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STRENGTHENING WATER AND SANITATION MARKETS TO FACILITATE ACCESS FOR UNDERSERVED POPULATIONS IN THE RACCN, NICARAGUA

**(NI-M1037 and NI-T1199)**

**Donors Memorandum**

Project team: Svante Persson (MIF/ABG), Project design team leader; Griselda Soto (MIF/CNI), Project supervision team leader; Thierry Delaunay (WSA/CNI); David Bloomgarden (MIF/ABG); Isabel Auge (MIF/ABG) ; Fernando Campero (MIF/ATF) ; Luiciane Juliani (LEG/NSG) ; Dora Moscoso (MIF/DEU) ; Laila Choe (MIF/KSC).

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Project Summary

STRENGTHENING WATER AND SANITATION MARKETS TO FACILITATE ACCESS FOR UNDERSERVED POPULATIONS IN THE RACCN, NICARAGUA

(NI-M1037 and NI-T1199)

Although Nicaragua’s Autonomous Region of the North Caribbean Coast (RAACN) has significant water resources, very few people have access to piped water and the sanitation services are inadequate. Safe drinking water is scarce and risky sanitation practices jeopardize the health of the families, especially women and children.

The Multilateral Investment Fund (MIF), a member of the Inter-American Development Bank (IDB) Group, in partnership with WaterAid and the Pana-Pana microfinance institution is launching a project to facilitate access to alternative water and sanitation solutions through a credit and distribution model in peri-urban areas of RACCN. The total project cost is US$ 665,405 of which the MIF will provide US$ 352,405 and the executing agency US$ 153,000 in counterpart contribution. In addition, the Partnership Trust Fund for Poverty Reduction in Latin America (AUS) will co-finance the Project with US$160,000 and the SEP will contribute with US$250,000 in a loan and U$70,000 in technical assistance for institutional strengthening to Pana-Pana.

The project will educate community members about the benefits of alternative water and sanitation solutions provided by the Project. A package of quality and affordable water and sanitation products will be made available to consumers through local providers. Technical solutions will be developed with locally-available materials, ranging from standalone systems such as household boreholes and eco-friendly latrines and pour flush toilets, rainwater catchment systems with efficient water storage methods, and water filters and eco-friendly solutions providing service to a group of families such as shared boreholes and condominial sanitation systems. Technical Promoters will guide the customers through the process so that households select the best solutions to be installed and maintained by service providers trained by the project.

When families have selected the option that suits them best, they will also have access to specific credit products (through solidarity groups or individual micro-credit) designed by the Project and offered by Pana-Pana, to acquire the sanitation and/or water systems. This project will pilot a new approach to increasing access to water and sanitation services by leveraging microfinance for individual and shared community-level solutions to primarily off-grid populations. Specially created microcredits will be made available to consumers by the local microfinance institution Pana-Pana. A complementary SEP operation will provide credit to Pana-Pana to on-lend to its clients for the purchase of water and sanitation goods at the household or community level.

Furthermore, the Project will focus on the training of local entrepreneurs to sell, install and provide maintenance to these solutions and products, supporting these enterprises with credit and expanding MIF’s activities in the “Sanitation as a Business” approach to basic services. Credit will be available for these entrepreneurs and incentives put in place, allowing them to obtain and assemble the products and solutions.

The project is centered in the predominantly indigenous and afro-descendent populations in peri-urban communities of RACCN.

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Acronyms and Abbreviations

|  |  |
| --- | --- |
| **AOP** | Annual Operating Plan |
| **ASOMIF** | Association of Microfinance Institutions of Nicaragua |
| **AUS** | Partnership Trust Fund for Poverty Reduction in Latin America |
| **CONAMI** | National Microfinance Commission |
| **DNA** | Diagnostic of Executing Agency Needs |
| **IADB** | Inter-American Development Bank |
| **IAF** | Inter-American Foundation |
| **MIF** | Multilateral Investment Fund |
| **OR** | Operating Regulations |
| **PCU** | Project Coordination Unit |
| **QED** | Quality for Effectiveness in Development |
| **RACCN** | Autonomous Region of the North Caribbean Coast (formerly RAAN) |
| **RASNIC** | Nicaragua WASH Network |
| **SEP** | Social Entrepreneurship Program |
| **TOR** | Terms of Reference |
| **WASH** | Water, Sanitation and Hygiene |

Project Information

STRENGTHENING WATER AND SANITATION MARKETS TO FACILITATE ACCESS FOR UNDERSERVED POPULATIONS IN THE RACCN, NICARAGUA

(NI-M1037 and NI-T1199)

|  |  |  |  |
| --- | --- | --- | --- |
| **Geographic Location:** | Nicaragua, the municipalities of Puerto Cabezas, Waspam and Rosita in RACCN. | | |
| **Executing Agency:** | WaterAid NICARAGUA | | |
| **Access Area:** | Access to Basic Services and Green Growth | | |
| **Agenda:** | Basic Services for Poor Populations | | |
| **Coordination with**  **Other Donors/Bank Operations:** | IDB/WSA loan for Water and Sanitation in RACCN | | |
| **Direct Beneficiaries:** | 600 inhabitants in the region with improved WASH services, 10 local entrepreneurs and 20 service providers. | | |
| **Indirect Beneficiaries:** | 30,000 people benefitting from information about importance of water and sanitation. | | |
| **Financing:** | MIF Technical Cooperation: | US$ 352,405 | 51% |
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|  |  |  |
| **TOTAL MIF FUNDING:** | US$ 352,405 |  |
| Counterpart: | US$ 153,000 | 24% |
| Co-financing (Australian trust fund NI-T1199): | US$ 160,000 | 25% |
| **TOTAL PROJECT BUDGET:** | US$ 665,405 | 100% |
| **Execution and Disbursement Period:** | 36 months of execution and 42 months of disbursement. | | |
| **Special Contractual Conditions:** | Conditions prior to first disbursement will be: (i) hire project coordinator; (ii) approve first AOP; (iii) execution of final agreements with AUS for the amounts of its contribution; and (iv) establishment of PCU. | | |
| **Environmental and Social Impact Review:** | This operation was screened and classified as required by the IDB’s safeguard policy (OP-703). Given the limited impacts and risks, the proposed category for the project is C. | | |
| **Unit with Disbursement Responsibility:** | COF/CNI | | |

1. Background and Justification

**A. Diagnosis of the Problem to be addressed by the Project**

* 1. The Autonomous Region of the North Caribbean Coast (RACCN) in Nicaragua is an area of significant ethnic and cultural diversity populated by predominantly by indigenous and afro-descendent peoples that accounts for the country’s highest poverty indexes: nearly 68 % of its rural population and 28 % of the urban population live with less than US$1 per day.
  2. The main problem to be addressed by the Project is the inadequate access to safe drinking water and the use of unsafe sanitation practices among off-grid populations in the three municipalities (Puerto Cabezas, Waspam and Rosita).
  3. Although the Region has significant water resources, only 17 % of the population of Bilwi, the main city in the Municipality of Puerto Cabezas, has access to piped water and this service is deficient in quality, quantity and continuity. Access to water is usually obtained through rivers or shallow wells. Access to adequate sanitation is estimated at less than 50 %, and the service is only offered through individual solutions (latrines or toilets with septic tanks), implying that families are in charge of investing in the construction of these systems inside their homes, usually out of their financial reach. The source of water is the Rio Brakira in the community of Tuapi. Most off-grid households use artisanal hand-dug wells with no sanitary seal while others buy bottled water from pipes with water from privately drilled wells. In Waspam, only 10% of the population is connected to the existing municipal system supplied by two wells, one of which is currently out of service. In Rosita, there is currently no municipal water service. In peri-urban and urban neighborhoods in the three communities, 80% of the population use traditional latrines, of which 60% are unimproved sanitation facilities. Many people practice open defecation, polluting water sources and impacting the health of the families. The most affected groups are women and children, particularly because they are in charge of collecting the water from far away points, up to four times a day, often walking long distances.
  4. The causes of this problem are: (i) low level of public awareness about the risks involved of contaminated water and unsafe sanitation practices; (ii) poor development of a local market that offers affordable solutions to the families, due to lack of skills of those responsible for water and sanitation services and absence of alternative technical solutions, and (iii) lack of capacity to pay upfront costs by families, who don’t have access to affordable credit to cover these costs.
  5. The RACCN has autonomous status promoting natural resource management and decision making at the regional, territorial and community levels, which makes it necessary to find innovative solutions based on partnerships between the different levels of government, the civil society, the communities and the private sector for water and sanitation services. Financial inclusion is low in RACCN and there are few microfinance institutions operating in the area. The common methodology for rural areas is based on solidarity groups. The group with least access to credit in the country is rural women of the Caribbean Coast, who obtained 18 % of national loans but only 6.5% of the total loan volume. Currently local MFIs do not offer microcredit products to help low income families acquire alternative water and sanitation solutions. Pana-Pana is one of the few organizations offering micro-credits to the rural and peri-urban populations of the area.
  6. WaterAid is currently working with Pana-Pana to develop the initial prototypes of water and sanitation systems that are adapted to the context and the market approach. The IAF provided funds to Pana-Pana to conduct a market study and undertake a market-based water, sanitation and hygiene (WASH) initiative. According to the market study carried out in early 2014, 51 % of the urban and peri-urban population in the three communities[[1]](#footnote-1) is interested in the service and able to pay back a loan to acquire solutions for access to safe drinking water. The study also reported an 80 % demand among the households surveyed for improving their sanitation situations through solutions attained with the help of micro credits. The market study determines a potential demand with ability to pay and adhere to Pana Pana’s current credit conditions to 1,350 households.
  7. In this Project, and complementing this set of initiatives, a new approach is tested through the offering of shared solutions to groups of families, appropriate for peri-urban areas of small towns and rural communities. These will also require developing specific credit products in this context. WaterAid is currently working with Pana-Pana to establish a line of credit (revolving fund) to promote small business initiatives to provide services at the multi-family and family level in peri-urban areas of small cities such as Bilwi and Waspam. This MIF Project will be based on this experience.

**B. Project Beneficiaries**

* 1. The project is aimed at developing the market for water and sanitation products and services in three municipalities where WaterAid and/or Pana Pana are currently operating and where the market study has determined a considerable need, demand and ability to pay for improved WASH services. The beneficiaries of this initiative will be: (i) 600 inhabitants of the areas of Puerto Cabezas, Rosita and Waspam that will gain access to water and sanitation services through off-grid solutions (standalone or shared systems); (ii) 10 local entrepreneurs who will be trained in business administration skills and technical solutions for the WASH market; (iii) 20 service providers, tradespeople that work for the entrepreneurs, who will be trained to install and maintain the water and sanitation solutions; (iv) Pana-Pana will be strengthened as an institution with new credit products for this market segment and 10 credit officers will be trained on water and sanitation solutions and benefits. In the selection and training of service providers in the micro-enterprises the Project will aim for a 50/50 split between men and women.

**C. Contribution to MIF Mandate, Access Framework and IDB Strategy**

* 1. The peri-urban communities and rural towns of the RACCN in Nicaragua are amongst the most excluded from water and sanitation services due to specific challenges related to difficult access and the high cost of network extensions. Access to water and basic sanitation can deliver direct economic benefits by reducing medical expenses, reducing time lost at school and work, and the time saved due to having closer access to safe drinking water and adequate sanitation.
  2. Link to the Agenda. The main focus of this project is increasing access to the basic services of water and sanitation through the design and deployment of micro-credits for poor families, allowing them to access primarily off-grid water and sanitation solutions while enabling micro-entrepreneurs the skills and resources to offer these services to the families.
  3. In its efforts to improve access to water and sanitation for poor populations under the Basic Services Agenda, the MIF has been testing a set of specific credit products to families to cover upfront costs while working to improve the local supply of these solutions (ES-M1043, HO-M1046, BO-M1058). These projects are experimenting with different combinations of product mixes, beneficiary groups, distribution mechanisms and variations of business models. The MIF plans to evaluate and merge the experience from all four of these projects to form a common knowledge bank on locally developed community markets for improving access to water and sanitation for poor and vulnerable populations.
  4. This project will contribute to reducing the Agenda’s knowledge gaps surrounding how to involve local small scale actors (micro-entrepreneurs, tradespeople, etc.), microfinance institutions and community organizations in the provision of water and sanitation services. As the lack of collateral/collective property rights is a significant barrier to accessing finance for indigenous peoples, the Project will also increase the knowledge about developing financial products for clients with collective land tenure.   In terms of innovation, this Project aims to develop: (i) a menu of innovative options to increase access to both safe water and sanitation in a region with limited supply chains; (ii) a service delivery capacity in a region with limited service delivery experience, and (iii) a set of finance mechanisms with an indigenous microfinance institution as the main focal point in a region with limited financial services. In the model presented here, based on high community engagement and on both individual family solutions and solutions shared by groups of families - creating specific credit products for the specific context and the solutions provided - adds an innovative approach that has not yet been tested in the region.
  5. Collaboration with the Bank Group. This Project will align and coordinate closely with the planned IDB/WSA grant (Spanish Fund) NI-G1002 in RACCN and with the current IDB country strategy for Nicaragua. The objective of the bank’s planned operation is to provide the region with water and sanitation through the expansion of the grid, but will not cover water and sanitation infrastructure within households. The MIF/SEP Project will provide capacity building and a loan to Pana-Pana to facilitate the process of connecting the population to the grid once it is established. The SEP loan and capacity building will enable Pana-Pana and possibly other local microfinance institutions to continue financing intra-household connections through microcredits after the end of this Project. This Project and the SEP loan and its relevant activities will be synchronized in time during implementation.

1. Project Description
2. **Objectives** 
   1. The impact objective of the project is improved living conditions for underserved families living in peri-urban areas of the RACCN through improved access to water and sanitation services. The objective at the results level is to provide access to new or improved water and sanitation services through the design and deployment of micro-credits for poor families to finance primarily off-grid solutions to poor peri-urban populations in Puerto Cabezas, Rosita and Waspam.

B. Description of Model

* 1. The project will work at the following three different levels to enable local organizations and microfinance institutions[[2]](#footnote-2), microenterprises and/or small businesses and communities to jointly improve the access to water and sanitation of primarily off-grid families:

2.2.a Working at community level. WaterAid will work with communities to organize themselves for improving water and sanitation services. To achieve this, WaterAid will take into account the specific indigenous community governance structures and opportunities for off-grid solutions for both individual family and small groups of ten or more families in a peri-urban setting. These off-grid solutions can provide services to a group of households such as grids, shared improved wells, or condominial systems for sewerage or composting. The different technical solutions will be presented so that families are aware of the benefits and costs related to each. In the case of communal solutions, the responsibility falls on communities’ organizations or solidarity groups. Existing demand for the products has already been confirmed by the initial market study financed by the IAF. The community-based communications campaign at the initial phase of the Project will be geared at refining that demand.

2.2.b **Working at household level** in poor peri-urban areas of the three municipalities, who lack safe water and sanitation services. Families have the responsibility of covering the costs of the solutions, which can range from: standalone systems in the households, such as improved wells, manually-drilled borehole wells, roof-top rainwater catchment, pour-flush toilets with onsite treatment or serviced composting latrines. In most of the cases, this means that to access a sanitation facility a family has to spend approximately ten times their monthly income. To be able to cover these upfront costs specific credit products will be designed by the Project and offered by Pana-Pana. When the solutions are shared and costs have to be covered jointly by a group of families, the credit product will be designed accordingly, working with solidarity groups and/or community organizations. In addition, campaigns to train in the use of systems will be carried out, while promoting good hygiene practices. The Project will take into consideration WaterAid’s experience together with Pana-Pana in order to reinforce the pilot and set the conditions for a successful loan design and implementation.

2.2.c **Working with local micro-entrepreneurs.** Local micro-entrepreneurs will be selected from a small data bank of local tradespeople that have received a 240-hour introductory training in water and sanitation solutions provided by WaterAid.  A public call will be made and interested individuals will be evaluated on a common set of selection criteria including interest, availability, and previous experience either in construction or service provision. Existing local microenterprises (small contractors) will be selected for specialization while the creation of new microenterprises will be facilitated amongst the group of young people that have received vocational training. The Project will train and equip the selected and new micro-entrepreneurs providing them with basic business skills while reinforcing their technical capacity to provide environmentally friendly toilets, construct improved wells, and provide on-going services to the set of technologies that will be offered to the families. WaterAid will provide a seal of approval or certification based on a rigorous quality control of service providers based on their fulfilment of basic quality control measures.  Through this, the selected local micro-entrepreneurs will be able to offer technical services to families for construction and maintenance of the solutions provided. Loans or incentives provided by Pana-Pana and WaterAid will also be considered to allow them to obtain and assemble the product and support them as they begin their sales process. It is also expected that this will benefit the microenterprises which will employ the people that have received training and certification by WaterAid.

* 1. Pana-Pana has extensive experience in home improvement credit, by which they identify the need of the families for financial solutions to improve their houses. This same technique can be used for WASH products. In a pilot (earlier mentioned) Pana-Pana has already provided a few credits to families for these services, noticing a high demand for them. Activities with local communities to assess willingness to pay for services and risk assessments will be done to avoid families becoming over-indebted. Local technical promoters financed by the Project will connect interested families with the WASH microenterprises and the credit offered by Pana-Pana. They will also give objective advice to families in need of these solutions. To qualify for a loan, the potential client must have enough regular monthly income to ensure a capability to pay back the loan without the risk of becoming over indebted.
  2. For the model to work and be sustainable, changes of traditions and behavior among the population toward water and sanitation is necessary since the most common ways now are using unsafe water for consumption and not using toilets or latrines. This behavior change which will be accomplished through a rigorous, culturally adapted and long term awareness and education campaign that will also contribute to the viability of the microfinance services and the local WASH providers, responsible for installing, and maintaining the WASH solutions.

**C. Components**

Component I: Education and awareness campaign and creation of alliances for improved WASH services (MIF: US$101,000; AUS US$40,000; Counterpart: US$0)

* 1. The objective of this component is to create strategic alliances with community organizations, public and private institutions and educate the population about the importance of clean water and effective sanitation and increase the demand for these services. WaterAid will develop a public awareness and education campaign that includes printed materials, spots in radio and television, and participation in local events such as community fairs, with the objective of presenting interested families with the different possibilities for primarily off-grid water and sanitation solutions, while also focusing on improving hygiene practices. This campaign will take into account the specifics of indigenous communities, and the technical offer will be designed in a participatory manner, so that it’s adapted to their specific needs.
  2. The activities of this component are the following: (i) project image and logo created; (ii) awareness campaign created; (iii) campaign executed and monitored; (iv) strategic alliances created; and (v) train and apply two technical promoters to promote the benefits of improved WASH solutions and to act as intermediaries between the MFI, the service providers and the potential clients.

Component II: Develop off-grid WASH solutions and specific WASH credit products (MIF: US$30,000; AUS: US$35,000; Counterpart: US$20,000)

* 1. The objective of this component is to develop the credit products that best fit the need and ability to pay of the clients to be served. A recently conducted market study (by Pana-Pana) will be validated by a consultant with proven experience in this area to complete the existing information, with the objective of designing appropriate credit products for families with no access to public water and sanitation services (off-grid) to be used for WASH products and services. The credit products will be created by an expert consultant in close cooperation with Pana- Pana.
  2. The activities and the products of this component are the following: (i) creation of a catalogue to demonstrate and explain different WASH solutions to clients; (ii) consultancy to refine and validate prior WASH market study financed by Pana-Pana for the design of relevant training and development of WASH credit products; (iii) WASH credit products for local need and ability to pay created; (iv) WASH credit products marketed to the public and launched through regular MFI channels of Pana-Pana; (v) WASH demonstration solutions installed and demonstrated at Pana-Pana and other public locations; and (vi) Pana-Pana credit officers trained on WASH solutions and new credit products.

Component III: Capacity building for local micro-entrepreneurs and tradespeople to provide WASH solutions (MIF: US$7,000; AUS: US$80,000; Counterpart: US$85,000)

* 1. The objective of this component is to create capacities among local micro-entrepreneurs and tradespeople[[3]](#footnote-3) that will work for them to install the water and sanitation services made available through this Project. The Project will strengthen and develop skills of local micro-entrepreneurs and tradespeople so that they can develop their business and technical skills to install, operate and provide maintenance services for the water and sanitation systems. These micro-entrepreneurs and tradespeople will be selected based on criteria such as interest and previous experience and participation in vocational trainings provided by WaterAid. In addition, new microenterprises will be facilitated amongst the group of tradespeople that have already received vocational training from WaterAid. Technical training will be focused on skills such as plumbing, well drilling and basic construction skills and will include the provision of basic tools and technical reference manuals. A specific credit product will be designed so that these micro-entrepreneurs can access funding to cover up-front costs such as materials. A non-reimbursable seed fund will be provided by WaterAid matching funds to provide means of transport and equipment for four micro-entrepreneurs.
  2. The activities and products of this component are the following: (i) WASH providers identified and selected; (ii) manual for selection of solutions created; (iii) protocol for sanitary and technical requirements created; (iv) program for training and curriculum development for WASH providers created; (v) vocational training of WASH providers executed; (vi) entrepreneurship business training program for WASH providers created and executed; (vii) WASH providers provided with basic equipment; and (viii) technical advisory services for WASH provided to Project.

Component IV: Knowledge Management and Communications Strategy. (MIF US$15,500; AUS: US$ 5,000; Counterpart US$0)

* 1. The objective of this component is to systematize, document and disseminate the experience and knowledge generated in this project, with the specific goal of sharing the community-based model combining financial and technical training.
  2. The following audiences have been identified for the purposes of dissemination and communication of knowledge and experiences generated by the project: (i) local, regional and national governments, (ii) other micro-finance institutions, (iii) international and local NGOs; and (iv) a network of experts interested in developing similar projects.
  3. The main channels to reach these audiences will be special events, printed material, local radio and TV appearances, thematic conferences, donors meetings and social media.
  4. For purposes of satisfying the knowledge needs of those audiences, the following products will be developed as part of the project: A case study and an infographic will be developed by the project. On an annual basis the EA will update the Project Fact Sheet, which contains basic information on the project, its challenges, the intervention strategy and results. Finally, the results will be presented at a Final Event.

D. Project Governance and Execution Mechanism

* 1. To facilitate implementation of the Project, a Project Coordination Unit (PCU) will be set up in WaterAid’s offices in Bilwi. The PCU will consist of a Project Coordinator, an Administrative Assistant, and an accounting assistant. The PCU will be responsible for technical implementation, as well as project management and all reporting and administration related to IDB/MIF requirements. The project will have a steering committee convened every two months or when deemed necessary and be made up of one representative of each of the participating stakeholders (WaterAid and Pana-Pana) and the Project Coordinator, where the different partners will report on the progress of the project and give strategic advice on major decisions and directions. One year before the project ends, a sustainability workshop will be held with all key stakeholders to identify specific actions needed to ensure the continuity of the project’s activities act the project funding has been expended.

E. Sustainability

2.16 The sustainability is based on the demand created, the financial robustness of the business model and the strength of the alliances. WaterAid’s ongoing pilot with Pana-Pana has demonstrated the need, financial viability as well as positive results and social return in offering affordable WASH solutions. The mid-term sustainability depends on increasing volume, scale, and greater market penetration of underserved markets. By creating the market and the demand through the incorporation of more MFIs, more high quality and affordable products offered by more providers, and more outreach to rural poor, and community based solutions the Project will secure long term sustainability. The sustainability of the microenterprises is based on: (i) additional unmet demand created by the Project; (ii) services maintenance work created by the Project; (iii) population growth will create more demand for water and sanitation; (iv) employment opportunities created by large scale investments planned at the municipal level

F. Experience and Lessons Learned from MIF or other Institutions

2.17 Under the MIF Basic Services for the Poor Agenda, different interventions are targeting the generation of local markets for providing basic services to poor populations combined with financial inclusion. In particular, the expansion of “Sanitation as a Business” has been supported by MIF (Bolivia BO-M1058), support to local micro-entrepreneurs is given to promote eco-sanitation markets), and the World Bank, which in 2007 piloted rural and peri-urban sanitation market development in Nicaragua which will be expanded by IDB in 2014 in coordination with WaterAid and Pana-Pana to ensure lessons learned are incorporated. The initiatives of FUSAI in El Salvador (ES-M1031), and PATH (Honduras HO-M1046), and Water for People in Bolivia (BO-M1058) also target the development of local markets, with specific products for electricity and water and sanitation. In Peru (PE-M1081), specific credit products were tested for standalone solutions in peri-urban areas of large cities.

* 1. Relevant lessons learned are: (i) the project must be based on real demand, expressed by the families themselves, and the solutions must be adapted to these needs and abilities to pay. Therefore, there must be extensive consultations with the beneficiary populations during planning and implementation of the Project; (ii) The engagement of local service providers is essential to generate cost-effective and quality solutions that are affordable for the families; (iii) Awareness campaigns to increase knowledge on hygiene practices, and financial products to reduce mistrust of families, reduce the risk of lack of success; (iv) The monitoring system should not focus only on the amount of credit deployed, but on the improvements on water and sanitation systems achieved through this credit. The financial product is a tool, not the goal.

G. MIF Additionality

* 1. Non-Financial Additionality. The MIF brings to this project its microfinance knowledge and large experience in the region, which will be very valuable to design and define the specific credit products both for families and micro-entrepreneurs. The micro-finance background, combined with the agenda of Basic Services, make this initiative a perfect approach to increase access to water and sanitation services to underserved populations.
  2. Financial Additionality. The MIF will contribute with 50 % and AUS with 25 % of the total cost of the Project. The SEP loan and technical assistance resources to Pana-Pana will provide the resources necessary to offer appropriate credits to the families. Through the SEP loan complementary operation, Pana-Pana’s credit portfolio will be supported, so that the credits for the families and entrepreneurs offered within this initiative will come from this SEP loan. The total SEP loan amounts to US$ 250,000, and it is expected that there will be more than 190 specific water and sanitation credit made out for the families and entrepreneurs during the course of the Project.

**H. Project Results**

* 1. The results indicators are: (i) the number of people (600) who have adopted new WASH technologies or practices; (ii) the number of households (100) with access to new or improved basic services (water, sanitation); (iii) the number of heads of households (190) who access credit products; (iv) the number of new created microenterprises (4) to provide WASH solutions; and (v) the number of people (20) trained in improved business skills (e.g. accounting, business practices, products/technologies). All indicators will be sex disaggregated and the aim is to have a 50/50 split between men and women.

1. **Project Impact**
   1. The impact indicators are: (i) the number of people with improved living conditions defined as improved water and sanitation facilities; (ii) Average firm’s annual sales growth; and (iii) the number of jobs created annually by micro-entrepreneurs.

**J. Systemic Impact**

2.23 The community based approach of this project will allow the MIF to harness synergies among a number of local stakeholders: microfinance institutions, WASH providers and private companies, community organizations and local, regional and national governments. The project thus creates the conditions for the growth and expansion of the model which will include new partners that together combine their comparative advantages to create a mix of financial and technical support services, which currently are not available to poor families. In addition, when the water grid is expanded and the sanitation grid created, the project will offer microcredits for households to connect to the grid. The systemic impact indicator is number of MIF introduced models scaled or replicated.

1. Monitoring and Evaluation Strategy
   1. Baseline: The baseline will be established through a household survey focused on income, health and water and sanitation indicators that will be disaggregated by sex, ethnic groups and disadvantaged populations.
   2. Monitoring: The monitoring and tracking strategy will be based on a community-based monitoring, through the organizational involvement of community leaders and water and sanitation community organizations. To ensure effective monitoring and tracking, specialized tools for gathering information will be developed and criteria will be established to analyze the results of the project at each component. All the products in the project components will be monitored according to the characteristics and cycles of development, making corrections and taking early action when faced with potential problems and risks. Monitoring visits will take place throughout the implementation of the project.
   3. Evaluation: A mid-term evaluation and a final evaluation will be conducted. An impact evaluation is not planned for this Project.
   4. Closing Workshop: The executing agency will organize a closing workshop at the appropriate time to assess along with other key stakeholder the outcomes achieve, identify additional tasks to guarantee sustainability and identify and disseminate lessons learned and best practices.
2. Cost and Financing
   1. The project has a total cost of US$665,405, of which US$352,405 will be provided by the MIF (NI-M1037) and US$160,000 by the AUS (NI-T1199), and US$153,000 by the local counterpart. The execution period will be of 36 months and the disbursement period will be of 42 months.

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| --- | --- | --- | --- | --- |
|  | **MIF** | **AUS** | **Counterpart** | **Total** |
| **Project Components** |  |  |  |  |
| 1. Education and awareness campaign and create alliances for improved WASH services | US$ 101,000 | US$40,000 | - | US$141,000 |
| 2. Develop off-grid WASH solutions and credit products | US$30,000 | US$35,000 | US$20,000 | US$85000 |
| 3. Capacity building for local micro-entrepreneurs and tradespeople to provide WASH solutions | US$7,000 | US$80,000 | US$85,000 | US$172,000 |
| 4. Knowledge Management and Communications Strategy | US$15,500 | US$5,000 | - | US$20,500 |
| **Execution and supervision** |  |  |  |  |
| Executing Agency/ Project Administration | US$87,600 | - | US$48,000 | US$135,600 |
| Baseline and Monitoring system | US$15,000 | - | - | US$15,000 |
| Mid-Term Evaluation | US$15,000 | - | - | US$15,000 |
| Final Evaluation | US$10,000 | - | - | US$10,000 |
| Ex post reviews | US$30,000 | - | - | US$30,000 |
| Contingencies | US$10,000 | - | - | US$10,000 |
| Institutional Strengthening | US$10,000 | - | - | US$10,000 |
| **Sub-total** | **US$241,100** | **US$160,000** | **US$153,000** | **US$554,100** |
| Agenda account | US$5,000 |  |  | US$5,000 |
| Impact evaluation account (5%) | US$16,305 |  |  | US$16,305 |
| **Grand Total** | **US$352,405** | **US$160,000** | **US$153,000** | **US$665,405** |

1. Executing Agency
   1. WaterAid is an international non-governmental not for profit organization with over 30 years of experience focused on the water, sanitation and hygiene sectors and has programs in 26 countries worldwide.  WaterAid has previous experience in the area of town-wide approaches that include elements of entrepreneurship in Mozambique, Tanzania and Malawi in addition to fecal sludge management initiatives. WaterAid Nicaragua has 3 years’ experience working in the RAACN. There are currently six member countries (UK, USA, Australia, Sweden, Japan and Canada) that form the federal structure of WaterAid international which has the role of coordinating the development and delivery of WaterAid’s Global Strategy. Three members (UK, USA, and Australia) have geographical accountability for delivery of regional and country program work.  In the case of Latin America and the Caribbean, WaterAid America is directly accountable for operational management.  Each member country has its own Board of Directors or Trustees while WaterAid international has a Board that was created in 2010 and the 2015-2020 global strategy will be the first developed on behalf of WaterAid international.  WaterAid’s Nicaragua Country Program is managed by WaterAid America, Inc. and reports directly to its CEO and Board of Directors.  WaterAid America, Inc. is duly registered in Nicaragua with the Government Ministry (MINGOB) and the Ministry of Foreign Relations (MINREX) and is legally represented in Nicaragua by the Country Program Manager. WaterAid is a member of the Nicaraguan WASH Network (RASNIC) and currently serves on the Network’s Coordinating Committee.
   2. Pana-Pana is an indigenous non-profit civil association with headquarters in the city of Bilwi (Puerto Cabezas) with 22 years of experience and has offices in Waspam and Rosita. It is a non-governmental organization, founded in the RACCN, committed to provide affordable credits to poor families in the autonomous regions of the Nicaraguan Caribbean Coast, through quality microfinance services and comprehensive development projects. Pana-Pana has therefore an extensive knowledge of the specific context in the RACCN. In 2007, Pana-Pana created its microfinance branch, serving currently 2,400 clients in Puerto Cabezas, Rosita and Waspam, with a current loan portfolio of over US$ 700,000. Pana-Pana has experience in sectors such as food security, sustainable and environmentally friendly production, technical assistance and training, community organization strengthening, auto-construction housing in indigenous communities, alternative energy and microfinance models for low-income populations aimed to promote small commercial and productive businesses as well as household improvements. Since 2006 it has worked in the microfinance industry by implementing best practices and beginning its reporting on the MIX in 2011. It is an active affiliate of the Association of Microfinance Institutions of Nicaragua (ASOMIF) and is duly registered in the National Microfinance Commission (CONAMI), the regulating entity of the microfinance sector in Nicaragua.
   3. The components of the project are focused on addressing a sector to which Pana-Pana has turned its attention to due to the needs of the population in urban, peri-urban and rural areas, which is the issue of water and sanitation. The objective of the project is aligned with the new Human Development approach which Pana-Pana has adopted in its initiatives in all areas, where development is measured comprehensively from the family to the community. The project is aligned with the organization’s institutional mission where both social and financial objectives converge, including a cross-cutting approach to prioritize gender, vulnerable sectors and low economic income groups in order to improve living conditions.
   4. WaterAid will establish an executing unit and the necessary structure to effectively and efficiently execute project activities and manage project resources. WaterAid will also be responsible for providing progress reports on project implementation. Details on the structure of the execution unit and reporting requirements are in Annex 7 in the project technical files.
   5. This project is complementary to an operation funded by the MIF Social Entrepreneurship Program (SEP), administered by the Bank. Through the SEP operation, the general credit portfolio of Pana-Pana will be strengthened. In line with this, specific funds will be directed to strengthening the structure and governance of Pana-Pana. Pana-Pana is also collaborating with Kiva and The Inter-American Foundation (IAF), who are supporting this initiative and allow Pana-Pana to provide the counterpart for the PES loan. The IAF has provided Pana-Pana with $40,000 for this purpose and Pana-Pana has committed an additional $20,000 of its own funds for housing improvement.
2. Project Risks
   1. The sustainability risk is that the beneficiaries of the project do not take ownership of the process and the objectives it pursues, and they may not apply the skills they have acquired for creating microenterprises as sources of income through entrepreneurial initiatives in the field of water and sanitation. There is also a risk that the installation of the services and products can be delayed due to long distances for transport or lack of material. These risks will be mitigated by providing training to more potential micro-entrepreneurs than will be directly supported by the project. WaterAid will also assist in securing that the material will be at hand and the time providing the services will not exceed expectations. External risks are a rise in the price of materials and supplies as well as the ongoing struggle of finding access to finance without registered land tenure. This risk will be mitigated in the design of the policy and regulations with regards to the credit product. RACCN is vulnerable to natural disasters so these types of risks are often present, mainly weather related such as floods and hurricanes. The types of low-cost simple technologies are designed specifically to address this risk and create robust alternatives to ensuring access to water and sanitation during and after such events.
3. Environmental and Social Effects
   1. RAACN is inhabited by four ethnic groups and approximately 80 % of the project beneficiaries will come from Miskito indigenous and/or afro-descendent populations living in the municipalities of Puerto Cabezas, Waspam and Rosita. The Project will serve these indigenous groups who live in extreme poverty conditions and all products will be available in all relevant languages. The Project is also expected to generate a greater organizational capacity within the communities, as well as a change in the knowledge, attitudes and practices of the population in terms of: i) use and management of safe water and sound sanitation; ii) processes of decision-making and participation for the sustainability of the project; and iii) coordination and synergies between the different actors that impact communities (municipalities, territories, and the regional and government, suppliers, NGOs, community leaders, etc.). Negative environmental and social side effects are not expected in the Project.
4. Compliance with Milestones and Special Fiduciary Arrangements
   1. **Disbursement by Results and Fiduciary Arrangements.** The Executing Agency will adhere to the standard MIF disbursement by results, procurement and financial management arrangements specified in Annex 8.
   2. **Information Disclosure.** There is no information deemed confidential and standard IDB intellectual property rights procedures will be adhered to.

1. The distribution corresponds to 70% municipality in Bilwi, 20% in Rosita and 10% in Waspám. [↑](#footnote-ref-1)
2. At present the only option identified is Pana Pana but other alternatives will be explored during implementation. [↑](#footnote-ref-2)
3. The micro-entrepreneurs can in this case double as tradespeople.  Micro-entrepreneurs can include people without specific trades’ skills that have the initiative to sell a service and will hire technical tradespeople to do the installations and maintenance work.  The project plans to identify people that have already received basic vocational training in WASH and have an entrepreneurial spirit.  More experienced tradespeople that share this vision will also be considered and supported by the project.   [↑](#footnote-ref-3)