RE-344

Country Program Evaluation: Nicaragua 2002-2007

Office of Evaluation and Oversight, OVE

Inter-American Development Bank
Washington, D.C.
August 2008

Table of Contents

ACRONYMS

AfDF	African Development Fund
BANADES	***Banco Nacional de Desarrollo*** – National Development Bank
BANIC	***Banco Nicaragüense de Industria y Comercio*** – Nicaragua Industry and Trade Bank
BCP	***Banco de Crédito Popular*** – Popular Credit Bank
BCS	Bank Country Strategy
BPI	***Bonos de Pago por Indemnización*** **–** Payment for Compensation Bonds
CDs	Certificates of Deposit
CENIS	***Certificados Negociables de Inversión*** – Investment Negotiable Certificates
CNE	***Comisión Nacional de Energía*** **–** National Energy Commission
COF/CNI	Country Office/Nicaragua
CONPES	***Consejo Nacional de Planificación Económica y Social*** – Economic and Social Planning National Council
CPE	Country Program Evaluation
CPI	Corruption Perceptions Index
DGI	***Dirección General de Impuestos*** – Department of Revenues
DISNORTE	***Empresa Distribuidora de Energía del Norte S.A***. **–** Northern Energy Distribution Enterprise
DO	Development Objectives
ENACAL	**Empresa Nicaragüense de Acueductos y Alcantarillados –** *Water and Sewerage Enterprise*
ENEL	***Empresa Nacional de Electricidad*** **-** National Electricity Enterprise
ENITEL	***Empresa Nicaragüense de Telecomunicaciones*** **-** National Telecom Enterprise
ENTRESA	***Empresa Nacional de Transmisión Eléctrica*** **-** National Electric Transmission Enterprise
FISE	***Fondo de Inversión Social de Emergencia*** – Social Emergency Investment Fund
FNI	**Financiera Nicaragüense de Inversiones –** *Nicaragua Investment Financial Agency*
FOMAV	***Fondo de Mantenimiento Vial*** **–** Road Maintenance Fund
FONIM	***Fondo Nicaragüense de la Niñez y la Familia*** – Childhood and Family Fund
FSO	Fund for Special Operations
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association
IDB	Inter-American Development Bank
IFI	Intermediary Financial Institutions
IMF	International Monetary Fund
INAA	***Instituto Nicaragüense de Acueductos y Alcantarillados*** **–** National Sewerage Institute
INATEC	***Instituto Nacional Tecnológico*** – National Technical Institute
INE	***Instituto Nicaragüense de Energía*** – Energy Institute
INETER	***Instituto Nicaragüense de Estudios Territoriales*** **–** Territory Studies Institute
INIFOM	***Instituto Nicaragüense de Fomento Municipal*** – Municipal Promotion Institute
LSMS	Living Standards Measurement Study
M&E	Monitoring and Evaluation
MDGS	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative

MECD	***Ministerio de Educación Cultura y Deportes*** – Education, Culture and Sports Ministry
MIF	Multilateral Investment Fund
MIFAMILIA	***Ministerio de la Familia*** – Ministry of the Family
MINSA	***Ministerio de Salud*** – Health Ministry
NFP	Non-financial Products
OVE	Office of Evaluation and Oversight
PAININ	***Programa de Atención Integral a la Niñez Nicaragüense*** – Comprehensive Childcare Program
PBL	Policy-based Loan
PCR	Project Completion Report
PDL	Performance-driven Loan
PMSS	***Programa de Modernización del Sector Salud*** – Health Sector Modernization Program
PND	***Plan Nacional de Desarrollo*** – Nacional Development Plan
POSAF	***Programa Socioambiental y Desarrollo Ambiental*** - Environmental Development Program
PPMR	Project Performance Monitoring Report
PPP	Plan Puebla Panamá
PROCOSAN	***Programa Comunitario de Salud y Nutrición*** – Health and Nutrition Communal Program
PRSP	Poverty Reduction Strategy Paper
RAAN	***Región Autónoma del Atlántico Norte***
RAAS	***Región Autónoma del Atlántico Sur***
SEP	Social Entrepreneurship Program
SETEC	***Secretaría Técnica de la Presidencia*** – Executive Technical Secretariat
SGPRS	Strengthened Growth and Poverty Reduction Strategy
SIBOIF	***Superintendencia de Bancos y de Otras Instituciones Financieras*** – Banking and Financial Institutions Oversight Office
SILAIS	***Sistema Local de Atención Integral de Salud*** – Comprehensive Health Services System
SINASID	***Sistema Nacional de Seguimiento a Indicadores de Desarrollo*** - National Development Indicators Monitoring System
TC	Technical Cooperation
USAID	United States Agency for International Development
VAT	Value-added Tax
WB	World Bank

I. NICARAGUA: INTRODUCTION

1.1 This report presents the findings of an evaluation of the Bank's Nicaragua country program for 2002 to 2007. However, the evolution of political, institutional and organizational issues, as well as data availability often dictates that this report takes a broader analytical view. The evaluation serves two purposes. First, the report provides an account to the Bank's Directors regarding the results achieved by the Bank in the country. Second, the report provides input for reflection and lesson learning regarding how the Bank can improve the effectiveness of its future operations in the country.

1.2 Although a study of Nicaraguan's institutional development and standing is out of the scope of this report, understanding the complexity of institutional origins and development is a necessary first step toward recognizing the difficulties of modifying and improving them. It is important for the Bank to understand Nicaragua's transition between economic models. The end of armed conflict has been a major determinant factor in moving Nicaragua from a State with weak institutions to a State now having emerging ones. There is much work to do, however, and improving governance and consequently achieving progress will take many decades as well as committed governments and citizens. In this context, Bank assistance presents significant challenges and major opportunities, the understanding of how to aggregate value is likely to require a focus on strengthening analytical skills and flexibility in the development and adaptation of Bank instruments and ways of doing business.

1.3 At the beginning, it is also important to reflect that this Report follows on the steps of a previous CPE (2002) report, and one of the focuses here is on learning what worked and identifying constrains impeding progress towards previously identified challenges. Then, the 2002 CPE provided the following recommendations:

- First, the Bank should adopt for the next programming cycle the prioritization adopted in the early 1990s: growth first, social sectors later, "…not because Nicaragua has no needs in these sectors but because, in a tight resource rationing setting, the judgment is made that these needs can be attended in a few years, but only if the economy first starts moving again."
- Second, the Bank as chair of the Consultative Group should take the lead in transforming the aid interface, away from multiple individual projects supported by individual donors operating through individual executing agencies and toward a model based on formal agreement between the country and donors regarding concrete development goals spelled out in measurable indicators with clear targets and benchmarks. Donors should support the achievement of goals defined in outcome terms, rather and the completion of projects defined in output terms.

- Third, the Bank, in coordination with the government and the donor community, should work to reduce the volatility, unpredictability and pro-cyclicality of aid disbursements.
- Fourth, the Bank jointly with the country needs to set in motion a process that enhances vertical and horizontal accountability mechanisms, critical for sustained motion would be a consolidated, transparent, results oriented, budgetary system. The latter will be critical to obtain donor consensus for outcome-based aid.
- Fifth, Management should ensure that inspection visits in Nicaragua are carried out in compliance with the Bank's procedures to ensure an effective monitoring of projects. OVE strongly suggests that Management develop and implement an integrated system that supports the day-to-day operational functions in COF/CNI, as has been recommended in past

1.4 The structure of the document is as follows: Chapter 1 reviews key developments of the Nicaraguan economy. It provides not only the context within which the Bank's program was conceived, modified and implemented, but also, by identifying the major development issues, a checklist for evaluating the relevance of the Bank's strategic programming goals. As the Bank had set for itself –in its programming documents- macro-structural strategic goals, it also thus provides information on the realization of those goals. Chapter 2 has the objective of determining programming intent through an analysis of programming documents and non-financial products. Chapter 2 has also the objective of evaluating the delivery, and the efficiency of that delivery, of the identified strategic goals through an examination of aggregate approval and disbursement patterns and the sector-instrument loan mix. Chapter 3 has the objective of determining the development impact of the Bank's overall program in Nicaragua. The evaluation of the Bank's program is carried out simultaneously at two levels: in this chapter we will review the realization of, and progress towards, the strategic programming goals; and Chapter 4 reviews the extent to which the specific goals as set out in selected individual projects also met their development goals. In this chapter, where possible, evaluations are carried out at three levels: outputs, contribution to reform and the attainment of the themes strategic goals. The central findings and conclusions are presented in the final chapter of the report.

1.5 The Bank 2003 country strategy (BCS) identified three main challenges for poverty reduction in Nicaragua: (i) economic growth, which was to be addressed by strengthening fiscal policy and boosting competitiveness and production (the latter was, for exposition sake, further disaggregated in three work areas: access to credit, infrastructure, and agriculture and environment); (ii) governance; and (iii) the productivity of the very poor.

A Economic Growth - Strengthening Fiscal Policy

1.6 Strengthening fiscal policy with the purpose of reducing the fiscal deficit, achieving a reduction in domestic debt and mitigating the risk of a crisis caused by excessive internal debt was a key part of the BCS to promote economy growth in Nicaragua.

1.7 Nicaragua has run over the previous decades endemic and large fiscal deficits. From 1991 to 2005, the central government average fiscal deficit before donations was 5.9% of GDP. The country has relied heavily on grants and donations and ran up until 2004, year when the Heavily Indebted Poor Countries (HIPC) initiative reached completion point, one of the highest levels of debt to GDP ratios in the world. Foreign debt accounted, as of December 2002, for 160% of GDP while domestic debt, one of the highest in Latin America, for 37.5% of GDP.

1.8 During the period 1979-1989, Nicaragua witnessed at least a 6-fold increase in its foreign debt. During the 1990s the government made an effort to serve the debt and normalize its relation with the international community, but it soon was obvious the near impossibility to grow the country out of these unsustainable levels of debt. (According to Global Development Finance indicators, in 1991 the debt service – principal plus interest payments – to exports ratio was 152.27%, while in 1990 the debt-to-GDP ratio reached a maximum of 1,064%). After successive debt reduction operations during the 1990s, Nicaragua became eligible for debt relief under the HIPC debt initiative launched by the IMF and the World Bank in 1996. Before obtaining debt relief under the enhanced HIPC debt initiative, Nicaragua had been able to reduce its debt from a worrisome US$12,000 million in 1994 to a more manageable, but still unsustainable, US$6,689 million as of December 2002 (nominal terms). According to Nicaragua's Central Bank, between 1990 and 2000 the country received debt relief in nominal terms of US$7,023 million.

1.9 In the last decade, as the international community worked to address the foreign debt problem, Nicaragua has been a major beneficiary of this effort. In July 2005, the G8 leaders agreed on canceling 100% of the debt owed to the International Development Association (IDA), the IMF, and the African Development Fund (AfDF) by countries that reached the completion point of the HIPC initiative. The Multilateral Debt Relief Initiative (MDRI) was introduced in September 2005 to operationalize the outcome of political deliberations at the G8 summit in Gleneagles in July 2005. So in addition to the US$3,762 million in debt relief that Nicaragua received under the HIPC initiative —as of December 31, 2006—which reached completion point in January 2004, Nicaragua will receive an additional debt cancellation of US$827 with the IMF and World Bank. The World Bank will cancel an estimated amount of US$694 (100% of the debt contracted before December 31st, 2003) in addition to the US$309 million in IDA debt relief under the HIPC initiative. The IMF did cancel US$203 million; US$133 million that correspond to the MDRI (100% of the debt contracted before December 31, 2004) and US$70 million under the HIPC initiative.

1.10 The IDB, which did not originally participate in the MDRI because of the large cost that the debt cancellation represented , later jointed the efforts initiated by IDA, IMF, and the AfDF and agreed on 100% debt relief on eligible credit for

Bolivia, Guyana, Haiti, Honduras, and Nicaragua (all but Haiti at post-completion-point in the HIPC initiative). This decision will further improve Nicaragua's fiscal position. The Board of Governors reached the decision to cancel the balances of loans from the Fund for Special Operations (FSO) outstanding on December 31, 2004, which corresponds in the case of Nicaragua to US$988 million (US$790 million in principal and US$198 million in interest due between 2007 and 2044). Nicaragua's outstanding nominal foreign debt after IDB relief comes to US$ 3,739 million as of February 2007. The total cost of the IDB debt relief initiative, US$ 3.9 billion in nominal terms as of May 2007, will be borne by both borrowing and non-borrowing IDB member countries.

1.11 In addition to its large external debt and heavy reliance on donations and grants, Nicaragua also incurs large fiscal deficits driven by its high domestic debt. The origins of the domestic debt are more recent than the foreign debt. The Treasury's and the Central Bank's debts can be mainly attributed to the process of compensating individuals whose property was expropriated before the 1990s, and the support provided to commercial banks that failed during the late 1990s and early 2000s, respectively.

1.12 It is important to consider that even after the completion of the enhanced HIPC debt initiative, the MDRI and the IDB debt relief initiative, Nicaragua still will face significant fiscal problems: as of 2005 the central government was able to finance 100% of its current expenditure (consumption, interest payments, and transfers) but just 53% of its capital expenditures. The remaining fraction was financed, as in previous years, by donors, bilateral creditors, and the multilaterals. Not even assuming zero debt service would Nicaragua be able to cover its expenditures (primary deficit has been on average 3.5% of GDP).[1] Possible solutions are likely to require decreases in expenditures (spend less more efficiently) and/or increases in revenues. The Bank concentrated its efforts on the latter.

B Economic Growth – Improving Competitiveness and Production

1.13 For exposition purposes we divided the "competitiveness and production" issues identified in the strategy into three major areas were the Bank focused its attention: access to credit, infrastructure, and agriculture and environment. These areas are intrinsically linked in Nicaragua and were rightfully identified in the strategy as key for the country to be able to grow out of poverty. Studies about Nicaragua have pointed out to the need to base economic growth on agricultural exports where it has its larger potential; this sector has also the largest potential to drive the 41.7% who live in rural areas out of poverty (76% of the population who lives in rural area is below the extreme poverty line). But for the population to be able to exploit this potential, the State needs to eliminate the largest constrains that limit their possibilities: access to credit, poor state of

[1] Roberto Machado points out in his work "¿Gastar más o gastar mejor? La eficiencia del gasto público en los países centroamericanos y República Dominicana" that Nicaragua should expend more and more efficiently.

infrastructure, and lack of knowledge about best practices to increase productivity, diversify production, and protect the environment from further deterioration due to the usage of traditional cropping practices.

1. Access to Credit

1.14 It was only in the mid 1990s when the regulatory framework allowed for the participation of private banks in the Nicaraguan financial sector. Banking activities in Nicaragua were restricted to the State from 1979 until the mid 1990s, which imposed a large fiscal burden on the government due to repeatedly needed recapitalizations associated to poor financial performance. The banking system was required to finance other loss-making state-owned enterprises, and even the government fiscal deficit impairing the banks' ability for perform efficiently (which might have allowed them to use retained earnings to increase capital), and additionally crowding out resources to private investment projects. In 1991 private sector participation was minimal: for each Cordoba lent by state-owned banks, only 1.28 cents were lent by the private sector (private banks received 11.5 cents in deposits for each Cordoba deposited in state-owned banks). Private participation almost equaled state participation in 1995 (1 C$ in state-owned banks' credit vs. 0.93 C$ in private banks and 1 C$ vs. 1.19 C$ in deposits respectively). In 1995 private banks accounted for 54.3% of the deposits and 48.1% of the credit in the banking system (vs. 10.3% and 1.3% in 1991 respectively). The lift of the ban to private sector participation did not solve the efficiency problem of the state-owned banks, though.

1.15 Nowadays state-owned banks have been dismantled but there are some problems that persist in the banking system. According to enterprise surveys conducted by the World Bank Group in 2003 and intended to measure business perceptions of the investment climate, the fourth constraint identified by more than 57.63% of firms as a "major" or "very severe" obstacle to investment in Nicaragua was the lack of access and cost of financing.[2] It is not surprising then that 65% of firms rely on internal funds or retained earnings to finance new investments and just 18.8% use bank financing for the same purpose (averages in Latin America are 50.4% and 22.9% respectively). Nicaragua's laws and regulations grant secured lenders in bankruptcy moderate creditors rights (Nicaragua scores 4 out of a possible 10 according the "Doing Business Report").[3] Once a bankruptcy takes place, it is too costly for a creditor to collect payments. It will take 486 days, 20 procedures and it will lose 21.8% of the debt trying to recover it from delinquent debtors. Because of these high costs, bankers have few incentives to lend: 92.6% of loans need collateral, and bankers make sure the value of the collateral is about 204% of the loan amount. Another way to cope with these high recovery costs is increasing interest rates. The banking sector can also minimize the possibility of

[2] The survey was conducted, in the case of Nicaragua, in 2003.

[3] This score is low because secured creditors do not have absolute priority to their collateral outside or in bankruptcy procedures, the law does not authorize parties to agree on out of court enforcement, parties have no recourse to out of court enforcement without restrictions, not all types of assets can be used as collateral, and there is not a unified registry for all security rights in movable property.

bankruptcies in the first place by increasing information about potential borrowers' creditworthiness ex ante.

1.16 The importance of credit bureaus, both public and privates, as mechanisms to mitigate lack of strong creditors rights is documented by Djankov, McLiesh and Shleifer (2005) and is particularly relevant in poorer countries. Creditor protection either through the legal system or information sharing institutions is associated with higher ratios of private credit to GDP, and then with growth.

1.17 But in order to lend money, the banking system needs to be able to capture deposits, and Nicaragua's banking system is small relative to its peers. The number of branches per 100,000 people is the second lowest in Central America with just 2.85 (above Honduras with 0.73 but well below the Latin America average of 9.92), and the number of bank deposit accounts in the system is the lowest among its peers: just 96.1 per 1,000 people (in Latin America the average in 500.8 in 1,000). And although this may be no surprise since Nicaragua is the poorest country is Central America with a GDP per capita in 2005 of US$834.2, Honduras with a GDP per capita of US$986.8 has a penetration of 287.3 bank deposit accounts per 1,000 people.

2. Infrastructure

1.18 Among the key points identified by the BCS as necessary to attract private investment to Nicaragua were: the provision of better maintenance of basic infrastructure, and the improvement in the provision of core services.

1.19 Nicaragua's infrastructure is, by far, the most deteriorated in Central America and the associated losses in productivity that this entails are very large compared with its peers (see Appendix I Figure 1). The inferior provision of electricity was singled out as a "major" or "very severe" obstacle to investment by 34.7% of the firms examined in 2003 by the World Bank Group's enterprise surveys (it ranked in position 8 in the top 10 constraints to investment). It is important to notice that since then the service has rapidly deteriorated. Large firms (more than 100 employees) rely on their own generators to provide 16.2% of the electricity they consume and 80% of these firms own or share a generator. For small firms (less than 20 employees) the proportions are smaller: only 8.7% own a generator, and just 0.7% of the electricity they consumed is produced by these generators. As a consequence, losses due to electrical outages as percentage of sales are larger for small firms (5.36% of sales) than for large firms (2.82% of sales). This problem is the same for the provision of water and telephone services, which account for losses of sales of 4.8% and 7.4% respectively. Large firms depend on the supply of water from public sources in a smaller proportion than do small firms (41.9% vs. 93.9%). But having to count on alternative providers of public services is costly and discourages investments.

1.20 Calderón and Servén (2004a) confirm the complaints of investors: In 2001 Nicaragua ranked last among Latin American countries in telephone lines and electricity generating capacity; and it had the second worst coverage of safe drinking water in the region (followed only by Jamaica). Regarding road coverage, measure as Km per Km^2, Nicaragua was positioned roughly in the middle of the Latin American group, partly because of its small area. But Latin America's position has deteriorated in the last decades and its infrastructure provision trails behind that of Middle-Income developing countries once in a comparable situation.[4] The low stock and quality of Nicaragua's infrastructure is certainly hampering the country's potential for growth, but more importantly, it might be a determinant factor in the income distribution.[5] There is a significant literature pointing to the impact on education and health, and consequently on income and welfare, of infrastructure services for the poor.[6] Hence, the provision of infrastructure services goes beyond a measure "to improve competitiveness of Nicaraguan goods and services on international markets." (Appendix I Figure 1)

1.21 The provision of core services by the public sector (roads, electricity, telecommunications, water and sanitation), however, often bears the brunt of the cuts when fiscal adjustments are necessary, and this has been the case of Nicaragua since the 1990s. Services were provided by utilities/ministries with the additional tasks of defining policies, and performing as arbiters; and with very limited, if any, entrepreneurial vision and commercial objectives. In 1991, for instance, the *Instituto Nicaraguense de Acueductos y Alcantarillados* (INAA) required a transfer from the central government of around US$3.5 million and reported utilities, transferred back to the government, of US$115,900 million (an unattractive scheme for the government from the economic point of view). The prices paid by the population, subsidized by a government in deficit, were low, as was the quality and coverage of the services provided; add to this the lack of "payment culture" and the situation became unsustainable. It was inevitably leading to further deterioration of the services and wider fiscal gaps.

1.22 In the mid 1990s, and as part of a program of structural reforms aimed at eliminating Nicaragua's imbalances, the government committed itself to the creation of a regulatory and legal framework for the participation of the private sector in the provision of public services.

1.23 In the telecommunication sector, liberalization of the fixed-line telephone sector started in Nicaragua in September 2001 with an equity carve-out transaction: a 40% stake in *Empresa Nicaragüense de Telecomunicaciones* (ENITEL), up to that day a unit of the Nicaraguan government.

1.24 Regardless of budget constraints, the government's direct investment as a percentage of GDP has been steadily increasing in the last decade, and an

---

[4] Calderon, Cesar A. and Serven, Luis, "Trends in infrastructure in Latin America, 1980-2001" (September 2004). World Bank Policy Research Working Paper No. 3401.

[5] Calderon, Cesar A. and Serven, Luis, "The Effects of Infrastructure Development on Growth and Income Distribution" (September 2004). World Bank Policy Research Working Paper No. 3400.

[6] Brenneman, A., Kerf, M., 2002. Infrastructure and Poverty Linkages: A Literature Review. The World Bank, Mimeo.

important fraction has gone to finance transport infrastructure, particularly after reconstruction efforts that followed hurricane Mitch. (Nicaragua has invested, on average, 1.8% of GDP per year in transportation infrastructure, but the World Bank estimates that Latin America as a whole needs to invest between 4% and 6% of GDP on infrastructure per year in order "to catch up or keep up with countries that once trailed it, such as Korea or China").[7] However, since 2001 (when numbers started to be available) the percentage intended for road maintenance has been, on average, 0.16% of GDP. Estimates point to the need of Latin America and the Caribbean Region to invest about 1% of regional GDP to maintain *existing assets* in water and sanitation, electricity, roads, rail, and telecommunications. For Nicaragua this estimate should be larger so it can catch up, in addition, with Latin America.

1.25 A report prepared in 2005 by the World Bank's "Finance, Private Sector and Infrastructure Unit for Latin America & the Caribbean Region" identifies the need to give a higher priority to maintenance and rehabilitation against higher profile new projects. But maintenance in Nicaragua seems to be cumbersome. Already in 1995, the "road rehabilitation and improvement program" identified the lack of continuity and level of road maintenance, as well as the weak structure for planning and managing road conservation as a major problem in the Nicaraguan transportation sector.

3. Agriculture and Environment

1.26 It is important to consider the interconnection between agriculture, poverty and environment in Nicaragua. Poverty in Nicaragua is concentrated in rural areas particularly in the Atlantic and Central regions where, according to 2005 census figures, 74.9% and 74.4% of the population live under the general poverty line (extreme poverty accounts for 31.2% and 32.9% of the population in these regions, respectively). The national figure, on the other hand, is 46.2%. Rural poverty, however, has decreased since 1993 when it reached levels of 84.7% and 83.6% in the Atlantic and Central regions. Part of the explanation for the reduction of the poverty level rests on the fact that agriculture has been a key driving force for economic growth in Nicaragua and that most agricultural producers are small-scale producers (98.7% of respondents to the 2001 Agricultural Census asserted they work the land individually; 47.7% of them work an area of 5 manzanas or less, while 80.8% work 50 manzanas or less).[8] The concentration of agro-producers in the Atlantic and Central region is 23.6% and 44.6% of total agro producers respectively.

1.27 Agriculture is the largest sector of the economy and represents about 20% of GDP; it is also the main employer with 34.1% of the workforce (Census 2005). It has strong linkages (farm input, harvesting, post-harvesting, and marketing) to

[7] Marianne Fay and Mary Morrison, "Infrastructure in Latin America & The Caribbean: Recent Developments and Key Challenges" The World Bank Finance, Private Sector and Infrastructure Unit for Latin America & the Caribbean Region, , August 2005.

[8] A manzana is equal to 7,042.25 m^2 or 1.74 acres.

many areas that constitute the bulk of the non-agricultural sector and has significant multiplier effects. The causes of past growth, however, were transitory and were dependent on high commodity prices, and available unoccupied land as a result of the end of the civil war. Unoccupied land was, indeed, identified as the main driving force of the growth experience in the Nicaraguan agricultural sector during the 1990s.[9]

1.28 Because the domestic market in Nicaragua is small and poverty is prevalent, which consequently translates in low demand for products, the World Bank recommended in 2002 that Nicaragua concentrate its agricultural production on high value-added, diversified, *non-traditional export* commodities if the country was to use the agriculture sector as a driving force for economic growth.[10] (Traditional products are less attractive because they are highly protected in US, Europe, and Japan). By 2001 and according to agricultural census figures, however, it is estimated that 71.8% of farmed land was concentrated on basic staple grains that historically contributed to 32.8% of the agriculture GDP (between 1990 and 2000) and 6.1% to agriculture exports that year (91.1% of this land is not irrigated but rain fed); while permanent and semi permanent crops occupied 28.2% of farmed land but historically contributed 50.2% of the agriculture GDP and 75.4% of exports in the sector in 2001 (and 27.1% of total exports).

1.29 One reason for the apparently inefficient use of the land is the tenure insecurity problem associated with lack of formal ownership documentation, lack of registration, and the large number of claims for restitution of the confiscated or expropriated land after 1979 (the total area claimed for restitution exceeded Nicaragua's total land area and only 1/3 of claims had been resolved by 2001). Although 62.2% of farmed land in 2001 was claimed to be legally owned and titled, small-scale producers were disproportionably affected by the tenure problem (only 47.2% of the land they possess was rightfully registered while 32.7% of the land was owned without formal documentation or was in the processes of being legalized).

1.30 Another reason is the lack of access to basic services and infrastructure, credit, and technical assistance and the limitations this poses to improvements in competitiveness. Access to electricity services, for instance, is about 17.3% and 24.6% in rural areas in the Atlantic and Central regions (LSMS 2001) and this generates a "main limitation in the use of processing facilities (as in the case of coffee at wet mill level), modern communication technology (fax and internet, essential also to access market and technical information) and production equipment (pumping of water into irrigation systems is reported to be mainly dependent on availability of electricity in Nicaragua)."[11] Roads are heavily

---

[9] World Bank, "Nicaragua: Promoting Competitiveness and Stimulating Broad-based Growth in Agriculture." Report No. 25115, October 2002.
[10] Ibid.
[11] Andrea Serpagli, "A Review of the Main Constraints in the Oilseed, Coffee and Fruit and Vegetables Chains and an Action Plan to Overcome Them." World Bank, 2000.

concentrated and in better condition on the pacific region, and main ports are ill suited to serve Europe and the east cost of the United States (from September 2001 to October 2002, 66% of the country's coffee exports were shipped through Puerto Cortez in Honduras, and only 32% from Nicaragua, increasing the cost of transportation).

1.31 Although the amount of credit in the agricultural sector was deeply affected by the 2000-2001 banking crisis and the statistics might be distorted by this event, 2001 agricultural census figures showed that only 8.7% of producers were credit constrained: only 23.7% of producers requested credit while 15% requested credit and their request was rejected. Moreover, the rate of credit approval was higher among small-scale producers farming between 1 and 10 manzanas. This group, together with large-scale producers, were also the recipients of the largest fraction of technical assistance provided that year: about 17.6% of producers in these groups compared with the 9.1% of producers farming 1 manzana or less, or 14% in the case of medium-scale producers (20-200 manzanas).

1.32 Agriculture expansion, the concentration on basic staple grains (which are prone to traditional cropping practices–slash and burn), and land tenure insecurity has resulted, nevertheless, on high levels of deforestation and general degradation of water and soil, which consequently has translated into declining crop yields. Between 1990 and 2000, Nicaragua lost about 99,900 hectares of forest and woodland habitat per year to farming and ranching and the expansion of the agricultural frontier. The environmental damage, moreover, has left the region vulnerable to natural disasters.

C Governance

1.33 The Nicaragua 2003 BCS identified improvements in governance as one of three main strategic purposes to be achieved. However the instrumentation of this purpose has presented significant challenges for the development community.

1.34 Defining governance is complex in itself. One of the definitions used by Keefer (2004) is "the extent to which governments are responsive to citizens and provide them with certain core services, such as secure property rights and, more generally, the rule of law; and the extent to which the institutions and processes of government give government decision makers an incentive to be responsive to citizens."[12] Even if we have problems agreeing on the definition of governance, there is plenty of consensus about its importance for development. Empirical evidence provided among others by Kaufmann, Kraay, and Zoido-Lobaton (1999) suggests a strong positive causal relationship: good governance leads to better development outcomes.[13] Their results suggest that if, for instance, Nicaragua were able to produce changes leading to improvements in the "government

[12] Philip Keefer, "A review of the political economy of governance: From property rights to voice." World Bank Policy Research Working Paper 3315, May 2004.
[13] Kaufmann, Kraay, and Zoido-Lobaton, "Governance Matters" World Bank Policy Research Working Paper 2196, October 1999.

effectiveness" indicator such that it reaches a level close to the ones of Panama or Costa Rica, its income per capita would increase between 3 and 4.8 times its current value.

1.35 According to enterprise surveys conducted by the World Bank Group in Nicaragua in 2003, ranking top 1 to top 3 among the major constraints to firms investing in Nicaragua are corruption (with 65.7% of surveyed managers identifying the problem as a "major" or "very severe" obstacle), the lack of confidence in courts to uphold property rights (identified by 60.41% of surveyed managers), and policy uncertainty (identified by 58.2% of surveyed managers). Crime is ranked top 5 by 39.2% of surveyed managers as a "major" or "very severe" obstacle to investment, and 33.3% identify the legal system (ranking top 8) as a potential deterrent to invest in Nicaragua. These concerns, all in the realm of "governance", are impediments to investment, development, and growth.

D Productivity of the Very Poor

1.36 The third key strategic purpose identified in the 2003 Nicaragua BCS was enhancing the "Productivity of the poorest groups." "Top priority has been assigned to social and productive investments to benefit the very poor, particularly programs with highly positive short-term impacts. This strategic approach is particularly important for the government and the Bank on account of its tie-in with compliance with the goals of the SGPRS." For the purpose of this discussion, this report organizes the discussion into three areas.

1. Social Protection Interventions

1.37 In 2001, with historical poverty rates reaching half of the population and social security covering only 9% of the employed population, income and food insecurity were critical unmet challenges in Nicaragua. This need was even more acute during the nineties when the transition from a socialist to a capitalist system left all the poor without virtually any social safety net system (World Bank, 2001b). At that moment line ministries were unable (due to lack of resources, capacity and bureaucratic procedures) to provide rapid responses to the dramatic situation. In cooperation with the international community (including the IDB) the government decided to temporarily transfer specific functions to special programs freed of operational and bureaucratic constraints. It was in 1991 when the first Nicaraguan Social Fund (FISE) was established. While FISE and the other four special programs provided short term safety net resources with the goal to minimize the risks and vulnerabilities faced by the poor, line ministries were intended to pursue the goal of finding long term solutions to develop Nicaragua's human capital.[14]

[14] Special programs included: Integrated Basic Services Program, the National Program for Rural Development, the Nicaraguan Institute for Municipal Development (INIFOM), and the Nicaraguan Fund for Children.

1.38 The evidence suggests that FISE and the other special programs met the objective of providing temporary relief for the most vulnerable. However at the end of the nineties, line ministries were lagging behind in developing their capacity. Under these conditions, the special programs started to assume some long-term responsibilities.

1.39 In 2001, when the IDB started to prepare its Strategy to assist Nicaragua, the country was the second poorest country in Latin America. LSMS data available for 2001, showed that 45.8% of the population was poor, while 15.1% was extremely poor. Despite being high, these figures are better than those for 1993, when 50.3% of the population was poor and 19.4% extremely poor (Appendix I Table 1).

1.40 The 2001 LSMS also showed important differences in the geographical distribution of poverty. The rural poverty rate was twice higher the urban poverty, reaching about 68% of the population. At the regional level, the Atlantic region showed the highest incidence of poverty in both rural and urban areas. However, poverty decreased between 1998 and 2001 in that region. The Pacific region had the lowest concentration of poverty and showed the highest decline, which is explained by the post- Hurricane Mitch reconstruction efforts. Contrarily, in the same period the central rural region evidenced an increase in the poverty rate, that was due to the coffee price crisis. Rural dwellers were not only poorer but had lower educational and health outcomes than their urban counterparts (see Health and Education sectors)

2. Building Human Capital through Education

1.41 By 2001, when the Bank started to design its strategy to support Nicaragua, education indicators had started to improve due to the 90's reforms. An analysis of the 1993, 1998 and 2001 Living Standards Measurement Surveys shows: (i) that enrollment rates in primary education increased by 9% (from 1993 to 2001); (ii) children from families in the poorest income quintile benefited from this improvement (enrollment rates increased from 56.9% to 74.1%); and (iii) illiteracy rates decreased by 7% (from 20.6% in 1993 to 13.6% in 2001). Despite these achievements, the quality of education lagged behind (Castro et al, mimeo) and the efficiency indicators showed considerable room for improvement (Appendix I, Table 2)

1.42 For the secondary level, figures were less promising as they showed that only 11.3% of the students who enrolled in primary could finish secondary school, economic reasons were identified as the main drop out cause. Poor students enrolled in secondary school accounted for half of all enrolled students. Furthermore, promotion to university was almost exclusive of poor groups.

1.43 The PRSP background studies linked poor educational outcomes (particularly repetition and drop-out rates) to high numbers of non-certified teachers, poor physical conditions in over half the primary school classrooms (in 1998), and a chronic shortage of teaching materials. These factors were more acute in rural areas where educational outcomes were worse (PRSP, 2001). In addition, the analysis pointed out that the lack of investment, the emigration of the most skilled and educated, and some deterioration in the social fabric partly related to the prolonged civil war, resulted in a deteriorated human capital. As a conclusion, the PRSP observed that "the poor qualifications of the labor force in general, coupled to equally poor technology, affect production adversely and lower the earning capacity of workers" (page 18).

1.44 In order to improve educational outcomes, the PRSP included three particular goals: expand coverage of basic education, improve the relevance of all education, and modernize the sector while improving and deepening the school decentralization process. To improve the education relevancy, the PRSP proposed to modernize the primary education curriculum to better link it with technical and post-secondary education and to modernize technical education to make it more responsive to the needs of the students and the demands of the private sector. In addition, teacher's training was expected to be reinforced. These main courses of action continued to be the strategic underpinnings of the National Development Plan.

1.45 The logic behind the diagnosis and proposal was that by improving the poors' education they would be in a better position to succeed in the labor market, increase their productivity and thus their income, welfare and poverty situation. This purpose was the core of the PRSP second pillar and the IDB third pillar, "enhancing the productivity of the poor." In the National Development Plan (2005), the model was expanded as the improvement of the poor's education was stated as a condition for people living a dignified and productive life that would help strengthen democracy and governance.

3. Health

1.46 Despite years of important and uninterrupted investments in Nicaragua's health sector, the country continues to have some unacceptable health outcomes. Encouraged by the HIPC initiative, requested certain targets to achieve the completion point, some indicators improved in 2001. However, many have not progressed and others have worsened in the following years. The most worrisome outcomes relate to maternal and infant health. Maternal mortality declined from 115 per thousand alive children to 96 in 2002, but has not improved in the coming years. No updated data is available for infant mortality, which was 31 per thousand alive children in 2001, but death due to infectious diseases among children has grown from 8.1% in 2001 to 9.8% in 2005. (Appendix I, Table 3)

1.47 Until the end of the nineties, according to diagnostics shared by the country and the donors community, poor health outcomes were closely linked to the weak institutional capacity, lack of financial and human resources, absence of a clear regulatory framework, and the inefficient performance of the Health Ministry

(MINSA), the main health services provider.[15] A specific problem was the inaccessibility by dispersed poor rural population to health services. This situation affected mainly ethnic communities who also presented some cultural barriers in accessing these services (Solis Díaz et al, 2005). The solution to these problems was none other than a stronger intervention of market-based incentives.

1.48 Starting in 1993, with the aim of improving health care coverage, equity and efficiency, MINSA has implemented a series of reforms aimed at decentralizing budgeting and management responsibilities to the integrated health care systems (SILAIS). A few years later it passed the General Health Law (2002) and its Regulation Decree (2003), important steps in the modernization and institutional capacity-building of the Ministry of Health. These legal instruments set up: (i) the organization of a national health system based on two financial regimes, contributory and non-contributory, their respective benefit plans, institutional responsibilities and financing mechanisms; (ii) the principle of separation of functions, reinforcing MINSA's stewardship role and providing the appropriate instruments (i.e.: national health plan, quality assurance mechanisms and sector planning mechanisms); (iii) a decentralized model of governance and management; (iv) the basis for devolution of power to the Autonomous Governments of the Atlantic Coast; and (iv) the consideration of the special needs and conditions of the indigenous and afro-descendant population.

[15] MINSA is the main provider of health care in Nicaragua through a network of hospitals, integrated health care systems (SILAIS), health posts, and ambulatory health services. Only 1% of the population is covered by private health insurance, which makes public services the main health care option for the wide majority of Nicaraguans. There is also an extended network of national and international NGOs and community based organizations that mainly provide preventive health care services weakly coordinated with MINSA.

II. PROGRAMMING AND DELIVERY

2.1 The Nicaragua Program involved the complex delivery matrix composed of a mix of investment loans, programmatic loans, TFs and technical assistance in the form of NFPs.

A Programming and execution in Nicaragua 2003 –2006

1. Approvals

2.2 During the period covered by this CPE (2003-06) the Bank approved 17 loans (FOB) that total an amount of US$415,660,000,[16] which represented an US$103,915,000 average annual approval. The 2003- 2006 portfolio included 7 operations fewer than the 1999-2002 period, and its average annual approval was US$34,696,087 lower than the approval rate achieved during the previous four years. The decrease in the number and amounts of approvals was probably the result of efforts to rationalize the portfolio. In terms of number of projects approved, Nicaragua is among the 8 countries with more approvals for the period.

2.3 In terms of instruments, in the 2003-06 period there was a clear preponderance of investment loans, which accounted for 79% of the total approved amount, followed by rapid disbursements loans (12%), non-reimbursable TCs (3%), private sector loans (2%), and reimbursable TCs, MIF TCs and PES projects which accounted for 1% each. The preference of the Bank for investment loans has been a constant since 1999. Both in the 1999-02 period and in the 2003-06 period there were only two PBLs. Nicaragua ranks seventh among the countries with the highest number of Investment Loans approved during 2003-06 and eighth among the countries with the highest amount approved.

Table 2.1. 2003-2006 Approvals by type of operation

Operation group type	Original approved amount	%
Investment loan	354,110,000	79
Pbls pbp eme loan	55,000,000	12
Private sector loan	8,000,000	2
Mif loan	2,960,000	1
Non reimbursable TC	14,432,911	3
Proj prep facility	785,000	0
Reimbursable TC	6,550,000	1
Small project	3,796,000	1
Total	**445,633,911**	**100**

Source: Own elaboration based on OVEDA

2.4 The sectoral distribution of the approved loans shows that 42% of the resources were allocated to address competitiveness issues, 33% to address social issues and

[16] NOTE for us: during the period the Bank also approved a PEF to prepare the adult education project for US$785000

25% to address governance issues. In terms of number of loans, the distribution is more even with 5, 6, and 6 respectively.

Table 2.2. 2003-2006 Approvals by sector (own classification)

Sector	Approved $	%	Number of projects	%
Social	137,210,000	33	6	35
Governance	105,100,000	25	6	35
Competitiveness	173,350,000	42	5	29
Total	**415,660,000**	**100**	**17**	**100**

Source: Own elaboration based on OVEDA

2. The IDB relative to other donors

2.5 During the period under analysis, the World Bank approved 14 loans for US$274.5 million.[17] The IDB is the largest Development Agency in Nicaragua. In 2005, Bank's disbursements accounted for 29.5% of total external resources received by Nicaragua (Portfolio Review, 2006).

2.6 Information collected during the field mission to Nicaragua and in Washington DC suggests that IDB's role in donors' coordination in Nicaragua's social policy sectors has been weak[18]. This statement holds true for all sectors, but in a lesser degree for the health sector, where coordination has improved over the years and was recently underscored in the approval of a Sector Wide Approach Project (SWAP).

2.7 As the main donor, the IDB's has a key role in the strategic coordination of the overall program. Among the factors contributing positively are the good relationship the Bank has with the government and its flexibility to adapt to requirements on the ground, these have been critical for a smooth coordination at the project level. On the negative side, the IDB often failed to provide technical input at the local inter-agency policy discussions, as desired by the government and very rarely took an active leadership role in these discussions consistent with the importance of its portfolio. This may reflect a lack of strategic cooperation between headquarters and the representation that has negatively affected coordination with the other donors.

2.8 Better coordination was observed in the health sector and it can be linked to the leadership and ownership of the Health Ministry (MINSA), which has had the capacity to convoke the donors and align their support under the MINSA's Health Development Plan. In order to participate in the SWAP, the IDB even adapted its lending instruments. The harmonizing work done by the HQ and the representation's specialists, plus the determination of the country contributed to

[17] This figure excludes three loans that do not have data in the WB database (P007768, P077822 and P076246).

[18] According to information gathered in interviews with former government officials, several donors, officers for Non-Government Agencies, and Bank staff.

overcome the numerous obstacles to design and implementation of a policy-driven loan.

2.9 An important area where the donors' coordination has been weak is the PRSP M&E system. In spite of the fact that almost every donor has contributed with technical and financial support, the M&E system remains incomplete. The same holds true for the participatory M&E system (*Programa PASE*). One of the problems affecting the M&E system is that every donor wants to see its own program reflected in the system, violating the programmatic orientation of the system.

2.10 The faint coordinating role of the IDB can be related to differences in the development approach shared by the other donors plus obstacles faced by the government to its task of coordinating the activities of the donor community. Furthermore, IDB's opposition to participating in the Budget Support Group helped to isolate the Bank from other donors.

2.11 However, the weak donors' coordination observed at the strategic level is not necessarily reflected at the project level. Within the social sectors, ten IDB projects[19] involve other donors. The strong project leadership/ownership by the country is probably the key factor allowing a good donors' coordination. FISE is the oldest project that gathered different donors. After a significant effort over several years, FISE's management has achieved better donors' cooperation (not without problems), evidenced by unified missions and progress reports.

B Program Anticipation

2.12 The BCS' ability to anticipate the loan program for the period was very weak. Of the 18 loans proposed as part of the BCS work-program for the period, only 8 were approved. In declining order of effectiveness in anticipation, we find the clusters: competitiveness and production that approved 4 out of 6, fiscal policy that approved one out of the two loans planned, social investment that approved 3 out of 7, and the cluster aimed to address governance issues had the worse performance and did not approve any loans out of 3 loans proposed.

2.13 The weakness in anticipation of the programming needs were mainly related to the projects approved in 2004. Only two out of nine projects approved were anticipated in the BCS. One was *Integracion Vial del Plan Puebla Panama* (NI0113) and the other was the *Educación básica para Jóvenes y Adultos* (NI0171) that was broadly related to the entry Education Job Training.

[19] NI0024, NI0153, NI0108, NI0092, NI-L-1001, NI0061,NI0109,NI0101, NI0169, NI0181

Table 2.3. Portfolio anticipation 2002-2005

Strategic approach	Area	Proposed project	Approved project
Economic growth	**Fiscal policy**	• Modernization of the State and fiscal reform (2003)	NI0172 Modernización del Estado y Reforma Fiscal (2003)
		• Fiscal modernization (2004-2005)	
	Competitiveness and production	• Reactivation of rural production (2002)	NI0159 Programa de Reactivación Productiva Rural (2002)
		• Strengthening of trade negotiating capacity (2002)	NI0165 - Fortalecimiento Capacidad de Negociaciones (2002)
		• Global multisector (2003)	NI0167- Programa Global Multisectorial (2003)
		• Integration PPP (2003)	NI0113 - Integracion Vial del Plan Puebla Panamá (2004)
		• Feeder roads (2004-5)	
		• Competitiveness innovations (2003)	
			NI0170 PPP Road Program for Competitiveness (2004)
			NI0182 Adecuación de los servicios de sanidad agropecuaria y forestal (2003)
Governance	**Strengthen the three branches of government**	• Administrative integrity (2004-2005)	
		• Support for the national plan to combat corruption (2004-5)	
		• Technical cooperation loan for e-government (2004-5)	
			NI0160 Modernización y Fortalecimiento de la Contraloría General (2002)
			NI0181 Programa de apoyo institucional a la Secretaría de Coordinación y Estrategia de la Presidencia (SECEP) (2004)
			NI0180 VIII Censo de Población y IV de Vivienda (2004)
			NI-L1004 Family Ministry Strengthening (2004)
		Almost all of the loans contain institution-building components (2002).	
Productivity of the very poor	**Social Investment**	• Social safety net II (2002)	NI0161 Red de Protección Social Fase II (2002)
		• Social sector (2002)	NI0169 Reforma de Políticas Sociales (2002)
		• Urban poverty (2003)	
		• Education II (2004-5)	
		• Social sector II (2004)	
		• Education with job training (2004-5)	NI0171 Educacion basica para Jovenes y Adultos (2004)
		• Modernization of technical education (2004-5)	
			NI0064 Programa Vivienda Sector Bajos Ingresos (2002)
			NI0168 Citizenship Security Program (2004)

Strategic approach	Area	Proposed project	Approved project
			NI-L1001 Improving Maternal and Child Health (2004)
			NI-L1005 Support Implementation of National Development Plan (2005)
			NI-L1008 Municipal Social Investment Program - FISE (2005)

C Evaluability

1. BCS Result Framework

2.14 Overall, the Country Strategy presented at least one outcome indicator for each macro strategic area (Economic growth, Governance, and Productivity of the poor) and defined baselines and targets for each indicator. In addition, it presented specific indicators associated with "Fiscal policy," and "Competitiveness and production" in the Economic growth macro area; "Strengthening the three branches of government" in Governance; and "Social investment" in Productivity of the poor.

2.15 A major weakness relates to the indicators associated with "Competitiveness and production" and "Governance." These indicators refer to the ranking position of Nicaragua in a list of different countries evaluated at different points in time and define their targets as a "higher ranking" position. Because the number of countries evaluated increases each year, the ranking position tells little about the progress of a country, especially since countries introduced in early samples might be well positioned in front of the ones introduced in later evaluations. Although the ranking is based on competitiveness indexes, the country strategy chose to use the ranking rather than the value of the index. The indicators used are defined by the World Economic Forum (Current and growth competitiveness ranking) and the World Bank (Control of corruption, Voice and accountability, Regulatory quality, and Government effectiveness) and are based on "hundreds of variables and reflect the views of thousands of citizen and firm survey respondents and experts worldwide."[20] In the case of the World Economic Forum, the indexes are made up of Executive Opinion Surveys and publicly available sources. The Worldwide Governance Indicators by the World Bank, for instance, compiled information on "Voice and accountability" from 8 different sources in 2002 (year of baseline) but from 10 sources in 2005. Both groups have 7 sources in common. Although these kinds of indicators are subjective in nature because they depend on the people's perceptions, the chosen indicator needs to guarantee comparability over time. Moreover, the standard error of the point estimates in the case of the Worldwide Governance Indicators makes it very unlikely to produce differences through the years that are statistically significant, so they are unlikely to reflect improvements or deteriorations unless they are unanimously

[20] Daniel Kaufmann, Aart Kraay, and Massimo Mastruzzi, "Governance Matters V: Aggregate and Individual Governance Indicators for 1996-2005." The World Bank, September 2006.

acknowledged by poll/survey respondents as so (so the standard errors are minimized).

2. Projects Results Frameworks

2.16 The 38 projects included in the portfolio analysis have an overall low evaluability. A key determinant of the evaluability is the presence of adequately constructed Results frameworks. According to OVE indexes, at the development objective or goal level, the completeness index is 0.43 (out of 1.0 points – i.e. all objectives have measurable outcome indicators with baselines and targets), while at the purpose level the completeness index is 0.48 (see tables 1 and 2). The low scores are related to the large proportion of baselines missing at the goal level, and the large proportion of targets missing at the purpose level.

Table 2.4. OVE Completeness indexes, by Loan Type

OVEDA's completeness indexes		
Loan type	Development Objective	Purpose
Investment	0.36	0.46
PBL	0.76	0.60
Reimbursable TC	0.60	0.50

Source: Own calculation based on OVEDA

Table 2.5. OVE Completeness indexes, by sector

OVE's completeness indexes		
Sector	Development Objective	Purpose
Social	0.44	0.43
Competitiveness	0.28	0.42
Governance	0.52	0.64
Production	0.28	0.42
Other	0.46	0.49

Source: Own calculation based on OVEDA
Notes: Other includes NI0064 Housing project
and NI0108 VIII Population and IV Housing Census

2.17 Nevertheless, the results frameworks have marginally improved over the years. In the 1996-2001 period, the completeness index was 0.42 and 0.46 for the development objective and the purpose, respectively, while in the 2002-04 period the indexes improved to 0.46 and 0.49.[21]

2.18 However, our ability to evaluate whether a project reached its objectives and purposes requires that for each proposed objective there is at least one outcome indicator that is measurable and has a complete metric composed of a baseline, target and progress information associated with it. Reviewing the purposes of all

[21] The 1996-2001 period includes 26 projects but only 22 have development objectives and specific objectives. The 2002-2006 period includes 12 projects but only 11 have development objectives and 10 have specific objectives.

projects in implementation or completed in the period under analysis, we find that only 52% of the purposes have at least one outcome indicator. Only 40% have at least one outcome indicator and baseline. And finally, just 37% have at least one outcome indicator and baseline and evidence of documented progress. From this point of view, the social sector is the only sector evaluable. In this sector 68% of all objectives, is associated with a complete result metric.

Table 2.6. Results Framework

	(1) # purposes	(2) # purposes with at least one outcome indicator	(2) / (1)	(3) # purposes with at least one outcome indicator + baseline + target	(3) / (1)	(3) # purposes with at least one outcome indicator + baseline + target + progress	(4) / (1)
Social	31	23	0.74	21	0.68	21	0.68
Governance	27	10	0.37	8	0.30	8	0.30
Competitiveness	23	5	0.22	2	0.09	2	0.09
Production	12	10	0.83	5	0.42	2	0.17
Other	7	4	0.57	4	0.57	4	0.57
Total	**100**	**52**	**0.52**	**40**	**0.40**	**37**	**0.37**

Source: Own calculations. Notes: Excludes NI-L1001, NI0140, NI0143 and NI0101 because do not have purposes. Other includes NI0064 Housing project and NI0108 VIII Population and IV Housing Census

D Efficiency in the delivery

2.19 Nicaragua has traditionally had an efficient performance in designing its projects, and this performance has further improved over time. Judged by the number of months that it takes to design an investment project (pipeline to approval), Nicaragua surpassed the region by taking six months less to approve a project in the period 2003-2006. However, in the case of the PBLs (there were only two PBLs) it took on average two months longer than the region to go from design to approval.

Table 2.7. Average time along project's cycle

	2003-2006 Investment		2003-2006 PBL		1999-2002 Investment		1999-2002 PBL	
Milestones	**Nicaragua**	**Region[1]**	**Nicaragua**	**Region[1]**	**Nicaragua**	**Region[1]**	**Nicaragua**	**Region[1]**
Pipe start to first elig.	23.60	24.30	23.00	20.90	23.80	30.60	15.00	23.30
Pipe start to approval	10.90	16.90	15.50	13.40	11.70	13.90	9.50	20.50
Approval to signature	1.70	5.30	0.00	4.20	1.70	5.20	0.00	1.00
Signature to first elig.	9.20	8.50	7.50	2.80	10.20	11.50	5.50	1.80
Approval to ratification[2]	8.50	6.20	5.50	5.70	5.50	8.30	1.50	2.00

Source: Own elaboration based on OVEDA
1. Region includes CR ES GU HO PN and DR
2. Only countries that request ratification or additional requirements were included (CR, DR, ES, HO, PN)

2.20 Relative to the region, there are no substantial differences in the time required by an investment project to become eligible. For PBLs, on the other hand, it took 5 months longer than the region to reach eligibility. Though small, a larger difference has emerged in the 2003-2006 for the Approval-Ratification period, relative to the 1999-2002 period. The 3 and 4 months longer difference for investment and PBL loans, respectively, are reflecting potential difficulties between the Executive and Legislative branch.

2.21 Furthermore, in terms of disbursements during every year in the 2003-06 period and in the total period, Nicaragua was more efficient than the Bank and the Region.[22]

1. Disbursements

2.22 During 1999-2006, disbursements showed an upward tendency (with the exception of 2003). The average disbursed amount from loans was US$92 million between 1999 and 2002, and it increased to US$121 million in the 2003-2006 period. During the implementation of the 2003 BCS, the highest share of disbursements was for investment loans, accounting for 84% of total disbursements. This share was 20 percentage points higher than in the 1999-2002 period; and 19 and 26 percentage points higher than the share of investment loans for the Bank and the Region, respectively. There was no disbursement of the private loans.

Table 2.8. Disbursements, independent of approval year, 1999-2006 (In US $ millions)

	NI 99-02	NI 2003-2006	NI 99-02 Type of operation /Total	NI 2003-06 Type of operation/ Total	Region 2003-06 Type of operation/ Total	Bank (without NI) 2003-06 Type of operation/ Total
Investment_Loan	256.44	405.44	64	84	65	58
Pbls_Pbp_Eme_Loan	105.23	69.91	26	14	0	0
Private_Sector_Loan	24.78	0	6	0	33	0
Mif_Loan	5.30	1.75	1	0	0	36
Proj_Prep_Facility	2.51	0.39	1	0	0	6
Reimbursable_Tc	4.25	6.49	1	1	2	0
Other	12.06	8.63	3	2	100	0
Total	**398.53**	**483.99**	**100**	**100**		**100**

Source: Own elaboration based on OVEDA

2. Project performance

2.23 Monitoring information, as of June 2007, reveals that Nicaragua performed worse than other Central American countries. The share of projects approved in 2003-6 that were classified as not likely to achieve their development objectives is found to be higher than at the reference countries. There were four projects flagged as unlikely to achieve Development Objectives. Two of them, NI0182 and NI0170, had an unsatisfactory rate that later improved. Project NI-L-1004 was not included in the 2006 National Budget, but this situation was later reverted and the DO classification improved. Finally, NI0181 was affected by the dispute between

[22] Includes all disbursements independently of the approval year.

the National Assembly and the Executive Power, but once approved the classification changed to probable.

2.24 In terms of declared implementation problems, Nicaragua performed worse than its neighbor countries. This weak performance affected only 1 loan in 2005 and 3 loans in June 2006 out of the 15 loans approved in 2003-06. The 2005 problematic loan (NI-0181) was affected by the political dispute mentioned before. The three 2006 problematic loans (NI0180, NI-L-1014, and NI0113) have some minor problems that were solved in the next monitoring period, when their classification changed.

2.25 The audited financial condition of Nicaragua's projects, measured by the share of projects with financial observations set at "qualified," is better than the averages for the Bank and Region. In addition, Nicaragua has a higher compliance rate than the Bank and the Region. This good performance has significantly improved relative to the 1999-2002 period. According to the last portfolio review (2006) the improvement is the result of the work done by the Country Office in advising auditing firms and the executive agencies.

Table 2.9. Audited financial statement

Audited financial statement			
2003-2006			
	Nicaragua	**Region**	**Bank**
Average compliance	2.3	2.0	1.8
Average qual/Total	0.4	0.5	0.6
1999-2002			
	Nicaragua	**Region**	**Bank**
Average compliance	1.3	1.5	1.5
Average qual/Total	0.3	1.1	1.0

Source: Own elaboration based on OVEDA

E Projects restructured, reformulated, and cancelled

2.26 Nicaragua's 2003-06 approvals have not suffered major changes. Only project NI0182 was restructured and reformulated. Even though it is early to make a comparison, the 2003-06 portfolio seems much healthier than the program contained in the 1999-02 portfolio, which suffered 6 reformulations and 11 projects restructured.[23]

2.27 In general terms Nicaragua shows a low level of cancellation that is mainly explained by the remainders of finished projects. The single exception is given by the 2005 cancellation that reflects the interruption of the Social Security System Reform project (NI-0101), approved in 2001 and declared not viable by the Bolaños administration in 2005.

[23] Reformulated operations were: NI0064, NI0090, NI0107, NI0141, NI0143,NI0159. Restructured operations were: NI0064, NI0097, NI0105, NI0107, NI0136, NI0141, NI143, NI147, NI153, NI159, NI161

Table 2.10. Cancellations, independent of approval year, 1999-2006 (In US $ millions)

Cancellations By Year(Amount)	1999	2000	2001	2002	2003	2004	2005	2006
Total	0.26415	1.33703	2.95891	1.37935	0.3055	1.54807	10.1851	0.43095

Source: Own elaboration based on OVEDA

III. PROGRAMMATIC RESULTS

3.1 This chapter has the central objective of determining the development impact of the Bank's program in Nicaragua. The evaluation of the Bank's program is carried out simultaneously at two levels: in this chapter we will review the realization of, and progress toward the strategic programming goals; and in the next chapter (IV) the realization of, and progress toward project level output-outcome targets. The former, a "macro-sector evaluation" and the latter a "micro-project evaluation" approach can, and in the case of Nicaragua do, give conflicting evaluation conclusions.[24]

3.2 Analyzing the overall programmatic results related to the implementation of the Nicaragua BCS, after updating the result-matrix proposed as part of the BCS, we found a mixed picture. For instance, while real cumulative GDP growth (2002-2005) reached 12.92% (2.35% below target); tax revenues reached 16.6% of GDP in 2005 (2.56% above target).

3.3 While progress can be documented in the outcome indicators related to the areas of Competitiveness, the gains are often not statistically significant or are measured by indicators that suffer the weaknesses previously discussed. (i.e. these indicators refer to the ranking position of Nicaragua in a list of different countries evaluated at different points in time and define their targets as a "higher ranking" position. Because the number of countries evaluated increases each year, the ranking position tells little about the progress of a country, especially since countries introduced in early samples might be well positioned in front of the ones introduced in later evaluations).

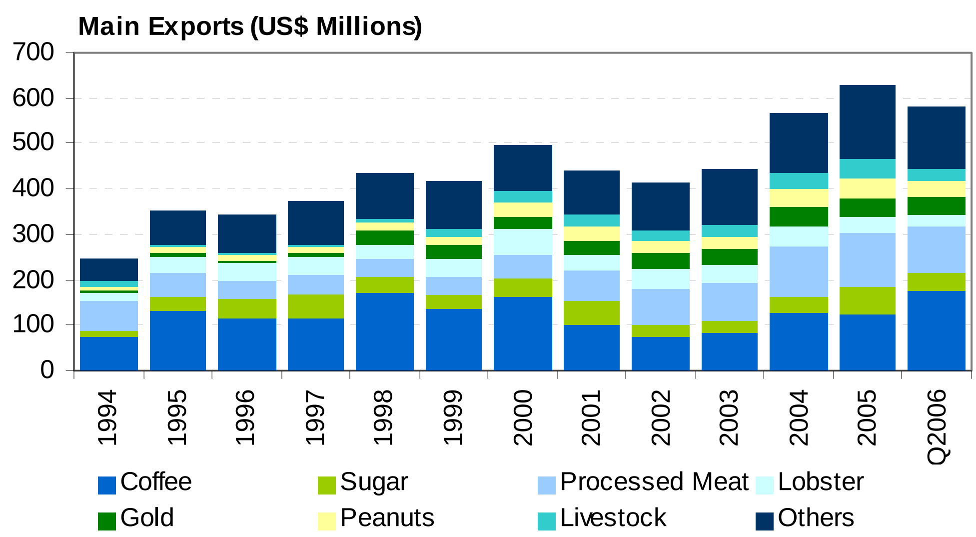
3.4 The indicator chosen by the country strategy to measure progress regarding the competitiveness of Nicaragua was the "Growth competitiveness index" (GCI) which "aims to measure the capacity of the national economy to achieve sustained economic growth over the medium term, controlling for the current level of economic development." The target was "a higher ranking." In 2001, Nicaragua got a score of 3.01 and was in position 73 out of 75 countries evaluated (in front of Nigeria and Zimbabwe). In 2005, Nicaragua's score increased to 3.08 and ranked 99 out of 117 countries (it did better than at least 5 countries listed in 2001, and 12 new countries added to the list).

[24] For a review of the apparent macro-micro paradox see H. Hansen and F. Tarp "Aid performance Disputed", Journal of International Development, vol.12, pp375-398, 2000.

3.5 Any improvements in the competitive position of Nicaragua should have translated into gains in investments from the private sector. In this area the progress has been as modest as the increase in the GCI score. We can use different indicators to measure this progress: the evolution of Foreign direct investment and domestic credit going to the private sector (this variable is a proxy for domestic investment, assuming domestic investment is financed mainly through debt and this debt is mainly contracted in the domestic market). Both have moderately increased since 2001.

3.6 Although there is no information regarding the composition of investments by sector, we can infer from the domestic credit portfolio composition that most of it has gone to the manufacturing sector while the agricultural sector received 13% of the total credit portfolio in 3Q2006 (vs. 28.2% in 1999). The agricultural sector received 31.8% of ASOMIF credit portfolio in December 2005. This shift in credit composition, and presumably in investment, is reflected in the shift in exports composition in the same period. Manufacturing sector exports went from 33.4% of total exports in 1999 to 45.2% of total exports in 3Q2006, while the agricultural sector exports lost ground and went from 61.1% to 49.3%.[25]

3.7 Even though the participation of the agricultural sector in total exports declined, the statistics reveal that exports grew, in US$ terms, 52.3% from 2002 to 2005 (an average of 17.4% per year). An important component of the exports growth has been gains in the price of coffee rather than gains in its export volumes. At the coffee price levels of 2002, exports would have grown 38.9% instead of 52.3% between 2002 and 2005. Although its impact on exports is small, the single item that grew the most, 663% in US$ terms, is "alcoholic beverages" with a gain in volumes of 1,791%. Nicaragua has increased the volumes of exports in cultivated shrimp, tobacco, sugar, livestock and processed meat, as well as peanuts. Coffee, Nicaragua's main exports product, has contracted in export volume.



[25] Includes the fishing industry.

3.8 The progress documented in the Governance area (through not significant) can only be very weakly attributed to be Bank, given that none of the proposed projects were realized.

Table 3.1.

Strategic Approach/Area	Indicators	Baseline	Target	Data collected	Comments
Economic Growth	• GDP growth rate of 5% in 2005 (ERCERP); intermediate goals: 1.5% 2002; 3.5% 2003 and 4.5% 2004	GDP of US$4,052.872 Millions in 2001 (in constant 2000 US$)	1.5% in 2002	Real GDP growth 0.75% in 2002	Expected cumulative growth of 15.27% (2002-2005), cumulative growth actually reached was 12.92% (2.35 percentage points below target)
			3.5% in 2003	Real GDP growth of 2.52% in 2003	
			4.5% in 2004	Real GDP growth of 5.14% in 2004	
			5% in 2005	Real GDP growth of 3.98% in 2005	
Fiscal Policy: *Create conditions for a reduction in the fiscal deficit and the internal debt*	• Increase in tax revenues of at least 1.5 percentage points of GDP from 2001 to 2005.	Tax revenue was 12.55% of GDP in 2001	14.05% in 2005	16.61% of GDP in 2005	2.56 percentage points above target
Competitiveness and production: (i) Support an increase in the country's competitiveness, stressing the role of the private sector and improvements in the investment climate and encouraging reforms. (ii) Selective investment in boosting the production of tradable goods with high economic returns in the short term, focusing on small and medium-scale producers.	• Higher ranking of Nicaragua in the growth competitiveness ranking (73rd out of 75 countries in 2001) published by the World Economic Forum.	Score of Growth Competitiveness Index in 2001: 3.01 (ranking 73 out of 75 countries)	Not defined (Higher ranking)	Score of growth comp. Index in 2006: 3.18 (ranking 106 out of 125 countries)	Increase in rank percentile from 2.67 to 15.2
	• Higher ranking of Nicaragua in the current competitiveness ranking (71st out of 75 countries in 2001) published by the World Economic Forum.	Current competitiveness ranking in 2001: 71 out of 75 countries (No score reported)	Not defined (Higher ranking)	Business competitiveness index ranking in 2006: 102 out of 121 countries (No score reported) - Called the Current Competitiveness Index before 2003	Increase in rank percentile from 5.33 to 15.70
	• Higher ranking of Nicaragua in the quality of the regulatory framework, compared to January 2002 (World Bank).	Regulatory quality (2002): Point estimate: -0.44 Percentile rank: 38.4	Not defined (Higher ranking)	Regulatory quality (2005): Point estimate: -0.31 Percentile rank: 42.6	Improvement not statistically significant.

Strategic Approach/Area	Indicators	Baseline	Target	Data collected	Comments
Governance	• Improve Nicaragua's ranking in governmental and bureaucratic efficiency compared to January 2002 (World Bank)	Government effectiveness: -0.81 in 2002	Not defined (Improve)	Government effectiveness: -0.78 in 2005	Improvement is meager and not statistically significant since both point estimates (2002 and 2005) lie in each other confidence intervals.
Strengthen the three branches of government: (i) Strengthen the justice system (ii) Help establish an institutional framework (iii) Improve transparency in government procurement and contracting (iv) Cooperate in strengthening government institutions (v) Strengthen government decentralization and the local system of government (vi) Promote private sector participation in the delivery of services	• Higher ranking of Nicaragua in corruption control, compared to January 2002 (World Bank).	Control of corruption (2002): Point estimate: -0.49 Percentile rank: 38.2	Not defined (Higher ranking)	Control of corruption (2005): Point estimate: -0.62 Percentile rank: 35	Deterioration is not statistically significant.
	• Higher ranking of Nicaragua in freedom of speech, fundamental freedoms and accountability, compared to January 2002 (World Bank).	Voice and accountability (2002): Point estimate: 0.02 Percentile rank: 50.2	Not defined (Higher ranking)	Voice and accountability (2005): Point estimate: -0.01 Percentile rank: 46.9	Deterioration is not statistically significant.
	• Higher ranking of Nicaragua in applying the rule of law, compared to January 2002 (World Bank).	Rule of Law (2002): Point estimate: -0.72 Percentile Rank: 27.9	Not defined (Higher ranking)	Rule of Law (2005): Point estimate: -0.7 Percentile Rank: 32.9	Improvement not statistically significant.
Productivity of the very poor	• Reduction in percentage of persons living in extreme poverty from 17.3% in 1998 to 14.3% in 2005.	17.3% of population lived in extreme poverty in 1998 according to LSMS 1998	Reduce to 14.3% in 2005.	14.9% of the population lives in extreme poverty according to the LSMS 2005	0.6 percentages points below target
Social Investment: Promote social and productive investment focused on the poorest groups.	• Net increase in primary school enrolment from 75% in 1999 to 83.4% in 2005 (SGPRS).	Primary school enrolment 75% in 1999	83.4% in 2005	Primary school enrollment: 85.36% in 2005 according to 2005 LSMS	1.96 percentage points above target
	• Increase from 21% in 1999 to 23% in 2005 in the percentage of fertile women with access to family planning (SGPRS).	21% of fertile women with access to family planning in 1999	23% in 2005	In 2005, 91.19% of pregnant women had access to prenatal controls during last pregnancy	No data available for comparison purposes

Strategic Approach/Area	Indicators	Baseline	Target	Data collected	Comments
	• Reduction in infant mortality from 40 per thousand live births in 1998 to 32 in 2005 (SGPRS).	Infant mortality (Children under 1): 40 per 1000 live births in 1998	32 in 2005	Infant mortality (Children under 1): 31 per 1000 live births in 2001	1 percentage points above target
	• Reduction in chronic malnutrition in children under five from 19.9% in 1998 to 16% in 2004 (SGPRS).	In 2001, 21.7% of children under five were chronically malnourished (% children two standard deviations below the length/height-per-age measure)	16% in 2004	In 2005, 20.2% of children under five were chronically malnourished (% children two standard deviations below the length/height-per-age measure)	This difference is not statistically different from zero. The figure achieved is, in addition, 4.2 percentage points below target

3.9 The indicators associated with the issues of "Productivity of the Very Poor" are, overall, inadequate and only superficially can capture the changes in outcomes related to the program. Out of five proposed indicators, data availability only permit us to document the gains associated with net increases in primary school enrolment. An update of the progress monitoring indicators of the SGPRS Program documents evidence of more nuanced progress and may suggest areas for concern and further analysis. However, the structure of monitoring indicators associated with the SGPRS is also fundamentally flawed because, despite the availability of data, it does not attempt to measure welfare changes decomposed by the degree of incidence of poverty. These indicators do not allow us to evaluate the pro-poor impact of the strategy, however they are adequate to allow us to monitor the aggregates for Nicaragua as a whole. There we find:

3.10 The sub-set of education indicators is consistent with overall progress. Net primary school enrollment increased from 75% in 1999 to 91.9% in 2005. The rate of students who finish primary in six years increased from 32% in 1999 to 44.1% in 2005. Net pre-school enrollment rate increased from 26% in 1999 to 41.8% in 2005. The rate of students progressing to third grade in rural schools changed only from 76.6% in 1999 to 77.7% in 2004, demonstrating once again the limited progress in rural areas.

3.11 Evidence of progress is much more limited in the health sector. On the positive side, the proportion of institutional births increased from 47% in 1999 to 54.1% in 2005. The rate of prenatal care in the first trimester of pregnancy increased from 31.9% in 1999 to 34.7% in 2005 (however, the data do not provide a clear pattern of improvement since it records a rate of 30.1% in 2004). Other evidence shows that some indicators did not change or deteriorated during the period. Little progress was achieved regarding vaccine coverage. Incidence of diarrhea increased from 21.9% in 1999 to 25.6% in 2005 for children under 5 years of age. Incidence of respiratory infections increased from 27.3% in 1999 to 35% in 2005 for the same group of children. Chronic malnutrition among children under 5 increased from 19.9% in 1999 to 20.2% in 2005. While there remains issues related to the measurement of these indicators, the evidence strongly suggests the need to increase the effectiveness of the current programs.

Table: 3.2.

Indicator (%)	**Progress of intermediate indicator of the SGPRS in 2004**				**SINASID**
	Base year 1999	**2003 Observed**	**2004 Observed**	**2004 Target**	**2005**
1. Central government poverty spending	52.5	56.8	57.7	60	
2. GDP growth	7	2.3	5.1	5	4
3. Net rate of primary school	75	83.5	82.6	82	91.9
4. Rate of passing to third grade in rural schools	76.6	76.7	77.7	81.6	
5. Students who finish primary in six years	32	40.8	42.7	42	44.1
6. Implement national system for academic eval.		In force	In force	In force	
7. Net preschool enrollment rate	26	28.6	30.8	31	41.8
8. Multi-grade rural schools with 6 grades	29	35.6	31.3	47	
9. Const. or repair of primary class. annually	977	908	629	600	
10. Institutional births	47	50	51	59.4	54.1
11. Prenatal care	71.6	69.6	64.2	84.3	71.5
12. Early detection of pregnancy	31.9	31.9	30.1	41.9	34.7
Vaccine Coverage					
13. 1 dose of BCG	99	93.9	87.8	99	100
14. 3 doses antipolio	91	86.3	79.8	94	86.7
15. 3 doses 5-en-1 (pentavalente)	7	86.1	79.4	93	86.2
16. Polio vaccine in children 12-13 months old 1/	83.8	N/A	N/A	N/A	91.6 3/
17. Incidence of diarrhea, under 5 1/	21.9	N/A	N/A	16.0 4/	25.6 3/
18. Incidence respiratory infections, under 5 1/	27.3	N/A	N/A	20.8	35*
19. Unmet demand for family planning service for women with a spouse, 15-19 years 2/	27.1	N/A	N/A	N/A	
20. Unmet demand for family planning service for women with a spouse, 20-24 years 2/	19.7	N/A	N/A	N/A	
21. Access to reproductive health services	21	24.6	17.4	23	
22. Environ. Plan for Nicaragua			In implem.	In implem.	
23. Chronic malnutrition among under 5s 1/	19.9	N/A	N/A	16.0 4/	20.2 3/
24. National drinking water coverage	66.5	73.2	75.8	73.9	85.2
25. Access to safe water in rural settlements	39	47.9	48.5	52.6	69
26. National access to sanitation 1/	84.1	N/A	N/A	88.0 4/	95
27. Access to sanitary drainage in urban set.	33.6	34.6	35.1	40.3	35.9
28. Illiteracy rate (over 10 years) 1/	19	N/A	N/A	16.0	17.1 3/
29. Av. years in school, children 10-19 years 1/	4.6	N/A	N/A	5.0 4/	5.1 3/

N/A: Not applicable because comes from surveys, and so not available for the years in question.

1/: Data from the LSMS 2001. 2/: Data from NDHS 2001. 3/: LSMS-05

4/: Target from PRSP I Matrix of goals, targets and intermediate indicators.

3.12 More positively, the availability of drinking water increased at the national level (from 66.5% in 1999 to 85.2% in 2005) and in rural settlements (from 39% in 1999 to 69% in 2005). Access to sanitary drainage also improved, both nationally (from 84.1% in 1999 to 95% in 2005) and more modestly in rural areas (from 33.6% in 1999 to 35.9% in 2005).

3.13 As previously mentioned, using household consumption as a welfare indicator, it is possible to classify the population according to the degree of vulnerability to poverty, and analyze the evolution from 2001 to 2005 of the incidence of many of the risks facing the poor. These results are presented in Appendix II. This analysis does not intend to present a complete analysis of the evaluation of major policy indicators related to poverty, but only to demonstrate the availability and richness of the data and the scope for significant policy inferences.

3.14 The analysis in Appendix II demonstrates that the depth of poverty is fundamentally linked to the extent of the risks facing the poor in Nicaragua. There we find evidence that the poorer an individual or household is, the higher the risks of illiteracy, low school enrollment, child malnutrition, diarrhea, and lack of access to safe water and sanitation. Other associated risks could also have been easily demonstrated.

3.15 Consequently, our ability to conduct diagnostics and evaluate the effectiveness of poverty targeted programs is fundamentally linked to efforts to construct adequate outcome indicators decomposed by poverty groups. This type of analysis allows us to identify those issues that are common to the whole population from the issues that require group specific solutions. In sum, it is a critical element of efforts to increase the effectiveness of public expenditure programs.

3.16 Clearly these concerns have been part of the donors policy dialog. The 2001 SGPRS described the process by which poverty-related expenditures were allocated among programs as a blunt resource allocation instrument based on a compromise between efficiency and definitional rigor. This has resulted in assignments of different shares of the Annual General Budget to programs from government institutions, such as MECD, MINSA, IDR, MIFAMILIA, SAS, FISE, INETER, CNE, and the operating costs of INIFOM.[26]

3.17 In this regard, the IMF's 2005 PRSP argues that "there is no list of criteria or explicit requisites to be met in the programs to be considered as poverty spending; rather, this spending is distributed by institution and by its 'linkage' to the four pillars and three crosscutting themes defined in the Strategy."[27]

3.18 Adding that, "[t]he principal critiques of the previous classification made by the international community, civil society organizations and National Assembly

---

[26] For more detail, see "*A Strengthened Growth and Poverty Reduction Strategy*" (SGPRS), Government of Nicaragua, July, 2001.

[27] Nicaragua: Poverty Reduction Strategy Paper. IMF Country Report No. 05/440, Washington D.C., December, 2005.

revolved around two things: (a) the criteria for classifying the programs would have to be defined more precisely for operational purposes in order to improve poverty reduction efforts, since there was a tendency to include all the programs of a sector (education, health) considered important for poverty reduction; and, (b) the issue of expenditure efficiency, indicating that only programs in which a relationship with the improvement of selected poverty indicators is established should be considered as poverty spending."[28]

3.19 The 2003 World Bank Nicaragua's Poverty Assessment presents striking evidence related to poverty spending: "A recent review of selected poverty programs in the Nicaragua PRSP portfolio shows that less than one-third of the resources programmed for the following five years (US$232 million) are likely to benefit the poor by addressing identified risks and vulnerabilities. About one-half of total investments in the program sample (US$372 million) either lack adequate supporting information to determine their pertinence, or need to be modified to improve effectiveness in addressing given risks or actually reaching the poor. Approximately 14% of expenditures over the period (US$114 million) will not benefit the poor at all."[29]

3.20 However, in spite of these concerns, the recently agreed monitoring framework under the National Development Plan/Second Generation Poverty Reduction Strategy (PND/PRSPII 2005) includes only one indicator that explicitly monitors welfare of the poor. This indicator "[n]umber of children under 6 in extreme poverty attended to by integral programs for social protection" has a baseline of 104,000 for 2004 and a target of 87,000 for all future years from 2006 to 2010 (implicitly proposing a reduction in coverage). Analyzing the 2005 Living standard survey, we find that there are 126,000 children in extreme poverty and 237,000 children who are poor but not in extreme poverty. This indicator, consequently, implies that under the PRSPII children who are poor but not in extreme poverty are excluded from the target and consequently the program.

[28] See Annex 2, Redefinition of Poverty Spending in the PRSP 2005. Op. Cit.

[29] See "*Nicaragua Poverty Assessment: Raising Welfare and reducing Vulnerability*", Report No. 26128-NI, Washington, D.C., December, 2003.

IV. DEVELOPMENT THEMES IMPLEMENTATION AND RESULTS

4.1 This chapter has the central objective of determining the development impact of the Bank's program in Nicaragua at the thematic and the project level. An in-depth analysis can be found in Appendix III.

A Economic Growth- Strengthning Fiscal Policy

4.2 This area, identified in the strategy as part of the "economic growth" challenge, is where progress has been the strongest. This progress, as discussed below, cannot be solely attributed to the Bank: first, because it did not intervene in all the areas it proposed (for instance, reducing domestic debt) and second, because it is not clear if the increase in tax revenues was due to improvements in tax policy where the Bank supported the IMF or in tax administration where Bank efforts were concentrated.

4.3 The sector policy goal was one of strengthening Nicaragua's fiscal policy by offering support in reducing the fiscal deficit, achieving a reduction in domestic debt, and mitigating the risk of a crisis caused by excessive internal debt. In order to achieve these goals, one strategy adopted by the BCS was to focus on improving the tax system. It sought to complete the "program for institutional strengthening of the tax and customs administrations" (NI0105) approved in 1999 and proposed the design of a new operation aimed to the "modernization of the state and fiscal reform" (NI0172) approved in 2003. The BCS also proposed a program of "fiscal modernization" that has not been approved. A previous project signed in 1996 and completed (with waivers) in 1999 was the "public administration reform" (NI0085) whose objective was, besides transforming the financial markets, to "make the administrative, financial, and tax functions of the central government operate more efficiently."

4.4 Nicaragua's fiscal sustainability is especially important after the country received a significant foreign debt relief and given its large domestic debt. It is expected that flows of concessional debt will diminish in the medium and long term, and then it is important for Nicaragua to be able to raise enough tax revenues to cover its expenditures.

4.5 The interim debt relief under the enhanced HIPC initiative provided Nicaragua with budgetary savings, on average, of $90 million per year between 2001 and 2004 (a cumulative $361 million). These savings have been channeled mainly to current expenditures in education (51.8%) and health services (20.5%), and have been registered as required by the conditions agreed on to reach the HIPC completion point. (OVE could not find evidence that these resources have reached the poorest). The Bank, however, did not participate in the MDRI, and only agreed on Nicaragua's debt relief in January 2007 on conditions similar to the ones offered by the MDRI. This is one of the very few activities that, tangentially, count as supporting a formal agreement between the country and the donor community intended to reduce volatility, unpredictability, and pro-cyclicality of aid disbursements. The international community conditioned debt relief, in general, on the implementation of the country's Poverty Reduction Strategy (PRS) and strengthening the country's reform efforts.

4.6 The major issue impeding the implementation of the projects, which was correctly identified by the loan documents, was the "lack of consensus in the National Assembly." But the "lack of consensus" is not transient or dependent on the situation. It was clearly the reason for the more-than-a-decade delay in the approval of the Tax Code and has played a major role in the delay of the "Career Service Act" (Ley de Servicio Civil) approval, a condition for the second tranche disbursement of project NI0172 and a fundamental change required for the success of the tax administration reform. Although the Bank correctly identified this major risk factor, it failed to design mechanisms to successfully address it.

4.7 Although the implementation of the operations has been slow, some results have been achieved in the areas the BCS decided to concentrate on: fiscal deficit and internal debt. Fiscal deficit had steadily declined since 1999, except for year 2003 when it jumped mainly due to interest payments of domestic debt (domestic debt interest payments went from 0.72% of GDP in 1999 to 2.45% of GDP in 2003 because a large fraction of *Certificados Negociables de Inversion*, government bonds issued to guarantee banks obligations with their clients during the 2000-2001 banking crisis, was due that year). Tax revenues surpassed the BCS proposed goal: it increased in 4.06 percentage points of GDP from 2001 to 2005 while the target was set at an increase of at least 1.5 percentage points of GDP from 2001 to 2005. Measured as the fraction of a Córdoba spent in order to collect a Córdoba through taxes, tax and custom collection has become more efficient.

4.8 Regarding domestic debt, the progress has been modest and independent of Bank's intervention (the country did not received any formal assistance in this respect even though the IDB set the reduction of domestic debt in Nicaragua as a goal it wanted to support through its BCS). Although domestic debt has decreased by 7.75% since January 2002 (in US$ terms), an in depth analysis shows that this decline is due to a combination of factors: a reduction of the Central Bank debt (a decline of 50.68% in US$ terms between January 2002 and August 2006) accompanied by an increase of Central Government debt (a growth of 23.56% in US$ terms in the same period).

B Economic Growth - Improving Competitiveness and Production

4.9 Improving Competitiveness and Production was identified in the strategy as part of the "economic growth" challenge faced by Nicaragua. Most of the proposed programs started execution during the period of analysis, and although some of them have been successful, from a programmatic point of view, key results remain outstanding. Nicaragua's growth competitiveness index score improved from 2001 to 2005; but (as discussed below) the gains in the index have not translated into consistent gains either in private investment or agricultural production (agricultural export growth is explained by exogenous gains in prices rather than by gains in export volumes of its most important products).

1. Access to Credit

4.10 IDB intervention in the financial sector (project NI0085, signed in 1996) was initially aimed at improving the financial situation of the banking system, especially of state-owned banks. It called for the creation of a new agency in charge of maximizing the recoveries of state banks' bad loans and the restriction in operation of two (out of the three) state banks. The solution proposed was not the optimal, though, since it only aimed at damage control without addressing its causes. It called for the reduction of state-owned banks' participation in the financial sector but it allowed the State to maintain an interest in BANIC and control over BANADES and BCP, knowing of previous failed attempts to clean up the state's bank portfolio and reduce their operation costs that led to recapitalizations by the government followed by credit expansions.

4.11 The next intervention in the sector (project NI0104, signed in 1998) corrected the design's flaws from the previous operation. It focused on reducing the participation of state banks in the financial market and fomenting "the stability and efficiency of the private banking sector through the strengthening of the legal and regulatory framework of the financial system." In addition to the liquidation or privatization of state banks, and the modernization of the institutional and normative framework for prudential regulation (themes partially covered in the first loan), this project called for the modernization of the legal and regulatory structure of the financial system.

4.12 Although most of the new operations approved in this sector during the current BCS were done through the Multilateral Investment Fund, an important exception was the "Multisectoral Global Credit Program" (project NI0167, signed in 2003). The program was to "provide resources to *Financiera Nicaragüense de Inversiones* (FNI) to finance credit for private enterprises to be granted through eligible financial intermediary institutions (IFIs), as well as technical assistance resources." The objective was to expand the supply of medium and long term financing for private enterprises in all sectors of the economy at competitive free-market terms.

4.13 As anticipated in the loan document (NI0085), the recovery of assets and the privatization of state banks were not complete for lack of political consensus, political interference, and weaknesses in the state bank's corporate culture.[30] The

[30] Although the cost of privatization might be considered as an issue, there is evidence of a successful bank privatization the object of political interference. Hamilton Bank, N.A. of the United States won the bid with a premium of 63% over the minimum price for the acquisition of 50.7% of BANIC's shares, BANIC being the most prominent bank in Nicaragua at the time made a public offering (January 1999). The IFC acted as principal advisor to BANIC and the Government of Nicaragua. Later on, in August 1999, the Office of the Comptroller declarer the sale void. The case went to the Supreme Court which validated the sale in May 2000.

successful and quick implementation of the financial component of this project could have helped Nicaragua save the substantial costs it later paid due to the banking crisis: deterioration of fiscal deficit, increase in public debt (US$676 million in CENIs and bonds between 1999 and 2004 related to the banking crisis) and a shift in the GDP trend of about 6.6% below the projected trend that would have resulted from maintaining the trend growth rate of the ten-year period previous to the crisis.[31] Project NI0104, on the other hand, completed all its objectives although in the middle of the banking crisis. The determination on part of the IDB not to yield on to political pressures to waive disbursement requirements delayed disbursement but guaranteed the achievement of the project objectives.

4.14 Among the outputs that can be shown with regard to access to credit, we note the creation of *Central de Riesgo* thanks to the joint participation of the IDB and the World Bank (IDB, through MIF/AT 481-1, provided financing for the initial development of a centralized risk management system to improve the financial debtor database while the World Bank financed the upgrade of its technological platform). SIBOIF will soon provide on-line consultation of *Central de Riesgo*.

4.15 It is worth noting that the portfolio composition of the banking system as a whole has shifted from investments (mainly in Nicaraguan's Central Bank CENIs, that have been maturing, and the Central Government BPIs) to credit; and that the crowding out effect of public debt has been steadily decreasing. Although the participation of FNI as provider of funds to the banking system has remained stable (an average of 3.71% of the banking system's total liabilities), its credit portfolio in dollar terms has increased since the end of the banking crisis. It is worthwhile to mention that since 2004, when the IDB "Multisectoral Global Credit Program" started disbursements and the FNI signed participatory agreements with eligible financial intermediary institutions, the percentage of FNI credit to the banking system as a percentage of FNI's total assets increased from 86.1% to an average of 93.5% (from 2004 to 2006). According to FNI, credit provided to small and medium enterprises (SME) through FNI increased 37.7% in 2004, 26% in 2005, and 3.1% in 2006 (global FNI credit increased 14.1%, 16.9%, and 18.9% in those years respectively). Although there is no disaggregated data to assign causality to the "Multisectoral Global Credit Program," the maturity of loans provided by the banking sector has steadily increased since the end of the banking crisis. (The proportion of funds provided by FNI to the banking system is too small to suggest the growth on medium and long term credit is solely due to FNI participation; however, certificates of deposit –CDs– participation as percentage of total deposits has steadily decreased since the start of the banking crisis driven by the decrease in CDs denominated in dollars –CDs denominated in Córdobas have increased after a post banking crisis hiatus and even surpassed pre crisis levels –CDs are one of the main medium and long term funding sources to the banking system). FNI reports that as of December 2006, the average maturity of its loans was 4 years (the minimum allowed for IDB funds is 1 year); but there

[31] The trend growth rate was calculated using a Hodrick-Prescott filter using data from 1990 to 1999.

are no available data to determine the impact of FNI on the increase of medium and long term credit.

2. Infrastructure

4.16 IDB conducted operations in the electrical and transportation sectors. In the transportation sector it supported the rehabilitation of the Pan-American Highway and the implementation of a sustainable road maintenance mechanism (NI0099). The Bank also participated in the "refurbishment of the San Lorenzo-Muhan stretch of the Managua-Rama highway, which is the main overland communication route to the Atlantic; the modernization of institutional organization in the highway sector; and the implementation of new strategies for improving highway maintenance" (NI0146). As part of project NI0014, the IDB also contributed to the maintenance of rural roads and their drainage ditches as a secondary activity (covering a total of 1,596 km).

4.17 In the electrical sector the IDB conducted operations aimed to increase the participation of the private sector in the generation and distribution of electricity. The hybrid program (NI0069 – NI0134) supported the government in "the process of divestment, restructuring, and privatization of the distribution and generation companies resulting from the restructuring of ENEL" and sought to modernize the State transmission enterprise and the *Centro Nacional de Despacho de Carga*. The IDB also supported Nicaragua's electricity sector through a private sector loan (NI0103), with Dresdner Bank and Société Générale as underwriters in an A/B loan scheme, for the construction of a 50.9MW diesel power plant in Tipitapa, currently in operation.

4.18 The Loan Document identified as main risk related to projects NI0069 and NI0134 "that the divestment and privatization of ENEL may not be consolidated or completed soon enough to permit privatization during the [then] present administration or that INE may not be consolidated as a regulatory agency." The project, nevertheless, failed to acknowledge the potential difficulties that could arise from a weak regulatory agency or to tackle the issue in the first place. As a matter of fact, many of the difficulties experienced by the electricity sector in Nicaragua can be tracked down to the regulatory capacity and the lack of long term vision. Solutions presented by the actors are shortsighted answers to problems that require long term planning, and the IDB failed to address the possibility of the occurrence of these challenges in the project design. There are, for example, no automatic and transparent mechanisms to set tariffs, and cost recovery became a major problem for the different actors in the sector after the hike experienced by oil prices (while oil prices increased in 171.5% between 2000 and 2005, the average electricity tariff increased by 9.45%). Tariff increases, however, represent a substantial burden for a considerable proportion of households, and the IDB failed to support INE in the dealings with the improvement of subsidy targeting.

4.19 Loan Documents in the transportation sector projects rightly identified the "continuity and level of road system maintenance, and the poor quality of the existing infrastructure for financing, planning and managing road upkeep" as a risk factor. Both projects dealt with the identified risk by suggesting the creation of FOMAV, and the second one even established contractual conditions to ensure that FOMAV was "up and running before the first disbursement" was made. The IDB, however, failed to fully engage the legislative power in the passing of the reforms required by the sustainability of the maintenance fund, and has become a cause of disbursement delays. Although OVE recognizes the Bank's limited scope to do so, it urges the Bank to address political economy issues when designing projects.

4.20 Regarding the results, the installed electric capacity increased 61.7% between 1998 (before the privatization) and 2006. As of December 2005, only 29.26% of installed capacity corresponded to state enterprises while 52.07% corresponded to private enterprises (an additional 16.36% corresponded to private firms that produce their own electricity and do not belong to the interconnected national system). These gains in installed capacity were based, however, on generating plants powered by oil sources with the associated consequences for the volatility of operating costs. Although installed capacity has increased, the reliability of old generating plants is low and they found themselves frequently out of service leading to the irregular provision of the service (causes of the electricity crises in May and September 2005). Gains in installed capacity, however, have not fully translated into welfare gains for the population because they have not been followed by an equal expansion of the distribution network: as of the census data from 2005, only 68.3% of households have access to electricity; a gain in 6.6 percentage points with respect to the 1995 census (61.7%). Although there has been a 38.6% increase in the number of clients served by DISNORTE and DISSUR (from 457,445 in 2001 to 634,188 in 2006), and a 15.8% increased in the energy sold (from 1,554 GWh in 2001 to 1,799 GWh in 2005), these gains can be attributed mainly to the regularization of clients rather than to the expansion in the number of new clients. According to Union Fenosa's 2006 operations report, the company loses about 26.6% of the energy it buys and receives about 95.6% of invoices from its regularized clients. (Union Fenosa's CFO in Nicaragua points out that around 6% of these losses correspond to consumers in poor neighborhoods –asentamientos– who connect themselves irregularly to the network, 8% to tampered with connections by regular clients outside "asentamientos," and the rest to technical losses).[32] The state transmission enterprise, ENTRESA, reported losses in transmission and distribution of 30.65% in December 2006. This level is roughly the same than in 1998 (29.66%) even though about two thirds of the loan under the hybrid program were aimed to improve the transmission infrastructure. The length of transmission lines, measured in Km, has grown only 1.9% since 1998, year of the operation approval. Although losses attributable solely to transmission lines have marginally declined

[32] The structure of electricity tariffs is such that high end consumers have large incentives to tamper their connections in order to reduce their monthly bills.

(1.5% in 1999 vs. 1.4% in 2006), which is explained in part by the increase in consumption, the investment component of the hybrid program (NI0069 – NI0134) has contributed to an important reduction in the number of failures of the transmission system.

4.21 Although regional integration has offered a solution to address economies of scale issues present in all the Central American countries, progress in this regard has been slow. For the planned solutions to work, it is necessary to acknowledge the difficulties of solving technical complexities and both regulatory and financing issues within each country regarding the implementation of regional projects. In particular legal constrains to financing private entrepreneurs responsible for the implementation of the electricity integration and the difficulty of guarantying national regulatory frameworks capable of harmonizing with a regional wholesale market have contributed to the delay in implementation of the regional energy market of Central America.

4.22 Regarding the transportation sector projects, Nicaragua has today a functional, autonomous, and self sufficient maintenance fund financed by the special tax created in 2005. Resources provided by multilaterals in 2006 for the financing of the maintenance fund were a meager 2.5% (pointing to the sustainability of the initiative) but more importantly, the fund has experienced a 5-fold increase since the start of operations in 2003. Not all 2006 FOMAV tax collection was spent during that year: collection totaled about US$11.4 million while the resources used in 2006 account for US$ 6.2 million. It is expected that resources available for road maintenance will grow considerably since the tax rate is projected to increase from 6 cents of a dollar in 2005, when it was created, to 16 cents of a dollar at the end of 2009 for each gallon of fuel sold within Nicaragua. An important aspect to watch is the efficiency of how these funds are spent.

3. Agriculture and Environment

4.23 As part of the action to boost competitiveness and production, particularly aiming to higher production by small-scale farmers, the country strategy called for two operations: the Global Multisector Credit Program (NI0167), analyzed in detail in the financial sector section; and the Rural Production Revitalization Program (NI0159), intended to "increase the incomes of low-income rural families in a sustainable manner" mainly through the provision of small infrastructure projects. In addition to these new projects, the BCS planned to complete the "Food and Agricultural Production Revitalization Program" (NI0014), initiated in 1998, and the two "Socio-environmental and Forestry Development Programs" or POSAFs (NI0025 and NI0141), initiated in 1996 and 2002 and designed to address, among other things, the "management and recovery of soil, forest, and water resources in order to increase productivity, income levels, and the environmental quality of farms and rural and indigenous communities in selected basins." In addition to addressing the environmental problem affecting the agricultural sector, the IDB also engaged in the environmental problems affecting Lake Managua and the city of Managua (project NI0027) which derive, in large part, "from the deficiencies of the present sanitary sewerage system and the lack of sewage treatment, which pollute the environment and generate unhealthy conditions" affecting mainly the poorest groups who live along the lakeshore strip.

4.24 Agricultural diversification is being undertaken primarily through technical cooperations financed by the Multilateral Investment Fund (MIF) and the Social Entrepreneurship Program (SEP). These operations not only seek to increase the income of small producers and introduce the use of more productive, sustainable practices but also address the agricultural rural business in a comprehensive way. These technical cooperations are addressing problems that will allow the country to use the agriculture sector as a driving force for economic growth. Most of them target populations with high potential for growth, though these groups are not necessarily the poorest. Operation ATN/SF 7836 NI, for instance, aimed at the "development of sheep farming on micro- and small-scale farms in the Nicaraguan dry tropic," targets the departments of Masaya, León and Managua; Managua and Masaya being the departments less affected by general poverty with 19.5% and 33% of the population in this category, and León with "only" 49.4% (all these departments are above the national figure of 46.2%, according to 2005 census figures).

4.25 Project NI0014 PCR indicates that the project did not have adequate indicators to measure its impact, but points out that about 70% of the targeted production units (families) had adopted new technologies in order to improve the production of coffee, livestock, grains and non-traditional products. In general, the areas cultivated (not just the targeted production units) increased by 14.16% and productivity by 3.03% between the cycles 1998-1999 and 2003-2004 but these outcome cannot be directly or uniquely attributed to IDB's involvement in technology transfer and maintenance of rural roads. The socio economic evaluation shows that income for producers located along the rural roads object of IDB's intervention increased, in real terms, by 39.23%.

4.26 In addition to the rehabilitation and modernization of Managua's sanitary sewerage services (whose infrastructure is still under construction), the NI0027 project also envisions the clean-up and drainage of the strip of lakeshore facing the city, education and community participation in campaigns to control diseases and vectors, and the development and execution of a plan to monitor the human and environmental health indicators of the lake and the lakeshore area. During 2006 (January to September), SILAIS-Managua reported having cleaned-up 793,440 m^2 and drained 87,020 m^2 of lake shore, serving 28 shanty towns and controling of 20 km of lakeshore. In order to control diseases and vectors, SILAIS-Managua surveyed and monitored different areas in order to determine their risk level (high larva count) and increase its presence in high risk zones. As part of the education campaign, it visited 44,904 houses and gave 3,481 talks in schools. Even though the full impact of the project cannot be measured until the infrastructure is in operation, there has been some progress regarding disease control. The mid-term evaluation completed by MINSA points out that there have been no cases of cholera during the 2000-2005 period, and that the cases of diarrhea decreased in 3 out of the 5 intervention areas. The cases of malaria decreased in 72.09% (above the target of 60%) but the cases of dengue increased in 7.4%. According to surveys conducted, there is a better understanding in the population of what causes these diseases and how they can avoid getting sick.

C Governance

4.27 Governance, one of the three challenges identified in the strategy, is where progress has been the weakest. Most of the proposed programs were not approved. Outcome indicators related to governance are weakly defined. Bank assistance in this area necessarily requires the country's will to improve governance, it is also an area where stakeholders' ownership is critical

4.28 The country strategy the IDB developed for Nicaragua granted a strategic role to this area in its own right and pointed to the need of having an "efficient, effective and ethical government." It planned to implement "intensive actions for modernization and reform of the three branches of government" with emphasis on the executive branch and in the monitoring of a program, already approved at the time, to support the judiciary system (NI0081).

4.29 Most of IDB projects in the period 2002-2006 included institution-building components. The most important project in this regard is the "program for efficiency and transparency in government procurement" (NI0143), and the "modernization program of the general auditing office" (NI0160) aimed at improving the public sector delivery and control of corruption respectively. The World Bank, on the other hand, has focused its efforts on supporting the integrated financial administration system. IDB has also supported the decentralizing process through projects intended to strengthen municipal governments and community participation: for instance, the "Atlantic coast local development program" (NI0107), the "modernization program for the municipality of Managua" (NI0111), the "program for municipal strengthening and development" (NI0156) and the "program to fight poverty and strengthen local capacity" (NI0108), which constituted an enhanced phase of FISE.

4.30 Loan documents of the different projects identified "political will to undertake the required improvements" and the "natural resistance to change" as a major factor affecting their outcome. These factors have, without any doubt, dampened the implementation process and delayed the reforms.

4.31 Progress in the "modernization and reform" of the judiciary and legislative branches of government (independent agencies in general) has been, at best, weak. The program to modernize the judiciary system has disbursed only 22% as of December 2006 (since January 2002) and the one aimed at modernizing the general auditing office has disbursed only 25% (since January 2003). Plans to strengthen the legislative branch (expressed in the Country Strategy) did not even materialize. Most of the operation has concentrated on the executive branch of government and in the municipalities, mainly because most operations include institution-building components.

4.32 One of the most important operations in the governance area, however, the "program for efficiency and transparency in government procurement" (NI0143) has proven to obtain excellent results related to reduction in costs and processing times. MIMSA, for instance, achieved a reduction of 16.2% in the cost of medicines purchased between 2002 and 2005, and a reduction of 6% between 2004 and 2006 for a basket of 8 products (the previous project coordinator mentioned that these results were due to the high professional capacity of the counterpart in MIMSA). MIFAMILIA achieved price savings of 35% for a basket of services for the same period. Reductions in processing times has also important consequences because it allows for the reduction of inventories; ENACAL reduced by 88% the time of delivery of good and services from its technical units and, in general, 5 acquisition units evaluated indicate that on average they have reduced the processing time in 10%. The program grew from the original 7 participating institutions to more that 50 currently (including 15 municipalities), all of them with formalized acquisition units. It also created the registry, on-line, of government suppliers and a monitoring and evaluation system of the different agencies' procurement processes. The on-line registry of suppliers has considerably simplified the process for potential government providers. The monitoring and evaluation system is somewhat operational, but there is a long way to go in this aspect; for instance, there is no information on-line about the final results of the different procurement processes. Even though there is a long way to go, the project has shown that the country can move towards a process where procurement and budgeting in general become consolidated, transparent, and result oriented.

4.33 Results in other operations, although positive in general, have deviated from their main goal. This is the case of the "Modernization Program for the Municipality of Managua," aimed at increasing voice and accountability and improving the public sector's delivery of services. The failure of the program rests on the misalignment between the IDB's views and those of the municipality. (The program was approved before the current municipal administration was elected and, although the executive branch agreed to make the program a priority, the executing agency was not the executive branch but rather Managua's municipality).

4.34 As can be seen from the examples shown, the results of the different projects and institution-building components vary. However, from the general point of view, between 2002 and 2005 Nicaragua went from –0.81 to –0.78 in the "government effectiveness" indicator (in a scale of –2.5 to 2.5, –2.5 being the least effective and 2.5 the most effective). Before the political crisis exploded, the indicator reached a peak in 2004 at –0.61. The improvement is meager and not statistically significant since both point estimates (2002 and 2005) lie in each other's confidence intervals. The "Corruption Perceptions Index" (CPI) from Transparency International evolved in a similar way to the "government effectiveness" indicator: it improved until reaching a peak in 2004 and deteriorated thereafter due to the political squabbles. Compared with its peers, Nicaragua does not fare well, either. It has the worst "government effectiveness" indicator in Central America, although it is close to Honduras and Guatemala. The "government effectiveness" indicator, however, is based mainly on the perceptions of foreign institutions. What Nicaraguans themselves think of the country governance is not different, though. The levels of trust that Nicaraguans have in the different branches of government have, if anything, deteriorated in the years since the BCS has been implemented (we do not have data for 2005 and 2006).

D Productivity of the Very Poor

4.35 As previously mentioned, the result framework associated with the "Productivity of the very poor" is inadequate and only superficially captures program outcomes. While progress tracked through these indicators provided a picture that is very weak, the micro analysis of individual initiatives provides demonstrable outcome results in specific areas, but also helps clarify the remaining challenges.

1. Social Protection Intervention

4.36 The BCS envisaged four operations (two new and two ongoing) to reduce the vulnerabilities facing the poor, increase their human capital, and therefore contribute to tackling the high poverty rates affecting Nicaragua. The Bank planned to evaluate and expand the Social Safety Net, which started in 2002 as a pilot in a limited number of municipalities. The Bank also considered completing its assistance to the fourth phase of the Nicaraguan Social Fund (established in 1990) and continuing supporting, through a new loan, its fifth phase.

4.37 The Social Safety Net was first implemented as a pilot project in 2000 with the purpose to "foster human capital formation in extremely poor families by encouraging behavioral changes within those families." As a conditional cash transfer program, it provided women head of households with a supplementary income (US$224 annually for 3 years) to allow the household to increase consumption and requested them to send their children to school and to periodic health checkups. The program also had a supply side intervention, as it provided schools with extra resources for teachers and organized and funded a primary health care provision system. Considering the geographic distribution of poverty, the project was targeted in six of the poorest rural municipalities and reached 10,000 extremely poor families/66,000 people.

4.38 In 2002 the project was scaled up to include 12,500 additional households. Total coverage would then increase to 22,500 of the 80,000 families living in extreme poverty in rural areas. The expansion of the social safety net was also one of the commitments established in the Decision Point Document of the HIPC initiative. During the second phase, the project incorporated a series of intuitional changes.

4.39 The other social protection intervention was the FISE. It financed basic infrastructure in poor communities, with the particularity that its activities complement the operations of the line ministries, which also use the FISE to accomplish their investment strategies. Under the 2003 BCS, the FISE continued to fund basic infrastructure but also evolved into a local planning mechanism, supporting municipal development and the decentralization process, which were cross-cutting themes in the PRSP. With the new FISE's institutional arrangements, municipalities were assigned more responsibilities at the different stages of the project cycle, while communities would continue to prioritize investments but in the framework of a longer term development vision.

4.40 Despite the increasing levels of poverty, the results of the social protection interventions supported by the IDB tell us a positive story, many of them acknowledged by rigorous impact evaluations (the Social Safety Net projects), that were used to justify the next phases of the projects. However, a lack of basic outcome base documentation and the persistent pattern of reporting on FISE projects completed as evidence of outcome achieved, have severely constrained the evaluation of these interventions. Additionally, the need to improve targeting of the poor and enhancing sustainability of the FISE initiatives remains a major challenge. Although FISE investments tend to be progressive in nature, the allocation rules are unable to direct intense funding to those municipalities that are the neediest. Furthermore, a recent evaluation (Cabal, 2005) concludes that "50% of households included in the sample –despite being located in municipalities with high and severe levels of poverty– actually had a non-poor profile". Likewise, there has not been an effective mechanism for regionally coordinating the activities of different members of the international cooperation. Within Nicaragua there has also not emerged an entity capable of exerting pressure for such coordination[33].

4.41 In terms of content, the case of FISE is also telling in that it represents a rhetorical shift over time that has not been accompanied by a change in content or specific activities. The latest FISE loan emphasizes the importance of municipal strengthening, yet the investment components are by and large the same, except for a change in the process by which projects are chosen, which is now based on competitive funds. In particular, there has been no systematic collection of data on municipal capacity –in part because the concept is not clearly defined in the loan (forthcoming OVE Ex-Post Evaluation).

2. Building Human Capital through Education

4.42 Primary education, the priority of the PRSP and Nicaragua's focus for many years, has been a policy area covered mainly by the World Bank and USAID. The IDB only started to work in the education sector in 1999 with the Secondary Education Reform project (NI0090). The Project was framed within the 1996-

[33] Nominally this should be INIFOM. Yet INIFOM has not had the autonomy, political presence or funding necessary to coordinate the sector funding.

1998 BCS, which did not identify any broad objective for the educational sector. Nevertheless, that Strategy recognized the need to increase “greater coordination within the sector and improvements in quality, efficiency, and linkages among the primary, secondary, technical and higher levels.” Attentive to that need, in 2001 the Bank approved a technical facility loan to modernize the efficiency and transparency of the tertiary education system’s management (NI0144), which had the additional objective of enhancing the articulation of the tertiary education with the secondary and technical education and with the productive sector.

4.43 The Bank’s focus on secondary and tertiary education may look inconsistent with its priority of reducing extreme poverty, since only a minority of the poorest people attends secondary school, and tertiary education is a privilege of the non-poor. Nevertheless, the disconnect between the educational levels constitutes a key educational issue in Nicaragua. Legally, and practically, the Ministry of Education (MECD) and the National University Council have independent mandates. This situation was aggravated by the creation of the National Technological Institute as an autonomous agency.

4.44 In the recent years the Bank gave more relevance to primary education. In 2002 it approved a Policy Based Loan (PBL NI0169) for the social sectors, aimed at financially protecting selected social programs and at instituting pending reforms in the health, social welfare and education sectors. The conditionalities for the education sector intended to support the reforms and targets envisaged by the PRSP. In addition, some of its conditionalities complemented those requested by other donors. Both aspects reflect a will to collaborate with the country’s development beyond the Bank’s specific goals.

4.45 The 2003 BCS included three new education loans in its pipeline. Judged by its titles, none was approved. However, the Bank did approve an adult education project (NI0171) that was coherent with the BCS.[34] NI0171 was designed as an upgraded version of a successfully ongoing initiative that aimed to increase the education and productivity of young adults. Additionally, through FISE the Bank supported the repairing of schools. Through the Social Safety Net it provided incentives to increase primary enrollment and grade progression rates and decrease drop out rates (See Social Protection note), and through the Atlantic Coast Local Development Project (NI0107) it assisted in the development of local capacity at the regional the municipal government level.

4.46 The educational projects approved before 2002 faced many obstacles that constrained implementation. NI0090 started two years late because of delays in disbursement preconditions. This forced the redesign of the original Project. MECD also changed four times its leadership in the period, which retarded several processes, decision-making and results. The political tensions inside the higher education system, between public and private universities for the control of

[34] The project was coherent with the BCS since it supported two PRSP objectives: decrease in the illiteracy rate and increase in the primary graduation rate. The program also promotes the productivity of the poorest segments of society, it is a cost-effective type of operation and will have positive short-term impacts, all aspects highlighted by the BCS.

resources undermined project implementation. Implementation was also constrained by weak university human resources.

4.47 IDB performance in the sector shows some improvement over the years. While NI0090's PCR emphasizes the satisfactory outcomes achieved by the program, the documented evidence provided to justify that assessment is mainly input based. Moreover, no data is reported for the main outcome indicator at the project level, the "Increased the average years of education of rural and urban population[35]." NI0144 contributed to showing that accountability could be instrumental in enhancing tertiary education's quality and that it was not contradictory to autonomy principles. As a result of the project, 92% of the universities (12% more than the established goal) had an external evaluation conducted by peers. However, the project could not set up the proposed accreditation system. Regarding the better articulation of tertiary education with the productive sector, a survey for graduate students concludes that in order to find a job, social capital is more important than human capital. It remained to be assessed whether the efficiency indicators improved. NI0171 was evaluated through an impact evaluation (Handa et al, 2006). That evaluation concluded that the Project had a significant impact on the student's learning levels. In addition, administrative data provided by the program reports an 84% retention rate and an 85% promotion rate for the three years of the program. The rates have positively evolved in the 2004-2006 period, achieving a 91% retention rate and a 94% retention rate in 2006.

3. Health

4.48 The IDB is one among 16 donors involved in the Nicaragua health sector. The Bank approved its first health investment loan in 1998. The Project was part of the new health approach, which aimed to shift from infrastructure financing to structural changes and policy reforms (OVE, 2006). Of the five elements that defined the new Bank approach in the health sector, NI0024 included: (i) the contracting of private sector providers, (ii) the promotion of primary health care services and the definition of a basic package, (iii) the design and implementation of performance-based incentives, and (iv) the decentralization of the sector. The Project was embedded in the 1996-1998 BCS, it provided support to the Ministry of Health (MINSA)" *Programa de Modernización del Sector –PMSS- 1998-2002*". During the implementation the project was flexible enough to orient its components and aligned them with the 2005 *Plan Nacional de Desarrollo* (PND).

4.49 In 2001-02, aware of the country's difficulties in fulfilling the PRSP's goals, the Bank moved to support the country through the PBL NI0169. For the health sector the main conditionalities included the allocation of budget resources in 2003 and 2004 to achieve specific health targets, the regulation and enforcement of the general Health Law, and the definition and adoption of unified cost-

[35] Data published in the MECD web page show an increase on secondary education enrolment rates. However, the same tendency is observed for drop out rates. Repetition rates marginally increased in the 2000–04 period and later returned to the 2000 levels. Kindergarten drop out rates also decline from 12.5% to 9.5%.

effective primary health care model, adopted as the mandatory standard for implementation, regardless of source of financing. These conditions were complemented by a series of policy conditions in a WB loan, approved in 2003.

4.50 In 2004 the Bank approved a Performance-Driven Loan (NI-L1001) that disbursed resources against the achievements of specific results. Taking into consideration the PRSP and the progress achieved in the health sector, the objectives selected focused on improving maternal and infant mortality and service coverage, particularly for the vulnerable population. In contrast to its predecessors, NI-L-1001 did not envisage any policy reform measure. It provided assistance to the country to proceed with its own program, the Comprehensive Health Care Model. The last social PBL NI0183 was approved for Nicaragua in 2006 and was a continuation of NI0169. The policy conditions for the health sector were to expand coverage through the PBSS.

4.51 Together with the above interventions, the IDB has also sought to improve maternal and infant mortality related outcomes through the "*Programa de atención integral a la niñez nicaraguense- PAININ*." PAININ started as a pilot project in 1996, and in 2001 it was scaled up. Both projects were aimed at improving the welfare of children under six years of age living in poverty in rural and marginal urban communities through the provision of nutritional and educational support. Early childhood development was not a new theme for the Nicaraguan government, which had several previous interventions and showed a degree of institutional development in that area. The *Comisión Nacional de Promoción y Defensa de los Derechos del niño y la niña* and the *Fondo Nicaraguense de la niñez y la familia* (FONIF), the two agencies in charge of the execution of the Project, were created and actively operating since 1994 and 1995, respectively. The pilot project's objective was "to develop a Nicaraguan system of early childhood development and day-care services for children living in poverty." Strengthening this system was part of the specific objective of PAININ's second phase. PAININ was neither envisaged in the BCS nor in the PRSP. However, these strategies included indicators related to children and women's health outcomes that are directly linked to the PRSP's goals.

4.52 Finally, two other investment operations included health components. The social safety net promoted that children and mothers of childbearing age attend health check ups, while the NI0107 included a component aimed at promoting innovative interventions in the RAAN and the RAAS in order to strengthen the local MINSA agencies.

4.53 The three health projects suffered design problems that resulted in the under-achievement of certain outcomes. NI0024's design was too ambitious and complicated, because it targeted institutional reforms and proposed new investment interventions at the same time. The different incentives of each of its components resulted in obstacles to achieve each component goals (PCR, 2006). PAININ could have benefited from a thorough social assessment to understand intra-household dynamics and contextual problems that affected project's outcomes. NI0107's original health component contradicted the health approach shared by local actors (who were not involved in project preparation) and was impossible to implement given the physical conditions of the region.

4.54 Through different instruments, the Bank has focused on children and mothers of childbearing age and, in the most vulnerable population, oriented to expand coverage, to promote decentralization and to improve synergies between public and private providers. However, the IDB performance in the health sector could be judged as mixed with only a few satisfactory results, but results that have improved over the years. Part of the explanation, as argued by OVE (2006), may reflect the fact that in the health sector the Bank promoted an intervention model that was based more on conviction than on evidence. In addition, while we observe the existing mix of projects and instruments all focused on children and mothers of childbearing age and in the most vulnerable population as evidence of coordination, from a diagnostic point of view, it is not clear the value added of each operation. Furthermore, it is unclear why each instrument was chosen at each point, and what this says about the diagnostic (for example at one point the Bank focused on protecting minimum levels of current expenditure while at others we increased overall spending thorough private contracting or invested in new facilities). Nonetheless, the projects designed in recent years (specially the PAININ and to a lesser degree the series of health projects) show that the Bank is learning and incorporating changes that resulted in some improved outcomes.[36]

4. The PRSP Evaluation and Monitoring (E&M) System

4.55 Although some progress was achieved regarding the strengthening of the monitoring and evaluation system agreed on the PRSP, the sustainability of this effort remains a concern. The IDB, WB, and bilateral donors have supported the *Secretaría Técnica de la Presidencia* (SETEC) and some executing units in setting up M&E systems at the program and project levels.

4.56 Concretely, the IDB through NI-0109 "*Programa de desarrollo del marco institucional de la SETEC,*" expected to generate conditions to establish a system aimed at evaluating the sectoral reforms. In 2003, three years after the project started, the System of Socio-economic indicators (SINASIP) was designed. Because IDB financing covered only conceptualization, the proposal was not systematically implemented. However, the indicators selected are the basis for government progress reports to date. According to the NI0109's PCR, all the ministries in the social cabinet use it. Nevertheless, the SINASID's web page reports information only for and up to 2004. In 2004 the IDB approved a follow-up operation to strengthen SETEC (NI0181) which included a monitoring and impact evaluation component. The operation was only ratified in 2006. By that time, the former SETEC team was dispersed and institutional memory lost.

---

[36] L-1001's audit report confirms that coverage indicators are on track, with some exceptions for specific SILAIS.

4.57 The Bank also executed project NI0180 "Strengthening the National Statistics System and National Population and Housing Census 2005." Although the census was successfully executed and the LSMS of 2001 and 2005 were successfully completed, the institutional strengthening objectives remain in doubt due to weakness of the agency budget support and its dependence on donors' aid.

V. FINDINGS

A Implementation of the 2002 CPE's recommendations

5.1 Recommendations 2-4 were fundamentally related. They are also related to the effort led by The World Bank aimed at supporting Nicaragua's budget. The effort aimed at creating an unique forum where the government and the wide range of donors and multilateral institutions could agree about a unique policy matrix such that the government burden when dealing with the multitude of individual donors, projects, and executing agencies (associated with these projects) would be reduced. Budget support programs, besides increasing coordination among donors, was also aimed at reducing "volatility, unpredictability and pro-cyclicality of aid disbursements." About twelve European donors have participated in this effort led by the World Bank. Although the IDB provided financial assistance for some activities, the Bank did not directly participate in this effort: mostly, it participated in the working groups but did not assume a leadership role. According to government officials, however, the policy matrix created by the group was taken from the policy matrices created by the World Bank and the IDB respectively, in consultation with bilateral donors. The government also pointed out that they needed organizations with strong technical capabilities (IDB, WB) to lead this dialogue, even if they were not willing to sponsor (as was the case of the IDB) the budget support initiative. In addition to the IDB, only the governments of Korea and Japan and BCIE were not willing to participate in this initiative. IDB did not only fall short of taking the initiative but in many cases also failed to participate in it (as was the case vis-à-vis the design of the previous Poverty Reduction Strategy). We also understand that recent significant progress has been accomplished in enhancing the coordination between the IDB and other donors.

5.2 Regarding the first recommendation, the BCS adopted explicitly the Poverty Reduction policy framework that was agreed upon between the Government and the Donors Committee. There, an emphasis on mitigating poverty, vulnerabilities and the effects of exclusion remain at the core of the strategy. While the IDB BCS specifically prioritizes growth as one of its three pillars, the hypothesis put forward in the BCS of designing a strategy to enhance the productivity of the very poor remains to be more clearly articulated. Often the proposed loans aim at increasing the productivity of the poor in the long-run (for instance, through health and education programs). In the short run, the Bank has designed programs targeting groups with the highest potential for growth, though not necessarily the poorest, and coverage is relatively small.

5.3 Regarding the second recommendation, it is important to recognize that at some sectoral levels the coordination took place. In the health sector for instance, IDB through loan NI-L1001 is supporting the National Health Plan, which is also part of an agreed program with other donors. The participation of the IDB in this country-donors agreement has not been easy in the sense that the Bank, at times, argued that it did not have the proper lending instruments to take part in the agreement. However, the Bank was flexible and authorized the use a Performance Driven Loan to support the government. So far, the project is disbursing well as targets for the second tranche disbursement have been met.

5.4 Regarding comment four, vertical and horizontal accountability systems would be important not only for the budgetary system, but also at the project level and other policy levels, like the monitoring of the PRSP or other national policies. The horizontal mechanism must include efficient ways to involve civil society. At the policy level, Nicaragua had a good experience with the *Consejo Nacional de Planificacion Economica y Social* during the first part of the Bolaños administration. However the political crisis has affected the operation of CONPES. Taking into consideration the weak institutional legacy that Nicaragua has, strengthening CONPES and introducing accountability mechanisms at the project level could prove to be crucial to guarantee that resources are used and distributed effectively, and that transparency is enhanced.

5.5 Regarding the fifth recommendation, there is clear evidence that the Bank has improved its effectiveness vis-à-vis complying with procedures. However, given the realignment process currently underway, an assessment of how effectively the Bank is currently organized to comply with the Bank's procedures to ensure an effective monitoring of projects remains to be carried out in the future once revised procedures are put in place.

B BCS Strategy

5.6 The BCS did not clearly articulate the constraints to higher rates of growth nor did it attempt to relate possible constrains to a programmatic work program. The analysis did not quantify the major bottlenecks in key sectors (for instance in infrastructure), as of the time of the preparation of the BCS, nor did estimate the level of programmatic effort required to accommodate the growth needs of Nicaragua. Little effort was dedicated to proposing a program describing the role of the Bank in assisting Nicaragua to meet these needs or to demonstrate the economic sustainability of the program.

5.7 Similarly, an analysis of the link between growth and enhancing the productivity of the poor does not reveal a clear conceptual framework. The BCS, at the objective level, is not specific as to which sub-groups of the poor the strategy aims to address and in what time-frame. The logical consistency of the program is also unclear, i.e. there is a fundamental lack of clarity between proposed projects and goals to be achieved at the BCS level. More fundamentally, the promising hypothesis of a growth model focused on enhancing the productivity of the poor is never fully specified. As part of that hypothesis, the identification of which priorities should be addressed in the short run versus the medium run is also never articulated.

5.8 Furthermore, the large proportion of program budget financed by bilateral and multilateral institutions continue to raise questions about the sustainability of the program. There is also little documentation that debt reduction, which translated into freed resources to be invested in social sector in general and in programs for the most vulnerable in particular, has benefited the poor and very poor the most.

5.9 More generally, there is often a disconnect between the scope of the needs and the expected impact of the programs. The size of the programs, given the dimension of the problems, cannot guarantee the significant and widespread required gains in the short and medium run. Additionally, a consideration of scaled-up versions of current programs (scaled-up to meet existing needs) is unlikely to be fiscally affordable. Illustrative examples include programs such as social protection, improvement of main roads and establishment of the FOMAV in the transportation sector, or the MIF and SEP projects in the agricultural sector. The issue of how to reach the proposed goals with the present instruments could be cast as one of inadequacy of instrument choice. Last, the cost efficiency of the program is generally not discussed.

C Evaluability

5.10 From an overall point of view, the Results Frameworks of the projects prepared by the Bank have improved over time, especially in the social sector. However, much remains to be accomplished as just 37% of the purposes present in the projects analyzed can be linked to an outcome indicator associated with a complete metric composed of baseline, target and evidence of progress. On the other hand, this report acknowledges the significant effort to include impact evaluations as part of investment projects in the social areas.

5.11 The overall the evaluability of the 2003 BCS was found weak. The diagnostics was incomplete; for instance, the causal analysis of the determinants of the governance issues is not present. The objectives were not clearly defined, especially for governance and competitiveness. The logical link between diagnosis, goals, and program was not fully articulated. For instance, the scope for reducing the vulnerability of the poor in Nicaragua through growth initiatives remained hypothetical and the goal of significantly expanding access to credit to small and medium producers were unlikely to be achieved without changes in the regulatory framework of the financial sector.

5.12 Considering that one of the pillars of the BCS in Nicaragua was the objective to enhance the productivity of the poorest, it is surprising that outcome indicators disaggregated by poverty incidence were not proposed in the BCS or in the SGPRS. While we understand that the SGPRS were prepared by the donors with minimum participation of the Bank, this does not absolve the Bank of the responsibility for its contents and weaknesses. This is particularly not justifiable when disaggregated poverty data is available from the Census Bureau.

D BCS Results Achieved

5.13 The BCS Results Framework, proposed indicators only superficially cover the areas of emphasis of the strategy. Most of the results documented fell short of the goals of the strategy, with no results in governance and little documentation of results focused on the poor. Results regarding competitiveness show improvements in the growth competitiveness index score, but this improvement has not globally translated to the real sector of the economy. At the project level a more nuanced history of promising initiatives was documented.

E Quality of Government Expenditure

5.14 The main lesson learned from the experiences associated with the Governance pillar and the discussion of the analysis of the poverty focus of the programs associated with the Poverty Reduction Strategy is the extraordinary difficulty that the Bank and donor partners have experienced assisting the government of Nicaragua in the task of improving the quality of government expenditure programs. In this regard, there are issues related to monitoring and measurement that can be addressed at low cost but that have not been prioritized in past Bank strategies. There are also issues, related to institutional building of governance-enhancing institutions and reforms, which have not been adequately addressed and remain outstanding for future strategies.

F Value added of the Bank Program

5.15 The issue of how to enhance the value added by the Bank was identified as part of the previous CPE and remains as an on-going issue to be addressed. The client has clearly expressed satisfaction with many of the elements of assistance provided by the Bank during the period under analysis. However it also has expressed the request that the Bank take a more forceful leadership and enhanced technical role in the design and implementation of the multi-donor assistance program to Nicaragua. As previously discussed, the IDB did not have a significant participation in the Poverty Reduction Strategy, nor did it take a leadership role in most of the technical working groups, neither did it fully participate in the multi-donor programmatic budget support program. However, we found evidence of recent progress in this area as the Bank has significantly strengthened its participation in recent inter-donor activities. The role of the Bank in donor coordination has significantly improved, and the current progress of realignment is providing opportunities for changes in organization and competencies with the goal of greater focus on the needs of the client.

G The SGRPS Evaluation and Monitoring (E&M) System

5.16 Although some progress was achieved regarding the strengthening of the monitoring and evaluation system agreed upon in the SGRPS, the sustainability of this effort remains a concern. The M&E systems at SETEC and some executing units remain dependent on Donors assistance and financing. The National Institute of Statistics and Census of Nicaragua, responsible for critical elements of the M&E system - the Demographic Census and Living Standard Surveys, remains to be further strengthened and to acquire stable budget support.

References

Adato M. and T. Roopnaraine, “Un Análisis Social de la “Red De Protección Social” (RPS) en Nicaragua “, IFPRI: Washington DC, 2004.

Arcia, G., “The Incidence Of Public Education Spending In Nicaragua: The Impact of the Education for All – Fast Track Initiative,” World Bank, September, 2003

Arcia G. and V. Castro, “Evaluación de Medio Término del PAININ I”, mimeo, 2001.

Andrews, M.I, “State-Owned Banks, Stability, Privatization, and Growth: Practical Policy Decision in a World Without Empirical Proof,” IMF Working Paper, January, 2005.

Brenneman, A. and M. Kerf, “Infrastructure and Poverty Linkages: A Literature Review,” The World Bank, Mimeo, 2002.

Cabal, S.A., **“**Focalización y Análisis de la contribución del FISE a las Metas Sectoriales en Infraestructura”, mimeo, 2005.

Cabal, S.A., Evaluación de Impacto Ex Post de los Proyectos del Fondo de Inversión Social de Emergencia FISE Informe Final Global,” mimeo, 2005.

Calderon, C.A., and L. Serven, "The Effects of Infrastructure Development on Growth and Income Distribution," World Bank Policy Research Working Paper No. 3400, September, 2004.

Calderon, C.A., and L. Serven, “Trends in infrastructure in Latin America, 1980-2001,” World Bank Policy Research Working Paper No. 3401, September, 2004.

Castro, V., “Documento sobre Educación en Nicaragua preparado para el Banco Mundial”, mimeo, 2001.

Djankov, S., C. McLiesh, and A. Shleifer, “Private Credit in 129 Countries,” in NBER Working Paper 11078, January, 2005.

Edwards, S., “Debt Relief and the Current Account: An Analysis of the HIPC Initiative,” World Economy, April 2003; 26(4): 513-31.

Edwards, S., and R. Vergara, “Fiscal Sustainability, Debt Dynamics and Debt Relief: The Cases of Nicaragua and Honduras,” Economic and Sector Study Series, Inter-American Development Bank, December, 2002.

Elizondo, G., “PDCLA: Informe Final de Evaluación”, mimeo.

ESA Consultores, “Diseño e Implementación del Sistema de Evaluación del Programa de Atención Integral a la Niñez Nicaragüense (PAININI)”, mimeo, 2004.

Fay, M., and M. Morrison, "Infrastructure in Latin America & The Caribbean: Recent Developments and Key Challenges" The World Bank Finance, Private Sector and Infrastructure Unit for Latin America & the Caribbean Region, August, 2005.

FISE, "Unidos con las municipalidades en el combate a la pobreza: informe de gestión 2000-2006", Gobierno de Nicaragua, 2006.

FISE, "Análisis Complementarios al PCR Impacto de las inversiones en el combate y reducción de la pobreza," mimeo, 2006.

German T. and J. Sequeira, "Independent Evaluation of SDC's Bilateral Engagement in the Poverty Reduction Strategy Paper (PRSP) Process Part 2: Case Studies Nicaragua," available at http://162.23.39.120/dezaweb/ressources/resource_en_23970.pdf

Government of Nicaragua, "A Strengthened Growth and Poverty Reduction Strategy," Managua, Nicaragua, 2001.

Handa, A., H.Pineda, Y. Areas Esquivel, B. Lopez, N. Gurdián and F. Regalia (2006) "Evaluación de Impacto Programa Educación Básica de Adultos y Jóvenes," mimeo

IFPRI, "Sistema de Evaluación de la Fase Piloto de la Red de Protección Social de Nicaragua: Evaluación del Impacto", IFPRI: Washington DC, 2002.

IFPRI, "Sistema de evaluación de la Red de Protección Social (RPS) – MIFAMILIA, Nicaragua: Evaluación del Impacto: 2000–04", IFPRI: Washington DC, 2005.

IMF, "Joint Staff Assessment of the Poverty Reduction Strategy Paper Second Progress Report", Country Report Nº 04/19. IMF: Washington DC, 2004.

IMF, "Nicaragua: National Development Plan**,** IMF Country", Report No. 05/440, IMF: Washington DC, 2005.

Kaufmann, Kraay, and Zoido-Lobaton, "Governance Matters," World Bank Policy Research Working Paper 2196, October 1999.

Kaufmann, Kraay, Aart Kraay, and Massimo Mastruzzi, "Governance Matters V: Aggregate and Individual Governance Indicators for 1996-2005." World Bank, September 2006.

Knack, S., "Trust, Associational Life and Economic Performance," in J. Helliwell (ed.), The Contribution of Human and Social Capital to Sustained Economic Growth and Well-Being: International Symposium Report, Quebec: Human Resources Development Canada, 2001.

Keefer, P., "A review of the political economy of governance: From property rights to voice," World Bank Policy Research Working Paper 3315, May 2004.

La Porta, R., F. Lopez-de-Silanes, A. Shleifer, and R. Vishny, “The Quality of Government,” in Journal of Law, Economics, and Organization, Mar 1999; 15: 222 - 279.

Linneker B, S. Bradshaw and A._Quirós Víquez, “Evaluation of the Development and Implementation of the Poverty Reduction Strategy in Nicaragua”, Centro de Información y Servicios de Asesoría en Salud – CISAS Coordinadora Civil – CC, 2004.

Machado, R., “¿Gastar más o gastar mejor? La eficiencia del gasto público en los países centroamericanos y República Dominicana,” Inter-American Development Bank.

Maluccio, John, A. Murphy and F. Regalia, “Does Supply Matter? Initial Supply Conditions and the Effectiveness of Conditional Cash Transfers for Grade Progression in Nicaragua,” mimeo, 2006.

Ministerio de Educación, Cultura y Deportes –MECD, “Estado de la Educación Básica y Media 2005,” Managua, Nicaragua, 2006.

MINSA, “Análisis Sectorial de Salud de Nicaragua (Sección II),” 2003, available at http://www.lachealthsys.org/esp/index.php?option=com_content&task=view&id=52&Itemid=28

Office of Evaluation and Oversight, “Evaluation of IDB Projects in the Transportation Sector: 1995-2005,” Inter-American Development Bank, Washington, DC, December 2006.

Office of Evaluation and Oversight, “Health Sector Evaluation 1995-2005,” Inter-American Development Bank, Washington, DC, December 2006.

OPS, “Perfil del Sistema de Servicios de Salud de Nicaragua, Programa de Organización y Gestión de Sistemas y servicios de salud”, División de Desarrollo de Sistemas Y Servicios de Salud Organización Panamericana de la Salud, 2002.

Serpagli, A., “A Review of the Main Constraints in the Oilseed, Coffee and Fruit and Vegetables Chains and an Action Plan to Overcome Them,” World Bank, 2000.

Solís Díaz F., A. Barbeyton, A.Vela, and E. Moraga, “Diagnóstico sobre percepción de usuarios de los servicios de salud en regiones étnicas y de difícil Acceso para el diseño de estrategia de extensión de cobertura”, mimeo, 2005.

Tejerina, L., “Entrepreneurship and Financial Constraints: The Case of Nicaragua,” in Financial Services and Poverty Reduction in Latin America and the Caribbean, Tejerina, Bouillon, and Demaestri, eds. Inter-American Development Bank, Washington DC, 2006.

Thomas, V., M. Dailami, A. Dhareshwar, D. Kaufmann, N. Kishor, R. López, and Y. Wang, “The Quality of Growth,” Oxford University Press, 2002.

World Bank, “Nicaragua: Promoting Competitiveness and Stimulating Broad-based Growth in Agriculture,” Report No. 25115, October, 2002.

World Bank, “Social Protection Sector Strategy Paper: From Safety Net to Springboard”, The World Bank: Washington DC, 2001.

World Bank, “Desafíos y Oportunidades para la reducción de la Pobreza”, The World Bank: Washington DC, 2001.

World Bank, “The World Bank and Social Protection in Latin America and the Caribbean: webpage”, 2003. http://wbln0018.worldbank.org/LAC/LAC.nsf/ECADocbyUnid/665B9EA6F9BB0F2685256D810048501E?Opendocument

World Bank, “Health Services Extension and Modernization (2nd APL) “Document Number AB1363 The World Bank: Washington DC., 2005.

World Bank, “Nicaragua Reporte de Pobreza Aumentando el Bienestar y Reduciendo L Vulnerabilidad,” Informe No. 26128-NI, Banco Mundial: Washington DC, 2003.

Zúñiga C. R., “Evaluación Final al Programa PAININ I”, mimeo, 2001.