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COUNTRY PARTNERSHIP STRATEGY

(FY2013-2017)

FOR THE

REPUBLIC OF NICARAGUA

October 3, 2012

**Central America Country Management Unit
Latin America and the Caribbean Region**

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ABBREVIATION AND ACRONYMS

AAA	Analytical and Advisory Activity
AF	Additional Financing
CEA	Country Environmental Assessment
CEM	Country Economic Memorandum
CORAZON	Bi-National Project on Protected Areas - Nicaragua, Honduras
CPC	Citizen's Power Councils
CPS	Country Partnership Strategy
CPIA	Country Policy and Institutional Assessment
CPPR	Country Portfolio Performance Review
DFID	U.K. Department for International Development
DPC	Development Policy Credit
DSA	Debt Sustainability Analysis
EFA	Education for All
ENACAL	National Water Supply Enterprise
ENDESA	Nicaraguan Demographic and Health Survey
ENITEL	Nicaraguan Telecommunications Company
ESW	Economic and Sector Work
EU	European Union
FOMAV	Roads Maintenance Fund
FSAP	Financial Sector Assessment Program
GEF	Global Environment Facility
HIPC	Heavily Indebted Poor Countries
JSDF	Japan Social Development Fund
LSMS	Living Standard Measurement Study
NLTA	Non Lending Technical Assistance
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
M&E	Monitoring and Evaluation

MIGA	Multilateral Investment Guarantee Agency
MINED	Ministry of Education
MINSA	Ministry of Health
MSME	Micro-Small & Medium Size Enterprises
NGO	Non Governmental Organization
NLTA	Non Lending Technical Assistance
PASEN	Nicaragua Education Support Program
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PERZA	Off grid Rural Electrification Project
PFM	Public Financial Management
PNDH	National Human Development Plan
RAAN	North Atlantic Autonomous Region
RAAS	South Atlantic Autonomous Region
SERCE	Second Regional Study for Learning Assessments
SIICAR	Integrated System for Cadastre and Land Registration
SILAIS	Local System of Integrated Health
TA	Technical Assistance
TELCOR	Telecommunication Regulatory Institution
WSP	Water and Sanitation Program
WBG	World Bank Group

IDA		
Vice President:		Hasan A. Tuluy
Country Director:		C. Felipe Jaramillo
Task Team Leader:		Andrea Kucey and Camille Nuamah
IFC		
Vice President:		Bernie Shehan
Country Director:		Jean-Philippe Prosper
Task Team Leader		Juan Carlos Pereira

**JOINT IDA-IFC COUNTRY PARTNERSHIP STRATEGY
FOR THE
REPUBLIC OF NICARAGUA**

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Executive Summary

- 1. Nicaragua is the poorest country in Central America with a GNI per capita of US\$1,510.** Decades of civil conflict and a series of catastrophic natural disasters have left the country behind most of its neighbors in terms of economic and social indicators. The poverty headcount stands at 42 percent and one in seven Nicaraguans lives in extreme poverty. Most of the poor live in the rural areas; many in remote communities where the access to basic services is still constrained by very limited infrastructure. The country also ranks among the most vulnerable in terms of natural disasters and extreme climate. Interestingly, however, Nicaragua has not been as plagued by the same levels of violence as some of its Central American neighbors: homicide rates are the lowest in the sub-region.
- 2. Over the last decade or so, major progress has been made in improving service delivery to the poorest and results are beginning to show.** Public expenditures in infrastructure and reforms in social service delivery have been targeted toward rural areas and poorer households. Poverty reduction accelerated in the last five years, inequality has fallen and social indicators are showing steady improvements. However, while a significant number of the Millennium Development Goals (MDGs) are on track to be achieved, rural-urban disparities remain stark and other key human development indicators, such as educational attainment are still very low.
- 3. Sound macroeconomic policies have also allowed for moderate and steady economic growth, but increasing productivity is needed to accelerate convergence in income levels with the rest of the region.** Nicaragua has maintained disciplined macroeconomic policies since 2001 underpinning average growth rates of around 3.5 percent and a strong rebound from recent crises. Despite these positive trends, however, the country remains quite vulnerable to external shocks and to natural disasters. More recently, exports and FDI have picked up but the underlying productivity has not improved and is limiting the country's overall competitiveness.
- 4. The Government's current National Plan for Human Development (2007-2012) gives priority towards pro-poor delivery of basic social services and infrastructure, particularly in rural areas.** Implementation has yielded some critical innovations, notably in social service delivery and rural infrastructure that are showing promising results. More recently, there has been a renewed emphasis on the need to stimulate investment and to improve productivity, particularly in export-oriented sectors. This shift is likely to be reflected in the ongoing revision to the National Human Development Plan (PNDH).
- 5. Even with limited resources, the Bank Group has supported important advances in Nicaragua.** Implementation of the last CPS saw IDA consolidate lending around a core set of well-performing investment programs focused on rural infrastructure and social services while IFC accelerated growth in its Nicaragua portfolio, including in key export sectors. Key lessons include the strategic value of Bank Group engagements in helping Nicaragua to mobilize resources from other development partners and from the private sector, as well as the need to maintain flexibility to respond to emerging challenges in a country buffeted by external shocks and natural events.

6. **Against this backdrop, the proposed WBG continues to focus on improving the delivery of basic services, and adds an emphasis on strengthening competitiveness as a means to accelerate growth in incomes.** Under the first, the objective is to raise welfare by improving access to quality basic services. The IDA lending program will help Nicaragua to scale up new models of service delivery in health, education, social protection and water and sanitation, particularly in areas where Nicaragua faces significant challenges to achieve the remaining MDGs. The second strategic objective is to raise incomes by enhancing competitiveness and diversifying exports. Under this objective, the CPS program seeks to deepen the impact of current programs in rural infrastructure, land and SME administration by adding a focus on productivity, and through greater synergies with IFC and MIGA engagements in agribusiness, and in the energy and financial sectors. The CPS will continue mainstreaming attention to gender and indigenous peoples, disaster risk mitigation and climate adaptation.

7. **The CPS program will leverage the full bundle of WBG services to complement IDA resources and help mobilize other development financing.** The key principles of engagement involve maintaining Nicaragua's very strong record on project implementation, building scalable programs that can attract additional resources, and leveraging the full breadth of WBG instruments by coordinating IDA, IFC and MIGA interventions. The Government has agreed to a lending program of one or two new investment projects a year with remaining resources reserved to scale up successful ongoing projects and for emerging challenges. Investment lending would be complemented with a strong program of knowledge services, as well as support to mobilize additional resources (e.g. from global programs, trust funds, public private partnerships).

8. **The CPS program is complemented by a series of regional initiatives** that address the citizen security agenda, support a greater economic integration through trade facilitation, and aim to reduce disaster risks across Central America.

9. **The Bank will coordinate with IMF and the Inter-American Development Bank (IDB) in supporting policy reforms.** Although expectations of an ambitious reform agenda on governance are low at this time, the CPS program will renew its emphasis on transparency and monitoring and evaluation. More joint Government and Bank dissemination of good program results and analytical work to stakeholders, including civil society and local academia, may provide an opportunity to build a more substantive governance agenda over the medium term. A strong monitoring and evaluation system will be a prerequisite for anchoring a more determined transparency effort, and to support mobilization of resources.

10. **Risks to the implementation of the CPS program are considered relatively moderate.** Political risk is mitigated in part by the alignment of the CPS period with the political cycle in Nicaragua. While political polarization could encumber the pace of policy reform, an improving government dialogue with the private sector has strengthened the outlook for consensus building. A potential economic crisis in Europe, a further slowdown in the US economy or a sudden stop in support from Venezuela would create challenges for program implementation. The Bank will coordinate with the IMF and the IDB to encourage Nicaragua to create necessary buffers, and will maintain flexibility in the IDA program to respond to emerging challenges. The Government has also agreed to introduce the new IDA Immediate Response Mechanism (IRM) into the portfolio to mitigate the persistent risk from natural disasters.

I. Introduction

1. **Nicaragua is one of the poorest countries in Latin America with a GNI per capita of US\$1,510 in 2011.** Approximately 42.5 percent of the population still lives below the poverty line and one out of every seven Nicaraguans lives in extreme poverty. The country is particularly vulnerable to adverse natural events which threaten development gains.

2. **A number of macroeconomic reforms and stabilization policies undertaken during the 1990s paved the way for improved economic performance over the last decade.** Moderate growth over the past decade of roughly 3.2 percent per annum has translated into some improvements in poverty rates, particularly in rural areas. The current Government has placed a strong emphasis on delivering services to the most vulnerable population, and is focusing its second term on reducing poverty by deepening rural services, creating job opportunities, and promoting foreign direct investment (FDI) and exports. Within this objective there is a renewed attention on improving productivity.

3. **The country has had a stronger economic recovery following the global economic crisis than its Central American neighbors.** The country's growth rate in 2011 was the highest in a decade at 5.1 percent, and FDI and trade are both improving at good rates. Prudent macroeconomic management and favorable export prices have helped support the economic recovery. Meanwhile employment has kept pace with population dynamics, but been dominated by low income and informal jobs. The challenge over the longer term is to sustain higher growth rates to accelerate poverty reduction. This will require not only improving the efficiency of public spending and improving the effectiveness of the state, but jumpstarting improvements in productivity that can translate over time into higher income growth across the population.

4. **The Government and the World Bank Group (WBG) have agreed on a five year program of engagement, designed in close coordination with the IDB and IMF, to support Nicaragua in achieving its key development goals.** The proposed Country Partnership Strategy (CPS) for FY13-17 supports government priorities in two key areas of engagement: (i) raising welfare by improving access to quality basic services; and (ii) raising incomes by improving productivity and enhancing competitiveness. The transversal themes of disaster risk management, gender and transparency are mainstreamed throughout the CPS program to enhance the sustainability of program outcomes. This CPS has been prepared jointly with the IFC and MIGA, with the objective of leveraging each group's comparative advantage and expanding the suite of instruments available to support Nicaragua. Finally, the strategy has been prepared in close coordination with the IDB and the IMF, and reflects an intention to collaborate more intensely in areas of policy dialogue which are critical to the development agenda as well as to improve the efficiency of development assistance.

II. Country Context

Political Context

5. **Nicaragua continues to be characterized by high levels of political polarization, but also a broadening consensus around macroeconomic policies.** In November 2011, the current President and Administration were re-elected for a five year term, with a parliamentary majority.

While the political opposition has not been able to consolidate around a unified platform, control of both the executive and legislature has not yielded the expected stability in government sector policy-making. Indeed, competing demands within the ruling party constituencies have begun to surface. Outside government, Nicaragua has seen continued development of civil society and other groups calling for improved governance. As such, the Government is also likely to face greater scrutiny and demand for enhanced transparency in the use of public resources and about its programs in general.

6. **In contrast, the Government's relationship with the private sector has been improving, and provides a space for more open and constructive debate on economic strategy.** This includes a broad based consensus on the need to maintain macroeconomic stability, the promotion of both private domestic and foreign investment, and on the need to address lagging productivity and export competitiveness. Municipal elections will take place in November 2012, raising issues related to electoral processes, but there seems to be a potential for negotiation between political actors on some elements of electoral reform.

Citizen Security

7. **Although Nicaragua is comparatively safe among Central American countries, crime rates are increasing and could pose important risks to development.** The homicide rate per 100,000 inhabitants was 13 in 2010 down from 14 in 2009, and together with Costa Rica, is the lowest in the region. Nicaragua is also the only country in Central America where these rates have remained stable over the last 5 years. In the 2011 *Latinobarometer* survey, Nicaragua is the country where the least number (only 3 percent) of respondents name crime as the number one problem versus a regional average of 28 percent. As such, the country allocates relatively fewer resources to security and justice, leaving more room for social spending and investment which also contributes to prevention.¹ While Nicaragua's homicide rates are stable, crime rates are increasing and the economic costs of crime remain high even by Latin American standards.² There are also future risks related to the movement of drug trafficking routes which could negatively affect Nicaragua.³

Poverty

8. **The second half of the last decade brought a notable reduction in poverty and inequality, concentrated mostly in rural areas.** In contrast to the period 2001-2005 in which poverty essentially stayed constant at 48 percent, the country saw a significant reduction in the poverty headcount of nearly 6 percentage points (equivalent to around 230,000 fewer poor people), reaching a national rate of 42.5 percent in 2009. Meanwhile, extreme poverty fell from 17.2 to 14.6 percent between 2005 and 2009. Poverty remains a largely rural problem. By 2009, more than one in four Nicaraguans that reside in rural parts of the country were unable to meet

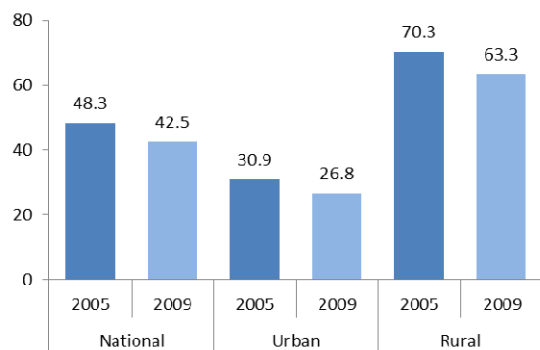
¹ The country spends on average US\$2,500 per 100 inhabitants on the security and justice sector, similar to Honduras (US\$3,700) and Guatemala (US\$4,600), which have homicide rates over three times as high, and much lower than the average for Central America (US\$9,400).

² According to the World Bank Enterprise Survey, the share of firms that consider crime and theft as a major constraint to business increased from 18 percent in 2006 to 48 percent in 2010, above the average for LAC (32 %).

³ There is much speculation about why Nicaragua seems not be affected by the homicide trend of the region, with several potential hypothesis including the success of the community police, and its geographic location (far from the Mexican border and a relatively isolated Caribbean coast).

their basic food needs; compared to around 6 out of 100 in urban areas. The Gini coefficient fell for the whole country from 40.5 in 2005 to 37.1 in 2009, and was similar in both urban and rural parts of the country. These results are confirmed in multiple measures based on consumption.

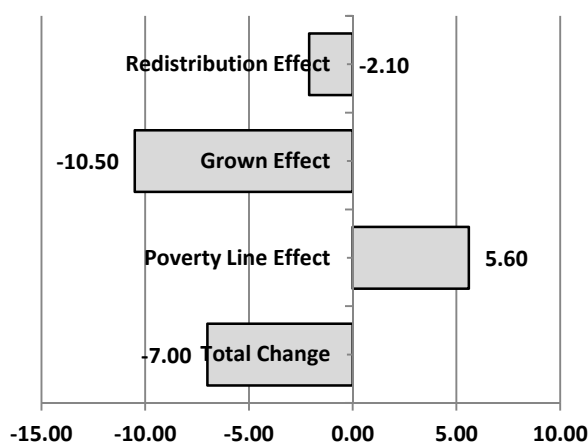
Figure 1. Headcount Total Poverty Rates by Area



Note: National, urban and rural changes statistically significant at least 10 percent level of confidence.

Source: Staff calculations from EMNV 2005 and 2009.

Figure 2. Decomposition of Changes in Poverty 2005-09



Source: Staff calculations from EMNV 2005 and 2009.

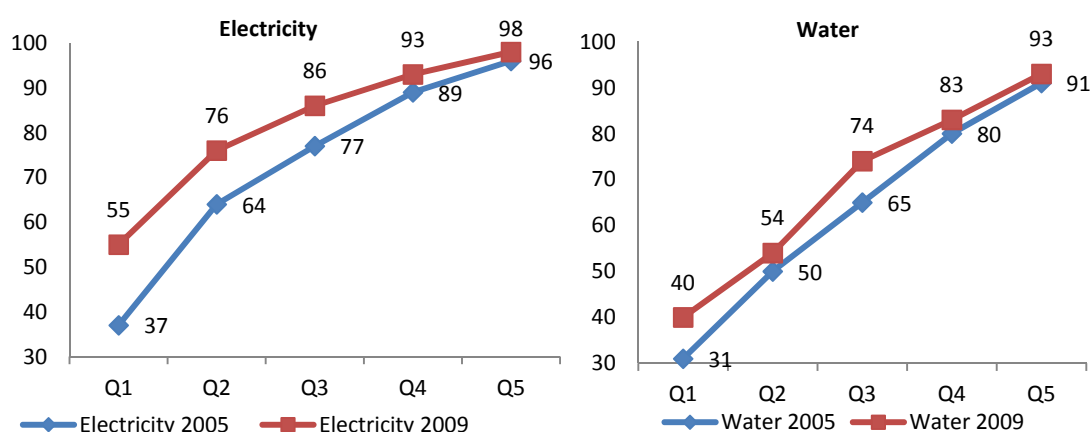
9. Recent gains have been largely driven by income growth and improvements in education and access

to basic services but large gaps remain between urban and rural areas and across income groups. The largest absolute gains in rural income occurred in agriculture, the main source of employment and income for poor people and contributed to poverty reduction. There were significant, albeit smaller gains in non-agricultural income among rural poor households. School attainment for people 20 years and older increased from 5.7 to 6.2 years during 2005-2009, but in 2009, rural individuals still had four years less average schooling than their urban counterparts. For the youngest cohort (23-29 years old), this rural-urban gap has been partially closed but substantial differences remain (5.3 versus 7.8 years of schooling). Likewise, there has been notable progress in access to electricity and water services that have been successfully targeted at poorer quintiles but large gaps remain (see Figure 3).

10. Indigenous peoples and Afro-descendant populations in the rural Atlantic coast regions continue to suffer more severe deprivation. Notwithstanding similar poverty and extreme poverty headcounts to the Central rural regions, the social and basic service indicators in the rural Atlantic remain dramatically lower, in part due to the remoteness of many communities that are still only accessible by water.

11. Nicaragua remains vulnerable to food price increases. Given that poverty is widespread in Nicaragua and the poor spend a large share of their budget on food, rising food prices would present a threat to the nutrition and livelihoods of large segments of the population. It is estimated that during the 2008 period of sharply rising food prices more than 90 percent of households were worse off as a result of the increases and that food prices pushed poverty - especially in urban areas - upwards by more than 4 percentage points.

Figure 3: Access to Services by Income Quintiles, 2005-2009 (percent)



Source: Staff calculations, EMNV 2005, 2009

Recent Economic Developments

12. **Nicaragua entered the global economic crisis from a position of relative strength.** Economic growth in the past decade was positive, averaging 3.2 percent, in line with the regional average. More importantly, economic growth has been positive every year during this period, except for 2009 where the economy contracted 1.4 percent due to the international economic crisis. Nevertheless, these trends have not been strong enough to compensate for the earlier collapse of the 1980s and early 1990s. Growth has been partially driven by an expansion in exports, which grew at an average rate of 11 percent in the decade and currently represent 43 percent of GDP, up from 15 percent in 2000. The free trade agreement signed in 2005 between Central American countries, Dominican Republic and the United States (DR-CAFTA) played an important role. Exports to the US (Nicaragua's biggest trade partner) have more than doubled since its implementation. More recently, Venezuela has also gained in importance and represents the second highest export destination.

13. **Since 2001 the country has maintained disciplined macroeconomic policies and has succeeded in increasing fiscal revenues.** There has been a consolidation of the fiscal position through several tax reforms that raised tax revenues from 11 percent in 2001 to 15.2 percent in 2008 of GDP. Furthermore, in 2009 the Ministry of Finance introduced a fiscal reform bill in order to tackle the slide in revenues triggered by the economic slowdown and the decline in aid from abroad. The bill's main objectives were to make the tax system more equitable, to generalize the levying of taxes and to modernize and simplify tax payment procedures. As a result, the balance in the central government (after donations) has improved, posting a 0.5 percent surplus in 2011, and spending has been reoriented to place greater emphasis on poverty interventions.

14. **Fiscal consolidation efforts, combined with benefits from the HIPC and MDRI initiative, have improved the country's debt outlook.** Nicaragua has benefited from the Heavily Indebted Poor Country (HIPC) initiative and Multilateral Debt Relieve Initiative (MDRI) which helped reduce the country's public and external debt-to GDP ratio from roughly 400 for both in 1994 to 62 and 83 percent, respectively in 2007. These initiatives have helped relieve the economy from one of its major constraints to growth as the high debt burden was forcing the country to pay debt services equivalent to roughly 7 percent of GDP. Combined,

these initiatives helped relieve US\$1.1 billion in IDA debt and charges, more than two times the current outstanding debt. Since then, public debt has continued to decrease – although at a slower pace – and is currently 57.7 percent of GDP.

Table 1. Nicaragua: Key Economic Indicators 2007-2011
(percent of GDP, unless otherwise indicated)

	2007	2008	2009	2010	2011
Income and Prices					
GDP growth (% change)	5.0	2.9	-1.4	3.1	5.1
GDP per capita (% change)	3.7	1.6	-2.7	1.8	3.7
Inflation (CPI, end of period % change)	16.9	13.8	0.9	9.2	8.0
Investment and Savings					
Gross domestic investment	29.5	28.4	24.4	24.4	27.9
Gross domestic savings	3.6	2.0	6.6	6.2	7.1
Central Government					
Total revenue	15.0	14.7	14.6	15.3	16.5
Total tax revenues	13.8	13.6	13.5	14.2	15.2
Total expenditure	17.5	17.9	18.6	18.0	18.2
Grants	2.8	2.2	1.9	1.9	2.1
Primary balance (after grants)	1.4	-0.1	-1.1	0.4	1.6
Overall balance (after grants)	0.3	-1.0	-2.1	-0.8	0.5
Public debt					
Total debt	62.0	57.6	61.6	63.6	57.7
O/w External	46.6	43.8	46.5	47.1	44.8
External public debt services (% of exports)	8.0	4.4	4.6	3.4	
Balance of payments					
Current account balance	-14.3	-19.1	-10.3	-11.5	-14.4
Trade balance	-23.5	-26.8	-19.1	-19.4	-22.2
Exports (including maquila)	31.4	30.8	29.6	37.5	43.5
Imports (including maquila)	54.9	57.5	48.7	56.9	65.7
Foreign direct investment	5.1	7.6	5.4	6.0	10.4
Memorandum item:					
Nominal GDP (Millions of USD)	7,447	8,222	8,061	8,427	9,317

Source: Central Bank of Nicaragua and World Bank

Impact of the of the 2008-2009 global crisis and economic recovery

15. **The economy was hit hard by the food, fuel and financial crises, as well as other natural disasters, but has been able to recover its pre-crisis trend.** The primary transmission channels of the crisis were a shrinking FDI, weaker external demand and decrease in the flow of remittances. Investment plunged 20 percent of GDP due to a collapse of credit and FDI and to a contraction in the construction sector, while consumption decreased moderately following a drop in remittance flows. Reduced external demand, weather issues, including shifting rainfall patterns due to El Niño, and a low-point in the two-year coffee cycle all had a negative impact on exports which fell by 5.5 percent in 2009. However, imports fell at an even faster pace (19.2 percent) driven by weaker internal demand and lower oil prices (oil imports represent 14 percent

of GDP). As a result, the trade balance improved and the current account deficit fell almost 9 percentage points (10.3 percent of GDP in 2009).

16. **The fiscal and financial sectors remained resilient to the crisis.** During the 2008-2009 crisis, the Government implemented some countercyclical measures to mitigate the social impacts of the recession (mainly through current transfers), which boosted expenditures by 1 percentage point of GDP to 18 percent of GDP. Revenues remained stable at around 15 percent of the GDP, but grants fell, leading to an increase in the fiscal deficit of the central government (after donations) to 2.1 percent of GDP in 2009. As a result, Nicaragua's fiscal performance in 2009 was better than most countries in the region. The financial system also weathered the crisis without much difficulty. The banks' capital adequacy ratio stayed well above regulatory Tier 1 ratios and liquidity buffers remained high on average.

17. **Despite the general elections in 2011, fiscal accounts remained strong in the post crisis, but there are concerns associated with contingent liabilities.** An increase in tax revenues of almost 2 percentage points of GDP in the post crisis and partial recovery in grants contributed to a strengthening of public finances. The Government also made efforts to restrain spending. Public expenditures have decreased with respect to 2009 but remained slightly above the pre-crisis levels. As a result, the consolidated nonfinancial public sector ran a primary surplus (after donations) in 2011 for the first time in the decade. While this outcome attests to a budding economic resilience, new vulnerabilities have also emerged. Over the last three years, the authorities have used political private cooperation flows from Venezuela of around 2.1 percent of GDP to pay for, *inter alia*, current expenditures such as electricity subsidies and wage bonuses for public employees, which could represent a potential fiscal liability if such financing flows are interrupted.

18. **Since the global crisis, Nicaragua's economic performance has been strong.** Economic activity rebounded in 2010, and it remained robust in 2011 as real GDP grew at 3.1 percent in 2010 and 5.1 percent in 2011. As a consequence, consumer price inflation escalated to 9.2 percent in 2010 but stabilized at 8 percent in 2011. Exports grew 13.2 percent in real terms, and investment is approaching its pre-crisis levels (28 percent of GDP) in 2011. The external sector was boosted by traditional export products such as coffee, meat and sugar. Sales of manufacturing products to the United States market also expanded. Exports from *maquila* firms producing textiles and automotive parts posted a 40 percent increase while tourism grew 10 percent. Strong domestic demand fuelled by both consumption and investment drove imports up by 22 percent. An increase in imports in 2011 (by 27.8 percent) led to a widening of the current account deficit to 14.4 percent of GDP, which is higher than in 2009 but lower than pre-crisis levels.

Macroeconomic Outlook and Debt Sustainability

19. **Nicaragua's economy is likely to grow moderately in the medium term, but it remains vulnerable to adverse developments in the external sector.** Economic growth is expected to decrease to 4 percent in 2012, reflecting continuing uncertainties with the international environment, and then to stabilize at around 4.6 percent. This projection can be affected by a worsening in the European debt crisis and its direct and indirect repercussions for Nicaragua. The country is heavily dependent on food exports to the US and Venezuela, and on oil imports. Fluctuations in commodity prices that adversely affect terms of trade would increase

the already high current account deficit (17 percent of GDP). The effects of a further deterioration of the euro zone crisis on global growth and on donor countries' aid budgets would have adverse impact on the Nicaragua economy. While Venezuela is the main bilateral lender to the private sector (75 percent), Europe still plays a role in external financing through official development assistance (27 percent of total assistance to the public sector and 52 percent of donations in 2011).

Table 2. Nicaragua: Medium Term Macroeconomic Outlook
(percent of GDP, unless otherwise indicated)

	2011	2012	2013	2014	2015	2016
Income and Prices						
GDP growth (% change)	5.1	4.0	4.2	4.4	4.6	4.6
GDP per capita (% change)	3.7	2.7	2.9	3.1	3.3	3.3
Inflation (CPI, end of period % change)	8.0	7.4	7.2	7.0	7.0	7.0
Investment and Savings						
Gross domestic investment	27.9	29.4	29.3	30.0	30.0	28.8
Gross domestic savings	7.1	7.6	9.6	9.8	9.4	9.4
Central Government						
Total revenues	16.5	17.1	17.3	17.5	17.5	17.5
Total tax revenues	15.2	15.7	15.9	16.1	16.2	16.2
Total expenditure	18.2	19.4	19.2	19.2	19.3	19.2
Grants	2.1	1.9	1.5	1.5	1.5	1.5
Primary balance (after grants)	1.6	0.8	0.8	0.9	0.9	0.9
Overall balance (after grants)	0.5	-0.4	-0.3	-0.2	-0.2	-0.2
Public debt						
Total debt	57.7	54.6	52.8	51.1	49.8	47.5
O/w External	44.8	43.8	44.0	44.2	44.0	43.1
Balance of payments						
Current account balance	-14.4	-17.6	-15.5	-13.6	-11.7	-9.3
Trade balance	-22.2	-23.6	-22.1	-20.8	-19.6	-18.8
Exports (goods, FOB)	43.5	45.4	46.4	47.2	48.0	48.2
Imports (goods, FOB)	65.7	69.0	68.4	68.0	67.6	66.9
Foreign direct investment	10.4	8.4	7.7	7.3	7.1	6.8
Memorandum item:						
Nominal GDP (Millions of USD)	9,317	9,854	10,414	11,028	11,700	12,437

Source: Central Bank of Nicaragua, World Bank and IMF projections

20. **External public debt is expected to decline steadily, with total debt decreasing to 43 percent of GDP in 2016.** The latest Debt Sustainability Analysis (DSA) carried out by the World Bank and IMF indicates a moderate risk of external debt distress. The analysis assumes the resolution of pending bilateral agreements which account for 40 percent of public sector external debt outstanding under the HIPC initiative in the near term. Medium-term

vulnerabilities could arise from a depreciation shock and a historical scenario⁴ where expected growth dividend and envisaged adjustments do not materialize.

21. **However, modest growth levels make it difficult for Nicaragua to close the gap with the rest of LAC.** As population is expected to grow at around 1.5 percent a year over the next decade, a growth rate of 4.5 percent would translate into increases in per capita income of only 3 percent a year, thus making it difficult for Nicaragua to catch up with the LAC average. Considerably higher rates of growth are necessary for the country to converge in living standards. To this end, an increase in productivity growth – which has been low despite a relatively high share of investment – will be a critical agenda.

22. **Increasing productivity will be critical to raising growth rates and accelerating a convergence in incomes.** However, aggregate productivity (both labor productivity and total factor productivity) has been declining over the last ten years and is the second lowest in Central America. Almost all sectors faced reductions in productivity. Construction and agriculture presented the worst results, while garment and textile manufacturing were the only segments with productivity gains. Investment rates have been relatively high as a share of GDP, but the amount per capita actually invested in productive activities is very low. For example, per capita investment in infrastructure in Nicaragua is three times lower than in Honduras. In addition, growth returns to investment are lower than in neighboring countries.⁵

23. **Meanwhile, vulnerabilities can be reduced by diversifying export markets and products.** Nicaragua's export boom has not been accompanied by the diversification needed to reduce external vulnerabilities. It is the only country in the region for which export markets have become more concentrated, and the number of export relationships (product-destinations) is the lowest in Central America. Even though in nominal terms trade has expanded sharply, Nicaragua did not gain world market share over the past ten years and its exports continue to be dominated by agriculture products and textiles. This has exacerbated its vulnerability to a concurrent downturn in commodity prices or other changes in the terms of trade. Meanwhile the jobs created from the export boom have been concentrated in low wage, low skilled employment. Reducing trade and logistic costs, investing in the quality and productivity of exports, and supporting the growth of emerging non-traditional exports will be critical to improve the process of Nicaragua's integration in the world economy. In addition, increasing the links between exporters and the domestic economy will help broaden and distribute the gains from economic integration and accelerate poverty reduction.

III. Government Strategy and Development Challenges

24. **The Government's strategy builds on and consolidates achievements to date.** The Government of Nicaragua's National Plan for Human Development (PNDH) 2007-2012 remains relevant, with its emphasis on reducing inequality by increasing poverty-related spending and boosting investment in social sectors and rural infrastructure. This includes building on the

⁴ Under the historical scenario, the economy grows 2.9 percent instead of the 4 percent assumed in the baseline case, and the primary deficit remains at 0.6 percent of GDP instead of continuously declining towards zero.

⁵ Swinston and Barrot (2011).

proven models to further expand access and to achieve more efficiency in the delivery of basic services.

25. **A key element going forward is to achieve faster economic growth while maintaining its emphasis on poverty reduction and shared prosperity.** The Government is expected to renew its commitment to improve incomes by raising productivity, reflecting the growing concern that for accelerated poverty reduction the economy will need to grow at higher rates and provide better jobs. Indeed, this has been the focus of a renewed dialogue between the Government and the private sector. These efforts would be accompanied by a consolidation and increased effort on the human development agenda, and will be included in a revised National Plan for Human Development for 2013-2016 that is currently under preparation.

26. **The Government has confirmed the broad continuity of the strategy and the relevance of the current WBG program in supporting its objectives.** The areas of Bank engagement include sectors with broad public support and a proven track record of delivering results. The proposed lending program has been confirmed with the authorities and the knowledge agenda supports emerging government priorities. Given the relatively limited IDA resources, the Bank is proposing to coordinate closely with the IDB who are also in the process of finalizing their country strategy.

Improving Social Service Delivery

27. **Achieving faster growth rates by improving productivity will require addressing low education levels.** Nicaragua's educational attainments are very low by global standards. The population between 15 and 64 years of age has, on average, just 5.8 years of schooling with accentuated geographical inequalities achieving 8.1 years in urban areas, but only 4.4 years in rural areas.

28. **Inefficiencies in the education system are delaying progress to meet the MDG on universal completion of primary education.** While there is universal enrollment in first grade and the gross enrollment rate (GER) at the primary level is 120 percent, less than 75 percent of children actually complete sixth grade (data from 2010)⁶, around 46 percent complete ninth grade, and 41 percent eleventh grade. This is the result of a combination of elevated dropout and repetition rates, which both have remained consistently above 10 percent on average in primary education over the last few years. These problems are concentrated in multi-grade rural schools which need better trained teachers, basic learning infrastructure, and adequate pedagogical materials. Lower secondary education (grades 7-9) also suffers from inadequate and unequal access and low completion, particularly in rural areas. Low enrollment at the lower secondary level is a reflection of lack of access which requires at least classrooms and teachers.

29. **Improving quality will require strengthening teacher development and monitoring mechanisms.** Nicaragua ranked below the regional average on UNESCO's Second Regional Comparative and Explanatory Study (SERCE) in 2006. In addition, national 2009 standardized evaluations show that learning outcomes in 4th and 6th grades were strongly correlated with poverty levels, rural schooling, and low retention rates in primary. On secondary education,

⁶ The Primary Completion Rate is probably overestimated because MINED usually counts all the children in grade 6 without discounting the repeaters. The real Primary Completion Rate is probably slightly below 70 percent.

Nicaragua is still developing the instrument to apply a standardized test in grade 11, but test results from university applications provides some indication of the secondary education quality challenge. The low quality is also a reflection of poorly trained teachers. In preschool teachers are non-formal community volunteers with little training in early-age learning processes. In primary, two thirds work in rural schools, many as “contract teachers” lacking any teaching certification. Finally, 40 percent of secondary level teachers lack formal training and the vast majority work in rural areas where technical support is scarce.

30. **High poverty levels and vulnerabilities also affect the demand for education.** About a third of the estimated 300,000 families with children living in extreme poverty have at least one child (aged 7-12) working or not going to school. An analysis of the reasons why school-age children are not enrolled in school indicates that about 12 percent of those who should be in primary school, 15 percent in lower secondary and around 25 percent in upper secondary were working. While public primary and secondary education are free, lack of money continues to be the most common reason cited for not attending school among extremely poor children.

31. **The Government has launched a new Education Sector Plan (ESP), with Bank support, for 2011-2015 to improve: (i) the coverage and quality of preschool education, (ii) completion of primary education; and (iii) the coverage and quality of secondary education.** Progress has already been made in some of the following areas: (i) the development, printing and distribution of learning and teaching materials in primary schools under a revised curriculum; (ii) the revision of the preschool curriculum and its implementation model; (iii) the extension of school feeding to all preschool and primary school children; (iv) the distribution of school supplies, including notebooks, uniforms and shoes to children in the poorest households and those not enrolled in school; (v) small repairs to primary school buildings; and (vi) the design of a plan for teacher professional development.

32. **The Government recently also approved an impressive strategy for achieving universal access to early childhood education, and plans to extend the ESP to upper secondary and technical and vocational education (TVET).** The efforts in early childhood education span three ministries, Health, Education and the Ministry of the Family, and have already demonstrated good results in terms of efficiencies and effectiveness from integrating multi-service delivery around common goals at the local level. These lessons will be crucial also for TVET where a consolidated strategy is still under development and Nicaragua has scattered programs implemented by different ministries (e.g, INATEC, Ministry of Labor, INTECNA) that could be better coordinated. The strategy will aim to strengthen school-to-work transition and improve the linkages of the TVET programs with labor market demands.

33. **Nicaragua is making slow progress toward achieving the MDGs related to malnutrition (MDG 1) and maternal health (MDG 5) outcomes** (see Annex 2). Although the 2012 Demographic and Health Survey (DHS) is still being collected, there is some data which shows improvements in the percentage of children under two years of age with chronic malnutrition. While the MDGs 4 in infant and child mortality are on track to be achieved, the progress on maternal mortality has been difficult to monitor. Infant mortality fell from 28.1 (2006) to 22.6 per 1,000 live births (UN Interagency group data) in 2010 and under-5 mortality also fell from 68 (1990 UN Interagency group data) to 26.9 per 1,000 live births (2010 CELADE). Meanwhile maternal mortality shows little or no decline using available data, from

96 (2006) to 95 per 100,000 live births (2010 Inter agency group data), but risk factors such as number of attended births and percent of women receiving sufficient pre-natal checkups has improved steadily. Nevertheless, progress still appears too slow to achieve the goal of reducing it by three-quarters from the 1990 baseline.

34. **The model of Community and Family Health Care Services is showing promising results.** Along with universal access to basic health and nutrition services, this model builds on earlier efforts in primary health care service delivery, while placing more emphasis on promotion, prevention and on collaborating with local community organizations through a territorial network approach to delivery of a basic benefit package of services. Access for vulnerable populations, including indigenous groups, women, children, and the elderly is a priority. Combined with capitation financing and performance-based-incentives, the model, has shown promising results in the last five years that it has been in place. However, more is needed to ensure efficiency and the quality of service delivery. Key challenges include the need to support an evolution towards a results-based financing scheme. MINSA should improve the systems for data collection, monitoring and evaluation, to accurately cost service provision at different levels of attention, and to undertake more systemic institutional performance and impact assessments.

35. **The National System of Social Welfare (SNBS) and its flagship *Programa Amor* have provided lessons on how to deliver basic services in an integrated way at the local level.** *Programa Amor*, which is supported by the Social Protection Project (Report No. 56243-NI), focuses on connecting vulnerable families living in extreme poverty, in particular, those with children out of school, to all pertinent social assistance programs and basic services. As noted above, the results to date of integrating services across the Ministry of Education (MINED), the Ministry of the Family, Youth and Children (MIFAN) and the Ministry of Health (MINSA) around a first common goal of raising early childhood enrollments – are very promising. The Government hopes to also raise the efficiency of this new social assistance/protection service provision model (*Modelo Atención*) and to extend it to other vulnerable groups through a life-cycle approach that reaches to the elderly. Plans to implement a national unified registry of social program beneficiaries including a digital health registry of families (“*Ficha de Salud*”) is another step in the right direction.

36. **However, given the decline in donor financing for the social sectors, Nicaragua faces an urgent need to address the sustainability in social service delivery.** A gradual decline in development cooperation in Nicaragua over the last five years (see paragraph 23) has been most severely felt in the social sectors where aid fell from US\$280 million in 2007 to \$130 million in 2011 and from 40 percent of the aid flows to less than one quarter. Meanwhile, the Government is making progress on gradually improving its own revenue flows that could be available to roll out new service delivery innovations. For this reason, consolidating the above mentioned models of integrated service delivery that are showing progress, as well as improving planning and budgeting, are critical to sustaining service delivery and progress on Nicaragua’s human development agenda.

37. **Despite progress in the last decade, there are still large rural-urban gaps in access to water and sanitation; public financing is used to subsidize operational and maintenance costs of inefficient urban systems instead of being directed to low-income rural households.**

Although Nicaragua has achieved its MDG in access to improved water sources, progress on access to sanitation has been slower. Disparities in terms of urban and rural access to water – 98 percent versus 68 percent, respectively – and to sanitation (63 percent versus 37 percent) are particularly striking. The sector also needs to look beyond coverage to improvements in service quality and sustainability. Most of the urban population receives discontinuous supply; ENACAL, the urban water company, requires continuous transfers from the budget to operate. With a recent increase in donor flows to water and sanitation, there are opportunities to make important gains, provided there is progress on sector realignment. The Government is currently preparing a modernization program for the urban sector (with the support of the Bank and other donors) and a new master plan of public investments in both rural and urban areas that should provide a strong basis for moving forward.

38. Ongoing development of the public financial management system needs to be complemented with improved planning, M&E, and expenditure policy formulation, particularly in the social sectors. Some progress has been made in moving to results-based management, multi-year budgeting and expanding public financial management (PFM) reform to sector ministries and municipalities. The authorities are also implementing an ambitious modernization effort (supported by IDA, IDB and the EU) to update the ICT platform to better support public financial and procurement operations making them more effective and transparent. However, in the social sectors these efforts need to be complemented with improvements to the systemic capacity of the SNBS for targeting, monitoring, and evaluating social spending.

Accelerating Growth and Improving Incomes

39. To complement the human capital development strategy, Nicaragua needs to accelerate economic growth and improve incomes. Despite high levels of investment, gradual improvements in educational attainment, including a surge of university graduates, a boom in exports over the past decade or so, Nicaragua's economic growth remains moderate. The decline in productivity (see paragraph 19) has not been stemmed, nor has there been any resumption in average real earnings growth. Current hypotheses point to the still large infrastructure needs and weaknesses in the investment climate, including property rights. Recent Bank analytical work⁷ suggests also that improvement in infrastructure needs to be complemented by attention to logistics and trade facilitation, while the challenge of raising incomes in the rural sector (where poverty is highest), suggest that the current rural development strategies focused on food security should be complemented by efforts to raise productivity in export production.

40. Improvements to the investment climate are critical to sustain and diversify local and foreign investment. Nicaragua's overall position in the Doing Business Survey is low at 118 of 183 in 2012, recording a slight improvement from the year before. Investment climate indicators are quite low compared to the regional average in terms of Business Start-up, Property Registration, Secured Transaction, and Trade Logistics. Recently there has been a renewed government commitment to improve the business environment and reduce red tape in general, but efforts in this area need to be accelerated. In addition, the country has a nascent competition policy and institutional framework to address issues of market dominance in many sectors, as a means to spur both domestic and foreign investment.

⁷ A Country Economic Memorandum is currently under preparation.

41. **Despite credit growth during the last decade, access to finance is still an important constraint to economic activity in general and productivity improvements specifically among SMEs.** Nicaragua's banking sector is small and highly concentrated with just seven banks, the three largest of which hold close to 78 percent of the banking system assets. Nevertheless, the sector is relatively stable, with adequate risk coverage, capitalization and improving profitability. Credit as share of GDP almost doubled during the last decade (from 18 percent in 2001 to 33 percent in 2011). However, the expansion in commercial banking has largely shifted towards consumer credit; less than a third of total loans provided by banks and regulated financial institutions goes toward productive activities. World Bank and IMF diagnostics have identified gaps in the national payments system infrastructure. In addition, the large microfinance sector has suffered in the past years from a broad nonpayment movement by a large group of rural producers. In mid 2011, the Assembly approved new microfinance legislation⁸ which has helped to reverse the impact and provides a strong basis for improving the regulatory framework. Aside from insurance, the rest of the financial services industry is quite underdeveloped with equity and security markets still too small to play a significant financing role.

42. **While strong advances were achieved in land tenure security, more remains to be done.** Almost 20 percent of national territory has been titled and registered, including 15 indigenous territories representing the majority of the Atlantic region, based on an improved national legislation put in place with support from the Bank. Meanwhile, modernization of the cadastre-registry processes has now yielded significant reductions in the time it takes to register property from 124 days in 2007 to 49 days in 2012. The Government is embarking on a program to gradually rollout the regularization process through the remaining territory, however this will require significant resources and IDA is one of the few active donors in this area.

Making the Most of the Rural Economy

43. **Low productivity of the main agricultural crops is a challenge both for exports and food security.** Agriculture remains one of the main drivers of economic growth and represents 21.5 percent of GDP, 32.3 percent of all exports and 32.2 percent of employment. Increases in production have not been accompanied by much intensification, and yields for Nicaraguan commodities are consistently below the LAC regional averages. There is significant potential for agriculture to continue increasing its contribution both to the national economy and to poverty reduction, provided that structural challenges of the sector are adequately addressed to improve productivity of both food and export crops, to encourage ongoing diversification into new export sectors, and to ensure robust linkages with small holder producers.

44. **There are opportunities to be transformative.** While low productivity has been a permanent challenge of public and private investment, technological innovation, business development services, and increasing access to rural finance services could increase the impact of public policies in the agricultural sector. The Government's continued focus on small producers is appropriate given that the majority of both food and export crops are based in small

⁸ To strengthen supervision, transparency and efficiency in the microfinance sector, the National Assembly approved in June 2011, the Law for the Promotion and Regulation of Microfinance Institutions. The Law provides a strong basis for monitoring the institutions that intend to transform from non-governmental microcredit providers to regulated specialized microfinance banks registered with the new microfinance regulator.

holder production. However, the strategy of making newer technologies and practices more widely available through improved extension services could be complemented with innovations that strengthen the linkages of these small producers to bigger markets and supply chains. Nicaragua could reinforce its efforts to ensure an integration of environmental considerations into its agricultural policies – to ensure both climate adapted and sustainable use of its resources.

Raising the Impact of Infrastructure Investments

45. **Challenges in infrastructure in Nicaragua are significant, and improvements would help boost competitiveness, improve productivity and facilitate exports.** Only 13 percent of the road network is paved and only 42 percent is in good or fair condition⁹. As a result, less than a third of the population has access to a paved road. The road condition issues are compounded by heavy vehicle overloading with the destruction of the road infrastructure without viable mechanisms for cost recovery. This places a significant burden on Government in terms of maintenance. Extra complications arise from natural disaster vulnerability. Addressing systemic issues and developing sound strategies would maximize the impact of limited resources. Nicaragua has seen improvement over recent years reflected in a 10 percentage point gain in perceptions of infrastructure quality as measured by the Global Competitiveness Index, with the introduction of a large program of rural road rehabilitation, a sustainable road maintenance program, and the completion of some key transit routes.

46. **More integrated multi-modal planning and reducing high logistics costs could significantly raise the impact of Nicaragua's transport investments.** Nicaragua has levels of maritime connectivity that could be associated with a land-locked country and the least efficiently used trucking fleet in the region. Meanwhile, for agricultural products, with low unit values, customs and border procedures could represent up to 18 percent of sales costs. The lack of equipment and appropriate facilities affect the ability to speed up customs and border processes and facilitate transactions. In some cases, it might take up to 15 hours to cross the borders. Efforts to raise financing for a new port on the Atlantic coast should be preceded by efforts to improve the productivity on the Pacific coast port, and border crossings to the two main ports in Honduras and Costa Rica.

47. **Important progress has been made in resolving supply shortages in the energy sector, but access to energy remains the lowest in Central America.** Electricity shortages were eliminated with significant investment in thermal generation, but with the concomitant increases in costs due to oil price fluctuations. Today, Nicaraguan firms face the highest costs of electricity in Central America. Meanwhile, coverage was estimated to be around 69 percent in 2009, and only 40 percent in rural areas. Government is now implementing a two-pronged investment program: (i) a large scale donor-financed extension of the distribution grid to rural areas which is expected to raise rural coverage to 84 percent, and (ii) aggressively promoting new private generation in cheaper, renewable sources. The target is to convert the grid to 94 percent renewable by 2017. Such an ambitious target is indicative of the Government's concerted

⁹ Data provided by Ministry of Transport and Infrastructure (MTI, 2011). The 42 percent in good or fair condition refers to the core road network (about 8000 km) which does not include the local tertiary roads. When those roads are included, the roads in good or fair condition as a share of the total classified network is reduced to 29% which is the baseline in the results framework.

effort to move away from dependence on fossil fuels. While there is a steady pipeline in hydro and wind generation, Nicaragua has among the largest untapped geothermal potential in the world, the cheapest source of base power. Developing this resource will, however, require innovative mechanisms to reduce the large upstream development risk.

48. **Despite recent advances, including double digit growth since 2006 in mobile subscribers to 86 percent in 2011, access to telecommunication services in Nicaragua remains low, particularly in rural areas of the country.** Fixed broadband internet penetration is only 1.1 percent, significantly lower than the Latin American regional average of about 7 percent.¹⁰ While Nicaragua's current telecom regulatory framework encourages competition and private sector participation, it is difficult to stimulate investment in many rural areas. Recently the Government has undertaken to roll-out and maintain regional networks¹¹ transmission infrastructure in more remote locations given that inadequate telecommunications affect competitiveness by increasing the cost of logistics and curbing development of new IT related areas that are fundamental for the modernization of industry and trade.

Transversal Challenges

Gender

49. **Attention to gender issues can make a strong contribution to inclusive growth in Nicaragua** (see Annex 3). Nicaraguan female labor force participation remains low at around 46 percent, and has not changed much over the last decade. Meanwhile, the level of consumption per capita of female headed households is around 10 percent lower than for those headed by men. According to a recent Central America gender study (Report No. 68944), a 10 percent increase in female labor force participation would raise household incomes in Nicaragua by around 6 percent, and reduce poverty—8 percent for poverty, 10 percent for extreme poverty.

50. **Education is an important driver of labor force participation and empowerment for women in Nicaragua.** For each additional year of education, women are earning 15 percent more income than men (versus 10 percent more income in the previous decade). Nicaraguan women have now achieved on average 20 percent higher educational attainments than men. This phenomenon has been driven by rising attendance and higher primary completion and secondary enrollment rates for girls. In terms of political and economic leadership, Nicaragua scores well in terms of women parliamentarians, ministers, and women in managerial positions, and has a recognized legal framework for ensuring these opportunities, and for business ownership.¹² Women also represent 65 percent of microcredit recipients.

51. **Given the gradual progress on other fronts, the Government has identified three key challenges for the future: adolescent fertility, early childhood education and gender-based violence.** Nicaragua has the highest teenage pregnancy rates in Latin America and doubles the world average with adolescent fertility rates of 110 per 1,000 of women aged 15 to 19 in 2010. And while unemployment rates are similar for men and women in general, they are 20 percent higher for 15-24 year old women. The Government's new strategy on early childhood education

¹⁰ www.wirelessfederation.com

¹¹ Regulation enabling rural telecom operators was sponsored by TELCOR and financed by a Bank Project.

¹² Doing Business, Women and the Law 2012.

has the potential to provide childcare solutions to more rural families where this service is scarce and improve labor force participation or continuing education for young mothers. Finally gender-based violence remains a problem as evidenced by comparatively high homicide rates for women. The authorities have just passed a new law with broad public support that should provide a boost to ongoing efforts by civil society and the security forces to address the issue (see Annex 3).

Indigenous and Afro-descendant peoples

52. **Nicaragua's indigenous peoples and Afro-descendant ethnic communities represent roughly 12 percent of the population.** A large number live in the Atlantic region where they retain native languages and customs, and count on autonomous regional governments, while the majority are found in the Central and Pacific regions, generally with a lesser degree of territorial integrity. A continuously developing legal framework includes the 1993 Languages Law; the 2003 General Health Law which promotes respect for community health models, 2003 Law on the System of Communal Ownership which clarifies the communities' and titled territories' right to self-government; and the 2006 General Education Law which paved the way for instruction in local languages. Nicaragua ratified the ILO Convention on the Rights of Indigenous Peoples in 2010. This legal framework has provided a good basis for increasing donor support targeted and delivered directly to these communities. However, capacity and financing constraints still bind.

Climate and Disaster Risk Management

53. **Investing more on disaster-proofing would improve long term productivity and competitiveness.** Nicaragua is one of the world's most disaster prone countries and the economic costs are high. Basic social infrastructure, housing, and the roads system are the most harshly hit, in part due to the fragility of some of the infrastructure, leading to annual investments to replace lost capital. Every year floods and droughts already impose high economic losses on Nicaragua's economy, particularly by reducing production in the agricultural sector and, affecting water and energy supplies. Efforts are needed to reduce the high levels of vulnerability, promote mainstreaming of disaster risk reduction in relevant sectors including health, education, water and sanitation, and to improve local capacity for disaster risk reduction and management. The frequency and magnitude of these disasters is a likely factor affecting the low effectiveness of investment and the low rate of productivity growth in the country.

54. **Over time, and with the help of the Bank, Nicaragua has improved its Disaster Risk Management System.** Solid legal and institutional arrangements for DRM are in place led by the National System for Disaster Prevention, Mitigation and Response (*SINAPRED*) and the National Policy and Management Plan for Disaster Risk Management which is aligned with the Regional Policy and Plan for Disaster Risk Reduction promoted by CEPREDENAC and the Hyogo Framework for Action at the global level. Together with good inter-sectoral and local level coordination, these developments can reduce the mortality factor from natural disasters over time.

55. **Policy measures and investments in support of adaptation to climate change in key sectors could also yield significant benefits, even in the short term.** Additional investment and integrated planning approaches across sectors are needed in order to climate-proof Nicaragua's critical infrastructure, promote adaptation in agriculture, water supply and other

vulnerable sectors, and create support mechanisms by vulnerable households. Adaptation measures can be costly, but they often simply mean good development policy and investment planning. In the agricultural sector, where volatile water supply has high costs, it is becoming increasingly important to integrate the risks brought about by extreme climate events in sectoral planning by addressing such aspects as water resource protection measures in investment programs.

Transparency

56. **Nicaragua still faces a variety of challenges with respect to good governance.** While the most high profile aspects relate to the check and balances, including electoral processes, other issues such as government effectiveness, regulatory quality and the control of corruption are critical for accelerating and broadening the gains from economic growth. For example, in terms of government effectiveness, the investment climate is still encumbered with challenges in the area of property rights and land administration, as well as in judicial services. There are avenues outside the political system where the demand for good governance could help improve the quality of public services and development outcomes.

57. **Improving transparency in the public sector is crucial to help build broader consensus around development strategies.** Within the public sector, there has been good progress in the area of budget openness and public financial management, albeit with the need to further develop better linkages between spending and outcomes that allow for a more transparent evaluation of public programs. In addition, Nicaragua still has significant weaknesses in the area of spending oversight both for central government and state owned enterprises. Efforts are needed to strengthen the Comptroller's office and ensure regular publication and auditing of SOE accounts. In terms of voice and accountability, although access to public information is regulated and guaranteed by the Access to Public Information Law approved in 2007, the accompanying regulations continue to be insufficient as to effectively guarantee unrestricted access to public information. Weaknesses in the monitoring and evaluation systems within the public sector hinder the presentation of information on the performance of public programs. A notable example is that the Ministry of Education has not published its annual statistical report since 2009. In contrast, in those areas where the authorities have encouraged public debate such as in macroeconomic and fiscal policies, emerging consensus has helped to strengthen reform options.

IV. The Country Partnership Strategy FY08-FY12

58. **The CPS FY08-FY12 (Report No. 39637-NI) discussed by the Executive Directors on August 27, 2007, was prepared during the first six months of the new administration and before the Government had articulated its general development strategy.** As the administration matured, several policy shifts emerged which posed implementation issues for a number of ongoing Bank-financed projects, particularly those which engaged the private sector in public service delivery, as well as the use of conditional cash transfers to households and matching grants to firms. Later, adjustments to the lending program were required to accommodate requests for assistance to address a series of crises. These adjustments were

reflected in the CPS Progress Report of December 4, 2009.¹³ During the CPS period the Government reaffirmed its emphasis on pro-poor delivery of basic social services and infrastructure. This continues to be an area of focus for the FY13-17 CPS.

Portfolio Performance

59. **Nicaragua's current IDA program is the best performing portfolio in Central America.** The country program includes 14 projects representing some US\$400 million equivalent of commitments with around US\$230 million disbursed. This is complemented by US\$15 million of trust funds (see Annex 5). The average disbursement rate of the portfolio was 29 percent per year over the previous CPS period, and 37 percent in FY12. No commitments are presently at risk or in problem status. Close supervision by the Bank and the Ministry of Finance promoted an early response to implementation problems. Although Nicaragua remains a high risk country for procurement, rigorous attention to fiduciary management, including ongoing annual training on procurement, financial management and disbursement procedures for government staff, has helped.

60. **IFC's portfolio (on a commitments basis) has grown from US\$53 million at the end of FY07 to US\$160 million at the end of September 2012, continuing an upward trend since 2003.** Advisory services of US\$5 million have been approved to date, of which around 50 percent of advisory services are linked to IFC's investment portfolio. This is high compared to other countries in the region. MIGA's outstanding gross exposure in Nicaragua as of August 31, 2012 was \$34.9 million in support of two power generation projects in the renewable sector and one project in the financial sector. MIGA's exposure net of reinsurance was US\$32.1 million.

Lessons Learned

61. **With a five-year CPS in a country that is vulnerable both to external shocks and policy shifts, flexibility to adjust the program in response to crises and emerging opportunities can help to maintain a robust program and solid results.** Additional financing have been used to scale up existing projects that are successful. Looking forward, given the relatively large size of the current portfolio, the Government is adopting a strategy of one significant new project a year on average. This strategy is useful in that it provides flexibility to re-program smaller amounts on an annual basis that can be used in the event of a crisis.

62. **Development of a transparent monitoring and evaluation system is an important part of stimulating good governance and must be a priority in all IDA operations.** Despite the advances in many sectors, Nicaragua still faces challenges to measure the results of its ongoing programs and to use these measurements to effectively evaluate and refine them. For example, there is no robust official data on trends in primary net enrollment, access to all-weather roads, safe water and sanitation, maternal mortality, or chronic malnutrition. Implementation demonstrated that in areas with good monitoring and evaluation, transparency and governance were strengthened by engaging other stakeholders and improving the quality of public programs at the technical level.

¹³ Report No. 51616-NI

63. **The decision to shift resources from budget support to investment lending proved effective because of the solid implementation performance of the core projects.** As options for policy reform weakened during the CPS period and with it the basis for budget support, IDA resources were used to finance tested and scalable investment lending initiatives. This experience shows the importance of developing and maintaining proven investment interventions that have broad-based support so as to have options to channel resources when the policy agendas are weak. However moving forward, the Bank will create opportunities to maintain policy dialogue in key sectors.

64. **Consolidating the portfolio around key lines of action can leverage results with modest resources.** Towards the end of the CPS period, the Bank focused its efforts in a few key sectors through combining ongoing investment lending with technical assistance to provide support to the Government in designing sector strategies. This has resulted in a role for the Bank to use its knowledge and convening power to help leverage additional resources to finance well designed scalable programs. Experience in the education sector for example, is currently being replicated in water and sanitation. The long term expectation is that consolidating the portfolio further in key strategic areas will help to foster better results and improve coordination with key development partners.

Consultations

65. **This CPS has been informed by a range of consultations with the government leadership and line ministries, as well as with the private sector, opposition political leaders, think tanks, indigenous communities and other development partners.** The private sector representatives from a wide range of sectors unanimously pointed to the issue of trade logistics and trade facilitation as an emerging priority for Nicaragua. Issues included the high costs of transport, complex import and export procedures, and congested border crossings as a key factor in lowering Nicaragua's export competitiveness. Others suggested the need for additional attention to export promotion, in particular services for smaller exporters and emerging non-traditional products. In the financial sector, both the private sector and think tanks suggested that in addition to a strategic agenda for deepening financial access and broadening the range of financial instruments and products, policy dialogue should also review the existing financial sector regulation and procedures as a focus for improving the business climate. Indigenous community representatives sought a more integrated focus of the Bank in the Atlantic regions, and more integration into the strategic planning process with central government.

66. **Among the non-governmental organizations (NGO), the main suggestion was for the Bank to ensure a multi-sector approach to addressing social issues and some of the lagging MDGs, in particular building on some of the more successful local grassroots efforts to treat Nicaragua's vulnerable groups in a holistic manner.** Several participants hoped the Bank could encourage more avenues for NGO participation in social programs, while others called for greater alignment between non-governmental and government efforts to solve social issues. All parties called for the Bank to help foster a more open debate on public policies and programs in Nicaragua, in particular through more outreach about Bank-financed projects and policy dialogue, broader technical assistance for building monitoring and evaluation skills both within and outside of government, and renewed support for the full implementation of the Nicaragua's Freedom of Information legislation.

Box 1. Nicaragua Country Survey FY13 – Overall Findings

The FY12 Nicaragua Country Survey, conducted during May-July 2012, records the views of 240 stakeholders among political leaders, government officials and contractors, local government, donor agencies, private sector, civil society and the media. This is the first World Bank client survey conducted for Nicaragua. There is an overall view that the Bank is relevant in the country, that its programs are aligned with the development priorities of Nicaragua, and that it is respectful toward stakeholders and collaborates well with government. Respondents believe there is a very valuable role for the IFC in the country, yet familiarity with the IFC is somewhat low.

Survey respondents viewed education and economic growth, followed by rural development and jobs, as most critical for reducing poverty. Stakeholders see energy development and foreign direct investment as the two critical drivers of economic growth in Nicaragua. Within this context, the Bank is viewed as having a critical role to play in the most important areas of development: education, rural development and poverty.

The survey also suggests that stakeholders value the Bank most for its financial resources rather than its knowledge or technical assistance. The most valued instruments are investment lending, capacity development, mobilization of other resources and policy-based lending, while the least valued instrument is identified by half of the respondents as analytical work. This suggests that the Bank could consider ways to improve the relevance of the knowledge/data/research. Survey respondents also indicated that obtaining Bank financing is too complicated and one-fifth of respondents suggest that the Bank should offer more innovative financial products. Finally, when thinking about how the Bank can be of greater value in the country, nearly a third of respondents reported that it would be valuable for the Bank to focus primarily on advocacy issues.

V. The Country Partnership Strategy FY13-FY17

Objective

67. The CPS is organized around two key strategic areas which address the main goals of the Government's strategy, namely a continued focus on social welfare through improvement of people's access to basic services and a heightened concern on issues of productivity, competitiveness and export diversification. IFC's engagement is fully integrated in supporting these areas and will focus on fostering sustainable economic growth, critical infrastructure and job creation, and helping Nicaragua take advantage of regional integration opportunities.

Principles of Engagement

68. Based on the experience of the previous CPS implementation, and lessons learned in IDA countries, the proposed CPS will be guided by the following principles:

- **Maintaining a strong implementation record.** Nicaragua's IDA portfolio has benefited from close and careful supervision that has led to good results and rapid disbursement. The new program will aim to continue this record through the various efforts in fiduciary management and implementation support, including annual training. In addition, the new program proposes to add no more than one or two new projects of a moderate size each fiscal year. The remaining available financing would be used: (a) for additional financing on projects with a good implementation record; and/or (b) to respond to emerging crises. With respect to the latter, the Government has agreed to introduce IDA's Immediate Response Mechanism (IRM) into the portfolio in FY13.
- **Leveraging and bundling World Bank Group instruments.** Given limited IDA resources, the WBG will make a concerted effort to expand the bundle of services being

utilized in support of Nicaragua, in line with the regional strategy in Latin America and the Caribbean region while leveraging each group's comparative advantage. The IFC will play a lead financing role in the energy and financial sectors, while the Bank would primarily provide technical assistance and supporting analytical work. MIGA will be open to opportunities to support FDI in the renewable power generation, agribusiness and financial sectors through the provision of political risk guarantees.

- **Scaling-up and resource mobilization.** The Bank also will seek to: (a) develop programs that can be scaled with the support of other donors; and (b) support the authorities' efforts to attract more private investment and participation in public services. The Bank already has been asked to take the lead in supporting the identification of a pipeline of potential public private partnerships, and in designing programs that are scalable with other donor financing (e.g, education and rural roads). The Bank could also support small pilot interventions that may be rolled out later with other partners. To that end, it will judiciously use available trust fund programs to complement the IDA lending program or the IFC/MIGA investments and guarantees. It will operate in this manner in the technical design of program or reforms where the Bank does not assume a major financing role.

- **Improving monitoring and evaluation.** The program will emphasize transparent measurement of results in the areas of its engagement, and work to deepen interactions with civil society and academia in evaluating and disseminating these results. This will include a focus on monitoring social sector indicators in particular; and raising the efficiency and effectiveness of public spending in all operations. A strong monitoring and evaluation system will be a prerequisite for anchoring a more determined transparency effort, and ensuring the effectiveness of decreasing aid resources.

CPS Program and Results

69. The CPS supports the Government's program in two key areas: (i) improving social welfare by improving access to quality basic services, in particular by poor rural households; and (ii) raising incomes by improving productivity, competitiveness and diversification.

Strategic area 1. Raise welfare by improving access to quality basic services

70. The WBG will seek to accelerate the progress against the MDGs (see Annex 2) in education, water and health, through the implementation of a series of ongoing and future projects in these areas, and in social protection. In the social sectors, an integrated approach geared to better efficiency, quality and expanding access and coverage has already begun to yield results. The Bank will support the consolidation, costing and expansion, and M&E of these programs. IFC will work to develop private sector solutions to critical social needs, in particular by investing in health and education.

71. **The CPS will bolster its current support for preschool education.** The focus in education will start with strengthening preschool education (3-5 year olds) where previous efforts have resulted in a gradually improving access: today 52 percent of 3-5 years old in Nicaragua attend some kind of preschool. The current Education and Social Protection projects, together with two large EU and Global Partnership for Education trust funds will support implementation of the Government's new strategy in Early Childhood Development (ECD). A

goal for the end of the CPS is to consolidate the inter-sectoral model for ECD between the Ministries of Education, Social Protection and Health and to support its nationwide expansion. The Bank will also support the creation of a national registry of social assistance with well targeted and operational parameters.

72. **The focus on primary education will be on increasing access and improving quality.** The current completion rate of primary education is relatively low at 75 percent. Completion rates of 85 percent are expected by the end of the CPS period. This CPS program will also continue supporting improvements in the quality of primary and lower secondary education as part of the Government's strategy that is centered on reforming teacher training, expanding the availability of textbooks and learning materials, and improving infrastructure. The impact of this support will be measured by the results of systematic achievement testing at relevant grade levels, and transition rates to secondary school. IFC is seeking to make its first investment in the education sector.

73. **In health, the CPS program will continue to focus on reducing infant and maternal mortality, and addressing chronic malnutrition.** The Bank will support the Government's *Modelo de Salud Familiar y Comunitario* by strengthening the system of capitation payments linked to results, costing the system and helping to mobilize resources to expand the financing mechanisms nationwide. The CPS will pay special attention to targeting outcomes on infant and maternal mortality.

74. **In social protection, the CPS program will continue to support the consolidation of the *Modelo Atencion*.** Through the ongoing Social Projection project (Report No. 56243-NI) and related trust funds, the Bank is supporting Government to improve capacities and integration among social workers and service providers at the local level, and to strengthen monitoring and evaluation at that national level. Key improvements in the pilot areas, which also aim to raise the efficiency of social assistance spending, are intended to be mainstreamed nationwide.

75. **In water and sanitation, the Bank will continue supporting the design of the national water and sanitation strategy.** Complementary efforts to broaden access to potable water and improved sanitation are also envisaged as part of the agenda to improve health outcomes in Nicaragua. Under the new CPS, the Bank will continue providing strategic and policy support to the sector, policy dialogue and technical assistance for the overall WSS sector, in particular aimed at improving financial sustainability in the urban systems and mobilization of additional financial resources for the rural sector to help reduce the current gaps. Through the complementary Water and Sanitation Program of the Government, which acts as a technical partner, the Bank will support the development of new techniques of sanitation marketing (with potential collaboration from IFC), local capacities for small rural and peri-urban projects, and disaster risk mitigation in urban water systems.

76. **In each of the above sectors, there will be a concerted effort to develop more accurate and transparent measurement of impact and expenditure efficiency** which is intended to allow the Government to better prioritize the allocation of resources. To this end, the CPS will include results from the ongoing work on the joint Bank-IDB-EU Public Financial Management project (PMSAF) to modernize Nicaragua's PFM practices and information systems with special attention to the basic service delivery in the social sectors and water and

sanitation. This will be complemented by analytical work on public expenditure in the education, health and social protection, which builds on the upcoming Demographic and Health Survey and a model census of vulnerable households, currently financed by IDA, as well as a program to improve indicators and measurement in the water and sanitation sector supported by Water and Sanitation Program. Meanwhile, the Government has requested financial and technical support for the new 2013 Living Standards Measurement Survey.

Strategic area 2. Raise incomes by enhancing competitiveness and diversifying exports

77. **The CPS will continue to support efforts to raise income levels in Nicaragua by increasing productivity.** To begin, the program will broaden previous efforts focused primarily on access to infrastructure and production geared at the domestic markets and, to the extent possible, the export sector, as well as strengthening property rights. The program hopes to expand current support for small rural household producers which have been mainly focused on the domestic market, toward creating effective linkages between these producers and growing export markets by linking with the large and vertically integrated firms that are active abroad. In addition, the program will expand the focus on land administration to other investment climate issues, in particular, trade facilitation and financial innovation. In each of these new focus areas, the attention to improving productivity will be complemented by an effort to ensure environmental sustainability and address emerging climate change issues. Finally, in all the areas of infrastructure, productivity improvements, and financial innovation, the program will seek to better coordinate IDA programs with IFC investments and MIGA guarantees.

78. **In agriculture, the CPS proposes to support Government's efforts to shift limited IDA resources toward the emerging competitiveness agenda where small producers are now ready to move to more productive and higher income engagement in cash crops for export.** The IDA program will collaborate extensively with IFC which is already engaged in investments with the leading producers and exporters (coffee, palm oil), as well as a program of advisory services in export crops, and is working on expanding trade and supplier financing. Resources allocated to foster the diversification of exports will support the Government in the elaboration of strategies for the sustainable development of new export sectors with potentially strong developmental impact (i.e. palm oil and cocoa) in coordination with IFC. A joint IDA-IFC Agriculture Competitiveness Project could support the creation of productive alliances in key crops, aiming to more effectively link small producers and to raise productivity along the export supply chains, and to complement this with improvement in access to better financing instruments, and possibly improved logistics along the supply chain. By the end of the CPS program, joint pilot initiatives for one or more new products to improve productivity and producers incomes should be in place. MIGA will also be open to opportunities to promote FDI in the agribusiness sector.

79. **The CPS proposes to support the Government's request to mobilize a Global Agricultural and Food Security Program (GAFSP) grant.** The authorities are proposing to focus a grant proposal on activities to link small-holder producers (particularly the indigenous and afro-descendant farmers) in the Atlantic coast region and Nicaragua's productive frontier, to market-based agriculture and to expand and strengthen value chains and value-added activities. Such a grant would also build on the ongoing Agricultural Technology project that works toward improved yields based on better availability of certified seeds. A new PER in agriculture this

year, along with data from the 2011 agricultural census, and a multi-donor evaluation of the Government's ProRural sector-wide program should permit the development of more cutting edge strategies, including the linkages between nutrition and food security.

80. **In transport, the CPS would continue concentrating in the rural roads sector while adding a new program for improving logistics and trade facilitation.** The Bank has already developed a successful and scalable model for investment and maintenance of rural roads which has proven to be an instrument to provide jobs for vulnerable communities, including for women, and attracted significant other donor financing. In terms of financing, this emphasis will continue including, improvements in road management framework, further development of the multi-donor program, more climate resilience measures, and greater transparency in the selection of road segments. It is expected that the share of roads in good condition will increase from 29 percent to 35 percent by the end of the CPS period. Meanwhile, the Bank has just completed several analytical pieces on trade competitiveness, transport logistics and customs that suggest more attention to these services would significantly improve the impact of infrastructure investments on trade. The CPS program will continue technical support from the ongoing Trade and Transport Facilitation trust fund to introduce improvement in custom administration, including the introduction of integrated risk management systems. The CPS will also explore the possibility of a multi-sectoral Trade and Transport Facilitation project that could address issues ranging from improvements in customs administration, border management, multimodal transport planning and regulations.

81. **In energy, the CPS program will support the Government's strategy to increase private investments in renewable generation.** IFC and MIGA will assume the lead through investments and guarantees in renewable generation projects, including wind, geothermal and hydropower, while the Bank will primarily provide technical assistance and supporting analytical work to backstop these investments, in particular on sector financing, strategies for accelerating geothermal investments, and strengthening the regulatory and pricing framework for micro-generators (such as those supported by the recently closed PERZA project). It is expected that, between IFC and MIGA, new investments could add 100MW of renewable energy generation capacity in Nicaragua during the CPS period. IDB leads the dialogue in rural areas and has a large multi-donor program supporting the Government's strategy to roll out the distribution grid to remote areas.

82. **The Government has directed new attention to improving the business climate to spur both local and foreign direct investment.** The centerpiece of the CPS program will be a second phase of the Land Administration project (Report No. 22399-NI) continuing improvements in the legal framework, local investments in regularization and the modernization of titling and registry services. Under the MSME project (Report No. 42806-NI), the Bank is supporting the modernization of the commercial code while under a new IDF grant the Bank will help to strengthen the institutional framework for investment and export promotion and to improve *Doing Business* regulations. In addition, Nicaragua may receive support from a new Regional Competition Center spearheaded by the government of Mexico. The Government's objective is to signal to the investment community a commitment to a better business environment by, *inter alia*, improving their position in the *Doing Business* rankings. Finally, the Bank is exploring a continuation of recent technical assistance on the Anti-Money Laundering/FTC with Nicaragua and the development of a program of support for the new

ROSC¹⁴-based Accounting and Audit action plan. The key results sought in this area would be continued growth in FDI, improvements in an appropriate measure of trade competitiveness, and reductions of time and cost to registering property in Nicaragua, and an improvement in the country's results on key Doing Business indicators.

83. **IFC will take the lead in providing resources for the financial sector, supported by a Joint IFC-WB technical assistance program on financial innovation.** IFC will continue its program of credit lines in the trade and housing sectors, while expanding into supplier credits (i.e., agri-finance, SME lending, among others). Following the conclusion of the current Broad-Based Access to Finance project in FY13, the two institutions will work together on a coordinated technical assistance program (from available trust fund programs)¹⁵ to support development of financial instruments and investment vehicles needed to improve financing for productivity improvements and export growth¹⁶. Elaboration of regulations and institutional development for the new microfinance law is an early candidate. This could, *inter alia*, permit IFC to resume financing flows to this critical sector. Another candidate would be support for the improvement of Nicaragua's framework for secured transactions, also an area covered by the Doing Business reforms. MIGA will also be open to opportunities to support foreign investment in the financial sector.

Transversal Themes

84. **Gender considerations have been mainstreamed in the Nicaragua program since the previous CPS.** These efforts are reinforced by the Government's strong gender policy and institutional focus on equitable access. The majority of projects which support broad-based service delivery already count on gender-disaggregated indicators for access to these services, and all of the major IDA16 commitments with respect to a "gender-informed portfolio" have already been met (see Annex 3). The new CPS will continue to implement gender-based interventions in sectors for which follow-on operations are planned, such as land administration.

85. **The Government's *Programa Amor* addresses issues such as teenage pregnancy through its life cycle programs for vulnerable families.** Other gender issues perform poorly in Nicaragua, which include the highest levels of adolescent pregnancy in Latin America, comparatively low female labor force participation, particularly among young uneducated women, and high levels of domestic violence. However, because these issues are not limited to poor rural families, a broader approach is generally needed. The Government has recently passed a new and important law on domestic violence which is attracting a lot of support from other development partners. In the current CPS, the Bank will focus additional support on helping the authorities in formulating and implementing the National Strategy for Adolescent Sexual and Reproductive Health which would have synergies with work on reducing maternal mortality and a potential impact on labor force outcomes.

¹⁴ Reporting and Observance on Standards and Codes.

¹⁵ There is a proposal to review and develop the legal framework for Payment, Remittances, and Securities Settlement system which is being considered by the FIRST Trust Fund.

¹⁶ Support will build on recommendations from the 2009 FSAP conducted by the World Bank and the IMF.

86. **The Bank has been active in both the institutional and social development of indigenous communities in Nicaragua across several projects under implementation.** In addition, to a satisfactory implementation of the Bank's Indigenous Peoples safeguard policy to over 60 percent of the portfolio, the Bank has supported the development and implementation of an Indigenous Peoples Land policies under which 15 indigenous and afro-descendant territories (comprising 19 percent of national territory) have been titled and registered. The Bank has also supported production of primary textbooks in several Miskito and Mayagna and piloted an agro-forestry model among indigenous and afro-descendent women farmers. Going forward the Government has proposed to work with the Bank on developing new strategies for supporting for agricultural development on the Atlantic region.

87. **In terms of disaster risk mitigation and climate adaptation, the CPS will concentrate efforts in areas that are already a main focus of the program: water, land use management (including forestry) and agriculture.** Through a SCCF-financed GEF grant aimed at protecting rural water sources, the program is expected to play a financing and convening role in the search for appropriate adaptive responses for the Nicaraguan context, including through non-lending technical assistance. Meanwhile the Water and Sanitation Program will undertake a regional disaster risk assessment of urban water systems from which Nicaragua will benefit as we continue the institutional engagement in this area. Nicaragua has been approved for a Forest Carbon Partnership Facility REDD readiness grant, and the Government has already requested both a follow-on GEF grant for the management of the regionally-important Bosawas biosphere reserve and to include additional protected areas demarcation in the second Land Administration project. In agriculture, there is potential WBI support to respond to a new Nicaraguan initiative on developing climate smart-agriculture policies through South-South Exchanges. This would also help to ensure that the new program focus on agricultural export competitiveness and includes appropriate dimensions of environmental sustainability and climate resilience.

88. **To complement these medium term interventions, the program will make full use of IDA's Immediate Response Mechanism (IRM) while supporting the continued institutional development of the national disaster risk management system.** The Government has already agreed to introduce the IRM in the next lending operation. From the regional program on Disaster Risk Management (DRM) Reduction, Nicaragua could receive further technical support for additional risk assessments at the sector level, the formulation of a national financing strategy for risk management as well as a new generation of support for SINAPRED aimed at integrating municipal levels in DRM efforts.

89. **The transparency agenda will continue to focus on regulatory quality, government effectiveness, and voice and accountability.** In terms of regulatory quality, the support for improvements in land administration and financial sector legal frameworks and their implementation are expected to have significant development impact in Nicaragua. On government effectiveness, the primary outcome under the CPS will be to assist the authorities in upgrading of the Public Financial Management System and improving the efficiency of expenditures in the social sectors. Finally, the CPS program will seek an explicit objective in the area of voice and accountability not only by supporting improvements in monitoring and evaluation of program-supported activities, but also the disclosure of M&E results and the greater disclosure of the technical achievements and challenges of these programs to the broader

society. In this context, the Bank is well positioned to foster a broad range of technical dialogues between the Government and other stakeholders, including civil society.

90. **The Bank and the IDB will coordinate closely in the area of governance and transparency.** In terms of monitoring governance improvements, the Bank and the IDB use a harmonized methodology for their respective country policy and institutional assessments (CPIA/CIPE) that guide the allocation of concessional resources. The Bank and the IDB also share information with respect to fiduciary issues and are working together to support public financial management improvements. The Bank will continue to collaborate closely with the IDB in terms of monitoring the governance environment and identifying entry points for dialogue and IFI support.

Monitoring and Evaluation

91. **This CPS proposes a focused effort on monitoring and evaluation as well as open data.** Given past difficulties in compiling reliable and comparable data for results monitoring, a concerted effort will be made to ensure both new and ongoing operations introduce better mechanisms to capture results, and where possible, efforts are made to build better institutional capacity for monitoring and evaluation. Efforts to improve monitoring and evaluation will be focused primarily in the context of Bank operations and in the social sectors in particular. In line with IDA's Managing for Results agenda, the Bank has provided statistical capacity building to Nicaragua in particular related to the Living Standards Measurement Surveys (LSMS) for many years and is currently supporting a number of other survey efforts that are methodologically matched with previous instruments, namely, the 2011 Agricultural Census and the 2012 Demographic and Health Survey. The Bank will also support the 2013 LSMS with technical, and possibly financial, assistance, while seeking the authorities' commitment for open data policies. Meanwhile, Nicaragua has a small donor-financed long term impact evaluation program that has already successfully measured a variety of impacts of some past randomized social interventions on, inter alia childhood development, climate resilience, and income generation. The program will also support an impact evaluation of the interventions on SCCF-GEF funded climate adaptation of rural water sources.

World Bank Group Program

92. The CPS expects to concentrate new IDA financing in land administration, agricultural competitiveness and export diversification, rural roads, rural water and sanitation, social protection and health. New IFC financing and MIGA guarantees would be concentrated in renewable energy, agribusiness and the financial sectors. The Government is also likely to seek support to improve trade logistics and facilitation to broaden existing TA on the business environment.

Table 3. Indicative CPS Lending and AAA Program FY13-17

	<i>Raise welfare by improving access to quality basic services</i>		<i>Raise incomes by enhancing competitiveness and diversifying exports</i>	
FY	Lending, Trust Funds, • AAA	US\$M	Lending, Trust Funds, • AAA	US\$M
2013	Hurricane Felix Emergency AF Rural Water & Sanitation AF <i>Education Sector Strategy (EU)</i> <i>Global Fund for Education</i> <i>Climate Adaptation in the Rural Water Supply Sector (GEF)</i> <ul style="list-style-type: none"> • LSMS and Poverty Mapping TA • <i>Education Strategy follow-up</i> • Policy Notes on Climate Adaptation 	5 6 36 17 6	Land Administration II <ul style="list-style-type: none"> • Country Economic Memorandum • <i>Agricultural Public Exp Review (Canada)</i> • ENACAL Modernization Strategy • <i>Agriculture Price Risk Reduction (JSDF)</i> 	38
2014	Rural Water & Sanitation II <ul style="list-style-type: none"> • PEFA • Poverty Assessment (ESW) • Teenage Pregnancy TA • Programmatic Social Sector Policy Notes 	30	Agriculture Competitiveness <i>FCPF REDD TF</i> <i>Corazon II GEF TF</i> <ul style="list-style-type: none"> • Joint IFC-WB Financial Innovation TA • Sustainable Development Strategy for Export Sector 	25 3.8 5
2015	<ul style="list-style-type: none"> • Programmatic Social Sector Policy Notes 		Logistics and Trade Facilitation <ul style="list-style-type: none"> • FSAP • Joint IFC-WB Financial Innovation TA 	25
TBD US\$20				
2016	Social Protection Health	25 25	<ul style="list-style-type: none"> • Joint IFC-WB Financial Innovation TA 	
2017			Rural Roads VI	30
TBD US\$20				

Financial Envelope

93. **The lending program for the CPS period is expected to be roughly US\$50 million per year for the remainder of IDA 16.** The CPS covers the period FY13-FY17: two years of IDA 16 (FY13-14) and all the IDA 17 period (FY15-17). The final FY13 allocation for Nicaragua is SDR39.5 million or about US\$61 million equivalent (in grants and credits).¹⁷ The FY14 allocation (SDR 33.8 million) is indicative only and the final FY14 allocation will depend on: (i) total IDA resources available, (ii) the country's performance rating, per capita GNI, and population; (iii) the performance and assistance terms of other IDA borrowers; (iv) the terms of IDA's assistance to the country (grants and credit terms); (v) the number of IDA-eligible countries. IDA allocations are made in SDRs based on performance, and the US\$ equivalent is dependent up on the prevailing exchange rate. The allocations under IDA17 will also depend on the above factors, as well as on the overall size of the IDA 17 replenishment.

¹⁷ Nicaragua frontloaded SDR11 million in FY12 and cancelled SDR3.4 million.

Managing Program Implementation

94. **It is expected that by the end of the CPS period the program would be consolidated and operations would be reduced to roughly 10 projects.** The WBG is expected to concentrate its efforts in: (i) supporting the Government's approach to local delivery of basic services and an integrated approach for health, education and social protection; and (ii) focusing on rural areas, particularly for water, agricultural productivity, roads and telecom. Additional Financing for well-performing operations will be utilized to the extent possible.

95. **As with the IDA portfolio, careful attention would be taken to ensure that the trust fund portfolio remains consolidated, manageable and directly linked with the CPS and lending program.** To support the implementation of the larger trust funds, for example in education, the Bank would contract additional fixed term staff in the Country Office to enhance management and supervision. This has been the practice to date with the US\$7 million DFID trust fund for Caribbean Coast development. As much as possible, the smaller technical assistance trust funds would be assigned to the same project teams in the sectors they are linked with. The proposed joint IFC-WB Financial Innovations Program would receive some dedicated budget to support the overall program, with the bulk of supervision resources coming from the individual trust funds.

96. **To manage fiduciary risks, the Bank will continue to decentralize procurement and financial management supervision.** Close supervision, migration to the usage of the electronic information system "SEPA", and continual training in procurement, financial management and disbursement procedures for government staff have generated good results to date. Such training will continue to be an important tool for strengthening institutional capacity and achieving fiduciary objectives. The Bank will continue on a recent started program of procurement seminars for the private sector to help encourage more competition and improved scrutiny.

97. **During the CPS period the Bank will focus additional attention on coordinating closely with the IDB and IMF on key areas for policy reform.** Given limited resources, this would include a suite of Bank services including ongoing investment lending, supporting analytical work and technical assistance, as well as convening key bilateral partners in some sectors. As the main development partner in Nicaragua, coordination with the IDB and efficient division of labor is a key principle in terms of the Bank interventions.

98. **The CPS will continue to rely primarily on its investment lending portfolio given its proven record in delivering resources and results.** The CPS will provide analytical and advisory work to strengthen the dialogue in the main areas of engagement and develop policy options in critical emerging areas of interest to the Government. Examples of this effort include analytical work in rural competitiveness, on financial innovation and on monitoring and evaluation of social outcomes. These efforts will be complemented, as appropriate, by opportunities for South South learning. The Government has not yet requested Development Policy Lending from the Bank. However, the Bank could consider this instrument within the CPS period, provided the macroeconomic policies continue to be favorable and a sufficiently robust policy agenda emerges in agreement with the Government. To strengthen the policy dialogue in potential reform areas the Bank will cooperate with the IDB and the IMF (see above) and support the Government with technical assistance.

Partnerships

99. **Nicaragua has seen a decline in donor support to the public sector¹⁸ from around US\$700 million in 2007 to US\$500 million in 2011 due to the departure of several bilateral partners.** Grant donations have been halved from US\$430 million in 2007 to US\$250 million in 2011, while, multilateral support and loan financing have remained largely constant. IDA is the third largest donor and IDB is the largest partner, with roughly triple the flows of IDA at US\$170 million per year. The European Union, Spain and Japan are important partners for Nicaragua, and Central America more generally. In the context of declining donor resources, the Government has requested Bank support for: (i) mobilizing more grant resources from relevant global funds; (ii) blending available grant resources with emerging commercial financing, e.g. from the Central American Bank for Economic Integration; and (iii) opening the possibility for more public private partnerships in some new sectors. In addition, the Bank is engaged in an active dialogue with development partners and diverse stakeholders to monitor the risk of further reduction in aid flows to Nicaragua.

100. **The Bank will continue to promote an efficient division of labor among key development partners, as well as more coordinated programs among donors.** The CPS was prepared in close coordination with the IDB, and preparation included discussions regarding an efficient division of labor of development assistance. The IDB leads on larger road investments, while IDA supports rural road development.¹⁹ IDB leads on rural electrification and the Bank on rural water and sanitation. The two institutions co-finance a large program on public financial management, while the IDB has led on procurement reform and the Bank and IDB work together on customs administration.

101. **Areas of collaboration for development partners, including bilateral donors, emerge as part of the regular dialogue on key sector roundtables.** These ‘*mesas*’ for technical discussion have been instrumental in ensuring close coordination across the donors at the sector level. In addition, the Bank will continue to play a role in leveraging resources for larger government programs in key sectors, for example in education and water and sanitation. In areas where the Bank does not play a lead role, it would continue to work with other multilateral actors and provide analytical support as needed. The Bank will continue to work closely with the IDB and IMF, including to the extent possible on joint analytical work.

Regional

102. **The CPS period will support the Nicaragua program through several regional initiatives.** In support of a greater integration of the Central American regional economy, the Bank will work with Nicaragua to facilitate trade by reducing barriers between countries, for example customs procedures and border crossing standards. Additional initiatives include: (i) support for a Central American Private Sector Task Force; (ii) support to strengthen the public sector through a Regional Integration Training Program (launched in January 2011) and a Central American Leadership program with the INCAE Business School; (iii) support to the Central American Council of Ministers of Finance (COSEFIN) for the preparation of a Central

¹⁸ This does not include Venezuela oil cooperation which is accounted for as donor cooperation flows to the private sector, similar to IFC, CAF and some Millennium Challenge Corporation flows.

¹⁹ IDB will also finance rural roads as part of its Country Strategy under preparation.

America-DR Regional Investment Plan and a trade facilitation window; and (iv) support for the preparation of a Central American Disaster Risk policy.

103. **Support on crime and violence will have a strong regional perspective.** Bank support in this area centers on the Bank's convening power, including analytical work and technical assistance, as well as participation and co-organization of high level events in the region. In addition, the 2011 World Development Report (WDR) on Conflict, Security and Development and the Central America regional study on Crime and Violence (Report No. 56781) are informing the regional debate on the topic with analytical work. The Bank is also contributing to the institutional strengthening of the regional institution responsible for the citizen security agenda in Central America (i.e., SICA) with financial resources from the Institutional Development Facility (IDF). Similarly the Bank, together with the IDB and other bilateral donors, is providing technical assistance to implement SICA's Regional Security Strategy. This includes the creation of a regional crime observatory (OBSICA) to generate comparable statistics on violent crimes across Central American countries.

VI. Risks

104. **Political economy issues are risks for the CPS period.** Polarization of different political groups inside and outside the dominant political party remains an issue. Mitigating measures include aligning the CPS with the political cycle and maintaining close coordination with development partners and diverse stakeholders. There is a slight additional risk that the revised National Human Development Plan could divert significantly from the current structure introducing a misalignment with the CPS. This risk is being mitigated through a continuous dialogue with Government and implementation of a strategy that builds on results in areas with broad stakeholders support.

105. **Nicaragua remains highly vulnerable to external shocks.** The country remains particularly sensitive to economic shocks and an increase in food prices. Global economic prospects, including a potential economic crisis in Europe, a slowdown of the United States economy, or a sudden stop of Venezuelan support could affect the Government's ability to implement its program. Adverse impacts of the external environment on the price of export commodities could further affect Nicaragua's external position. The WBG will remain actively engaged through dialogue, and coordinate closely with the IMF to support the authorities' efforts to maintain macro stability and mitigate the impact of external shocks.

106. **The country's susceptibility to natural disasters remains a concern.** Climate shocks such as hurricanes, severe storms, floods and droughts occur frequently. The country is also prone to earthquakes. These events threaten the life and health of the population and the infrastructure of the country. The Bank will continue to support disaster risk management efforts through trust funds and analytical work. In addition the new IDA mechanism, IRM, will be built into selected projects in the portfolio to provide a mechanism for fast disbursing funds in the event of a natural disaster.

Annex 1. CPS Results Matrix

Country Development Goals	Issues and Obstacles	CPS Outcomes	Milestones	Program instruments <i>(New in Italics)</i>
A. Raise social welfare by improving access to quality basic services				
More educated population.	Slow progress in raising educational attainment due to inefficient system. High enrolments but low retention & completion. Undertrained teaching corps. Shortage of quality infrastructure and teaching materials. Weak stewardship (planning, budgeting, M&E)	<p>Increase in the coverage of preschool education (ages 3-5)</p> <ul style="list-style-type: none"> Gross enrollment rate in preschool (ages 3-5) increase from 55% in 2011 to 65% in 2017. Increase in the completion rate of primary education: Girls: 81% (2010) Girls Target: 87% (2017) Boys: 69% (2010) Boys Target: 83% (2017) Combined: 75% (2010) Target: 85% (2017) <p>Quality of Education in primary and lower secondary improved as measure by national standardized tests</p> <ul style="list-style-type: none"> Increase in the percentage of Grade 9 students achieving advanced or above proficiency levels standardized evaluations from 4.4% to 9% in Math and from 37.4% to 44% in Spanish in 2010 and 2017, respectively. 	<p>ECD Program rollout nationwide</p> <p>National Registry of beneficiaries designed and implemented</p> <p>Certification program under operation produces a steady flow of certified teachers (preschool and primary)</p>	<p>Financing:</p> <ul style="list-style-type: none"> 2nd Education Sector (\$25m) Social Protection (\$19m) <i>Education Multi-donor TF (FY13, \$52m)</i> <i>Social Protection/ECD (FY16, tbd)</i> <p>Knowledge:</p> <ul style="list-style-type: none"> <i>Education Strategy Follow up</i> <i>Strategy on Technical and Vocational Education and Training</i> <i>Costed Strategy for Reforming Escuelas Normales (Teacher training)</i>

Country Development Goals	Issues and Obstacles	CPS Outcomes	Milestones	Program instruments <i>(New in Italics)</i>
Healthier population	<p>Slow progress on reducing infant, U5 and maternal mortality. High chronic malnutrition. Constraints in data collection and monitoring and evaluation limit the availability of robust and measurable indicators.</p> <p>Significant population share without access to improved water and sanitation, especially in rural areas. High vulnerability of rural water supply infrastructure to extreme weather events and climate variability</p>	<p>Percentage of institutional deliveries in targeted municipal health networks Baseline: 72 (2011) Target: 86 (2014)</p> <p>Percentage of children less than one year old immunized with the Pentavalent vaccine in targeted municipal health networks Baseline: 88 (2011) Target: 98 (2014)</p> <p>Once the strategy is completed agreed Target Outcomes will be added to the Results Matrix for the Progress Report.</p> <p>Increase in rural access to water and sanitation improved by 4.5pp and 1.pp by 2014. Note: 2017 targets for health results will be updated at Progress Report)</p>	<p>Consolidate capitation payments link to results financing of MOSAFC</p> <p>Robust monitoring system for nutrition and maternal mortality in place.</p> <p>National Adolescent Sexual reproductive Health strategy adopted for reducing teen pregnancy and risk behaviors</p> <p>Rural W&S Strategy approved with robust targets for access and coverage, and institutional framework in place for monitoring progress established.</p> <p>Pilot climate-resilient rural water supply systems established.</p>	<p>Financing:</p> <ul style="list-style-type: none"> • Comm. & Family Health • Managua Water & San • Rural Water & San • Rural Water & San II (FY14) • Caribbean Coast Devt TF • <i>Health (FY16)</i> <p>Knowledge:</p> <ul style="list-style-type: none"> • Vital Statistics (TF) • W&SP – reform, rural capacity building, econ of sanitation (TA, ESW) • <i>Teenage Pregnancy TA</i> • <i>South-South on RBF Nicaragua-Argentina exchange</i>
More evidence-based spending decisions	<p>As the inherent external allocation mechanisms of donor financing disappears, and tax revenues grow, Nicaragua needs to have better measures of comparing spending efficiency across sectors, to help prioritize.</p> <p>The current compliance-based PFM</p>	<p>Fiscal and budgetary projections are analyzed under a multi-annual perspective and are linked to budget and expenditure policies through the implementation of the MTBF and results-budgeting methodologies as measured</p>	<p>Ministries of Health, Education and Agriculture have linked and aligned their budgets with their sector plans and started to allocate resources on the basis of strategic programs, multi-year planning and results information.</p>	<p>Financing:</p> <ol style="list-style-type: none"> 1. PFM Modernization TAL + Additional Financing 2. New SP/Health Project <p>Knowledge:</p> <ol style="list-style-type: none"> 1. New Social Sector Expenditure Policy Notes, e.g. Costing Teacher

Country Development Goals	Issues and Obstacles	CPS Outcomes	Milestones	Program instruments <i>(New in Italics)</i>
	system serves as an effective reporting instrument but do not allow for a strategic use of the budget as a tool to improve quality of resource allocation at the sector level nor as a budget management instrument during budget implementation.	by improvements in the PEFA indicator #PI-12. Baseline: C (unpublished rating for PMSAF, 2010)	Public expenditure AAA on health, education and social protection completed.	Training, MOFSAC, Program Amor rollout 2. PEFA Assessment
B. Raise incomes by improving competitiveness and productivity				
Improve infrastructure	High cost of transport and logistics. High cost of energy – tariffs and emissions.	Roads in good and fair condition as a share of total classified roads Baseline: 29% the total classified network of 23,647 km (MTI 2011 data) Target: 35% in 2017 Increased 100 MW in renewable energy (IFC, MIGA) (2012-2017)	National rural roads program designed with transparent road selection mechanisms, and with baseline and targets set for share of population with access to all weather roads. Integrated Risk Management Systems in Customs and common risk criteria and procedures used by entities involved in border management.	Financing: <ul style="list-style-type: none"> • Roads Rehab & Main. IV • Rural Roads • Rural Telecom • Hurr. Felix Emergency • IFC energy portfolio • MIGA energy portfolio • <i>Logistics & Trade Facilitation (FY14)</i> Knowledge: <ul style="list-style-type: none"> • <i>ENACAL Modernization Strategy</i> • <i>Geothermal Strategy</i> <p>----- Energy (IFC, MIGA)</p>
Sustainable improvements in productivity, reduced CC vulnerability of some key “cash crops” and export diversification	Low yields, high post-harvesting losses, low value-added, high CC vulnerability, low production in key export products, including where there is already significant private sector participation and large numbers of small producers, and lack of strategy for the sustainable development of new sectors	Improve productivity, production and producers incomes in one key export crop (detail indicators to be added at Progress Report)	Pilot productive alliance project in place to improve productivity, production and producers incomes in one key export crop Country strategy adopted for the sustainable development of one/two non-traditional export crops	Financing: <ul style="list-style-type: none"> • Ag Technology II (\$22m) • Precious Woods (Carbon Offset) • <i>IFC-WB Agriculture Competitiveness (FY15)</i> • <i>FCPF REDD Readiness (Carbon Offset) & Corazon II GEF (FY14)</i> Knowledge: <ul style="list-style-type: none"> • <i>JSDF Agriculture Price Risk Reduction - FY13</i> • <i>Agriculture PER (FY13)</i>

Country Development Goals	Issues and Obstacles	CPS Outcomes	Milestones	Program instruments <i>(New in Italics)</i>
Improve investment climate	High cost of doing business, red tape, legal uncertainty, weak land tenure, lack of business services, deteriorating security	<p>Time to register property at Departmental levels reduced Baseline: 49 days to complete a new land transaction in SIICAR Target: 25 days (2017)</p> <p>Doing Business overall country ranking improved Baseline: 26th percentile rank among Latin America countries (2012) Target: 50th percentile rank</p> <p>Number of days to a register a new business reduced Baseline: 39 days (2012) Target: 10 days (2017)</p>	<p>Rollout of SIICAR in Esteli, Madriz and Leon</p> <p>Books I and II of the new commercial code updated.</p>	<p>Financing:</p> <ul style="list-style-type: none"> • MSME Development (Commercial Code) • <i>Land Admin II (FY13)</i> <p>Knowledge:</p> <ul style="list-style-type: none"> • <i>CEM (FY13)</i> • <i>Investment & Export Promotion TA (IDF)</i> • <i>Doing Business Ref TA(ongoing)</i> • <i>AML/FTC TA program TF</i>
Improve access to finance	Inefficient financial sector. Low levels of credit to the private sector. Narrow range of financial instruments.	<p>Stock outstanding of IFC credit lines increases. Baseline: Baseline: \$23.8 million (2012, June 30)</p> <p>New regulatory institution for microfinance, CONAMI established and operating with adequate regulatory framework</p> <p>Improved legal framework and registry functions for secured transactions</p>		<p>Financing:</p> <ul style="list-style-type: none"> • <i>IFC Credit Lines – trade, microfinance, housing, small supplier finance</i> • <i>MIGA guarantees in financial sector</i> <p>Knowledge:</p> <ul style="list-style-type: none"> • Consumer Prot TA • <i>IFC-WB Financial Innovation Programmatic TA (FY14 onward)</i> • <i>FSAP (FY15)</i>

Annex 2. Millennium Development Goals in Nicaragua

	1990	Baseline 2005/2006	Most recent	Goal 2015	Achievable ?	Monitoring
Target 1 Eradicate extreme poverty and hunger						
Extreme poverty (% headcount)	n.a.	17.2	14.6/2009	11.0	Likely	LSMS 2013
Prevalence of malnutrition, weight for age (% children under 5 years old)	30.0	21.5	19.0/2008	7	Difficult	DHS 2012
Target 2 Achieve universal primary education						
Net primary enrollment rate (%)	67.0	87.7	93.4/2010	100	Possible	MINED
Completion rate of primary education (%)	39.2	68.5	75.0/2010	100	Difficult	MINED
Target 3 Promote gender equality and women empowerment						
Ratio of girls to boys in primary & secondary education	119	101.9	101.6/2010	100	Likely	MINED
Proportion of women in legislature (%)	15.0	20.7	41.3/2012	50	Likely	n.a
Target 4 Reduce infant mortality						
Infant Mortality rate (per 1000 live births)	51.6	28.1	22.6/2010	20	Likely	DHS 2012
Mortality rate for children under 5 years old (per 1,000 live births)	68.0	34.1	26.9/2010	24	Likely	DHS 2012
Immunization, measles (% of children ages 12-23 months)	82	95	99/2010	100	Achieved	
Target 5 Improve maternal health						
Maternal mortality rate (per 100,000 live births)	170	96	95/2010	22	Unlikely	DHS 2012
Births attended by qualified health personnel (% of total)	n.a.	66.9/2001	73.7/2007	100	Possible	DHS 2012
Target 6 Combat HIV/AIDS, malaria and other diseases						
Incident of Tuberculosis (per 100,000 people)	108	53	42			MINSA
Prevalence of HIV, total (% of pop ages 15-49)	0.1	0.2	0.2/2009			DHS 2012
Tuberculosis case detection rate (% all forms)	66	66	100			MINSA
Target 7 Guarantee the sustainability of the environment						
CO2 emissions (metric tons per capita)	0.60	0.70	0.76/2008			MARENA
Forest area (% of land area)	37.5	28.8	25.9			
Improved sanitation facilities (% of population with access)	43.0	50.0	52.0	73.0	Unlikely	
Improved water source (% of population with access)	74.0	83.0	85.0	85.0	Achieved	
Terrestrial protected areas (% of total land area)	15.4	36.7	36.7			MARENA
Target 8 Promote a global partnership for development						
Unemployment rate, youth ages 15-24	n.a.	46.8	45.9			LFS monthly
Mobile cellular subscription (% of population)		20.6	65.1			TELCOR
Access to internet (% of population)		2.6	10.0	n.a		TELCOR

Annex 3. Nicaragua: Summary Gender Assessment

1. Nicaragua has good legal foundations for the various levers of gender equality – building human capital, access to economic resources, participation in society and protection. Public policies are helping to raise girls’ and women’s access to education, health care, credit, land and other productive resources. However, in terms of outcomes, results are mixed. On the one hand, significant progress has been made on education and incomes. While on the other hand, Nicaragua remains challenged by very high levels of gender-based violence and teenage pregnancy, combined with exceptionally low levels of female labor force participation and high levels of unemployment among the most vulnerable – young, uneducated women.

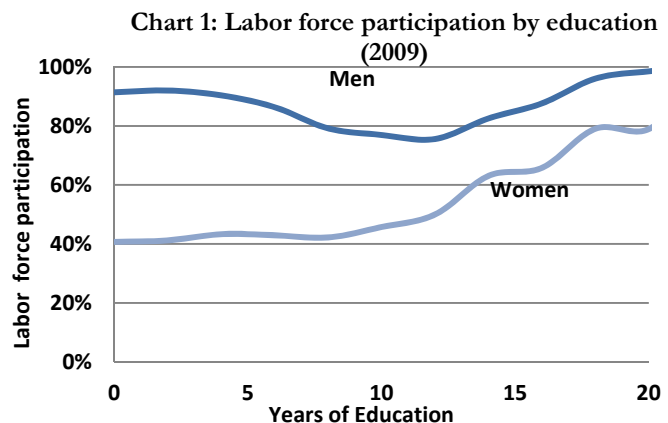
2. **Legal foundations for gender equality.** The Constitution of the Republic of Nicaragua grants equal civil rights to all citizens and prohibits gender-based discrimination. Electoral laws call for a gender-balanced representation in Parliament. Nicaragua scores well on laws and regulations affecting women's prospects as entrepreneurs and employees. There are no legal inequalities in terms of accessing institutions and property and Nicaragua has laws mandating equal pay and protecting maternity benefits, and provides publically-financed, mandatory primary education.²⁰ Interestingly, the minimum legal age for marriage (with parental authorization) is only 14 years for women and 15 years for men. Most recently, Nicaragua passed a new Law on Violence against Women (February 22, 2012) that mandates punishment for different types of violence, defines habitual abuse as a separate offense and makes mediation inadmissible in cases of violence. The Government has a strong gender policy which has been internalized in most ministries striving to ensure women’s access to public and private services. Nevertheless, the institutional framework needs further strengthening, in particular on the judicial side, to ensure that women’s rights are fully protected in practice.

3. **Political and economic representation.** Political participation of women is very high in Nicaragua when compared to the region, same income level countries and the world. At the National Assembly, 20.7 percent of parliamentarians are women (2010), compared to 17.6 percent on average in the world and 13.9 percent for same income level countries. Today, Nicaragua has the highest number of women holding ministerial positions in its history (55 percent, 2010) and at the same time the country has the highest share of female Ministers in the region (ECLAC). In 2006, the share of women in managerial positions at 41 percent was relatively high compared with other low-income countries (27 percent), while in 2010 Nicaraguan women participated in the ownership of 62 percent of all firms, also very high when compared to other countries in Latin America. Finally, according to recent market information provided by the industry (Mix Market, 2011), the majority – 65 percent – of microcredit recipients are women.

4. **Education, employment and incomes.** Over the last decade, women in Central America have not only closed the education gap, but in the case of Nicaragua, they are also ahead of men.

²⁰ *Women, Business and the Law: Removing Barriers to Economic Inclusion*, the Doing Business review which presents indicators based on laws and regulations affecting women's prospects as entrepreneurs and employees. Latest data for Nicaragua is 2011.

In 2009²¹, Nicaraguan women had achieved 20 percent higher educational attainments than men. These improvements have been driven by rising attendance and higher primary completion rates for girls. The latter was 82 percent in 2010, compared to 68 percent for boys. Working women have seen a steady reduction in the wage-gap and a 30 percent increase in their contributions to household income (which now stands at an average 35 percent). Notably, the reductions in the wage-gap include the impact of not only rising education levels among women – for each additional year of education, women are earning 15 percent more income (versus 10 percent in the previous decade – but also a change in perceptions about women’s employment.



5. Nevertheless, women’s labor force participation still remains as low – at around 50 percent – as a decade ago. As shown in Chart 1, education is an important driver, with participation flat for women with less than 6 years of education but rising sharply thereafter. The national averages also reveal a sharp difference between rural and urban areas with rural women aged 35-39 averaging 42 percent participation versus their urban counterparts at 72 percent (in 2009). Meanwhile, recent reductions in poverty in Nicaragua between 2005 and 2009 have been concentrated in low-income, informal work in which women are even more likely to be employed. Consumption in the growing number of female-headed households still remains around 10 percent lower than that for households headed by men. Finally, while unemployment rates are similar by gender, they are 20 percent higher for younger, less educated women than the national rate.

6. **Health and civil protection.** Among Nicaraguan women, fertility levels have been falling, while progress in reducing the comparatively very high levels of maternal mortality has been moderate. Institutional advances have been broadening access to maternal health services, including the Government 2007 policy of free public healthcare, development of the family and community health services model and public support for Nicaragua’s famous *casas maternas*.²² Contraceptive prevalence rate is moderately high, at 72 percent, well above the average for countries with similar income levels, 43 percent. In 2011, 72 percent of births were attended by skilled health staff, which is lower than the world average of 82 percent, but equivalent to countries with similar income levels, 73 percent. However, this coverage shows a strong variation by income quintiles: while 95 percent of all deliveries in the richest quintile are attended by a trained doctor, the percentage drops to 56 percent among poor women. Meanwhile, adolescent fertility rates in Nicaragua are still the highest in Latin American and

²¹ The most recent living standards measurement survey in Nicaragua was 2009.

²² From these *casa maternas*, networks of community volunteers identify pregnant women in remote areas and bring them an array of services, including pre-natal checkups, birthing plans, and post-natal follow-up. Around the time of delivery, the women stay in the *casas maternas*, usually located near health units, and receive additional support, such as help with breast feeding, early parenting skills and family planning.

among the highest in the world. At 110.5 for every 1,000 girls, it is twice the world average of 49.4 and well above the 59.5 for the same income countries (2009).

7. Gender-based violence is still a serious problem in Nicaragua. The Demographic and Health Survey (DHS 1997/98) revealed that 28 percent of women who were or had been once married had been physically abused by their partner at least once, and 10 percent had been sexually abused (DHS Report 2002). In 2011, there were at least 82 deaths from gender violence and 25,600 complaints of violations against women. In 2007, the National Commission on Violence against Women, Children and Young Persons for which the Nicaraguan Institute for Women serves as executive secretariat was established, to address that problem.

8. Given the gradual progress on other fronts, the Government has identified three key challenges for the future: adolescent fertility, early childhood education and gender-based violence. Given the correlations between teenage pregnancy and maternal mortality, lower education achievement and poor labor market outcomes, improving early reproductive health among women in Nicaragua has the potential to be a key driver in gender outcomes. Meanwhile, the Government's new strategy on early childhood education has the potential to provide childcare solutions to more rural families for whom this service is scarce. Finally gender-based violence remains a problem as evidenced by comparatively high homicide rates for women. The authorities have just passed a new law with broad public support that should provide a boost to ongoing efforts by civil society and the security forces to address this issue.

9. **Bank Program.** At the end of the last CPS, 13 projects were rated "gender-informed" as having been based on gender analysis, including gender sensitive/targeted actions or monitoring and evaluation. Table 1 below shows a mapping of these projects to the priority areas of the LAC Gender Strategy, while Table 2 shows the Nicaragua program implementation of monitorable actions indicators and targets in the IDA16 Gender commitments.

Table 1 : Priority Issues in LAC Gender Strategy

	LAC	Lower middle income	Nicaragua	Nicaragua portfolio active in these areas
Endowments				
1. Maternal Mortality rate (modeled estimate, per 100,000 live births)	85.13 (2008)	300.00 (2008)	95 (2010)	<ul style="list-style-type: none"> • Strengthening and Response to Epidemiological Emergencies • Improving Community and Family Health Care Services • Social Protection
– Pregnant women receiving prenatal care (%)	96.53 (2010)	78.13 (2010)	90.20 (2007)	
– Births attended by skilled health staff (% of total)	90.12 (2010)	56.90 (2010)	73.70 (2007)	
2. Boys underperformance in school	100.46 (2009)	89.99 (2009)	78.00 (2010)	<ul style="list-style-type: none"> • Second Support to the Education Sector
– Boys' primary completion rate				
– Boy–girl gap in primary completion rates (yrs.)	-1.11 (2009)	3.78 (2009)	-6.01 (2010)	
– Ratio of female to male primary enrollment	96.72 (2009)	94.20 (2009)	97.96 (2010)	
– Ratio of female to male secondary enrollment	108.11 (2009)	90.16 (2009)	109.87 (2010)	
– Tertiary enrollment, male (% gross)	32.93 (2009)	16.98 (2009)	Not avail	
– Tertiary enrollment, female (% gross)	41.48 (2009)	14.33 (2009)	Not avail	
Economic opportunity				
1. Labor market participation				<ul style="list-style-type: none"> • Micro, Small and Medium Enterprise Development • Land Administration Project • Broad-based Access to Finance • Hurricane Felix Emergency • Second Agricultural Technology • Rural Roads Infrastructure Improvement • Road Rehab and Maintenance • Corazon Transboundary Biosphere Reserve
– Labor force, female (% of total labor force)	41.17 (2010)	31.48 (2010)	37.88 (2010)	
– Female labor force participation rate (% female population 15-64)	57.57 (2010)	38.55 (2010)	48.60 (2010)	
– Male labor force participation rate (% male population 15-64)	83.71 (2010)	81.61 (2010)	82.10 (2010)	
– Ratio of female to male labor force participation rates	67.12 (2010)	49.42 (2010)	57.75 (2010)	
– Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	41.24 (2007)	24.43 (2005)	38.10 (2007)	
– Unemployment, female (% of female labor force)	9.81 (2009)	7.89 (2005)	5.10 (2007)	
– Ratio of female to male unemployment rates	1.51 (2009)	1.41 (2005)	1.04 (2007)	
2. Entrepreneurship (20100)				
– Firms with female participation in ownership (% of firms)	40.4	Not avail	61.90	
– Firms with female top manager (% of firms)	20.8	Not avail	32.2	
Agency				
1. Teenage pregnancy				<ul style="list-style-type: none"> • Rural Water and Sanitation
– Adolescent fertility rate (births per 1,000 women ages 15–19)	71.67 (2010)	67.90 (2010)	107.99 (2010)	
– Teenage mothers (% of women ages 15-19 who have had children or are currently pregnant with their first child)	Not avail	Not avail	25.50 (2006)	
2. Gender-based violence***				

	LAC	Lower middle income	Nicaragua	Nicaragua portfolio active in these areas
– Proportion of women who have ever been victims of physical violence by an intimate male partner	Not avail	Not avail	Not avail	
3. Participation in decision-making – Share of Parliament seats held by women	22.72 (2011)	15.40 (2011)	20.70 (2011)	
– Percentage of women in managerial positions [Female legislators, senior officials and managers (% of total)]	Not avail	Not avail	40.99 (2006)	

Monitorable Actions Indicators and Targets for IDA 16,

B. Tier 1: Country Progress—Indicators, Targets and Monitoring Unit (IDA16, Transition Plan and Corporate Score Card)

Indicator	IDA 16	Transition Plan	Corp. Scorecard	LCR	LMI*	Nicaragua
Ratio of girls to boys in primary and secondary education	√	√	√+	101.84 (2009)	92.67 (2009)	101.61 (2010)
Primary completion rates – Girls (% of relevant age)			√	101.57 (2009)	86.21 (2009)	84.01 (2010)
Ratio of female to male labor force participation	√	√	√	67.12 (2010)	48.77 (2010)	57.75 (2010)
Adolescent fertility rate (births per 1,000 women ages 15-19)	√	√		71.67 (2010)	67.90 (2010)	107.99 (2010)
Maternal mortality rate (modeled estimate, per 100,000 live births)	√	√	√	85.13 (2008)	300.00 (2008)	95.00 (2010)
Prevalence of HIV, female (% of ages 15-24)			√	Not available	0.48 (2009)	0.10 (2009)
Number of gender-informed national surveys (that collect and report sex-disaggregated data)++			√	Not avail	Not avail	All

Tier 2: Development Results²³

Priority Areas	Indicator	IDA 16	Transition Plan	Corp. Scorecard	Nicaragua Status
Education of girls in rural areas and ethnic minorities; educational performance of boys in MICs, etc.	Percentage of education projects (primary, secondary, tertiary and vocational) that tracks attention to vulnerable groups in their M&E		√		100%
Health	Percent of pregnant women receiving antenatal care during a visit to a health provider	√	√	√	52% (4 checkups)
Social protection	Number of women and girls benefiting from social protection programs and other targeted schemes			√	To be added

²³ The indicators were adopted and harmonized with the respective sectors in November 2011. The Transition Plan's Three-Year Road Map proposed additional indicators for access to finance to be monitored by IFC: Number of loans disbursed to women and men by IFC clients; value of all loans disbursed to women and men by IFC clients; active number of microfinance loan accounts disaggregated by sex.

Annex 4. Nicaragua: Summary Governance Review

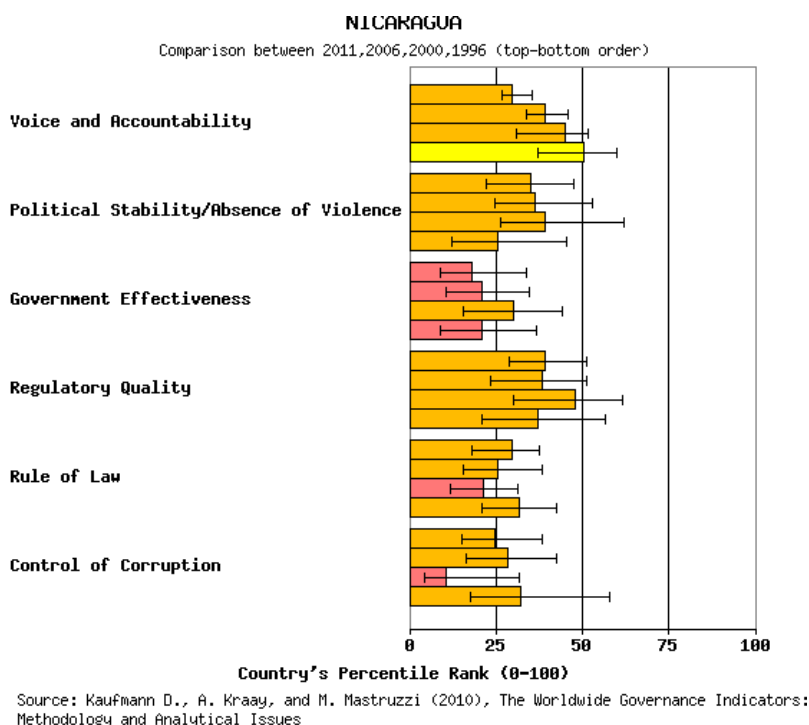
1. The trends on governance in Nicaragua over the last decade and a half have been mixed (see figure below). There has been some improvement in political stability; little change in regulatory quality, rule of law, government effectiveness and control of corruption; and steady deterioration in voice and accountability. The country remains below the averages for lower middle income countries (a group recently joined) in all areas except for regulatory quality.

2. *Voice and accountability.*

The bases are in place for voice and accountability to strengthen governance. Nicaraguan society is characterized by significant participation in social organizations, community actions and volunteering, particularly by social groups that are traditionally excluded (women, indigenous and rural communities). Over 30 percent of the population report being a member of a CSO (compared to membership in

political parties at 10 percent and trade unions at 3 percent. Access to information is guaranteed by the Access to Public Information Law approved in 2007. Nicaragua has improved its score in the Open Budget Index from 21 in 2006 to 37 in 2010 on par with the Central America average. Nicaragua publishes a budget proposal, mid and year end reports but in general these are not comprehensive and do not provide an adequate basis for the public to judge performance. The government is working toward preparing financial assets/liabilities reports, while overall central government balance sheets, as well as audit reports are still pending.

3. However, the potential for strong voice and accountability remains constrained. Implementation of the 2007 Access to Public Information has been suffered by a general decline in transparency at the ministerial level in public programs. Most importantly lack of timely and accurate information on key development outcomes and institutional performance limit effectiveness of the law, even if well implemented. Budget oversight provided by Nicaragua's legislature and Supreme Audit Institutions (SAIs) also remains weak.²⁴ The Comptroller General's Office (CGRN), responsible for auditing all government entities, has limited resources and in fact does not carry out audits of most SOEs. Moreover, CGRN's external audit review process as it is currently designed represents a significant bottleneck, preventing the public from



²⁴ IBP, Open Budget Index, 2010, Nicaragua.

receiving timely SOE financial statements. In addition, checks and balances on the executive continue to be weak in Nicaragua, because appointments to key oversight institutions such as the judiciary, the Comptroller General Office and the Supreme Electoral Council remain politicized.

4. **Political stability and absence of violence.** Nicaragua saw a significant improvement in its WGI indicators on political stability around the millennium but still ranks comparatively low. Even after elevated political tensions surrounding municipal elections in 2009, a constitutional challenge in 2010 to allow the then President to run for a third term and general elections in 2011, approval ratings for the President are the highest in Central America at 61 percent.²⁵ Confidence on basic institutions is also on the increase, as shown in Table 1. The ruling party now holds both the presidency and majority in the legislature. The conduct of upcoming municipal elections (2012) will test the capacity of the political actors to come an agreement on the fundamental of political transparency. Meanwhile, Nicaragua remains relatively free of the levels of violence that have plagued the Northern Triangle, w sharing the lowest homicide rates in the region with Costa Rica. Periodic violent clashes do occur however in the Northern Atlantic region mainly related to unresolved land claims.

Table 1. Public Confidence in Public Agencies

Confidence in:	1996	2001	2005	2010
Government	37%		15%	38%
Judiciary	47%	20%	15%	24%
Public Administration	43%	21%	18%	25%
Municipal/Local Govt		20%	21%	31%

Source: *Latinobarometro.org*

framework for the Civil Service Law but has yet to emerge from a long tradition of blurred lines between political and executive functions. These appear to have been exacerbated in recent years, with more overt use of state appointments and resources for political purposes.

Table 2: Public Satisfaction with Service Delivery

	2009	2010	CA	LAC
Level of satisfaction with:				
Public hospitals	57%	64%	55%	51%
Public education	72%	77%	59%	57%
Police	54%	56%	35%	49%
Judicial system	54%	56%	36%	34%
Municipal services		58%	54%	
Urban transport		50%	50%	
Road and highways		38%	41%	

Source: *Latinobarometro.org*

management information system II is underway and should help to strengthen these links further, and also improve budget execution and reporting. Implementation of government policies in this and previous administrations has been rather robust. The variances between budget plans and execution have been small and reducing, while implementation rates of government-executed development projects for both the Bank and the larger Inter-American Development Bank are

5. **Government effectiveness.** Nicaragua ranks lowest among Central American countries on this measure in the WGIs, but survey data²⁶ point to comparatively high and improving approval ratings on public services. In terms of the public administration, Nicaragua benefits from a sound legal

6. In terms of policy formulation and implementation, Nicaragua has seen steady improvements in public financial management over the last few administrations, with a Medium Term Expenditure Framework is now in place in all central government and decentralized agencies, and has served to strengthen the links between planning and budgeting. The modernization of the current financial

²⁵ Survey: Evaluación Gobierno, Marzo 2012, M&R Consultores.

²⁶ Latinobarometer and local Sistema de Monitoreo de la Opinión Publica

above average for the region. There remain serious weaknesses in terms of monitoring and evaluation, transparency of public programs and external audit by the Comptroller General.

7. **Regulatory quality.** Nicaragua has maintained a sound macroeconomic framework for several years and the trade regime has benefited from implementation of the DR-CAFTA agreement, but continued weaknesses in customs administration raise the cost of exports and reduce the country’s competitiveness. Nicaragua has also seen its ease of Doing Business rank decline from 56 in 2005 to 122 in 2011 as other countries have made greater progress in streamlining business regulations. Table 2 shows the most problematic areas as reported by firms in the World Bank-IFC 2010 Enterprise Survey. According to the Heritage Foundation, “Land reforms have led to [some] improvements in the protection of property rights”²⁷, an assessment that is confirmed by the progress made under the Bank’s Land Administration project. In terms of corporate governance, a recent Report on Standards and Codes on accounting, financial reporting and auditing practices notes that Nicaragua is converging with International Financial Reporting Standards (IFRSs) in its financial sector and moving toward adopting IFRS in other sectors.

Table 3: Obstacles for doing business

Share of firms responding (%)	2010
Electricity	24.2
Practices of the informal sector	19.4
Political instability	8.8
Access to finance	8.8
Corruption	7.2
Crime, theft and disorder	7.2
Customs and trade regulations	6.9
Tax rates	6.0
Business licensing and permits	3.2
Courts	2.7
Inadequately educated workforce	2.5
Transportation	2.3
Tax administration	0.5
Labor regulations	0.2
Access to land	0.1

8. However, reports of “land invasions” and “land takings” that are either politically or judicially sanctioned continue. Finally, the legal and institutional framework for anti-trust and competition is rudimentary, and firms continue to rank “informal practices by others” as high among obstacles to doing business. In addition, the quality of SME financial reporting tends to be quite low and insufficiently standardized²⁸ and the financial reporting and audit processes within SOEs require significant improvement. Some SOEs do not undergo any external audit.

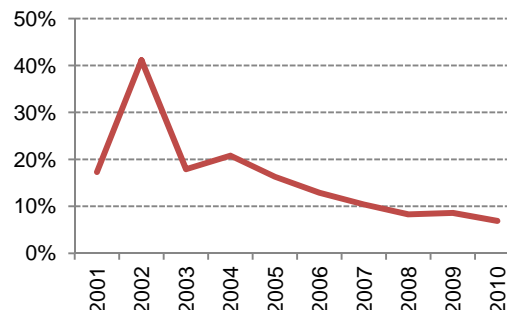
9. **Control of corruption.** Nicaragua has a well-developed legislative framework that criminalizes acts of corruption, but the implementing institutional framework is weak and the political will is waning. After tackling high levels of corruption being major theme of the current administration’s earlier political campaign in 2006, it did not feature much in the recent elections. No prosecutions of high-level politicians or officials for corruption have taken place since 2007. Meanwhile, members of the National Assembly enjoy immunity from prosecution.

²⁷ The Heritage Foundation, 2011’s Index of Economic Freedom.

²⁸ Nicaragua: A Review of Accounting and Reporting Practices, Report on the Observance of Standards and Codes (ROSC), March 2011.

10. Surveys suggest that corruption is more of an issue for business than for households. The 2010 Enterprise Survey lists corruption as the fifth largest obstacle to doing business (same as in 2006), whereas household reports of direct experience with corruption is comparatively low and falling (Chart xx). A larger share of firms report corruption as a major constraint than in several comparator groups of countries and cite arbitrariness and discrimination in taxation and customs procedures, as well as a lack of professionally trained tax and customs officials. The handful of INT cases in the Bank procurement over the previous CPS period were generally attributed to wrongdoing by bidding firm and have resulted in a few disbarments, while the two cases of mis-procurement reflect deep capacity limitations in the public administration. Although, Nicaragua does stand out with respect to judicial corruption, the household survey *Percepción de Corrupción 2009* conducted by General Prosecutor's office found that two out of five citizens perceive the judiciary to be corrupt. As a result, one of the most serious obstacles for investors in Nicaragua is the difficulty in resolving commercial disputes in courts, particularly concerning the enforcement of commercial contracts.

Chart 1: Direct family experience of corruption (% of those responding yes)



Source: Latinobarometer

Table 4: Firms Experience with Corruption

Enterprise Surveys	Lower			
	MIC	LAC	CA	Nicaragua
Percent of firms identifying corruption as a major constraint	36.1	39.9	48.6	52.2
Percent of firms expected to give gifts:				
to public officials "to get things done"	25.5	10.9	11.3	8.3
in meetings with tax officials	15.7	6.1	4.2	4.2
to secure government contract	23.7	9.9	5.9	4.5
to get an operating license	15.0	8.4	5.7	5.0
to get an import license	14.3	5.7	1.4	0.3
to get a construction permit	23.2	12.9	13.6	18.2
to get an electrical connection	16.0	4.0	3.0	7.8
to get a water connection	15.4	9.7	7.5	3.7
Value of gift to secure a govt contract (% of contract value)	2.2	0.9	0.6	0.4
Bribery depth (% of public transactions where a gift/informal payment was requested)	15.1	6.5	5.4	4.3
Percent of firms experiencing at least one bribe request	19.6	9.6	8.0	8.6
Percent of firms identifying the courts as a major constraint	19.1	25.0	35.0	38.4

Source: World Bank Enterprise Surveys (2010)

Annex 5. Trust Fund in Nicaragua

Trust Fund	Donor	US\$'000	Implementing Agency	Type of activity
1. Alternative Sustainable Agro-Forestry Management for Indigenous and Afro-Descendant Women	JSDf	3,029	Community Agro-forestry Association for Indigenous Women	Recipient Executed Project & Bank Executed Project/activity support
2. Agricultural Census 2011 and Public Expenditure Review	Canada	2,350	Ministry of Agriculture and INIDE	Recipient Executed Project & Bank Executed Project/activity support
3. Program Management and Supervision for the Caribbean Coast Development Program	DFID	200	IBRD/IDA	Bank Executed Partnership Secretariat & Trust Fund Admin
4. FADCANIC - Grant for under the Caribbean Coast Development Program Investment Phase	DFID	2,470	FADCANIC	Recipient Executed Stand-alone Project
5. FADCANIC- Second Grant for Investment Phase under the Caribbean Coast Development Program	DFID	850	FADCANIC	Recipient Executed Stand-alone Project
6. Save the Children - Grant for Investment Phase under the Caribbean Coast Development Program	DFID	1,200	Save the Children	Recipient Executed Stand-alone Project
7. OXFAM GB - Grant for Investment Phase under the Caribbean Coast Development Program	DFID	851	OXFAM	Recipient Executed Stand-alone Project
8. Expansion of the Family and Community Based Social Welfare Model with Cash Transfers	RSR	2,750	Ministry of the Family, Youth and Children	Recipient Executed Cofinancing
9. Strengthening 's Vital Statistics System	TFSCB	398	Ministry of Health	Recipient Executed Cofinancing
10. Strengthening Investment & Export Promotion	IDF	240	ProNicaragua	Recipient Executed Other Project
11. Financial Consumer Protection Project	FIRST	217	SIBOIF	Bank Executed Project/activity support
12. FCPF Readiness Preparation Proposal	FCPF	200	Ministry of Environment and Natural Resources	Recipient Executed Project
13. Healthy Kids, Healthy Forests: Miskito Communities Thrive on Native, Nutritious Rainforest Foods	Devt Market Place	200	Cooperativa de Profesionales MASANGNI R.L	Recipient Executed Stand-alone Project
14. Promoting Efficiency & Poverty Focus of Public Water Utilities	Spanish	95	ENACAL	Bank Executed Project/activity support
15. Strengthening government capacity for rural & peri urban water & sanitation projects	WSP	34	La Nueva FISE	Bank Executed Project/activity support
TOTAL		15,084		

Annex 6. Executive Summary of IDB Strategy for Nicaragua 2012-2017

Country Context	Between 2007 and 2011 the Nicaraguan economy grew at an average of 2.8% per year, in line with the average for Central America. The social context has made progress in reducing levels of poverty and inequality, but still has major challenges to address, especially in rural areas. Thus, 42.5% of the population lives in poverty and 14.6% in extreme poverty.
The IDB in Nicaragua	The IDB is the main source of external financing in Nicaragua and a leading institution of multiannual and multisectorial schemes. During the last years, IDB's support has been focused on: i) Energy (20.23%); ii) Fiscal and Municipal Management (19.50%); iii) Social Protection and Health (19.42%); iv) Environment and Rural Development (13.81%); and v) Transport (11%). The current portfolio ²⁹ comprises 31 sovereign guaranteed loans for a total available amount of US\$367 million, 26 operations of the Multilateral Investment Fund for a total of US\$16.5 million, and 45 technical cooperation interventions worth US\$18.8 million. The loan portfolio with sovereign guarantee focuses on the following sectors: Energy (27%), Transport (11%), Social Protection (17%), Environment Rural Development (17.8%), and Water and Sanitation (11.7%).
The IDB Strategy 2012-2017	The IDB strategy for Nicaragua (2012-2017) aims to help the country to overcome some of the main growth challenges and to improve the living conditions of the population, specifically those in the rural areas. The main areas of support will be: Energy, Transport, Health, Social Protection, and Rural Development. Additionally, the IDB will include in its programs the following cross-cutting topics: gender, diversity and climate change and natural disasters. Regional integration will be promoted through actions within transport and energy sectors. Rural development, energy, and transport will be areas of collaboration with the World Bank.
Strategy Implementation	During the implementation of the country strategy, the Bank will continue promoting the use of the Country Systems, and strengthening the institutional and fiduciary capacities of executing agencies. Moreover, the Bank plans to adapt the design and implementation of programs according to local capabilities with the aim of improving portfolio execution, and continue monitoring development results.
Risks	The main risks identified are: i) limited execution capacities of local counterparts, which may slow portfolio's performance, hence affecting the impact of IDB's interventions; and ii) the contraction of concessional resources which could bring changes in the grants to loans flows, hence increasing the country's vulnerability to possible reductions from these sources. To mitigate these risks, the Bank: i) will support institutional strengthening actions that lead to the identification of new schemes of programs design and implementation, adapted to local capabilities; ii) Bank's interventions will have a greater sectoral focus and donor coordination to maximize the flow of development aid.

²⁹ Data as of June 2012.

Annex 7. Donor Annex

Public Sector: Official External Cooperation (Loans and Grants) ^{p/}
(Million dollars)

	2010	2011	Agriculture, forestry and fishing	Mining	Manufacturing	Electricity, gas and water Supply	Construction	Trade	Transport and Communications	Financial intermediation	Social Work, Health and Education	Public administration	Others
Multilateral	323.1	333.9	20.3	0.0	0.0	74.0	61.2	0.0	21.2	4.1	69.7	75.7	7.6
Inter-American Development Bank (IADB)	150.9	157.7	7.2	0.0	0.0	40.3	32.6	0.0	6.2	3.7	11.0	55.3	1.5
International Development Association (IDA)- World Bank	47.0	61.7	2.6	0.0	0.0	7.8	15.2	0.0	2.1	0.4	30.1	1.5	1.9
Central American Bank for Economic Integration (CABEI)	43.2	41.1	0.8	0.0	0.0	11.5	13.3	0.0	12.9	0.0	2.5	0.2	0.0
United Nations (except World Health organization)	42.0	32.2	9.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	21.7	0.4	0.3
International Monetary Fund (IMF)	19.6	17.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	17.8	0.0
European Union (EU)	0.0	15.1	0.0	0.0	0.0	10.5	0.0	0.0	0.0	0.0	0.1	0.5	3.9
European Investment Bank (BIE)	0.3	4.0	0.0	0.0	0.0	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pan American Health Organization and World Health organization (OPS/OMS)	7.9	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.6	0.0	0.0
The Global fund to Fight AIDS, Tuberculosis and Malaria (FGSTM)	6.2	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.3	0.0	0.0
Nordic Development Fund (NDF)	2.7	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0
Organization of American States (OAS)	1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
OPEC Fund for International Development (OFID)	1.3	0.0	0.0	0.0	0.0	(0.1)	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Bilateral	213.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Russia	18.0	40.6	0.0	0.0	0.0	0.0	0.0	0.0	31.6	0.0	9.0	0.0	0.0
United States	18.3	21.0	8.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.2	8.4	0.0
Switzerland	8.9	16.4	3.3	0.0	0.0	5.2	0.1	0.0	0.0	0.6	1.9	4.7	0.7
Nederland	5.3	14.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.2	0.9	4.0
Canada	12.1	12.7	1.2	0.0	0.0	6.7	0.0	0.0	0.0	0.0	4.4	0.0	0.4
Finland	11.1	10.8	8.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.8	0.0	0.0
Germany	19.1	10.7	0.0	0.0	0.0	2.8	0.0	0.0	0.0	0.0	5.2	0.0	2.6
Spain	60.1	9.2	0.0	0.0	0.0	0.9	0.0	0.0	0.0	0.0	6.2	1.4	0.6
Taiwan, China	5.2	8.8	0.1	0.0	0.0	0.0	0.0	0.0	2.2	0.0	5.2	1.3	0.0
Norway	4.5	5.3	0.0	0.0	0.0	2.3	0.0	0.0	0.0	0.0	0.0	3.0	0.0
Japan	10.4	4.5	0.0	0.0	0.0	0.0	1.5	0.0	0.0	0.0	3.1	0.0	0.0
Denmark	18.7	4.1	0.0	0.0	0.0	0.0	0.0	0.0	2.4	0.0	1.8	0.0	0.0
Austria	2.1	3.7	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.0	0.0	0.0
South Korea	5.2	3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.7	0.0	0.0
Luxembourg	9.1	3.1	0.0	0.0	0.0	1.9	0.0	0.0	0.0	0.0	1.2	0.0	0.0
OTHERS	5.5	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.0	0.0
Total	536.8	333.9	20.3	0.0	0.0	74.0	61.2	0.0	21.2	4.1	69.7	75.7	7.6

p/: preliminary

Source: MINREX and BCN

Private Sector: Official External Cooperation (Loans and Grants) ^{p/}
(Million dollars)

	2010	2011	Agriculture, forestry and fishing	Mining	Manufacturing	Electricity, gas and water Supply	Construction	Trade	Transport and Communications	Financial intermediation	Social Work, Health and Education	Others
Bilateral	643.7	747.7	17.2	0.0	0.0	30.7	4.5	0.0	0.0	639.4	26.6	29.3
Venezuela	522.0	564.1								557.4		6.7
United States	35.2	66.9	4.1				4.5			36.4	10.0	11.9
Nederland	55.5	61.7	2.8			19.3				33.0	2.5	4.1
Germany	0.0	19.3	8.0			11.3						
Finland	3.7	10.1								5.0	1.3	3.7
Spain	14.3	9.1	0.2							0.8	6.8	1.3
Switzerland	0.0	6.3								5.0	0.1	1.3
Others	13.1	10.1	2.1					0.0		1.7	5.9	0.3
Multilateral	165.2	158.4	2.0	0.0	1.5	94.3	0.0	8.9	0.0	13.7	11.9	26.2
Central American Bank for Economic Integration (CABEI)	108.7	65.8	0.0		1.5	16.6		8.9		13.7	1.8	23.4
International Finance Corporation (IFC - World Bank)	32.7	38.2				38.2						
Inter-American Investment Corporation (IIC - IADB)	6.5	21.3				21.3						
Multilateral Investment Fund (MIF - IADB)	7.1	18.2				18.2				0.0		
European Union (EU)	10.2	14.9	2.0				0.0				10.1	2.8
Total	808.9	906.1	19.2	0.0	1.5	124.9	4.5	8.9	0.0	653.1	38.5	55.4

p/: preliminary

Source: MINREX and BCN

Annex 8. Nicaragua At A Glance

Nicaragua at a glance

10/15/12

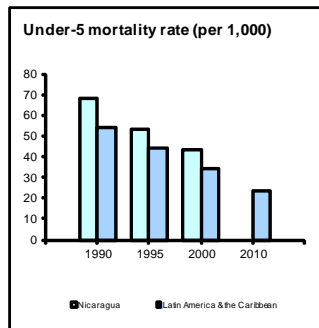
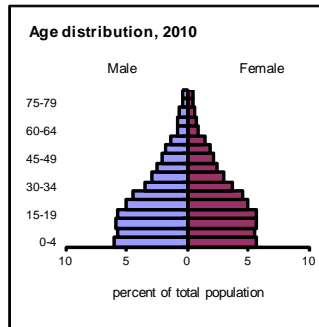
Key Development Indicators

(2011)

	Nicaragua	Latin America & Carib.	Lower middle income
Population, mid-year (millions)	5.9	583	2,519
Surface area (thousand sq. km)	130	20,394	23,579
Population growth (%)	13	11	15
Urban population (% of total population)	57	79	39
GNI (Atlas method, US\$ billions)	8.9	4,505	4,078
GNI per capita (Atlas method, US\$)	1,510	7,733	1,619
GNI per capita (PPP, international \$)	2,790	10,926	3,632
GDP growth (%)	5.1	6.2	6.9
GDP per capita growth (%)	3.7	5.0	5.3

(most recent estimate, 2005–2011)

Poverty headcount ratio at \$125 a day (PPP, %)	5	6	..
Poverty headcount ratio at \$2.00 a day (PPP, %)	21	12	..
Life expectancy at birth (years)	73	74	65
Infant mortality (per 1,000 live births)	23	18	50
Child malnutrition (% of children under 5)	..	3	25
Adult literacy, male (% of ages 15 and older)	78	92	80
Adult literacy, female (% of ages 15 and older)	78	90	62
Gross primary enrollment, male (% of age group)	117	119	110
Gross primary enrollment, female (% of age group)	115	115	104
Access to an improved water source (% of population)	85	94	87
Access to improved sanitation facilities (% of population)	52	79	47

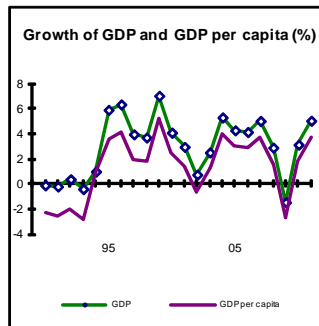


Net Aid Flows

	1980	1990	2000	2011 ^a
(US\$ millions)				
Net ODA and official aid	218	330	560	628
Top 3 donors (in 2010):				
Spain	0	15	20	106
United States	79	97	73	54
Japan	2	1	76	34
Aid (% of GNI)	10.8	33.4	11.4	7.7
Aid per capita (US\$)	67	80	110	108

Long-Term Economic Trends

Consumer prices (annual % change)	35.3	7485.2	9.6	7.9
GDP implicit deflator (annual % change)	37.0	5,018.1	8.6	10.5
Exchange rate (annual average, local per US\$)	0.0	0.2	12.7	22.4
Terms of trade index (2000 = 100)	108	66	100	91



1980–90 1990–2000 2000–11
(average annual growth %)

Population, mid-year (millions)	3.3	4.1	5.1	5.9	2.4	2.1	13
GDP (US\$ millions)	2,144	1,009	5,107	9,315	-1.9	22.2	3.2
			(% of GDP)				
Agriculture	..	..	19.5	20.0	..	4.7	3.6
Industry	..	..	22.1	25.8	..	5.3	3.0
Manufacturing	..	..	13.7	18.1	..	5.2	4.9
Services	..	..	62.1	54.2	..	5.3	2.6
Household final consumption expenditure	82.5	58.6	85.5	86.3	-3.6	-6.1	3.0
General gov't final consumption expenditure	19.7	43.5	8.7	7.1	3.4	-12.1	1.9
Gross capital formation	16.8	19.3	30.5	27.9	-4.8	1.9	-0.2
Exports of goods and services	24.2	24.9	20.1	41.1	-3.9	-6.4	9.6
Imports of goods and services	43.3	46.3	41.2	60.5	-3.2	-1.0	5.0
Gross savings	-8.1	-4.3	13.5	24.3			

Note: Figures in italics are for years other than those specified. 2011 data are preliminary. .. indicates data are not available.

^a Aid data are for 2010.

Development Economics, Development Data Group (DECDG).

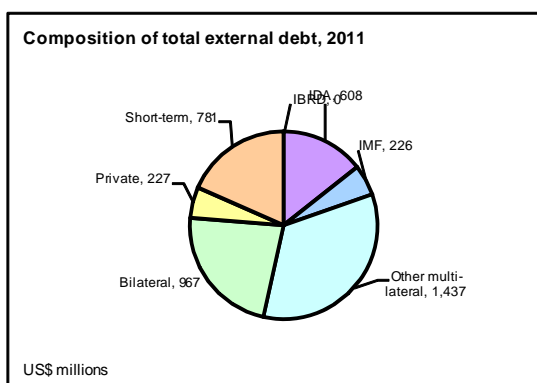
Balance of Payments and Trade	2000	2011
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	643	2,264
Total merchandise imports (cif)	1,806	5,094
Net trade in goods and services	-1,050	-716
Current account balance as a % of GDP	-842 -16.5	1,555 16.7
Workers' remittances and compensation of employees (receipts)	320	823
Reserves, including gold	497	1,743

Central Government Finance

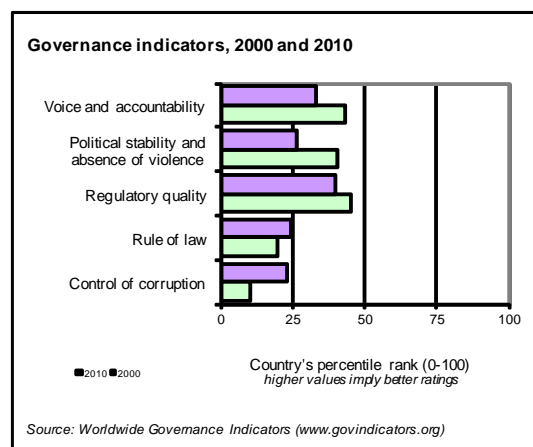
<i>(% of GDP)</i>	2000	2011
Current revenue (including grants)	14.5	18.0
Tax revenue	10.6	16.2
Current expenditure	10.5	15.7
Overall surplus/deficit	-3.9	-0.8
Highest marginal tax rate (%)		
Individual	..	..
Corporate	..	..

External Debt and Resource Flows

<i>(US\$ millions)</i>	2000	2011
Total debt outstanding and disbursed	6,740	4,246
Total debt service	287	210
Debt relief (HIPC, MDR)	4,847	1,178
Total debt (% of GDP)	132.0	45.6
Total debt service (% of exports)	19.7	4.1
Foreign direct investment (net inflows)	..	..
Portfolio equity (net inflows)	..	..



Private Sector Development	2000	2011
Time required to start a business (days)	–	39
Cost to start a business (% of GNI per capita)	–	1115
Time required to register property (days)	–	124
Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2010
Access to/cost of financing	65.9	..
Corruption	65.7	..
Stock market capitalization (% of GDP)	..	..
Bank capital to asset ratio (%)	6.3	..



Technology and Infrastructure	2000	2010
Paved roads (% of total)	11.1	11.6
Fixed line and mobile phone subscribers (per 100 people)	5	70
High technology exports (% of manufactured exports)	4.9	4.8

Environment

Agricultural land (% of land area)	42	43
Forest area (% of land area)	45.6	42.7
Terrestrial protected areas (% of land area)	36.7	36.7
Freshwater resources per capita (cu. meters)	36,343	33,221
Freshwater withdrawal (billion cubic meters)	..	..
CO2 emissions per capita (mt)	0.72	0.77
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	4.0	4.6
Energy use per capita (kg of oil equivalent)	536	540

World Bank Group portfolio	2000	2010
<i>(US\$ millions)</i>		
IBRD		
Total debt outstanding and disbursed	5	0
Disbursements	0	0
Principal repayments	5	0
Interest payments	1	0
IDA		
Total debt outstanding and disbursed	654	494
Disbursements	87	97
Total debt service	6	7
IFC (fiscal year)		
Total disbursed and outstanding portfolio of which IFC own account	6	94
Disbursements for IFC own account	2	6
Portfolio sales, prepayments and repayments for IFC own account	0	11
MIGA		
Gross exposure	81	100
New guarantees	145	13

Annex 9. Selected Indicators of Bank Portfolio Performance and Management

As Of Date 10/3/2012

Indicator	2010	2011	2012	2013
Portfolio Assessment				
Number of Projects Under Implementation ^a	13	14	14	14
Average Implementation Period (years) ^b	4.4	4.6	4.2	4.4
Percent of Problem Projects by Number ^{a, c}	30.8	7.1	0.0	0.0
Percent of Problem Projects by Amount ^{a, c}	18.7	6.8	0.0	0.0
Percent of Projects at Risk by Number ^{a, d}	30.8	14.3	7.1	7.1
Percent of Projects at Risk by Amount ^{a, d}	18.7	7.9	6.2	6.1
Disbursement Ratio (%) ^e	35.6	25.3	33.9	4.4
Portfolio Management				
CPPR during the year (yes/no)	yes	yes	yes	yes
Supervision Resources (total US\$)	1,338	1,811	1,612	1,811
Average Supervision (US\$/project)	95	95	95	90

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	48	5
Proj Eval by OED by Amt. (US\$ millions)	1,381.3	88.9
% of OED Projects Rated U or HU by Number	11.1	0.0
% of OED Projects Rated U or HU by Amt.	7.0	0.0

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: investment projects only.
- ^a All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex 10. Nicaragua Social Indicators

	Latest single year			Same region/income group	
	1980-85	1990-95	2004-10	Latin America & Carib.	Lower-middle-income
POPULATION					
Total population, mid-year (millions)	3.7	4.6	5.8	582.6	2,518.7
Growth rate (% annual average for period)	2.6	2.4	1.3	1.2	1.6
Urban population (% of population)	51.1	53.5	57.3	79.3	39.4
Total fertility rate (births per woman)	5.4	4.1	2.6	2.2	2.9
POVERTY					
<i>(% of population)</i>					
National headcount index	..	50.3	42.5		
Urban headcount index	..	31.9	26.8		
Rural headcount index	..	76.1	63.3		
INCOME					
GNI per capita (US\$)	690	520	1,510	7,741	1,623
Consumer price index (2005=100)	..	..	159	126	140
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	50.4	37.1		
Lowest quintile (% of income or consumption)	..	4.2	6.8		
Highest quintile (% of income or consumption)	..	55.2	44.5		
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	5.4	5.4	3.9	1.7
Education (% of GDP)	5.6	..	..	4.4	4.0
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	66	73	93	94	85
Male	64	72	92	94	87
Female	68	74	93	94	83
Access to an improved water source					
<i>(% of population)</i>					
Total	..	77	85	94	87
Urban	..	94	98	98	93
Rural	..	58	68	81	83
Immunization rate					
<i>(% of children ages 12-23 months)</i>					
Measles	59	85	99	93	80
DPT	39	80	98	93	79
Child malnutrition (% under 5 years)	..	30	19	3	25
Life expectancy at birth					
<i>(years)</i>					
Total	61	67	74	74	65
Male	58	65	71	71	64
Female	64	70	77	77	67
Mortality					
Infant (per 1,000 live births)	60	42	23	18	50
Under 5 (per 1,000)	82	54	27	23	69
Adult (15-59)					
Male (per 1,000 population)	..	..	197	181	244
Female (per 1,000 population)	..	..	111	98	175
Maternal (modeled, per 100,000 live births)	..	170	95	86	300
Births attended by skilled health staff (%)	..	61	74	90	57

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age or at any time before the survey.

World Development Indicators database, World Bank - 17 April 2012.

Annex 11. IFC Investment Operation Program

	2009	2010	2011	2012	2013*
	<u>Commitments (US\$m)</u>				
Gross	61.45	18.39	201.79	22.8	12.4
Net**	61.45	18.39	62.09	22.8	12.4
	<u>Net Commitments by Sector (%)</u>				
FM	31.6	51.1	19.0	100.0	100.0
INR	3.3	0	81.0	0	0
MAS	65.1	48.9	0	0	0
Total	100.0	100.0	100.0	100.0	100.0
	<u>Net Commitments by Investment Instrument (%)</u>				
Equity	4.9	0	0	0	0
Guarantee	23.5	51.1	19.0	78.1	100.0
Loan	68.3	48.9	48.8	21.9	0
Quasi loan	3.3	0	32.2	0	0
Total	100.0	100.0	100.0	100.0	100.0

* As of October 1, 2012

** IFC's Own Account only

Annex 12. MIGA Exposure

MIGA Outstanding Exposure (Gross Exposure, \$ million)

As of end of fiscal year	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Sectoral Distribution									
Finance	1.4	1.4	3.4	3.4	0.0	0.0	0.0	0.0	12.9
Infrastructure	112.9	105.9	102.0	98.4	95.0	91.7	86.9	86.9	86.9
Mining	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil & Gas	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Agribusiness/Manufacturing/Services/ Tourism	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	114.4	107.3	105.4	101.8	95.0	91.7	86.9	86.9	99.8
MIGA's Risk Profile									
Transfer Restriction	96.2	89.1	87.2	83.6	76.8	73.6	68.7	68.7	68.7
Expropriation	112.9	107.3	105.4	101.8	95.0	91.7	86.9	99.8	99.8
War & Civil Disturbance	112.9	107.3	105.4	101.8	95.0	91.7	86.9	86.9	86.9
Breach of Contract	90.1	86.9	86.9	86.9	86.9	86.9	86.9	86.9	86.9
MIGA's Gross Exposure in Country									
% Share of MIGA's Gross Exposure	2.2%	2.1%	2.0%	1.9%	1.5%	1.3%	1.1%	1.2%	1.0%
MIGA Net Exposure in Country									
% Share of MIGA's Net Exposure	1.8%	1.7%	1.6%	1.6%	1.3%	1.2%	1.0%	1.2%	1.0%

Annex 13. Nicaragua Key Economic Indicators

Indicator	Actual			Estimate			Projected		
	2007	2008	2009	2010	2011	2012	2013	2014	2015
National accounts (as % of GDP)									
Gross domestic product ^a	100	100	100	100	100	100	100	100	100
Agriculture	17	19	18	19	20	21	21	21	22
Industry	23	23	24	24	26	26	26	26	27
Services	59	58	58	57	54	53	53	53	51
Total Consumption	95	98	93	94	93	91	89	90	88
Gross domestic fixed investment	30	27	23	23	26	27	29	31	32
Government investment	8	5	6	5	5	6	6	6	7
Private investment	22	22	17	17	20	22	23	24	25
Exports (GNFS) ^b	29	32	31	37	41	52	54	54	56
Imports (GNFS)	54	57	48	54	60	73	72	71	73
Gross domestic savings	5	2	2	1	2	2	4	7	11
Gross national savings ^c	16	9	13	11	11	10	14	17	20
<i>Memorandum items</i>									
Gross domestic product (US\$ m at current prices)	7446	8221	8062	8426	9315	9853	10414	11027	11699
GNI per capita (US\$, Atlas method)	1300	1390	1370	1410	1510	..	..	..	..
Real annual growth rates (% , calculated from 2006 prices)									
Gross domestic product at market prices	5.0	2.9	-1.4	3.1	5.1	4.0	4.2	4.4	4.6
Gross Domestic Income	5.0	2.9	-1.3	3.2	5.1				
Real annual per capita growth rates (% , calculated from 2006 prices)									
Gross domestic product at market prices	3.7	1.6	-2.7	1.8	3.7				
Total consumption	2.0	3.0	-1.3	2.2	2.2				
Private consumption	3.0	2.7	-1.9	2.5	2.0				
Balance of Payments (US\$ millions)									
Exports (GNFS) ^b	2709	2985	2886	3628	4717	5184	5567	5992	6433
Merchandise FOB	2336	2586	2390	3157	4057	4474	4828	5210	5618
Imports (GNFS) ^b	4633	4686	4574	5486	6963	7816	8181	8629	9027
Merchandise FOB	4078	4078	3929	4792	6125	6869	7197	7546	7943
Resource balance	-1924	-1701	-1688	-1858	-2246	-2632	-2614	-2637	-2594
Net current transfers	1075	1263	369	1173	1374	1653	1692	1641	1634
Current account balance	-984	-793	-928	-963	-1311	-1677	-1591	-1527	-1563
Net private foreign direct investment	382	626	434	508	968	829	799	806	836
Long-term loans (net)	..	..	..	..	..	..	..	..	..
Official	..	..	..	..	..	..	..	..	..
Private	..	..	..	..	..	..	..	..	..
Other capital (net, incl. errors & omissions)	..	..	..	..	..	..	..	..	..
Change in reserves ^d	-179	-38	-432	-226	-93	14	-112	-121	-77
<i>Memorandum items</i>									
Resource balance (% GDP)	-25.8	-20.7	-20.9	-22.0	-24.1	-26.7	-25.1	-23.9	-22.2
Real annual growth rates (YR94 prices)									
Merchandise exports (FOB)	2462	2530	2390	3157	4057	4474	4828	5210	5618
Primary	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..
Merchandise imports (CIF)	4635	4713	3929	4792	6125	6869	7197	7546	7943

(Continued)

Indicator Indicator	Actual			Estimate			Projected		
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Public finance (as % of GDP at market prices)^e									
Current revenues	15.0	14.7	14.6	15.3	16.5	17.6	17.8	18.0	18.1
Current expenditures	12.1	13.2	14.3	13.8	14.2	14.9	14.5	14.3	14.3
Current account surplus (+) or deficit (-)	2.9	1.5	0.3	1.5	2.3	2.7	3.3	3.6	3.8
Capital expenditure	5.5	4.7	4.3	4.2	4.0	4.5	4.7	4.8	4.9
Foreign financing	2.0	1.2	2.5	1.9	1.6	1.3	1.6	1.3	0.8
Monetary indicators									
M2/GDP	31.2	28.9	31.8	36.1	33.7	28.8	22.4	18.3	..
Growth of M2 (%)	18.5	7.3	13.4	24.6	8.3	-28.3	-13.3	-9.0	..
Private sector credit growth / total credit growth (%)	10.3	12.5	-7.5	5.9	15.6	6.4	9.7	..	..
Price indices(YR94 =100)									
Merchandise export price index	..	..	..	..	..	..	..	..	..
Merchandise import price index	..	..	..	..	..	..	..	..	..
Merchandise terms of trade index	79.0	75.0	82.0	82.0	83.0	..	..	..	..
Real exchange rate (US\$/LCU) ^f	86.0	89.2	97.7	91.2	88.5	88.0	88.1	87.5	92.0
Real interest rates									
Consumer price index (% change)	16.9	13.8	0.9	9.2	8.0	7.4	7.2	7.0	7.0
GDP deflator (% change)	9.0	14.0	4.9	5.6	6.5	6.6	6.7	6.7	6.6

a. GDP at factor cost

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated central government.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

Annex 14. Nicaragua Key Exposure Indicators

Indicator	Actual				Estimated			Projected	
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total debt outstanding and disbursed (TDO) (US\$m) ^a	4070	5665	6101	6846	6582	7145	7870	8534	9187
Net disbursements (US\$m) ^a	1595	436	745	-264	563	725	664	653	612
Total debt service (TDS) (US\$m) ^a	755	761	632	575	651	551	590	714	778
Debt and debt service indicators (%)									
TDO/XGS ^b	110.0	139.9	156.4	140.4	126.3	124.4	129.5	132.7	134.6
TDO/GDP	72.7	88.9	98.2	104.5	93.0	96.1	99.6	101.8	103.4
TDS/XGS	20.4	18.8	16.2	11.8	12.5	9.6	9.7	11.1	11.4
Concessional/TDO	5.4	5.8	4.7	2.0	2.6	2.4	2.2	2.1	1.9
IDA exposure indicators (%)									
IDA DS/public DS	0.9	2.9	3.5	5.7	7.8	8.2	8.5	9.6	9.5
Preferred creditor DS/public DS (%) ^c	76.2	51.0	48.5	54.1	58.6	62.7	65.5	68.3	68.8
IDA DS/XGS	640.3	651.1	1149.5	1430.9	1751.3	1723.5	1671.4	1748.0	1667.0
IDA TDO (US\$m) ^d	321.4	347.5	418.0	447.2	468.3	491.8	512.5	528.0	540.0
IFC (US\$m)									
Loans	33	59	85	83	93	113	121 ..	..	..
Equity and quasi-equity /c	3	3	5	5	3	13	23 ..	..	..
MIGA									
MIGA guarantees (US\$m)	104	98	93	89	93	100	100 ..	..	..

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

Annex 15. IBRD/IDA and IFC Portfolio

Operations Portfolio (IBRD/IDA and Grants)

As Of Date 10/3/2012

Closed Projects **69**

IBRD/IDA *

Total Disbursed (Active)	229.75
of w hich has been repaid	0.00
Total Disbursed (Closed)	460.22
of w hich has been repaid	32.91
Total Disbursed (Active + Closed)	689.97
of w hich has been repaid	32.91
Total Undisbursed (Active)	160.42
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	160.42

Active Projects

Project ID	Project Name	<u>Last ISR</u>			Fiscal Year	<u>Original Amount in US\$ Millions</u>					<u>Difference Between</u>	
		<u>Supervision</u>									<u>Expected and Actual</u>	
		<u>DO</u>	<u>IP</u>	<u>Rating</u>							<u>Orig.</u>	<u>Frm Rev'd</u>
P126357	I 2nd Support to the Education Sector	S	S	✔	2012		25			23.58	0.87	
P083952	NI (CRL) Roads Rehab & Maintenance I	S	S	✔	2006		99.3			10.79	-33.09	
P087046	NI 2nd Agricultural Technology Project	S	MS	✔	2006		22			9.17	-1.26	
P077826	NI Broad-Based Access to Finan Servic	S	S	✔	2004		7			2.28	1.88	
P106870	NI Comm. and Family Health Care Servi	S	S	✔	2011		21			16.04	5.17	
P110092	NI Greater Managua Water and Sanitati	MS	MS	✔	2009		40	2.03		17.43	5.48	
P108974	NI Hurricane Felix Emergency Recovery	MS	MS	✔	2008		17			4.38	5.01	1.18
P056018	NI LAND ADMINISTRATION PROJECT	S	S	✔	2002		42.6	1.25		0.13	-15.39	-8.84
P109691	NI Micro, Small & Medium Enterprise D	MS	MS	✔	2008		20	5.27		8.80	15.19	
P111795	NI PFM Modernization TAL	S	S	✔	2011		10			7.39	2.15	
P123447	NI Rural Roads Infrastructure Imp.	S	S	✔	2012		35			34.61	0.00	
P089989	NI Rural Telecom	S	S	✔	2006		12			5.15	-0.36	
P106283	NI Rural Water Supply and Sanitation	MS	S	✔	2008		20			5.52	2.49	
P121779	NI Social Protection	S	MS	✔	2011		19.5			15.13	3.42	
Overall Result							390.4	8.56		160.42	-8.44	-7.66

Statement of IFC's Committed and Outstanding Portfolio

Amounts in US Dollar Millions

Accounting Date as of : 09/30/2012

Region(s): Latin America and the Caribbean
Country(s) : Nicaragua

Commitment Fiscal Year	Institution Short Name	LN Cmt'd - IFC	ET Cmt'd - IFC	QL + QE Cmt'd - IFC	GT Cmt'd - IFC	RM Cmt'd - IFC	ALL Cmt'd - IFC	ALL Cmt'd - Part	LN Out - IFC	ET Out - IFC	QL + QE Out - IFC	GT Out - IFC	RM Out - IFC	ALL Out - IFC	ALL Out - Part
2010/ 2011/ 2012/ 2013	BAC Nicaragua	0	0	0	10.00	0	10.00	0	0	0	0	10.00	0	10.00	0.00
2008/ 2009/ 2010/ 2011/ 2012/ 2013	Bco de Finanzas	7.51	0	0	7.06	0	14.57	0	4.01	0	0	7.06	0	11.07	0.00
2009	Cukra	25.00	0	0	0	0	25.00	0	25.00	0	0	0	0	25.00	0.00
2006/ 2008/ 2010/ 2012	ECOM	9.00	0	0	0	0	9.00	0	9.00	0	0	0	0	9.00	0.00
2009	EGENICSA	0	0	1.64	0	0	1.64	0	0	0	0	0	0	0	0.00
2008	H. Metropolitano	5.14	0	1.00	0	0	6.14	0	3.14	0	1.00	0	0	4.14	0.00
2006/ 2008/ 2010	ISCH	1.97	0	0	0	0	1.97	0	1.97	0	0	0	0	1.97	0.00
2008/ 2009	Monte Rosa	32.24	0	0	0	0	32.24	0	32.24	0	0	0	0	32.24	0.00
1990/ 2007	Nicaragua Sugar	12.50	0	0	0	0	12.50	4.11	12.50	0	0	0	0	12.50	4.11
2011	PENSA Nicaragua	30.30	0	20.00	0	0	50.30	0	26.40	0	20.00	0	0	46.40	0.00
2009	SMG	6.30	3.00	0	0	0	9.30	0	6.30	2.30	0	0	0	8.60	0.00
Total Portfolio		129.96	3.00	22.64	17.06	0	172.66	4.11	120.57	2.30	21.00	17.06	0	160.92	4.11

Annex 16. FY2008-2012 CPS Completion Report

Country: **Nicaragua**
CPS Coverage: **FY08-12**
Date of Progress Report: **December 4, 2009**
CPS Completion Report completed by: **Camille Nuamah**

I. EXECUTIVE SUMMARY

- 1. The FY2008-2012 CPS was implemented in period of unanticipated challenges.** Within one month of the approval of the CPS, Nicaragua was hit by category 5 Hurricane Felix. A few months later the country suffered the affects of the food price crisis, the global financial crisis, unprecedented oil price spikes and the H1N1 pandemic. During the CPS period, the country also experienced a series of alternating droughts and flooding associated with an abbreviated El Niño/La Nina cycles. These developments, together with a shifting institutional landscape, created both challenges and opportunities for the Bank program.
- 2. The Bank program responded with appropriate flexibility both to the new challenges and shifts in government priorities.** Additional resources were mobilized to respond to several of these crises, while close supervision and dialogue helped to resolve delays in ongoing project implementation. Later, in the face of growing governance risks, the Bank shifted resources from development policy lending to social sectors, primarily, where institutional developments at the technical level allowed for the creation and consolidation of new, innovative models in service delivery.
- 3. Notwithstanding these changes, the CPS program was moderately satisfactory.** Results targeted in the CPS were generally achieved, except in the area of governance. Following the global financial crisis, economic growth averaged 4.6 percent from 2010-11. Poverty and inequality have fallen, particularly in rural areas. Access to key infrastructure services has improved, in particular for the rural poor. Meanwhile, progress on the social MDGs has continued, albeit very slowly. More recently, the authorities have made significant and promising adjustments to the models of social service delivery. However, a key remaining challenge is to strengthen the monitoring and measurement of program results, to establish a more routine evaluation of program interventions, and to raise the general transparency of development programs and outcomes.
- 4. Bank performance was satisfactory.** As the Government's development strategy evolved, the Bank was able to adapt projects to focus on small producers and rural households, without sacrificing the technical quality of the supported interventions. Throughout the CPS period, the Bank devoted adequate management attention, manpower and administrative resources to resolve implementation challenges. When crises hit, the Bank responded swiftly to identify additional financing opportunities and to modify the CPS – as reflected in the Progress Report. Later, the reallocation of resources

from budget support allowed to scale up successful programs, rather than adding new projects, and helped to improve implementation rates and consolidate the portfolio.

5. **The CPS implementation shows that the flexibility to respond to crises and emerging opportunities can be managed effectively in order to maintain progress on the original program goals.** However, within crisis response and other program changes, it is important to maintain avenues for high level policy dialogue on key sectors, to not sacrifice the requirements of good M&E throughout the portfolio and to avoid the proliferation of too many small operations. The flexibility also to scale up on-going programs was also key to achieving program goals.

II. DEVELOPMENT OUTCOMES

6. **During the CPS period from 2008 to 2012, Nicaragua had to weather a range of different crises – external and internal.** The external ones included a category 5 hurricane on the Atlantic coast weeks after Board discussion of the CPS, followed by the global economic crises, H1N1 pandemic and shorter, more dramatic cycles of the El Niño/La Niña weather systems in the following years. Internally, the new administration, having been out of power for over a decade, took some time to develop its new strategy with the added political difficulty of having only minority representation in the legislature. Criticism of the mid-term municipal elections as well as the President's constitutional challenge to run for a third term elevated political tensions in the country. At the same time, earlier gains on transparency in government programs were undone. Following the national election in 2011, the same ruling party now dominates the legislature with a qualified majority.
7. **The authorities, however, continued what Nicaragua's recent track record of maintaining sound macroeconomic policies** during the CPS period. These efforts helped to sustain growth, albeit at moderate rates, raise foreign direct investment, and garner support from the private sector. After the global financial crisis of 2008-09, economic growth resumed, averaging 4.6 percent 2010-11. Following some limited countercyclical fiscal policies during the crisis, the authorities have continued with fiscal consolidation, helped in part by the series of tax reforms that steadily improved revenue performance. Rapid export growth fueled by the long upswing in commodity prices and preferential access to Venezuelan markets has helped to sustain growth. As such, this export growth remains vulnerable to shifts in the terms of trade and changes in existing international agreements.
8. **On the structural side, the Government focused on redressing persistent inequalities and the limited progress on poverty reduction** by reorienting its programs toward direct support for poor households and small producers. In service delivery, these included an early policy change toward free access to public education and primary health care. The government also shifted away from support to the larger productive sector in traditional and maquila exports toward programs aimed at food security and subsistence production, microfinance and micro- and small enterprise development.

9. **After little change during 2002-05, poverty and inequality fell from 2005-09, particularly in very poor rural areas**, as measured by the Living Standards Measurement Surveys. Since then, a smaller survey instrument repeated annually between 2009 and 2011 indicates that the broad trend in poverty reduction has continued. When one disaggregates the causes, economic growth and in particular increases in agricultural incomes among poor families has been the major contributor to poverty reduction. Nevertheless, over 40 percent of Nicaraguans remain poor and high levels of inequality persist between rural and urban access to basic services.
10. **Nicaragua's social indicators are improving, but generally at a slow rate.** The assessment of the pace of progress in social areas has been complicated by lack of robust, timely data and transparent measurement of results. Nicaragua made notable progress in reducing infant mortality (achieving its targets), net school enrollment and access to water, whereas progress on maternal mortality, primary school completion, and chronic nutrition are either slow or unclear. Likewise, large rural-urban gaps persist and while existing measurements suggest that these are reducing, it is not clear whether the pace is sufficient to achieve the goals set by the authorities. More recently, the authorities have made significant and promising adjustments to the models of social service delivery.
11. **Another key development in the CPS period includes the resolution of technical shortages in electricity supply, the maintenance of broadly open dialogue with the private sector and success in attracting foreign direct investment.** In 2007 the new government moved quickly to use Venezuela oil cooperation to resolve long standing energy shortages by investing in thermal generation, and is now focused on raising FDI to shift the generation matrix toward a greater share in renewables. Nevertheless, key imbalances remain in the electricity sector financing which have only been temporarily mitigated using resources from the Venezuela oil cooperation and require a longer term solution. The dialogue with the private sector on key economic and political issues is being maintained as are strong efforts to promote more FDI.
12. **Finally, governance challenges emerged during the CPS period.** Controversies surrounding the municipal elections in 2009 resulted in the suspension of budget support and reduction of other aid flows by several bilateral donors. The authorities have compensated for much of the lost resources with large private flows of aid and investment from Venezuelan oil cooperation. Later, the President's constitutional challenge to run for a third term further elevated political tensions in the country. The authorities have since undone much of the earlier gains in transparency of government programs.³⁰ Following the national election in 2011, the ruling party now dominates the legislature as well with a qualified majority. The Government has yet to articulate its new program, but it is expected that this program will retain its primary goal of providing direct support to poor households and small rural producers, but with an added focus on productivity improvements to raise incomes. The Government is also expected to maintain sound macroeconomic policies and seek a new IMF program.

³⁰ A notable example is that the Ministry of Education has not published its annual statistical report since 2009.

II. PROGRAM PERFORMANCE

13. The CPS program was able to meet most of its outcome targets, although measurement challenges remain. The authorities maintained an adequate macroeconomic framework that helped to underpin growth, and support poverty reduction. Nicaragua saw a stronger decline in inequality and poverty, particularly in rural areas, where much of the program support was targeted. However, lack of agreement over key policies limited results in the governance and accountability agenda.

A. CPS Pillar One: Reactivating the Economy, Stimulating Productivity and Competitiveness

14. This CPS Pillar supported the (a) maintenance of an adequate macroeconomic framework for growth and poverty reduction; (b) diversification and promotion of value-added in the micro and SME sectors; (c) improvements in land tenure security; (d) increased agricultural productivity and sustainable use of natural resources.

15. **Throughout the CPS period, Nicaragua's macroeconomic performance was good, as reflected in a stable rating of 4.2 in the CPIA macroeconomic cluster.** After averaging 4.0 percent during 2003-07, economic growth recuperated following the 2008-09 global economic crisis, averaging 4.6 percent over 2010-11. A significant but limited fiscal impulse during the crisis helped strengthen domestic demand. Since then, central government fiscal balances have returned to surplus in part owing to steady improvements in revenue performance over the CPS period. After an increase in 2009, public debt, including its external component, has gradually declined. The central bank also adopted supportive measures and the financial sector has remained stable, although credit to the private sector declined sharply and has yet to fully recover. Inflation has been largely under control since its spike in 2008, in part anchored by Nicaragua's crawling peg. Despite buoyant remittances and strong export growth, the current account deficit remains chronically high dominated by the oil bill. It has been offset by improvements in loans and FDI (including the significant flows from Venezuela), resulting in a notable improvement in international reserves.

16. The CPS aimed to deepen the impact growth on poverty outcomes by supporting microfinance and microenterprise development, improving productivity of small agricultural producers, and strengthening land tenure. After little movement during the first half of the decade, poverty in Nicaragua declined from 48 to 43 percent between 2005 and 2009. These gains were accompanied by a moderate decline in inequality and in the severity of poverty. They were also concentrated in rural areas where the poverty rates are highest. Economic growth was the principle factor in these developments through 2009. However, much of the income growth was concentrated in informal sector, in the lower productivity agricultural sector, and among workers with little or no education.

17. **Strong advances were achieved in land tenure security and agricultural productivity.** Almost 20 percent of national territory has been titled and registered, including 15 indigenous territories representing the majority of the Atlantic region, based

on an improved national legislation. Meanwhile, modernization of the cadastre-registry processes has now yielded significant reductions in the time and cost of registration procedures, and is reflected in an improvement in Nicaragua's ranking on this *Doing Business* indicator from 151 to 122 in 2011. Under the 2nd Agriculture Technology Project, over 34,000 farmers have adopted improved production or processing technologies, yielding on average a 38 percent increase in yields on basic grains. However, while these advances have been focused on food security, Nicaragua has seen a stagnating and in some cases declining productivity in yields on agricultural exports.

18. **Progress on microfinance and microenterprise development has been mixed, in large part due to policy reversals and weak implementation.** The WBG made a positive contribution to increasing the access to finance for small and medium urban and rural MSMEs, with the share women receiving financing rising. This happened despite the government legally sanctioning a non-payment movement that arose in the large microfinance sector (20 percent of financial sector assets) in 2009 when the crisis hit after a period of rapid credit growth. However, continued dialogue between the government, the WBG and the IMF contributed to new legislation that strengthened the regulatory framework and helped reverse the large retrenchment in microfinance assets in 2010. On the microenterprise side, significant delays in the implementation of the MSME project make it too early to see any results from the development of a small business matching grants program. In retrospect, this project was launched as too large a program and arguably it would have been preferable to begin working at a smaller, pilot scale. An array of other improvements have been made to the business registration and some key inspection processes, but these have not been sufficient to prevent Nicaragua's ranking on the majority of *Doing Business* indicators from deteriorating over the CPS period and the associated loss in the competitiveness of the local business climate.

B. CPS Pillar Two: Pro-Poor investment in delivery of basic services

19. This CPS Pillar was combined (at the Progress Report stage) to include both social and infrastructure services, and focused on rural areas where poverty is highest in Nicaragua. Combined, it accounted for two-thirds of the CPS lending program. In the area of basic services — health, education, water and sanitation — progress has been achieved in project activities, targets and goals. Other infrastructure services — electrification, telecom, and roads — have achieved the goals laid out in the CPS. While significant progress was made in terms of institutional development, overall development outcomes remain unclear due to persistent weaknesses in monitoring MDG performance in Nicaragua and updating key indicators.
20. In education, a major change in policy orientation of the new government, which took some time to evolve, presented key challenges for measurement of program results. Even so, the shift to universal free primary education in 2007 did raise access and accelerated increases in primary enrolment. The CPS program helped to maintain these enrolments over time by providing emergency financing for the national school feeding program from various sources (IDA and trust funds) during the food price crisis. Meanwhile, the Bank refocused the project toward improving quality with the reform of key primary level curricula, provision of new textbooks to all primary schools, and the

design and implementation of a learning assessment program. The complementary MDG of primary completion rates also advanced but is still short of the targeted levels. Completion rates, together with a new thrust in early childhood education, are now the main focus of Nicaragua's new education strategy, which was prepared and is being implemented with Bank support.

21. In contrast, the policy stability in health care – the administration has been consolidating the long-standing model of basic benefits package with emphasis on preventative care at the family and community level – delivered some clear progress on both infant and maternal health in particular in improving access to care and reducing risk factors. While this progress is clearly reflected in falling infant mortality rates, measured reductions in chronic child malnutrition and maternal mortality rates have been more elusive. Meanwhile, the Bank program assisted Nicaragua to mitigate the H1N1 pandemic while strengthening its preparedness for future epidemiological emergencies.
22. The remainder of this component focused on access to basic infrastructure services, predominantly in rural areas. Despite the implementation delays in the majority of the 6 projects in this area, the Bank program helped in significantly to raise access of rural households to telephony, electricity and improved roads, at the same time reducing the rural-urban gaps in access. In addition, each of these programs pioneered innovations in service delivery –through the use of small private sector providers in telecom and rural off-grid electricity, and through large scale community works and road maintenance programs, and a low-cost road building technique in the rural road construction. The more recent programs in water and sanitation are now beginning to yield results both in rural and urban areas, also with innovations in twinning civil works with social awareness programs for hygiene, water conservation and services sustainability. Again, a key challenge remains in the area of measurement of the improvements in access, nationwide, as well as the ensuing impact on the communities in a sustainable way.

C. CPS Pillar Three: Strengthening governance and accountability

23. This CPS pillar was aimed at improving the capacity of the public sector in Nicaragua by continuing efforts to strengthen civil service management, planning and financial management; as well as social accountability. By the time of the CPS Progress Report, the new administration had begun stalling the overall public sector reform agenda and adopting a more narrow focus on public financial management. However, the CPS Progress Report did not revise the governance agenda and results driven by the expectation that the on-going dialogue would lead to a resumption of the pace of work on public sector reform. At the end, implementation of civil service reform was never extended to the broader public sector and was dropped as a CPS outcome at the time of the Progress Report. Some progress was made on wage bill management, particularly in the social sectors where wage scales were rationalized to open fiscal space for future salary increases when fiscal space allows. However, these were complicated by the annual off-budget wage bonuses financed through the non-sovereign Venezuelan cooperation flows.

24. Meanwhile, the focus on PFM has yielded progress in the rollout of the Medium Term Expenditure Framework to all central government and decentralized agencies, beyond the CPS outcome targets, and has served to strengthen the links between planning and budgeting. The development of a new SIGFA II was delayed until the preparation of the follow-up PMSAF project in 2010 and so far system requirements have been agreed upon and the bidding process is just getting underway. However, little else was achieved in terms of strengthening monitoring and evaluation, transparency of public programs and external audit by the Comptroller General. Finally, the CPS outcomes on social accountability and decentralization of the public investment planning were dropped because of a change in approach by the new administration to decentralization. Instead, the authorities have put in place a network of Citizen Councils from the community up through national levels of government. These have achieved an increase in social participation in government activities in many sectors, but they also suffer from some criticism of being highly politicized.

III. BANK PERFORMANCE

A. Program Design

25. The CPS FY08-FY12 was prepared during the first six months of the new administration and before the Government had articulated its general development strategy, which took over two years. As such, the CPS was based in part on the strategic framework articulated in the Economic and Financial Program of the IMF PRGF/ECF program. However, as the administration matured, several policy shifts emerged which posed critical implementation issues for a number of ongoing projects, particularly those which engaged the private sector in public service delivery, as well as the use of conditional cash transfers³¹ to households and matching grants to firms. The highest risks to the program were attributed to natural disasters and electricity sector issues, while risks of macroeconomic instability, weak institutional capacity and inadequate donor alignment and harmonization were rated as moderate.

B. Program Implementation

26. **There were significant modifications to the lending program during implementation.** The Bank program was adjusted in response to unexpected crises. Of the 15 new projects approved during the CPS period, only five of them were planned in the CPS and three in the CPS Progress Report. Meanwhile, the Bank planned to commit around US\$240 million at the CPS (and US\$274 million at the Progress Report in December 2009), but finally mobilized new IDA commitments of just under \$300 million³², and roughly additional \$45 million in trust funds.

³¹ The authorities originally rejected the idea of conditioning cash transfers on school attendance, viewed more as a social obligation, and later accepted the use of family grants to promote attendance at parenting/other workshops.

³² This included \$17 million cancelled from the IDA14 FY07 lending program and reallocated in FY08, an additional \$14.3 from the IDA15 Crisis Window, front-loading of \$15million from the IDA16 indicative allocation for FY13, and supplementary grants for H1N1Response and the GFPR Additional Finance for the 2nd Agriculture Technology project.

27. **In addition to the external volatilities, the program faced a number of internal challenges.** The new administration's evolving policy and institutional agendas delayed the preparation of the planned development lending operations, delayed implementation and required extensive restructuring in several projects, and held back the release of a number of key economic and sector studies. Eventually, the ongoing projects accelerated into a robust implementation pace and achieved solid results on the ground, particularly for rural poverty reduction. The programmed series of four DPLs was reduced to only one operation that responded to the global economic crisis. The DPL series was eventually suspended because of lack of agreement over policy reforms related to governance and transparency.
28. **The authorities and the Bank were quick to make use of the resources from budget support for additional investment lending.** There were two important impacts of this shift. A first impact of the shift to investment lending in the Bank program was a renewed emphasis on social sectors which responded to the emergence of an integrated strategic framework and the gradual consolidation of service delivery models in health, education and social protection under the new administration. Second, however, was that the cessation of budget support by the Bank and bilateral donors resulted in loss of donor-coordinated engagement in specific policy dialogues with the authorities. Even though there remains strong donor coordination in investment programs, e.g. in rural electrification, urban water and sanitation, agriculture, education and health, the willingness to, and practicality of, engaging in high level policy dialogue (as opposed to technical discussions) under these operations does not happen in practice.
29. **IFC's portfolio in Nicaragua achieved significant growth, in line with its global objective to focus more on IDA countries.** During 2008-12, IFC-syndicated financing totaled almost \$400 million (of which \$245 million were IFC's own investments) in 22 projects. This compares with only \$15 million in two projects in the years before the CPS period. Today, the portfolio includes projects in a range of sectors, from agribusiness which has a 48 percent share, to renewable energy with 32 percent, and the financial sector at 15 percent. The most notable investment during the CPS was the award-winning 72 MW geothermal installation at San Jacinto-Tizate, in which IFC's investment of \$50 million helped catalyze \$140 million from other international development banks. San Jacinto Central provides more than 15 percent of Nicaragua's energy needs and supports the Government strategy of switching the generation matrix toward renewables.
30. For IFC's Advisory Services, the strategic focus on Nicaragua during the period FY08-12 continued around the core strategic themes: business climate (IFC worked with the municipal scorecard for a number of years), access to finance (development of new mortgage and SME lending products, and support for leasing regulation), and the rural agribusiness sector (farmer extension services and sustainability topics, in particular in coffee and forestry). Key project highlights include Sustainable Forestry (2008-12); with two projects in sustainable forestry benefiting 4 indigenous communities to promote a business approach in community forestry; support to 8 municipalities in making business licensing and operating simpler and various projects helping 13,000 farmers in the region link into premium markets for sustainable coffee.

IV. RATING

31. **The CPS program is rated moderately satisfactory.** The IDA and IFC programs achieved substantial development results in agricultural productivity (in basic grains and coffee), land administration and titling, roads, telecommunications and electricity. These achievements contributed to a commensurate reduction in rural poverty. While more modest, advances were also made in the health, education and microfinance services outcomes, particularly in building an institutional framework for the future. However, in the area of governance and accountability, there was little progress outside of some improvements in public financial management. Together with the fact that macroeconomic policy stability has helped to provide a good basis for past and future growth, the sum of program results can only be deemed moderately satisfactory.³³
32. **The World Bank Group performance is rated satisfactory.** As the Government's development strategy evolved, the Bank was able to adapt projects to focus on small producers and rural households, without sacrificing the technical quality of the supported interventions. Throughout the CPS period, the Bank devoted adequate management attention, manpower and administrative resources to resolve implementation challenges. When crises hit, the Bank responded swiftly and flexibly to identify additional financing and modify the CPS – as reflected in the Progress Report. Later, the move away from budget support proved to be an appropriate measure in view of the subsequent controversy over deterioration in political accountability. And the decision to reallocate budget support to scaling up proven programs, rather than adding new projects, helped to raise implementation rates while consolidating the portfolio. In turn, the IFC's involvement in the country grew significantly going from 2 to 22 projects over a wide range of sectors, mobilizing significant levels of complementary financing, and receiving international recognition for the design of some of the operations.

V. LESSONS LEARNED AND RECOMMENDATIONS

33. **With a five-year CPS in a country that is vulnerable both to external shocks and policy shifts, the flexibility to adjust the program in response to emerging opportunities helps to maintain a robust program and solid results.** However, this will require a CPS program that includes a combination of proven interventions that have broad-based support, and pilot interventions to push the envelope on longer term issues. With this combination, it is important to maintain a strong focus on quickly resolving implementation challenges of the backbone programs. At the same time, the judicious use of technical assistance and trust funds to test new areas is a useful pre-requisite before engaging in new large projects/programs. The difficult history of the MSME project which launched a large multi-component project in an area in which the Government's own policy agenda was evolving offers some lessons on going smaller, first.

³³ It should be noted that the CPS results framework did not fully capture the impact of the program because it omitted the achievements from efforts that respond to emerging needs or demands arising from unexpected shocks. Such is the case, for instance, with the response to the 2008-09 food price crisis which saw the Bank provide needed financing to sustain Nicaragua's school feeding program and its impact on school attendance.

34. **Development of a transparent M&E systems is an important part of stimulating good governance and must be a priority in all IDA operations.** Despite the advances in many sectors, Nicaragua still faces challenges to measure the results of its ongoing programs and to use these measurements to effectively evaluate and refine those programs. For example, there are no robust official measurement of trends in primary net school enrollment, access to all-weather roads, safe water and sanitation, maternal mortality, and chronic malnutrition, to name a few. The UN's Joint Monitoring Program and Inter-Agency Working Groups have proved useful in aligning development partners and ministries in some sectors around measurement methodologies, but these are not generally accepted as official by the authorities.
35. **The decision to shift resources from budget support to investment lending proved effective because of the solid implementation performance of the core projects; however, moving forward, the Bank strategy needs to create space to maintain policy dialogue in key sectors.** As the options for policy reform weakened and with it the basis for budget support, the resources released provided complementary financing for innovative and scalable investment lending initiatives. This experience shows the importance of developing and maintaining proven investment interventions that have broad-based support so as to have options to channel resources when the policy agendas are weak. Lacking such options, resources could end up being channeled through budget support without a significant policy impact. That being said, the Bank did not sufficiently create alternate mechanisms for advancing policy dialogue in key sectors for which donors still retained large financing flows. While the expectation could have been that policy dialogue could continue through supervision of investment projects, in practice this did not occur. Supervision teams did not have sufficient resources to divert to addressing policy issues, particularly as they are not often critical to project implementation. For example, Nicaragua still faces overarching policy issues in its electricity sector. Continued Bank engagement through analytical support in the energy sector could have been helpful, particularly in backing up IFC and other players.
36. **In crisis response, it is important to avoid the proliferation of small operations that later strain supervision resources and to avoid including too much focus on institutional development in these operations.** Over the CPS, the portfolio grew from 11 operations in FY08 to 15 operations in FY12, while a number of simultaneous, and sizeable, recipient-executed trust funds stretched manpower and complicated oversight. On institution building, the Hurricane Felix and Emergency Food Price Response operations both included institution building activities which proved challenging and ultimately delayed the delivery of the emergency support – to address weaknesses in the regional governments, and to establish a new program in certified seeds, respectively. Nevertheless, both efforts yielded some progress on the institutional front and on which the authorities were able to build future programs. In the case of Hurricane Felix, some planning and coordination capacities in the RAAN regional government have been achieved. And a component which was cancelled from the Emergency Food Response later spawned Nicaragua's national seed certification program incorporating lessons from the earlier design challenges. Likewise, actions to strengthen epidemiological surveillance under the H1N1 response project have helped to create a sustainable capacity that proved effective in later outbreaks of H1N1 and other communicable diseases.

37. **Consolidating the portfolio around key lines of action can leverage results even with modest resources.** Towards the end of the CPS period, the Bank focused its efforts in a few key sectors through combining ongoing investment lending with technical assistance to provide support to the Government in designing sector strategies. This has resulted in a role for the Bank in helping to leverage additional resources to finance well designed scalable programs. Experience in the education sector for example is currently being replicated in water and sanitation. The long term expectation is that consolidating the portfolio further in key strategic areas will help to foster better results and improve coordination with key development partners.
38. **Any future engagement with the Autonomous Regions should focus mainly on building out institutional capacity in regional and local governments and not on proliferating small community development type of investments.** The recent experiences have proven that the lack of a clear institutional framework assigning clear roles and responsibilities among the regional, municipal and territorial governments needs to be addressed before those authorities can effectively guide development in those regions. In light of this, when central government programs extend to these regions, there is still a tendency to focus on those interventions that do not require complex engagement by the regional authorities. Other development partners have concentrated on geographically focused CDD operations, but given the challenges of working with territories with limited access, capacity and markets, this is not the Bank's comparative advantage and the operating and supervision costs of making these types of operations effective with Bank regulations are prohibitive.

TABLE 1: SUMMARY OF CPS PROGRAM SELF-EVALUATION

CPS Outcome and Outcome Indicators	Status and Evaluation Summary	Lending and Non-lending Activities that contributed to the outcome	Lessons for the new CPS FY13-17
Pillar 1: Reactivating the Economy, Stimulating Productivity and Competitiveness			
<p>1. Principal macroeconomic indicators are consistent with fiscal and macro stability and sustainability</p>	<p>Achieved</p>	<p>Completed Lending - DPC (FY09)</p> <p>Completed Non Lending - Public Expenditure Review (FY08) - Poverty Assessment (FY08) - Institutional and Governance Review (FY08) - Poverty Assessment Update (FY11) - Monitoring and Evaluation TA (FY11)</p> <p>Ongoing Non-Lending - Poverty Monitoring and Measurement TA</p>	
<p>2. Number of days for business and property registration (both Commercial Register and National Cadastre) in four departments reduced by 30%</p> <p>Commercial Register (days) Baseline : 42 (2006) Target: 35 (2010)</p> <p>National Cadastre (days) Baseline: 30 (2006) Target: 21 (2010)</p>	<p>Achieved</p> <p>39 days</p> <p>10 days (2012 avg for the 4 depts: Chinandega, Esteli, Madriz & Leon compared with baseline in 2009 of 15 days in 2009) 14-21 days (Managua, DB 2012)</p>	<p>Ongoing Lending: - Land Administration (PRODEP) - MSME Development</p> <p>Completed Non Lending - Regional Investment Climate Assessment (FY09) - Simplifying Municipal Business Regulation (2008-09) IFC Advisory Services (AS)</p>	<p>On the measurement side, care should be taken to ensure that results indicators focus on the territorial areas where project impact is to be felt as opposed to DB which measures procedures in Managua. Also cadastre certificates are not a good proxy for property registration.</p>

CPS Outcome and Outcome Indicators	Status and Evaluation Summary	Lending and Non-lending Activities that contributed to the outcome	Lessons for the new CPS FY13-17
<p>3. Increase in access to credit for small and medium urban and rural Micro-SMEs with data segregated by gender</p> <p>Women's participation Baseline: 59% (2008) Target: 65% (2012)</p> <p>Increase by 50% the ASOMIF, finance companies and cooperative networks in total accounts & loan portfolio</p> <p>Baseline (2003): 310,300 persons US\$138.4 million Target (2012): 465,450 persons US\$207.6 million</p> <p>Increase in number of access points for rural financial services. Baseline: 200 (2005) Target: 220 (2010)</p> <p>Five MFI have been transformed into regulated special financial institutions for micro credit.</p>	<p>Achieved</p> <p>65% female borrowers (Mix Market, 2011)</p> <p>450,930 persons \$256.5 million (ASOMIF, Mix Market, WOCCU)</p> <p>249 points for rural financial services are currently in operation.</p> <p>Four MFIs and one more in the process.</p>	<p>Ongoing Lending - Broad-based Access to Financial Services</p> <p>Completed Non Lending - SME Lending (2008-10) IFC AS</p> <p>Ongoing Non Lending - FIRST Financial Consumer Protection - MIGA (ProCredit)</p>	
<p>4. Indigenous communities have territories demarcated, titled and registered - Number of Territories Baseline: 1 (2006) Target: 12 (2012)</p>	<p>Achieved</p> <p>15 indigenous and afro-descendants' territories were demarcated, titled, and registered.</p> <p>Approximately 103,790 persons in 214 communities (22,478 km² or 19% of the national territory)</p>	<p>Ongoing Lending Land Administration (PRODEP)</p> <p>Ongoing Non Lending Innovations for the Empowerment of Rural Women TF</p>	

CPS Outcome and Outcome Indicators	Status and Evaluation Summary	Lending and Non-lending Activities that contributed to the outcome	Lessons for the new CPS FY13-17
<p>5. Farmers participating in agricultural and forestry extension services have adopted at least two new production and/or processing technologies</p> <p>Baseline: 0 (2005) Target: 25,000 (2010) Men: 17,500 Women: 7,500</p>	<p>Achieved</p> <p>187 new technologies developed</p> <p>34,168 farmers (91% of the 37,548 producers served by INTA)</p> <p>Source: 2011 INTA Survey</p>	<p>Ongoing Lending -2nd Agricultural Technology Project & Additional Financing</p> <p>Completed Non Lending - GFPR Food Crisis Emergency Response - Indigenous & Afro Descendent Cocoa Farmers JSDF - Supply Chain Wood IFC AS - SMG Wood Supply IFC AS</p>	<p>The sector needs to promote better support to connect farmers to, markets, business opportunities and access to credit and investment financing as well as more intensive adoption of innovative technologies.</p>
<p>6. Productivity levels of farmers engaged in technical assistance programs by INTA and FUNICA have increased</p> <p>Baseline: 100 (2005) Target: 115 (2010)</p>	<p>Achieved</p> <p>138 (average for four basic grains regularly monitored by INTA)</p> <p>Maize 114 Beans 126 Sorghum 153 Rice 162</p> <p>Source: 2011 INTA Survey</p>	<p>Ongoing Non Lending - Healthy Kids, Healthy Forests DM Grant - Ecom Coffee IFC AS - Cocoa Mesoamerica IFC AS</p>	<p>Support to staffing (including their gradual absorption into the public payroll) in INTA has been effective in helping the institution become a key player in the agricultural sector.</p>
<p>7. Certified seed availability increased:</p> <p>Baseline: 1,700 tons/year (2009) Target: 11,000 tons/year (2012)</p>	<p>Not Achieved</p> <p>Additional Financing only became effective only in 2011. Results to be evaluated during 2012-2013.</p>		<p>Moving forward, support to the National Seed System by the Bank and other donors require better inter-institutional coordination among PRORURAL agencies</p>
<p>Pillar 2: Pro-Poor investment in delivery of basic services</p>			

CPS Outcome and Outcome Indicators	Status and Evaluation Summary	Lending and Non-lending Activities that contributed to the outcome	Lessons for the new CPS FY13-17
<p>8. The prevalence of chronic malnutrition in children under 5 years old has been reduced.</p> <p>Baseline: 21.5% (2005) Target: 18% (2011)</p>	<p>Not Achieved</p> <p>The country does not have an updated figure until DHS 2012.</p>	<p>Completed Lending</p> <ul style="list-style-type: none"> - Health Project (APL II) <p>Ongoing Lending</p> <ul style="list-style-type: none"> -Rural Water & Sanitation -Managua Water & Sanitation - Family & Community Health <p>Completed Non Lending:</p> <ul style="list-style-type: none"> - H1N1 Response - Epidemiological Emergencies TF - Social Sector PER (FY10) - Nutrition TA - Immunization GAVI TF <p>Ongoing Non Lending:</p> <ul style="list-style-type: none"> - Caribbean Coast Development TF - Strengthening Vital Statistics TF 	<p>A more systematic monitoring mechanism for child nutritional status at national and regional level is needed. The Demographic and Health Surveys are crucial but follow up is needed since these are produced every 5 years.</p>

CPS Outcome and Outcome Indicators	Status and Evaluation Summary	Lending and Non-lending Activities that contributed to the outcome	Lessons for the new CPS FY13-17
<p>9. Maternal, infant and child mortality have been reduced</p> <p>Infant Mortality (per 1,000 live births) Baseline: 35 (2006) Target: 26 (2011)</p> <p>Maternal Mortality (per 100,000 live births) Baseline: 96 (2006) Target: 90 (2009)</p>	<p>Partially achieved.</p> <p>Infant Mortality: 23 (2010, UN Inter-Agency Working group).</p> <p>Maternal Mortality: 95 (2010, UN Inter-Agency Working Group)</p>	<p>Completed Lending:</p> <ul style="list-style-type: none"> - Health Project (APL II) - H1N1 Response Project <p>Ongoing Lending</p> <ul style="list-style-type: none"> - Family & Community Health - Rural Water and Sanitation - Managua Water and Sanitation <p>Completed Non Lending</p> <ul style="list-style-type: none"> - H1N1 Response - Epidemiological Emergencies TF - Social Sector PER (FY10) - Nutrition Video TA - Immunization GAVI TF <p>Ongoing Non-Lending</p> <ul style="list-style-type: none"> - Caribbean Coast Development TF - Strengthening Vital Statistics TF - Institutional Dev of MINSA TA 	<p>Nicaragua needs to better target vulnerable populations (e.g. adolescents, remote and indigenous communities municipalities with the worst indicators,) and to improve the measurement of the quality of care delivered.</p> <p>The extension of coverage per capita model has proven to be effective in producing results and should be reinforced with new resources.</p>

CPS Outcome and Outcome Indicators	Status and Evaluation Summary	Lending and Non-lending Activities that contributed to the outcome	Lessons for the new CPS FY13-17
<p>10. Net primary enrollment (% of relevant age group) and primary school completion rate have been increased.</p> <p>Net Primary Enrollment (% of relevant age group) Baseline: 87.7% (2006) Target: 90.1% (2009)</p> <p>Primary School Completion (rate, %) Baseline: Boys 62 (2004) Girls 75 (2004) Target: Boys 75 (2010) Girls 85 (2010)</p>	<p>Partially Achieved</p> <p>93.4 (2011, MinEd)</p> <p>Boys 68 (2010) Girls 82 (2010)</p>	<p>Completed Lending</p> <ul style="list-style-type: none"> - Education PASEN (FY11) <p>Completed Non Lending</p> <ul style="list-style-type: none"> - Education for All Fast Track Initiative - Food Crisis Emergency Response Program - Social Sector PER (FY10) - Social Services Delivery Regional Study (FY11) - Early Childhood Development Study (FY11) - Regional Teacher Policy Assessment (FY11) - Employment in CA & Better Jobs in Nicaragua Study (FY12) <p>Ongoing Non-Lending</p> <ul style="list-style-type: none"> - School Feeding JSDF - Education for All Fast Track Initiative EPDF - Early Grade Reading Assessment for the Atlantic Coast 	<p>Key future challenges include strengthening: (i) the <i>nuclearización</i> model of targeting and territorial organization of the education system; (ii) pre-service and in-service teacher training systems; (iii) M&E and the complementary IT system; and (iv) management capacity, including in fiduciary and social accountability, to accommodate the increasing resources.</p> <p>Multi-grade schooling is a modality with proven results -- its experience needs to be systematized and analyzed for further expansion.</p>
<p>11. MINED has developed a reliable internal M&E system which generates information on key education quality and access indicators.</p>	<p>Achieved.</p> <p>MINED has a reliable internal M&E system, but it remains overly centralized and requires further automation and integration.</p>		

CPS Outcome and Outcome Indicators	Status and Evaluation Summary	Lending and Non-lending Activities that contributed to the outcome	Lessons for the new CPS FY13-17
<p>12. Increased water & sanitation coverage in Managua</p> <p>Water* Baseline: 60% (2005) Target: 85% (2012) <i>*Measure of effective coverage no longer measured.</i></p> <p>Sanitation Baseline: 57% (2005) Target: 80% (2012)</p>	<p>Partially Achieved</p> <p>% of population with 16+hrs of access has risen from 53.8% in mid 2010 to 54.3% in mid 2012</p> <p>PRASMA has increased basic access by 2.5% in 2012, with plans to reach 4.2% additional coverage by 2014.</p> <p>80% (2009, JMP adjusted) PRASMA has increased coverage by 3.8% in 2012 and expects to achieve 5.5% additional coverage by 2014.</p>	<p>Ongoing Lending Managua Water & Sanitation</p> <p>Completed Non Lending - Water Sector Policy Note (FY12)</p> <p>Ongoing Non Lending - Water Utility TA, SFLAC - WSP Technical Assistance - ENACAL Modernization TA</p>	<p>Current improvements in access could be threatened if sustainable financing of new services is not achieved. Despite improvements in efficiency, ENACAL's financial position has worsened, mainly due to rising energy costs and un-indexed tariffs. A dialogue on the right mix of tariff adjustments and targeted subsidies is needed, as well as a system of regular and public accountability, efficiency indicators and establishment of performance targets.</p>

CPS Outcome and Outcome Indicators	Status and Evaluation Summary	Lending and Non-lending Activities that contributed to the outcome	Lessons for the new CPS FY13-17
<p>13. Increased effective water and sanitation coverage in rural areas (% of population).</p> <p>Water Baseline: 44% (2005) Target: 70% (2012)</p> <p>Sanitation Baseline: 69% (2005) Target 90% (2012)</p>	<p>Partially Achieved</p> <p>JMP measurements: 65% (2005) to 68% (2010) FISE: 62.4% (2011)</p> <p>PRASNICA has increased coverage by 0.7% in 2012, and expects to achieve 4.5% additional coverage by 2014.</p> <p>JMP: 35% (2005) to 37% (2010) FISE: 78% (2011)</p> <p>PRASNICA has increased coverage by 0.7% in 2012, and expects to achieve 1.4% additional coverage by 2014.</p>	<p>Ongoing Lending - Rural Water & Sanitation</p> <p>Completed Non Lending - Water Sector Policy Note (FY12)</p> <p>Ongoing Non Lending - WSP Technical Assistance - Water Utilities Management TA, SFLAC</p>	<p>Nicaragua is moving towards the concept of sustainable water and sanitation service provision, where communities manage infrastructure and public sector provides TA. This will yield significant empowerment and long term benefits, but requires additional efforts and time.</p> <p>Strong measurement remains elusive. While the JMP program has proved valuable it competes with administrative data.</p>
<p>14. Increased percentage (%) of households in rural areas which have access to electricity.</p> <p>Baseline: 28.9 (2005) Target: 40 (2012)</p>	<p>Achieved</p> <p>44% (2009, LSMS)</p>	<p>Completed Lending - Off-grid Rural Electrification Project</p> <p>Completed Non Lending - Central American Regional Energy Study (FY10)</p>	<p>This project provided an successful model of mobilizing and training small local providers and microfinance in providing solutions for rural service delivery, that can be extended to other sectors</p>
<p>15. Increased percentage of rural population with access to at least one public telephone.</p> <p>Baseline: 14% (2006) Target: 70% (2011)</p>	<p>Achieved</p> <p>83% (2011, TELCOR).</p>	<p>Ongoing Lending - Rural Telecom and Additional Financing</p>	

CPS Outcome and Outcome Indicators	Status and Evaluation Summary	Lending and Non-lending Activities that contributed to the outcome	Lessons for the new CPS FY13-17
<p>16. Increased access to all-season roads percent of rural population.</p> <p>Baseline: 19% (2005) Target: 25% (2011)</p>	<p>Achieved</p> <p>55% (LSMS, 2009)</p> <p>However, a current Road Inventory and Condition study is underway financed by Bank project</p>	<p>Ongoing Lending</p> <ul style="list-style-type: none"> - Road Rehab & Maintenance IV Additional Financing - Rural Roads Infrastructure & Maintenance 	<p>Need for a more integrated concept of agriculture, transport logistics and road rehabilitation. Also more emphasis on natural disaster adaptation (and mitigation) both construction (drainage, etc.) and environmental services solutions.</p>
<p>17. A 15% reduction in vehicle operating costs, as measured by lowered road roughness indices (IRI).</p> <p>Baseline: 9 (2005) Target: 5 (2010)</p>	<p>Achieved</p> <p>4 (2011, MTI estimates)</p>		<p>On donor financing, the model is sufficiently developed to now explore ways SWAp or P4R program. Need also to prioritize completion of evaluation impact surveys and updates of core indicators.</p>

CPS Outcome and Outcome Indicators	Status and Evaluation Summary	Lending and Non-lending Activities that contributed to the outcome	Lessons for the new CPS FY13-17																																																																																
<p>18. Development outcomes for the RAAN and RAAS have improved and the gaps between national averages and RAAN/RAAS indicators have diminished.</p> <p><u>Pac. Cent. RAAN/S</u> Access to Electricity (2006) 86.8% 56.8% 34.2%</p> <p>Children in Primary Sch. (2006) 86.1% 84.9% 80.8%</p> <p>Access to Paved Roads/Aquatic Transport (2006) 60% 39% 9.9%</p> <p>% families receiving production credits (2004) 60% 39% 9.9%</p> <p>Access to Potable Water (2006) 82.8% 63.2% 31.2%</p>	<p>Partially Achieved</p> <hr/> <p style="text-align: center;">URBAN</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">Atlantic</th> <th style="text-align: center;">Pac-Atl gaps</th> <th style="text-align: center;">Cen-Atl gaps</th> </tr> </thead> <tbody> <tr> <td colspan="4" style="text-align: center;">Access to Electricity</td> </tr> <tr> <td>2005</td> <td style="text-align: center;">80.1</td> <td style="text-align: center;">8.3</td> <td style="text-align: center;">10.0</td> </tr> <tr> <td>2009</td> <td style="text-align: center;">90.5</td> <td style="text-align: center;">0.7</td> <td style="text-align: center;">7.1</td> </tr> <tr> <td colspan="4" style="text-align: center;">Access to Water</td> </tr> <tr> <td>2005</td> <td style="text-align: center;">44.0</td> <td style="text-align: center;">3.6</td> <td style="text-align: center;">43.6</td> </tr> <tr> <td>2009</td> <td style="text-align: center;">64.9</td> <td style="text-align: center;">5.0</td> <td style="text-align: center;">21.5</td> </tr> <tr> <td colspan="4" style="text-align: center;">Access to Paved roads</td> </tr> <tr> <td>2005</td> <td style="text-align: center;">27.3</td> <td style="text-align: center;">15.9</td> <td style="text-align: center;">39.8</td> </tr> <tr> <td>2009</td> <td style="text-align: center;">47.4</td> <td style="text-align: center;">3.6</td> <td style="text-align: center;">30.8</td> </tr> </tbody> </table> <hr/> <p style="text-align: center;">RURAL</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">Atlantic</th> <th style="text-align: center;">Pac-Atl gaps</th> <th style="text-align: center;">Cen-Atl gaps</th> </tr> </thead> <tbody> <tr> <td colspan="4" style="text-align: center;">Electricity</td> </tr> <tr> <td>2005</td> <td style="text-align: center;">8.8</td> <td style="text-align: center;">37.8</td> <td style="text-align: center;">23.9</td> </tr> <tr> <td>2009</td> <td style="text-align: center;">6.8</td> <td style="text-align: center;">27.9</td> <td style="text-align: center;">37.0</td> </tr> <tr> <td colspan="4" style="text-align: center;">Water</td> </tr> <tr> <td>2005</td> <td style="text-align: center;">13.3</td> <td style="text-align: center;">9.1</td> <td style="text-align: center;">12.8</td> </tr> <tr> <td>2009</td> <td style="text-align: center;">5.4</td> <td style="text-align: center;">18.2</td> <td style="text-align: center;">16.5</td> </tr> <tr> <td colspan="4" style="text-align: center;">Paved roads</td> </tr> <tr> <td>2005</td> <td style="text-align: center;">0.4</td> <td style="text-align: center;">9.2</td> <td style="text-align: center;">19.4</td> </tr> <tr> <td>2009</td> <td style="text-align: center;">3.9</td> <td style="text-align: center;">12.1</td> <td style="text-align: center;">13.2</td> </tr> </tbody> </table> <p>Source: LSMS 2005, 2009</p>		Atlantic	Pac-Atl gaps	Cen-Atl gaps	Access to Electricity				2005	80.1	8.3	10.0	2009	90.5	0.7	7.1	Access to Water				2005	44.0	3.6	43.6	2009	64.9	5.0	21.5	Access to Paved roads				2005	27.3	15.9	39.8	2009	47.4	3.6	30.8		Atlantic	Pac-Atl gaps	Cen-Atl gaps	Electricity				2005	8.8	37.8	23.9	2009	6.8	27.9	37.0	Water				2005	13.3	9.1	12.8	2009	5.4	18.2	16.5	Paved roads				2005	0.4	9.2	19.4	2009	3.9	12.1	13.2	<p>Completed Lending:</p> <ul style="list-style-type: none"> - Education PASEN I - Off-Grid Rural Electrification (PERZA) <p>Lending Ongoing:</p> <ul style="list-style-type: none"> - Land Administration - Family and Community Health Care - Road Rehab & Maint. IV - Hurricane Felix Emergency - Rural Water & Sanitation - Broad Based Access to Financial Services <p>Non Lending-Ongoing:</p> <ul style="list-style-type: none"> - Caribbean Coast Devt DFID TF - Corazon GEF - Alternative AgroForestry JSDF 	<p>Any future engagement with the Autonomous Regions should focus mainly on building out institutional capacity in regional and local governments and not on proliferating small community development type of investments.</p>
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CPS Outcome and Outcome Indicators	Status and Evaluation Summary	Lending and Non-lending Activities that contributed to the outcome	Lessons for the new CPS FY13-17
Pillar 3: Strengthening governance and accountability			
<p>19. National monitoring and evaluation system designed and implemented, strengthening SIGFA, SYSODA and the M&E systems in Health and Education ministries.</p>	<p>Not Achieved Efforts to align the diverse M&E systems across government saw some progress, while the reform of budget classification was delayed until the design of SIGFA II. As such, it remains difficult to track program indicators in the budget and to attribute their contribution to overall goals.</p>	<p>Completed Lending - State Modernization Project</p> <p>Ongoing Lending: - Public Financial Management System Modernization Project</p>	
<p>20. Medium term expenditure framework (including all norms and guidelines consistent with M&E) is implemented in all central government entities and key decentralized agencies.</p>	<p>Partially Achieved. The MTEF has been rolled out to all 19 central government and all 41 decentralized agencies, but weaknesses remain in linking planning and budgeting. Existing information is very rich but requires additional coordination to consolidate the MTEF.</p>	<p>Completed Non Lending: Social Sector PER Review (FY08) Monitoring and Evaluation NLTA (FY10)</p>	
<p>21. The SIGFA II has been fully implemented and is used as an important tool to formulate, develop, execute and monitor public policies, especially those related to poverty reduction.</p>	<p>Not Observable. The new SIGFA is still in development stage. The PMSAF project was approved in FY10 and is now in implementation.</p>		<p>Expectations regarding implementation timeframes need to be revised. Similar projects usually take more than 5 years to be completed.</p>

CPS Outcome and Outcome Indicators	Status and Evaluation Summary	Lending and Non-lending Activities that contributed to the outcome	Lessons for the new CPS FY13-17
<p>22. All public entities of Central government certified by CGR for the use and implementation of the Technical Norms of Internal Control according to international standards.</p> <p>Baseline: 43% (2006) Target: 100% (2012)</p>	<p>Not Achieved</p> <p>No advances were observed in the certification and implementation of the Technical Norms of Internal Control according to international standards.</p>		
<p>23. Increased percentage of public investment programs registered in SNIP which was proposed at municipal level.</p> <p>Baseline: 30% (2007) Target: 60% (2012)</p>	<p>Not Achieved</p> <p>The SNIP methodology changed under the new administration. A network of Citizen Councils (instead of the Local Public Investment Units) are used to channel local needs into central government plans. As such, the SNIP only registers the capital transfers to municipal governments.</p>	<p>Completed Lending State Modernization Project (PSTAC I)</p> <p>Ongoing Lending: Public Financial Management System Modernization Project (PMSAF)</p> <p>Completed Non Lending: Social Sector Public Expenditure Review FY08 Monitoring and Evaluation NLTA (FY10)</p>	

TABLE 2: PLANNED LENDING PROGRAM AND ACTUAL DELIVERIES

CPS PLANS (October 11, 2007)			STATUS	
FY	Project	IDA		IDA
		US\$ m		US\$ m
2008	PRSC Rural Water & Sanitation	20.0 20.0	<i>Dropped</i> Actual	20.0
			<i>Additional Projects</i> MSME Development Hurricane Felix Emergency	20.0 17.0
	Subtotal	40.0	Subtotal	57.0
2009	PRSC Managua Water & Sanitation	20.0 45.0	Actual Actual	20.0 40.0
	Subtotal	65.0	Subtotal	60.0
Subtotal FY2008-2009		105.0	Subtotal FY2008-2009	117.0
PROGRESS REPORT PLANS (December 4, 2009)			STATUS	
2010	PRSC I Public Sector TA Land Administration AF	25.0 10.0 10.0	<i>Dropped</i> <i>Delayed to FY2011</i> Actual	10.0
	<i>Additional Projects (not CPS)</i> H1N1Response Road Rehab & Maint. IV AF 2 nd Agricultural Technology AF Futuro Forestal (Carbon Fin.)	5.0 20.0 10.0	Actual Actual Actual <i>Dropped</i>	5.0 39.3 10.0
	Subtotal	80.0	Subtotal	64.3
	PRSC II	25.0	<i>Dropped</i>	
	<i>Additional Projects (not CPS)</i> Rural Electrification	25.0	<i>Dropped</i>	
2011			<i>Additional Projects (not CPS PR)</i> Comm. & Family Health Care Social Protection PFM Modernization TA	21.0 19.5 10.0
	Subtotal	50.0	Subtotal	50.5
	Transport V Rural Water II or Electrification	30.0 22.0	Actual <i>Dropped</i>	35.0
2012			<i>Additional Projects (not CPS PR)</i> Education PASEN II Rural Telecom AF	25.0 5.0
	Subtotal	52.0	Subtotal	65.0
Subtotal FY2010-2012		182.0	Subtotal FY2010-2012	179.8
Total FY 2008-2012		287.0	Total FY 2008-2012	296.8

TABLE 3: PLANNED NON LENDING PROGRAM AND ACTUAL DELIVERIES

CPS PLANS (October 11, 2007)		STATUS
2008	SRM Impact Assessment Nutrition TA Social Sector PER	<i>Dropped</i> FY10 FY10
		<i>Additional Products</i> Institutional and Governance Review (FY08)
2009	Country Environmental Assessment Investment Climate Assessment Social Sector PER (NLTA)	FY10 ³⁴ <i>Dropped & completed as part of a Regional ICA FY09</i> FY10
		<i>Additional Products</i> Regional ICA (FY09) Forest Law Enforcement and Gov TA (<i>Dropped</i>) Design of MIS for Deposit Insurance Agency (FY09)
PROGRESS REPORT PLANS (12/04/09)		STATUS
2010	FSAP Update Nutrition TA Social Sector PER	FY10 FY10 FY10
		<i>Additional Products</i> Land Administration TA (FY10) Improved Small Scale Energy Supply TA (FY10) ROSC Accounting and Auditing (FY10)
2011	Poverty Assessment	FY11
		<i>Additional Products</i> AML/FTC Strategic Imp. Planning (FY11) Poverty Monitoring & Policy Evaluation TA (FY11) MTDS Follow Up (FY11) Debt Management Program Assessment (FY11) Public Sector Advisory Services (<i>Dropped</i>)
2012		<i>Additional Products</i> Water and Sanitation Policy Note (FY12) Rural Women's Economic Empowerment (FY12) Country Economic Memorandum (FY13) Financial Consumer Protection TA (FY13)

³⁴ The Country Environmental Assessment by completed as individual studies addressing: (i) institutional arrangements for environmental impact assessment in Nicaragua; (ii) environmental management for Lake Nicaragua Watershed; and (iii) environmental health issues and priorities.



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NICARAGUA

- SELECTED CITIES AND TOWNS
- ⊙ DEPARTMENT CAPITALS
- ⊕ NATIONAL CAPITAL
- RIVERS
- MAIN ROADS
- RAILROADS
- MUNICIPAL BOUNDARIES
- DEPARTMENT BOUNDARIES
- - - INTERNATIONAL BOUNDARIES

