

**SUPPORT FOR AN ENVIRONMENTAL SANITATION PROGRAM FOR LAKE
MANAGUA AND THE CITY OF MANAGUA**

(NI-0142)

EXECUTIVE SUMMARY

Borrower and guarantor:	Republic of Nicaragua	
Executing agency:	Empresa Nicaragüense de Agua y Alcantarillado (ENACAL)	
Amount and source:	IDB (FSO):	US\$ 15,000,000
	Local:	US\$ 1,660,000
	Total:	US\$ 16,660,000
Financial terms and conditions:	Amortization period:	40 years
	Grace period:	10 years
	Disbursement period:	4 years
	Interest rate:	1% during grace period and 2% thereafter
	Inspection and supervision:	1%
	Credit fee:	0.5%
	Currency:	U.S. dollar from the Fund for Special Operations
Objectives:	<p>The objective of the project is to supplement the financing provided under program NI-0027, so that funding will be available as needed to defray additional costs of approximately US\$16.6 million incurred since the Bank initially approved the program in 1996. The additional costs were largely attributable to the fact that the designs of the wastewater treatment works needed to be revised in the aftermath of Hurricane Mitch.</p>	
Description:	<p>This new project will supplement the Kreditanstalt für Wiederaufbau (KfW) financing for the water treatment plants. The financing will be used mainly to finance an additional sewer main for the new site of the Benito Escobar treatment plant, which has a direct construction cost of US\$14 million. The funding approved by the Bank for program NI-0027 and the Nordic Development Fund (NDF) financing will continue to be allocated as originally planned</p>	

- Bank's country and sector strategy:** The Bank's strategy for Nicaragua is outlined in the country paper (GN-1931), in which prominence is given to the following components of the proposed project matrix: (i) support for modernization of the State and macroeconomic reform; (ii) participation by the private sector in the economy, particularly in the delivery of basic services; (iii) poverty reduction and social integration of marginalized groups; and (iv) environmental conservation. This strategy is intended to consolidate the process of water and sewer service reform, providing short-term support for ENACAL and seeking to broaden participation by the private sector in service delivery.
- Environmental and social review:** The project was analyzed prior to approval of program NI-0027. It was found that the investments would have a favorable environmental impact and a monitoring plan was established. The financing includes the costs of this plan. Some families will have to be moved because of the construction works. Consequently, since program NI-0027 was approved provision has been made for all of the actions required under the Bank's policies.
- Benefits:** The benefits of this supplemental operation should be analyzed in light of the total cost of the Lake Managua sanitation program, which will provide benefits in the form of less lake pollution and a reduction in sanitation problems along the shore. The sanitation program was reevaluated taking into account the findings of the most recent studies, which included the design modifications needed as a result of Hurricane Mitch.
- Based on this information, the project's internal rate of return at market prices is 14.5% and the net present value discounted at a rate of 12% is US\$9.8 million. Considering that the portion of the financing to be provided as a grant by the German government is conditional, in other words it would not be forthcoming unless the program materializes, the evaluation results improve substantially, showing a rate of return at market prices of 17.8% for benchmark level benefits and 14.94% for the lower level of benefits.
- Risks:** At the time of preparation, the main risk associated with this operation was that the Nicaraguan government might be unable to secure financing from the KfW. However, this risk has been eliminated with the approval by the German government of supplementary financing of DM40 million (of which DM25 million would be in the form of a grant and DM15 million in concessional funding), or US\$21.6 million.

Special contractual clauses:

In addition to any general conditions, the loan contract will contain, the following special contractual conditions:

1. Precedent to the first disbursement:

- (a) That a funds transfer agreement has been signed and executed between the borrower and ENACAL, as specified in paragraph 3.4;
- (b) That the special contractual conditions stipulated in IDB loan contract PO-978/SF-NI for the Lake Managua and city of Managua environmental upgrading program have been fulfilled (paragraph 3.5); and
- (c) That an agreement has been signed and executed between the borrower and the Government of the Federal German Republic, whereby the latter undertakes to transfer to ENACAL the cofinancing resources as specified in paragraph 3.6.

2. Conditions previously fulfilled:

The loan contract shall record the conditions fulfilled by the borrower before the operation was approved, to wit:

- (a) Evidence that the KfW has approved cofinancing in an amount equivalent to US\$25 million (see paragraph 3.7).

Poverty-targeting and social sector classification:

This operation qualifies as a social equity-enhancing project, as described in the indicative targets for the Bank's activity mandated by the Bank's Eighth Replenishment (document AB-1704). Furthermore, this operation qualifies as a poverty-targeted investment (PTI). The borrowing country will be using the 10 percentage points in additional financing (see paragraph 5.9).

Exceptions to Bank policy:

None.

Procurement:

The Bank's policies will apply to all procedures.