), who will be chosen by the committee and advised by two long-term consultants: (i) a professional accountant responsible for maintaining program accounting and financial records, and (ii) an operational specialist responsible for fulfilling contract and disbursement requirements. Both of these experts will be hired with loan funds and granted one-year contracts that may be renewed during the implementation of the program. While the Municipal Implementing Entity is being established, Municipal funds will be used to hire each of these experts, and these funds will be reimbursed following the first

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<sup>18</sup> In its capacity as borrower, the national government is responsible to the Bank for ensuring that the program counterpart funds are provided and for complying with the other contractual obligations of the loan.

<sup>19</sup> These funds will be placed in a special account for program counterpart funds established by the Municipality at a commercial bank.



disbursement of the program. During the program design phase, the municipality assigned technical staff to work on the design and assume responsibility for the operational execution of each component.

- 5.3 Every six months, the MIE will submit a monitoring report to the Bank and the government providing the standard information required by the Bank and concentrating in particular on progress with the pilot projects under Component 2 relative to the established guidelines.<sup>20</sup> Once a year, the MIE will provide the Bank and the government with: (i) financial statements on loan and counterpart fund expenditures, certified by an independent auditing firm and submitted in accordance with the requirements of the Bank;<sup>21</sup> this firm will be hired with program funds to conduct the annual audit of financial statements and perform concurrent auditing services in accordance with terms of reference approved by the Bank<sup>22</sup>; and (ii) a report on the fulfillment of the performance indicators stipulated in the Agreement with respect to preservation of the municipality's financial stability, the transparent management of program resources, and the implementation of each component. On the basis of this information, the Bank and the municipality will hold an annual program evaluation meeting, focussing especially on the pilot projects under Component 2, to study the progress that has been made in implementing the program and make any needed corrections. The results of this annual evaluation will be communicated to the government.
- 5.4 After the implementation of the financed portion of the program, an impact evaluation will be performed that will concentrate in particular on the pilot neighborhood improvement and solid waste collection projects in order to evaluate the possibility of repeating and expanding these projects.

## **B. Transfer mechanism**

- 5.5 According to the terms of the future Agreement between the government and the municipality, the Bank will disburse the loan funds in cash to a program account (holding account) at the Central Bank of Nicaragua (BCN). The BCN will transfer these funds in cash to a special account of the municipality at a local bank; these

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<sup>20</sup> The criteria for monitoring the pilot projects, the indicators to be measured, and other information will be submitted by the municipality in the monitoring reports and annual evaluation agreed to during the negotiation mission, and have been included in Annex 1 to the agreement between the government and the municipality. The execution plan for each pilot project will specify the requirements concerning information to be generated and submitted periodically from the outset of the project.

<sup>21</sup> The MIE must maintain an appropriate internal accounting and administrative control system. The accounting system and the program records must: (i) allow for the identification of the amounts received from various sources; (ii) record program expenditures drawing on both the funds provided by the Bank and the counterpart funds; and (iii) include sufficient detail to identify and verify the use of the purchased goods and services.

<sup>22</sup> The terms of reference for the audit will also include the monitoring of family relocation in the URP and of cost recovery by the execution unit in each neighborhood of the URP.

funds will be transferred as a loan under the same conditions that apply to the Fund for Special Operations<sup>23</sup>. The Agreement will stipulate that the government authorizes the municipality to request disbursements from the Bank and authorizes the BCN to automatically transfer the funds disbursed by the Bank from the holding account to the special account of the municipality at a local bank.

- 5.6 In order to avoid possible temporary delays in payments by the municipality to the government, the municipality will open a loan service account at a local bank and, pursuant to the terms of the Agreement, will make periodic deposits to the account once the implementation stage of the program has begun. The municipality will establish a budgetary item for these periodic payments, which will be adjusted as needed to ensure that the account always contains sufficient funds to service the loan for one year<sup>24</sup>. The funds in this account may only be used to pay loan fees, interest, and principal to the government and may only be invested in cash and low-risk investments. The municipality must have opened the service account to the satisfaction of the Bank by the date of the first disbursement for the Municipal Program.

#### **C. Procurement**

- 5.7 All procurement and contracting processes will be governed by the standard procedures of the Bank. An international competitive bidding process will be used to contract construction work valued at more than US\$1 million, to procure related goods and services valued at more than US\$250,000, and to contract consulting services valued at more than US\$200,000. The procurement plan is attached to this document as an annex.

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<sup>23</sup> Several alternatives were studied with respect to the conditions under which the government would onlend the loan funds to the municipality. In view of the characteristics of this operation and the fact that the activities to be financed would produce a high socioeconomic return but a low financial return, the GON would onlend the funds to the municipality under FSO conditions.

<sup>24</sup> It is important to note that the purpose of this mechanism is to avoid the possibility that the municipality might fall behind in servicing the loan on the dates stipulated under the contract due to a temporary lack of liquidity.

## **VI. BENEFITS AND RISKS**

### **A. Benefits**

- 6.1 The program will benefit the entire city, increasing the governing capacity of the municipality, strengthening the districts, improving living conditions in several very poor neighborhoods, and increasing the provision of public services by the private sector. This operation makes effective use of limited resources available for carrying out actions that are likely to have a strong impact in the future on the transparency, efficiency, and opening up of the municipal government. The program does not attempt to solve the problems of Managua through a major investment in infrastructure; rather, it seeks to establish the governmental conditions needed to confront these problems. The successful implementation of this program will strengthen the municipality and make it more efficient, transparent, and open to public participation, enabling it to address the serious problems related to insufficient urban infrastructure and inadequate basic services that are typical of Managua. Furthermore, in spite of its limited amount, this operation could have a wide-ranging effect because it addresses socioeconomic problems common to all of the municipalities of Nicaragua, such as the situation of poor neighborhoods and the collection of solid waste, through the implementation of pilot projects. During the preparation of the program, several important mechanisms for coordinating action between the municipality, the government, and the private service providers were instituted, and these mechanisms will make it possible to repeat the pilot projects in other areas of Managua and in other municipalities throughout the country.

### **B. Risks**

- 6.2 **Insufficient management capacity.** The implementation of this program will require a strong capacity for strategic management on the part of the implementing entity and efficient coordination of activities. It is anticipated that the technical cooperation plan currently being implemented and the planned implementation structure of the program will enable the municipality to fulfill these requirements satisfactorily.
- 6.3 **Inadequate coordination with other service providers.** In order for the neighborhood improvement component to be successfully implemented, it is vital that there be close cooperation between the municipality and ENACAL (Potable Water and Sewerage), ENEL (Electricity), and OTU (Titles). To reduce the risk of inadequate inter-institutional coordination, a working group composed of professionals from each of the entities was formed during the preparation of the program. The program will continue to provide this working group with technical assistance, given that it is already operating successfully and has taken a leadership role in selecting the neighborhoods to be included in the program and in

determining the action methodology. The joint action of these entities in poor neighborhoods is unprecedented, and it is the foundation of the pilot projects to be funded by the program. It is anticipated that this will lead to successful work experiences that could be repeated in order to solve the problems of other neighborhoods in the city.

- 6.4 **Reduced public participation.** The success of the projects to improve city services funded under Component 2 depends on the continued active participation of the benefiting residents, which was decisive in the design phase. To mitigate the risk of reduced public participation over time, the residents were directly included in the implementation process, and educational campaigns were developed.

Other aspects that could affect the implementation of the project include:

- 6.5 A change in the structure of the municipal government. As described in Section I(D), the bill to divide the municipality was radically altered and adjusted by the Legislative Assembly, which enacted the Law on Establishing the Municipalities of Ciudad Sandino and El Crucero in December 1999. The law left the metropolitan area of the capital intact under the responsibility of the Municipality of Managua, which accounts for approximately 91% of the city's population. As a result, the risk that the city might be divided into five municipalities has ceased to exist, and no problems with the implementation of any of the components are anticipated. Nevertheless, the process of establishing the two new municipalities could be long and complicated. The program will indirectly benefit this process by strengthening the administrative capacity of the Municipality of Managua, which will be legally responsible for the entire urban area during the transition. At the same time, it is important to emphasize that the program will address socioeconomic problems common to all of the municipalities of Nicaragua, that it will contribute to establishing inter-institutional coordinating mechanisms, and that it will lead to successful work experiences that could be repeated in order to solve the problems of other neighborhoods in the city.
- 6.6 A change in administrations. The municipal elections of November 2000 and the change in administrations in Managua in February 2001 could cause a delay in the implementation of the program. However, there is broad agreement among all of the sectors represented in the municipal council that it is urgent to address the problems of solid waste, poor neighborhoods, and the administrative modernization of the municipality. As a result, no change in the focus of the program is anticipated. In addition, the program has been thoroughly discussed and shared with all of the sectors represented in the municipality and with the candidates for mayor, all of whom have expressed their interest and support. Specific support activities have been planned in order to ensure continuity during the implementation of the program (see paragraph 3.6).

## LOGICAL FRAMEWORK: MODERNIZATION PROGRAM FOR THE MUNICIPALITY OF MANAGUA (NI-0111)

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<b>Objective</b>			
Strengthening the institutional capacity of the municipality by promoting further decentralization, public participation in the design and implementation of pilot projects of high importance, as well as by promoting modernization of the municipal government in order to make it more efficient and transparent.	Standards of coverage, quality, and efficiency in the delivery of municipal public services established, evaluated, and published annually by the municipality.  Fiscal and financial balance maintained by the municipality.  Pilot projects evaluated and their expansion planned and budgeted.  Public opinion of municipal management registered.	Annual program monitoring report.  Audited financial statements of municipality.  Annual program monitoring report.  Survey of the beneficiary population.	Continuity is maintained between economic and development strategy by the municipal government.
<b>Objectives</b>			
Strengthening the administrative capacity of the municipality in such areas as service planning, administration, and financial management; increasing public involvement in the allocation of resources to ensure that they are used transparently and efficiently; and improvement in the coverage and quality of the solid waste collection service and the provision of municipal services in poor neighborhoods within a framework of greater participation and cooperation with service providers.	Municipal budget reallocated to services each year of execution.  Positive financial results each year of execution.  Annual participatory budget session held in at least three districts starting with the second year of execution.  Project pipeline for the extension of the URP to other marginalized neighborhoods prepared and updated annually starting with the third year of execution.  Number of beneficiaries of the solid waste collection service in marginal neighborhoods increased by 10% per year starting with the second year of execution.  New landfill operating as from the second year of the program.	Annual budget approved by the Municipal Council.  Annual financial statements of the municipality.  Annual program monitoring report.  Annual program monitoring report.  Municipal statistics and survey.  Local press.	Commitment of the municipal authorities.  Commitment of the municipality and its offices.  Priority of the municipality and availability of resources from other bilateral and multilateral agencies.  Stable population growth.  Commitment of the municipality.
<b>ITS</b>			
<b>Indicator 1.1</b>			
Transparency and efficiency of the municipal administration.	Audited financial statements of the municipalities published annually starting after 12 months of program execution.  Detailed list of the municipality's 100 largest contracts published annually, starting 12 months after the start of program execution.  Software license obtained and municipal software legalized within one year after the start of execution.	National press.  National press.  Annual program monitoring report.	Municipal authorities remain committed to the country's economy continues to grow.

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<p>DGI database cross-referenced as of the second year of execution.</p> <p>Municipal revenues from property taxes and household service charges increased by 5% per year in real terms starting with the second year of execution.</p> <p>Annual municipal personnel costs have not exceeded the rate of inflation, starting with the first year of program execution.</p> <p>Debt service/current income ratio has not exceeded 15% at any time during execution.</p> <p>Land Register administered by private contractor as of the fourth year of execution.</p> <p>Outsourcing of municipal maintenance service evaluated and implemented during the third year of execution, and its potential for replication for other services analyzed by the end of the same year.</p>	<p>Financial statements of municipalities.</p> <p>Financial statements of municipalities.</p> <p>Financial statements of municipalities.</p> <p>Annual program monitoring report.</p>	
<p>Objective 1.2</p> <p>Strengthen the district offices to make them service centers for the public.</p>	<p>Percentage of municipal investments determined at the district level increased by 3% each year of execution.</p> <p>Public assistance offices opened in at least three districts within two years after the start of execution.</p>	<p>Approved municipal budget.</p> <p>Annual program monitoring report.</p>	<p>The population takes an active part in investment priorities.</p>
<p>Objective 1.3</p> <p>Strengthen the DGA by clarifying its functions, reorganizing its management, and the projects related to its area of responsibility to identify environmental and social problems and implementing mitigation measures monitoring their application.</p>	<p>Environmental law for the municipality of Managua approved (and the corresponding regulations in place) by the end of the first (and second) year of execution.</p> <p>Establishment of the Municipal Environmental Council during the second year of execution.</p> <p>Environmental management plan implemented by the DGA during the second year of execution.</p>	<p>Official Gazette of Nicaragua.</p> <p>Annual program monitoring report.</p> <p>Annual program monitoring report.</p>	<p>Central government support.</p> <p>Municipal authorities are prepared to accept the recommendations of the studies conducted during program preparation.</p>
<p>Objective 2.1</p> <p>Improve living conditions in marginal neighborhoods through integrated intervention by the government, and urban service enterprises.</p>	<p>Three pilot neighborhoods legalized and provided with basic infrastructures of the third year of execution.</p> <p>The three pilot projects executed by the committee elected by neighborhood residence.</p> <p>Interinstitutional committee (municipality, government, service providing enterprises) continues to operate throughout program execution and evaluates completed pilot projects.</p> <p>Recovery of 50% of the cost of installing a bathroom facility in each lot 12 months after installation.</p> <p>Economic, social, and environmental evaluation of three additional neighborhoods completed two years after the start of program execution.</p>	<p>Annual program monitoring report.</p> <p>Annual program monitoring report.</p> <p>Annual program monitoring report.</p> <p>Annual program monitoring report.</p> <p>Annual program monitoring report.</p>	<p>The Urban Renewal Program remains a priority for the municipality.</p> <p>The institutions participating in the URP maintain their commitment.</p> <p>The beneficiary population takes an active part in executing the URP.</p>

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>at 2.2</p> <p>Successful waste collection model applied to the entire city.</p>	<p>Waste collection in three neighborhoods on a pilot-project basis by microenterprises under contract with the municipality, two years after the start of execution.</p> <p>Report on the quality and coverage of waste collection service and cost recovery prepared each year by the regulatory unit in the city.</p> <p>Operating plan and timetable prepared by the municipality for extending waste collection to other marginal neighborhoods, three years after the start of execution.</p> <p>Microenterprises hired by the municipality collecting waste in five marginal neighborhoods, four years after program startup.</p> <p>In district 2, waste collected by a firm under service contract with the municipality, two years after the start of execution.</p> <p>The experience evaluated and alternatives for expansion developed by the municipality, three years after the start of execution.</p> <p>Decision taken by the municipality with respect to placement, construction, and operation alternatives for the new landfill, twelve months after program startup.</p>	<p>Annual program monitoring report.</p> <p>Annual program monitoring report.</p> <p>Annual program monitoring report.</p> <p>Annual program monitoring report.</p> <p>Annual program monitoring report.</p> <p>Annual program monitoring report.</p> <p>Annual program monitoring report.</p>	<p>The solid waste issue remains a priority for the municipality.</p> <p>The beneficiary population participates in the execution of the subcomponent.</p> <p>There is interest among private firms in participating in the bidding.</p> <p>The municipality obtains a response from the governments of Japan and Canada for financing the new landfill project.</p>

# MODERNIZATION PROGRAM FOR THE MUNICIPALITY OF MANAGUA

(NI-0111)

## PROCUREMENT PLAN

INVESTMENT CATEGORY	IDB (%)	LOCAL (%)	TYPE	DATE
<b>GOODS</b>				
<b>Subcomponent 1.1</b>				
1. Software license US\$150,000	100		LPB	Oct.-00
2. Equipped and programs US\$300,000	80	20	IPB	Feb.-01
<b>Subcomponent 1.2</b>				
1. Equipment US\$100,000	80	20	LPB	May-01
<b>Subcomponent 1.3</b>				
1. Equipment US\$200,000	50	50	IPB	May-01
<b>Subcomponent 2.1</b>				
1. Miscellaneous materials US\$300,000	30	70	LPB	Dec.-00
<b>WORKS</b>				
<b>Subcomponent 2.1</b>				
1. Paving US\$400,000	90	10	IPB	Jun.-01
2. Construction US\$300,000	90	10	IPB	Jun.-02
3. Miscellaneous works US\$280,000	80	20	IPB	Jun.-03
4. Drainage US\$300,000	100		IPB	Oct.-02
<b>CONSULTANCY</b>				
<b>Subcomponent 1.1</b>				
1. International firm US\$250,000	80	20	IPB	Feb.-01
<b>Subcomponent 1.2</b>				
1. Consulting firm US\$200,000	90	10	IPB	Sep.-01
<b>Subcomponent 1.3</b>				
1. Consulting firm US\$150,000	100		LPB	Apr.-01
<b>Subcomponent 2.1</b>				
1. Consulting firm US\$300,000	60	40	IPB	Jun.-01
<b>Subcomponent 2.2</b>				
1. Consulting firm US\$675,000	90	10	IPB	Feb.-02
<b>TRAINING</b>				
Subcomponent 1.1 US\$270,000	100		IPB	Sep.-00
Subcomponent 1.2 US\$200,000	90	10	IPB	Feb.-01
Subcomponent 1.3 US\$150,000	100		LPB	Apr.-01
Subcomponent 2.1 US\$150,000	100		LPB	Jun.-01
Subcomponent 2.2 US\$75,000	100		IPB	Jun.-02
<b>IPB: International Public Bidding</b>				
<b>LPB: Local Public Bidding</b>				



Nicaraguan law (the State Contracting Act (Law 323) of 2000) on procurement provides for the following procedures for procuring goods and services.

Amount (in US\$ equivalent)		Procedure
Up to	US\$8,000	Purchase on the basis of price quotes
Between	US\$8,000 and US\$56,000	Call for bids in the form of price quotes
Between	US\$56,000 and US\$200,000	Bidding by way of registration
More than	US\$200,000	Public bidding

PROPOSED RESOLUTION

NICARAGUA. LOAN \_\_\_\_/SF-NI TO THE REPUBLICA DE NICARAGUA  
Program for the Modernization of the Municipality of Managua

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 for the Modernization of the Municipality of Managua. Such financing will be for the amount of up to US\$5,670,000, or its equivalent in other currencies, except that of Nicaragua, which are part of the resources of the 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.