

MODERNIZATION PROGRAM FOR THE MUNICIPALITY OF MANAGUA

(NI-0111)

EXECUTIVE SUMMARY

Borrower:	Republic of Nicaragua	
Executing agency:	Municipality of Managua	
Amount and source:	Borrower:	US\$0.63 million
	IDB (FSO resources):	US\$5.67 million
	Total:	US\$6.30 million
Financial terms and conditions:	Amortization Period:	40 Year
	Grace Period:	10 Year
	Disbursement Period ¹ :	5 Year
	Interest rate:	1% for the first 10 years 2% thereafter
	Inspection and supervision:	1%
	Credit fee:	0.5%
Objectives:	<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>	
Description:	The program will fund technical assistance and investment in pilot	

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

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.

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country and**

This operation is consistent with the Bank's strategy for Nicaragua as described in Country Paper GN-1931. This document indicates three

sector strategy: 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.