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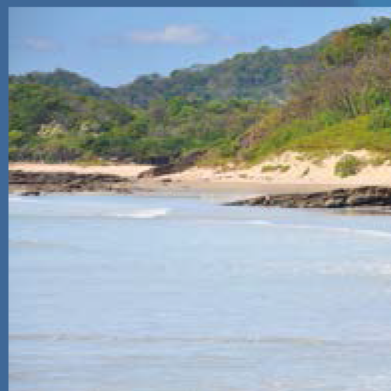

Country Program Evaluation

Nicaragua

2008-2012

IDB
Inter-American Development Bank
October 2012

Abstract

The 2008-2012 Country Program Evaluation (CPE) concludes that the Bank's program was programmatically aligned with Government's National Plan for Human Development and addressed five areas essential for growth and poverty reduction. The one significant omission in the Bank's program from a development perspective was the lack of attention to governance – an area identified as a priority for future strategies by the previous CPE.

The Bank played a central role in financing the country's fiscal gap over the CPE period, reflecting increased country demand in the context of the global financial crisis. Nevertheless, time constraints limited the Bank's analytical efforts to identify important policy reforms in the first series of three programmatic policy-based loans, resulting in relatively weak policy content in those loans. Even with significant increases in the level of concessional resources allocated to Nicaragua and greater complexity in programming, the efficiency of program execution improved. In terms of developmental effectiveness, project-level results have generally been poorly documented. Furthermore, the Bank has at times overlooked the issue of recurrent cost financing for services initiated under investment loans, leading to the untimely suspension of programs and undermining the effectiveness of the initial investment.

In light of CPE findings, OVE recommends that the Bank: (i) undertake further diagnostic and analytic work to delineate the Bank's potential role and value-added; (ii) continue to support improvements in the efficiency of public expenditure, including in the electricity sector; (iii) strengthen the measurement and reporting of results at the project level; (iv) identify potential sources of financing for the continued provision of services beyond project completion; and (v) consider allowing D-2 countries access to emergency lending facilities to meet fiscal needs in times of crisis.

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Content

Acronyms

ALBA-TCP	Audited financial statements *Alianza Bolivariana para los Pueblos de Nuestra América – Tratado de Comercio de los Pueblos* (Bolivarian Alliance for the People of Our America—People's Trade Treaty)
Bank	Inter-American Development Bank
CBN	Central Bank of Nicaragua
CPD	Country Program Document
CPE	Country Program Evaluation
CS	Country Strategy
ECF	Extended Credit Facility
EMNV	*Encuesta de Hogares sobre Medición de Niveles de Vida* (Household and Living Standards Survey)
FOMAV	*Fondo de Mantenimiento Vial* (Road Maintenance Fund)
FSO	Fund for Special Operations
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Countries
IDB	Inter-American Development Bank
IIC	Inter-American Investment Corporation
IMF	International Monetary Fund
LAC	Latin America and the Caribbean Region
MDG	Millennium Development Goal
MIF	Multilateral Investment Fund
NSG	Non-sovereign guarantee
OC	Ordinary capital
OVE	Office of Evaluation and Oversight
PAININ	*Programa de Atención Integral a la Niñez Nicaragüense* (Comprehensive Childcare Program for Nicaraguan Children)
PBP	Policy-based loan
PCR	Project Completion Report
PEF	*Programa Económico y Financiero* (Economic and Financial Program)
PMR	Project Monitoring Report
PNDH	*Plan Nacional de Desarrollo Humano* (National Human Development Plan)
SG	Sovereign guarantee
SIEPAC	*Sistema Interconexión de Electricidad de Países de América Central* (Electrical Interconnection System for Central American Countries)
TC	Technical Cooperation
UNDP	United Nations Development Program

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Nicaragua is still suffering from the impact of the dept crisis, years of civil war and a long trade embargo with the United States.
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Executive Summary

Nicaragua is the second-poorest country in Latin America and the Caribbean and is still suffering from the impact of the debt crisis and years of civil war, and a prolonged trade embargo with the U.S. As Figure 1.1 illustrates, the country has only now reached pre–civil war levels of production. Current per capita gross domestic product (GDP) is similar to the levels reached in 1960,[1] and is only 57% of the maximum per capita production of 1977. The average growth of the economy between 2002 and 2012 (3.16%) was lower than the average for other Central American countries (4.3%).[2] This rate of economic growth is insufficient to accelerate the country's development and poverty reduction.

The poverty rate has fallen significantly in recent years, from 48.3% in 2005 to 42.5% in 2009,[3] aided by three rounds of debt relief (Highly Indebted Poor Countries [HIPC], enhanced HIPC, and the Multilateral Debt Relief Initiative), an aggressive program of structural reform, and investments in the social sectors and productive infrastructure (roads, energy, and agriculture). The country has also made significant advances toward achieving key indicators associated with the Millennium Development Goals (MDGs) in education, health, water, and gender equality.[4]

Constrains to Growth

According to a growth assessment undertaken by the Bank in 2007,[5] the constraints to Nicaragua's economic development included macroeconomic vulnerability related to the country's dependence on concessional resources and external donations; the risk of fiscal unsustainability; insecure property rights stemming from weak rule of law; low quality and insufficient coverage of transportation infrastructure; inadequate supply and relatively high cost of electricity; inadequate infrastructure and standards for food commercialization and export; and lack of productive credit. Nicaragua also is vulnerable to instability stemming from frequent and severe natural disasters.

Poverty is concentrated in rural areas, where agriculture is the economic base. Hence, measures to reduce poverty must address agricultural productivity and the income of rural families. The agriculture sector contributes approximately 20% of GDP, employs 40% of the population, and generates about 70% of exports. Major challenges to the development of the sector include conflicts surrounding property ownership, low quality of productive infrastructure, and limited innovation for participation in export markets.[6]

Because two-thirds of electricity is produced by thermal generators, Nicaragua's energy matrix is highly dependent on oil imports. The increase in the world price of oil and high percentage of domestic losses has created a gap between generation costs and revenue. This gap is being financed by concessional resources in the form of oil cooperation from the Government of Venezuela, equivalent to about 1.5 % of GDP.[7]

Economic and Political Context

The Bank's Country Strategy (CS) with Nicaragua (2008-2012)[8] coincided with the election of a new government. It also coincided with the worst international economic and financial crisis in modern times. The Strategy was aligned with the objectives proposed by the government in its National Plan for Human Development and its Economic and Financial Program, addressing five areas essential for growth and poverty reduction: fiscal management, productive infrastructure (energy and roads), social welfare, agriculture, and disaster prevention. These are all areas in which the Bank determined that it could add value, given its long history of engagement in the country. The Strategy did not, however, propose a specific intervention to strengthen governance, even though the Bank's prior analysis had identified this as a critical constraint to growth and the prior CPE had concluded that *"governance-enhancing reforms"*, and in particular plans to reform the legislative branch and strengthen government effectiveness, had *"not been adequately addressed and remain outstanding for future strategies."*[9]

After the strategy was approved, accusations of irregularities related to municipal elections in November 2008, and a reduction in bilateral assistance resulting from the global financial crisis led to the dissolution of the Budget Support Group—the group of bilateral and multilateral agencies providing budgetary support to the country[10]—and the withdrawal of grant support. From that time on, the Bank played a central role in financing the country's fiscal gap. The International Monetary Fund (IMF) also maintained an active program of budgetary support and policy dialogue under the Extended Credit Facility (ECF).

To compensate for the reduction in budgetary resources from the Budget Support Group and to provide a countercyclical response to the financial crisis, in 2009-2010 the Bank increased the total amount of lending in a series of policy-based loans (PBPs). The Bank's fast and significant response was made possible by the decision to increase the allocation of resources from the Fund for Special Operations (FSO) to address the international financial crisis. Nevertheless, time constraints beyond the control of Bank staff led to insufficient analytical work and weak conditionality in the first series of three PBPs. In essence, this set of PBPs served more as fast-disbursing emergency loans than as instruments for deep policy reform. It also led to a doubling of the Bank's exposure in the country (from US$476 million to US$981 million) on the heels of US$1.17 billion in debt relief (2007).

Programming and implementation

As a D-2 country with moderate risk of debt distress, Nicaragua is eligible for concessional funding under a 50/50 blend of FSO and ordinary capital (OC) resources. The Strategy anticipated the approval of US$400 million to US$560 million in total resources for its program. As of March 2012, a total of US$755 million had been allocated to Nicaragua, of which US$236 million was programmed but not yet approved under the biannual 2011-2012 FSO allocation. Net cash flow to the country has been positive, reflecting the Bank's rapid countercyclical response. Yet the fact that FSO resources cannot be carried over to the subsequent allocation cycle creates some risk of poor project quality or potential forfeiture of resources.

Infrastructure (roads and energy) received 41% of approved resources, and the fiscal management PBPs represented 24%. Although the CS prioritized agriculture as a driver of development, just 6.7% of the volume of approvals targeted this sector[11]. Lending in health, education, water, and housing together accounted for 15.4%.[12] While the amount of resources allocated to roads and energy is aligned with the strategy's emphasis on productive infrastructure, a question remains as to whether the volume of investment in agriculture and the social sectors is adequate and consistent with the pro-poor focus of the Bank's program.

The significant increases in the level of concessional resources allocated to Nicaragua resulted in greater complexity in the Bank's portfolio management. The Bank increased the administrative and personnel resources in the country office and instituted numerous initiatives to enhance operational efficiency—actions that have reduced the age of the portfolio and increased execution performance in terms of faster disbursements of investment projects. Yet while the efficiency of the execution of the program has improved as a result of the initiatives to strengthen the country office and executing agencies, 27% of all audited financial statements were qualified for the 2008-2011 period.

Poverty is concentrated in rural areas, where agriculture is the economic base.
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Results

Evidence on the results of the Bank's program is limited to date. Although it is too early to measure outcomes in the energy sector, loan execution is on track. Outputs in transportation are measurable, but the economic impact of these investments is not yet available. In the social sectors, the Bank's objective is to improve the effectiveness of pro-poor public spending, and its development targets are aligned with the MDGs. OVE has documented progress in access to potable water, the number of children benefiting from early childhood development programs, improved housing for low-income families, and the utilization of maternal health services. In agriculture, results have been mixed and documentation of economic benefits is weak. The Bank has documented an increased country capacity for natural disaster risk management.

Two overarching concerns emerge from the analysis. First, the Bank has at times overlooked the issue of recurrent cost financing to support the continued provision of services initiated under investment loans. Some programs have seen untimely suspensions, undermining the effectiveness of the initial investment. Second, project-level and country strategy results have both been poorly documented. The original Results Matrix in the CS contained 17 indicators, of which 14 lacked a complete metric for evaluation. Subsequent efforts to improve the evaluability of the program resulted in the identification of more than 100 indicators at the program and project levels, of which the 2012 Country Program Document was able to document progress toward the achievement of 13.

Recommendations from OVE and Management Responses

Recomendaciones de la Evaluación del Programa de País	Respuesta de la Administración
Undertake further diagnostic and analytic work to delineate the Bank's potential role and value-added in Nicaragua. The country's mixed record of economic performance, its dynamic political context, and the withdrawal of some international partners have left the Bank in a sensitive position. As the largest multilateral partner, the Bank needs to consider carefully where it can contribute most effectively to Nicaragua's economic development, and take measures to focus its program accordingly. A highlight of the analytic work prepared for 2008 country strategy was the Growth Diagnostic. The Bank should update this body of work to fill in data and information gaps previously encountered.	**Agreed.** As part of the 2012-2017 strategy formulation process, the Bank has updated its country knowledge, including the preparation of policy notes and update of the Growth Diagnostic, supplemented by energy and financial sector studies. These studies have been important inputs for the country policy dialogue and helped to target the strategy to those areas where the Bank has the greatest value-added.
Support Nicaragua in improving the efficiency of public expenditure, including in the electricity sector. The country's ability to expand public external indebtedness is likely to be limited in the future. The Bank could usefully assist the country in identifying and implementing reforms to increase the efficiency of public spending and improve the financial sustainability of public enterprises. One area of potentially high impact is the electricity sector, where there are large subsidies and significant nontechnical losses.	**Agreed.** Over the next strategy period, the Bank will continue to support the country in improving the efficiency of public expenditure. The electricity sector is one of the strategy's priority areas, where the Bank's activities will help to enhance the sector framework and ensure its efficiency and financial and operational sustainability. At the same time, support to the social sectors will seek to improve the efficiency and targeting of social spending.

Work with the Government of Nicaragua to strengthen the measurement and reporting of results at the project level. It is incumbent upon the Bank to document and track the results of its program with the country. The Bank should give higher priority to strengthening project-level results measurement and reporting than to defining detailed targets for results in country strategies and annual programs, given the difficulty of attributing country-level results to Bank engagement.	**Agreed.** During the period 2008-2012, the progress monitoring report (PMR) has been used to document project results, principally at the output level. This recommendation is being incorporated into portfolio review exercises, which currently focus on planning for results. As part of this exercise, Bank staff and the staff of project execution units have been trained in topics related to results measurement. This practice is expected to continue during the 2012-2017 strategy.
Enhance the sustainability of investment lending to Nicaragua by estimating the likely increase in recurrent costs, and as part of project design, request that government identify potential sources of financing for the continued provision of services beyond project completion.	**Agreed.** The Bank, in coordination with the country, will identify ways of making the maintenance and sustainability of loans more viable, depending on the sector and specific features of each operation. Additionally, as part of operation design, the Bank will continue to perform the relevant analysis on potential cost increases.
Consider ways to provide D2 countries with access to emergency lending facilities to meet fiscal needs in times of crisis. The use of policy-based lending to disburse emergency financial relief undermines the original intent of the PBP instrument to support deep policy reform. Short-term liquidity needs in crisis situations should be addressed with other instruments—not yet available in D2 countries—to avoid compromising the role of policy-based lending.	**Partially agree.** While it is true that the Bank currently has no instrument to disburse emergency financial relief to D2 countries, the integrity of policy-based lending has not been, and is not, undermined as a result. Management does not believe that the Bank used policy-based loans to delivery emergency financial relief. Each policy-based loan has been submitted in accordance with the applicable policies and rules, and the Bank's Board of Executive Directors has approved them upon consideration of their technical merits and the respective reforms.

Specific comments

Management would like to share the following observations on the document.

Chapter 2:

The sentence, "To compensate for the reduction in budgetary resources from the Budget Support Group, in 2009-2010 the Bank increased the total amount of a series of policy-based programmatic loans (PBPs) (Annex 26)" is incorrect. The change in Nicaragua's resource allocation was the result of the supplementary increase approved for the Group D2 countries in 2009 by the Bank's Board of Executive Directors (document GN-2442-20), to help these countries weather the international financial crisis. Thus, the definitive amount of resources from the Fund for Special Operations allocated annually among the Group D2 countries (except Haiti) was doubled with respect to the 2007-2008 cycle.

A total of 24 MIF operations were approved for a value of US$16.5 million.

1

According to the 2009 Household Survey, extreme poverty decreased from 17% to 14% from 2005-2009. The country has also progressed toward specific MDG indicators in education, health, and gender equality.

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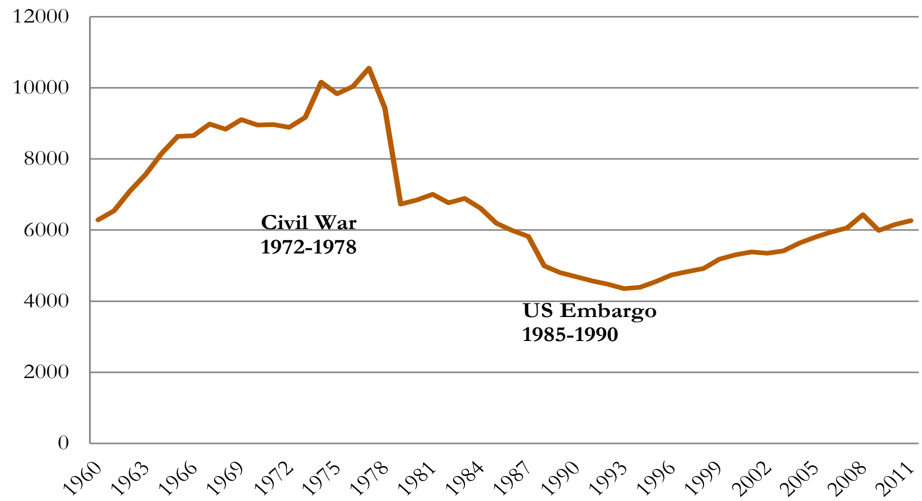
1 Introduction

Two overarching themes give the Country Program Evaluation (CPE) for Nicaragua structure and a common thread to discuss the Bank's work program for the period 2008-2012: chronic slow growth and high poverty. With an estimated 2012 gross domestic product (GDP) per capita of US$1,291,[13] Nicaragua is the second-poorest country in Latin America and the Caribbean (LAC). From a historical perspective, the country is still suffering from the impact of the debt crisis, years of civil war, and a decade of political turmoil that culminated in a trade embargo with its primary commercial partner – the U.S.[14] As Figure I.I illustrates, current GDP is similar to levels reached in 1960 and equals only 57% of the maximum per capita production of 1977.[15] Since the signing of the Peace Accords and the elections of 1990, the economy has been growing – steadily, but very slowly – on a per capita basis. Nonetheless, average growth over the past 10 years (3.16%) has been lower than that of other Central American countries (4.3%),[16] and is insufficient to accelerate economic development and poverty reduction (Annex 1).

According to a growth assessment initiated by the Bank in 2007,[17] opportunities for Nicaragua's economic development lie in the diversification of nontraditional agricultural and agro-industrial production. The report also identified structural issues that constrain growth, including: (i) macroeconomic vulnerability related to the country's dependence on concessional resources and external donations; (ii) insecure property rights (a product of weak rule of law); (iii) low quality and inadequate coverage of transportation infrastructure between export centers and shipment points; (iv) shortages in supply and relative high cost of electricity; (v) inadequate infrastructure and standards for food commercialization and export; and (vi) lack of productive credit for new projects, especially for small businesses in rural areas. Moreover, the economy is vulnerable to instability stemming from frequent and severe natural disasters.

Figure 1.1

Nicaragua Real Per Capita GDP (Cordobas), 1960-2011



A. Development Challenges

1. Macroeconomic stability

Since 2007, Nicaragua's macroeconomic policy has been aligned with the International Monetary Fund's (IMF's) Poverty Reduction and Growth Facility (now Extended Credit Facility, or ECF).[18] The country's National Plan for Human Development (PNDH), presented in 2008, frames the government's vision to reduce inequality and poverty through an orthodox macroeconomic policy and an ambitious program of social expenditure and public investment. The structural and financial targets required to accomplish the country's development agenda are set out in the Economic and Financial Program (PEF). In 2009, the PNDH and PEF were updated to reflect the policies, goals, and resource allocation to be achieved in the context of the limitations imposed by the international financial crisis. Key macroeconomic indicators for the review period are presented in Table I.1.

Nicaragua rebounded from the international financial crisis in 2010 with a growth rate of 4.5% driven in part by an increase in the volume and price of its primary exports (Annex 2), and by active participation in regional trade initiatives, including the Central American Free Trade Agreement and the *Alianza Bolivariana para los Pueblos de Nuestra América – Tratado de Comercio de los Pueblos* (ALBA-TCP) (Annex 3).[20] The country also benefitted from heavy investment in the productive and social sectors by the Government of Venezuela in the context of petroleum cooperation (Annex 4).

Table 1 – Description of OMJ's Portfolio of Project Loan and PCGs

	2007	2008	2009	2010	20011*	2012[p]
Real sector (%)						
GDP growth	3.1	2.8	-1.5	4.5	4.7	3.7
CPI (year-end)	16.9	13.7	0.9	9.2	8.0	7.5
Unemployment	5.9	6.1	8.2	7.8	7.8	7.8
Fiscal sector-central Government (% GDP)						
Revenues	19.7	19.0	18.9	19.6	21.1	21.5
Expenditures	23.0	23.1	23.6	22.6	22.4	24.1
Primary balance before grants	-3.4	-4.1	-4.7	-3.0	-1.3	-2.6
Donations (central government)	3.8	2.9	2.4	2.5	2.9	2.2
Primary balance after grants	0.4	-1.2	-2.3	-1.0	0.6	-0.4
Public debt (% GDP)						
Total public debt (% GDP)	82.0	74.8	80.1	78.0	71.5	67.5
Domestic public debt	25.3	19.7	21.2	19.2	16.0	14.8
External public debt	59.8	55.1	58.9	58.8	55.8	52.6
Financial sector (% GDP)						
Private sector external debt	29.3	32.4	38.4	44.3	48.7	
External sector (% GDP)						
Total external debt	89.1	87.5	97.3	103.1	104.6	
Current account	-17.8	-23.8	-12.2	-14.4	-15.7	-18.4
Remittances	13.0	12.8	12.4	12.8	13.3	13.8
Capital and financial account	19.3	24.1	19.7	17.8	16.7	19.1
Gross reserves (months of imports)	3.4	2.9	4.9	4.7	4.0	3.7

Source: IMF and Central Bank of Nicaragua, Country Report No 11/322. Oct 2011.
*2011 numbers are preliminary and 2012[p] are projected.

In early 2009, with the support of the Bank and the IMF, Nicaragua reformed the tax system, eliminating some exemptions, and established a minimum income tax. This initiative contributed to an increase in tax revenue of 1.14% of GDP in 2011.[21] Consequently, the fiscal deficit averaged 0.9% of GDP (after grants) from 2008-2012, compared with 1.5% of GDP during 2002-2007.[22]

Despite these improvements, the **current account** remained at levels similar to those of the previous 20 years, averaging a deficit of 16.9% of GDP from 2008 to 2012 (Annex 5). While exports increased from 38.4% of GDP in 2007 to 58% of GDP in 2011, imports also increased from 70.1% to 87% GDP over the same period of time.[23] Nicaragua's primary trade partners are the United States and Venezuela (Annex 6). The country's most important exports correspond to a limited basket of agricultural goods, equivalent to 40.1% of the total exports for 2008-2012.[24] Under the ALBA-TCP, agricultural exports to Venezuela have grown from US$2 million in 2006 to an estimated US$303 million in 2011. Consumer goods and petroleum products represented 59% of total imports for 2008-2012 (Annex 7).[25] To reduce the excessive weight of petroleum imports, under ALBA-TCP arrangements Nicaragua receives Venezuelan cooperation equal to 50% of the total value of the imported petroleum in the form of concessional loans, grants, and coinvestment. Between 2007 and 2012, Venezuelan cooperation averaged 4.7% of GDP.[26]

Central Bank **monetary policy** has effectively maintained a balance between inflation and depreciation by applying a crawling peg system, with a nominal depreciation rate of 5%. **Inflation** is trending downward but has fluctuated on a year to year basis, largely reflecting the price volatility of imported petroleum (Annex 8). Improved fiscal performance and favorable external conditions are reflected in the levels of **international reserves**, whose value, from 2008-2012, averaged the equivalent of four months of imports.[27]

The Bank's Debt Sustainability Framework and Enhanced Performance-Based Allocation Framework[28] classified Nicaragua's public debt as having a moderate risk of distress. Following three rounds of debt forgiveness (Highly Indebted Poor Countries [HIPC]), enhanced HIPC, and the Multilateral Debt Relief Initiative), and the cancellation of US$1.17 billion in debt with the Bank, Nicaragua's external public debt fell from 169% of GDP in 2000 to 59.8% of GDP in 2007. As a result of the Bank's action, outstanding payables to the Bank dropped from US$1.5 billion to US$476 million, equivalent to 14% of the external public debt in 2007 (Annex 9). While Nicaragua's external public debt has remained below 60% in nominal terms, the corresponding stock of debt increased from US$3.38 billion in 2007 to US$4.12 billion in 2012 (Annex 10). Much of this increase is due to Bank financing: from 2007, the Bank's exposure nearly doubled, reaching US$981 million (24% of Nicaragua's total public debt) in 2012.

Because government's Economic and Financial Program recognizes the fundamental role of external donations and investments, government accelerated cooperation agreements with ALBA. Nicaragua's **total external debt** grew from 89.1% of GDP in 2007 to 104.5% of GDP in 2011 (Annex 11). This increase derives primarily from concessional financing provided by Venezuela through the ALBA-TCP oil

The agriculture sector contributes approximately 20% of GDP, employs 40% of the population, and generates about 70% of exports.
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initiative, which is applied as off-budget investments in public sector enterprises (Annexes 12-13). Between 2007 and 2011, Nicaraguan public companies received US$1.71 billion of ALBA financing,[29] which is equivalent to 90% of the increase in the stock of private sector debt. In fact, it should be noted that ALBA-TCP cooperation did not exist before 2006, yet by 2012, it was larger than all other sources of external grant and loan cooperation combined. Because Nicaragua considers that debt accrued by state enterprises is private sector debt, these amounts are not included in the Central Bank's (CBN's) calculation of government indebtedness.[30]

Donor assistance and international remittances continue to be important for macroeconomic stability. Between 2007 and 2012, annual bilateral and multilateral donor assistance averaged US$399 million (6.2% of GDP), and remittances averaged US$848 million (13% of GDP) (Annexes 14-15). External flows, whose behavior is difficult to predict, represent about one-fifth of GDP.

2. Growth

Notwithstanding the progress cited above, Nicaragua's long-term economic growth has been slow. Given that Nicaragua was the "breadbasket of Central America" before the civil war, increased agricultural productivity and exportation will likely play a key role in future economic development and poverty reduction. Hence, measures to fuel the economy and reduce poverty are linked to agricultural productivity and property rights.

Nicaragua has made progress toward achieving the Millennium Development Goals (MDGs) in education, health, water, and gender equality.

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Poverty is concentrated in rural areas, where agriculture is the economic base and land tenure is central to poverty reduction efforts. According to the 2007 World Bank Poverty Assessment, the number of people in the lowest quintile of income that work in agriculture has grown since 1998. Today the agricultural sector contributes approximately 20% of GDP, employs 40% of the population, and generates about 70% of exports. For the most part, the sector is comprised of small farmers who use traditional practices to cultivate low-cost agriculture. During the agrarian reform of the 1980s, the government expropriated a number of properties, residences, and companies, which it subsequently redistributed to agrarian cooperatives, often without documentation. Consequently, conflicts surrounding **property ownership** are among the most pressing issues facing the country. In 2010, an estimated 35% of rural land was affected by conflicting claims. Cadastre coverage, while increased, encompasses only about 20% of the total land area. The share of property with no records or improper documentation is critically high among small and poor producers. Other constraints to the development of the sector include limited productive credit for new projects, particularly for individual farmers and small businesses in rural areas,[31] and inadequate infrastructure and standards for food commercialization and export.

Although significantly improved through investment over the past five years, the **energy** sector has historically been characterized by outages; shortfalls in the generation, transmission, and distribution of electricity; an elevated level of unbilled losses; and accumulated arrears between the distribution company and public entities. Regional integration in the electricity sector is also low. In 2010, CEPAL reported that electricity exports and imports for Nicaragua accounted for only 1.3% and 0.3%, respectively, of the energy generated in the National Interconnected System. Because two-thirds of the country's electricity is produced by thermal generators, the energy matrix is highly dependent on imported oil. The gap between revenue and generation costs, equivalent to about 1.5% of GDP in 2011, is causing liquidity problems, which are financed with concessional resources from Venezuela. In January 2012, electricity rates were increased by 9%; however, the *Instituto Nicaragüense de Energía* (the national energy regulator) estimated that an adjustment of 20.2% would have been required to cover the real price of the energy delivered.[32] Consequently, the government will again pay generators a partial subsidy (estimated at US$45 million) over the year. Challenges to sustainability, recognized by government in its sector framework, include the need to: make continued investment in Nicaragua's generation, transmission, and distribution capacity[33]; move the energy matrix toward renewable sources of energy; reduce unbilled and technical losses; adjust consumer rates to cover operational costs; and focus transparent subsidies on the most vulnerable populations.

The **public road network**, the main link between the productive sectors and international export markets, also suffers from serious limitations. In 2010, the total road network was estimated to be 21,441 km, of which 14,933 km were all-weather roads, and 2,815 km were paved. To put this in a broader context, the density of coverage, measured as paved roads per capita, situates Nicaragua at 0.46 km/1,000 population, far below the LAC median of 1.51 km/1,000 population.[34] The absence of paved roads is even more severe in rural areas, where poverty is acute. By contrast, motor vehicle traffic has grown rapidly, with the number of passenger cars virtually doubling to more than 128,000 between 1996 and 2008.[35] Under the PNDH, the government has prioritized integrating the national highway system with regional initiatives, including Plan Mesoamérica, and expanding the road network in regions of the country with the greatest productive potential.

Nicaragua is exposed to recurrent **natural hazards** of great intensity that wreak havoc on agriculture, livelihood, food security, and the road network. In 2007, Hurricane Felix devastated the country, taking human lives, displacing entire communities, and eliminating crops. In 2009, as a result of Hurricane Ida, thousands of houses and buildings collapsed or were damaged, and about 40,000 people were left homeless. The next year, severe flooding caused extensive damage to infrastructure, including the collapse of six bridges. The rise of food and oil prices in 2008 and the global financial crisis in 2009, both following closely on the heels of extreme climatic events, have challenged the country's ability to absorb losses and replenish the stock of capital.

The pace of reforms to foster **competitiveness** has been slower than in comparator countries: *The Global Competitiveness Report* 2011-2012[36] ranked Nicaragua 115 among 142 countries. On the basis of extensive Enterprise Surveys, the report identified several ways to enhance Nicaragua's economic competitiveness: improving public sector management, fighting corruption, strengthening the judiciary, and strengthening property rights. Similarly, the *Ease of Doing Business* 2012 report[37] ranked Nicaragua 117 among 183 countries and identified several key constraints: difficulty of getting building permits, property registry, credit practices, and compliance with the tax system.

3. Social well-being

Nicaragua has made progress toward achieving the Millennium Development Goals (MDGs) in education, health, water, and gender equality. Following three rounds of debt relief and an aggressive program of structural reform and social investment under the Poverty Reduction Strategy Paper, **poverty** fell from 48.3% in 2005 to 42.5% in 2009[38] (Annex 16). In addition, the country occupies second place in Latin America after Venezuela in terms of reducing **inequality**, having lowered the Gini coefficient from 0.51 in 2005 to 0.46 in 2009. These achievements are significant, considering that the country's economic growth is less than the average of other Central American countries, and that improvement happened during a period of profound global economic crisis.[39]

Government social policy aims to expand coverage and improve access to basic services in health, education, access to water and sanitation, and electricity. Nicaragua's **social expenditure** has increased, but is still below the LAC average (Annex 17). In 2009, the country destined 5.9% of GDP to education, 4.1% to health, and 2.2% to housing (Annex 18). Notable among the programs to combat poverty are *Hambre Cero*, *AMOR*, *Amor a los más Chiquitos*, *Programa de Desayunos Escolares*, *Modelo de Salud Familiar y Comunitario*, *Ahora Puedo Leer y Escribir*, and *Si, Yo Puedo Continuar*.[40]

Despite these positive trends, the country still faces development challenges, such as rural-urban income disparity. Compared with urban areas, rural areas contain a greater concentration of overall poverty (63% vs. 27%) and extreme poverty (27% vs. 6%) (Annexes 19-20). According to the 2009 Household and Living Standards Survey (EMNV), much of the population still lacks access to **basic services:** 27% lives in overcrowded conditions,[41] and 11% resides in inadequate housing.[42] Clean water coverage increased to 85% by 2010, however, placing the country within reach of the MDG of 87% by 2015 (Annexes 21-22).

The country has made progress in **education**. [43] (Annex 23). Although there has been progress in secondary education, this level faces greater challenges. Fragmented access and rural poverty contribute to early dropout, resulting in a net secondary enrollment rate of 45.8% in 2009[44] (Annex 24). The average Central American urban population has a higher level of education than Nicaragua's –9 years of schooling, compared to 6.9 years. The difference between urban and rural education quality could help explain the persistence of rural poverty, considering the high correlation between educational attainment and income generation.

In 2007, the government restored the constitutional right to free **health care**. In terms of the MDGs, maternal mortality decreased substantially, falling from 76.5 to 67.4 deaths per 100,000 live births between 2006 and 2009,[45] and is progressing toward the goal of 40 set for 2015. Infant mortality also dropped by half between 1990 and 2009; and between 2006 and 2010, the proportion of children under one year of age suffering from malnutrition dropped from 13% to 9%.

4. Governance

According to World Governance Indicators of 2012,[46] Nicaragua ranks in the 27th percentile among Latin American countries in terms of the six dimensions of good governance. In particular, Nicaragua ranks below the 25th percentile in three areas: (i) government effectiveness (strength of the civil service, meritocracy, and credibility); (ii) rule of law (level of respect and trust citizens have for the laws, effectiveness and predictability of the judicial function); and (iii) control of corruption. These challenges are intimately related to one another and have important implications for eliminating restrictions on growth. Moreover, according to the growth diagnostic[47] that informed the Bank's Country Strategy (CS), reforms in other areas (lower credit costs, access to financing, macroeconomic stability, etc.) cannot fully attain their desired benefits without improvements in governance. In this regard, the government supports dialogue and consensus building with the private sector and trade unions on economic and social legislation, and encourages citizen participation through ongoing consultation at the community and municipal levels.

Partly as a result of the national literacy campaign, Nicaragua declared itself an illiteracy-free territory: the illiteracy rate for people between 15 and 65 years of age dropped from 20% in 2005 to 3% in 2010. Net primary education enrollment reached 87% in 2010.
© Willie Heinz, 2007

2 The Bank's Program in Nicaragua 2008-2012

This chapter examines the events that shaped the Bank's country program over the review period and assesses the relevance of the Bank's CS and financial assistance in meeting the country's development challenges and priorities.

A. Events relevant to the design and positioning of the Bank's Country Program

The design of the Bank's strategy coincided with the election of a new government. It also coincided with the worst international economic and financial crisis in modern times. After the CS was approved, concerns about democratic governance, especially related to the municipal elections in 2008, and a reduction in bilateral assistance resulting from the financial crisis led to the suspension of donor grants for budget support and the dissolution of the Budget Support Group of bilateral and multilateral agencies.[48] It also resulted in the partial cancellation (US$63 million) of the Millennium Challenge Account. Consequently, total bilateral assistance to the public sector fell from 5.5% of GDP in 2008 to 3.4% in 2011[49] (Annex 25).

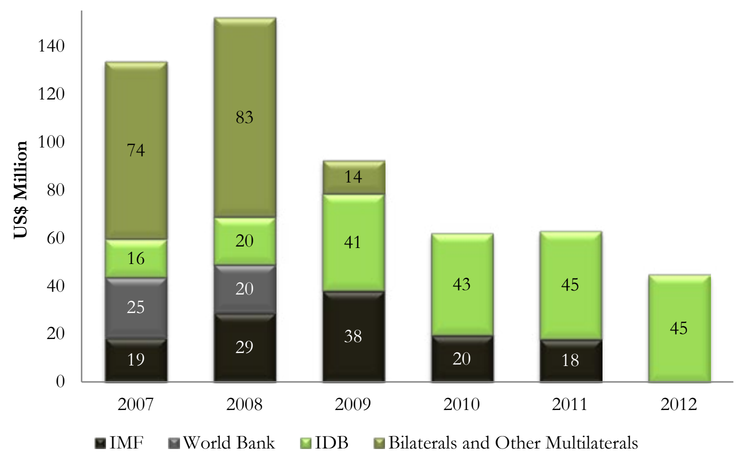
From then on, the Bank played a central role in financing the country's fiscal gap. The IMF maintained an active program of budgetary support and policy dialogue under the ECF. To compensate for the reduction in budgetary resources from the Budget Support Group, in 2009-2010 the Bank increased the total amount of a series of policy-based programmatic loans (PBPs) (Annex 26). As Figure II.1 illustrates, the PBP was used as a fast-disbursing emergency instrument to close the country's fiscal gap (approximately 40% of the fiscal deficit). This countercyclical response enabled government to maintain spending and sustain advances toward achieving the MDGs, thereby lowering the impact of the recession.

The Bank's rapid and significant response was made possible by the decision to increase the second-round allocation from the Fund for Special Operations (FSO) to address the international financial crisis. Nonetheless, time constraints beyond the control of

Bank staff, led to weak conditionality in the first series of three PBPs (NI-L1011, NI-L1023, and NI-L1047; see chapter IV-B for more detail). In essence, this set of PBPs served more as fast-disbursing emergency loans than as instruments for effective policy reform. This begs the question of whether the Bank has an appropriate instrument for the rapid disbursement of emergency financial resources to FSO countries. Also of concern is the substitution of bilateral grant resources with loans, which must be repaid with interest (albeit on concessional terms), and the doubling of the Bank's exposure in the country (from US$476 million to US$981 million), following US$1.17 billion in debt relief.

FIGURE II.1

Nicaragua Financing Gap*, 2007-2012[p]



In sum, the country's mixed record of economic performance, its dynamic political context, and the withdrawal of some international partners have had an important impact on the economy, government finances, and the role of the Bank as the country's largest multilateral development partner.

B. Government policy framework 2008-2012

The 2008-2012 CS was prepared as the newly installed Government of Reconciliation and National Unity defined its economic priorities and development strategy. In late 2007 and early 2008, the Nicaraguan administration published two documents that outlined a new economic and human development paradigm that explicitly differed from previous political priorities and values.

- The Economic and Financial Program[50] set forth a framework to create conditions for significant poverty reduction and economic growth in a context of macroeconomic stability and fiscal sustainability, and specifically mentioned the importance of external resources to support public sector finances and balance of payments. The PEF highlighted: (i) a social policy oriented to the provision of free health services and education, and subsidies for other services to the poorest segments of the population; (ii) an orthodox macroeconomic policy to ensure sustained growth; and (iii) strengthened public financial administration to improve efficiency, transparency, and accountability.

- The National Human Development Plan[51] focused on reactivating the economy and alleviating poverty. It outlined a new development model called "Citizens' Power," whose objective was *"structural transformation to overcome exclusion" and whose criterion of success was "growth with the elimination of poverty and hunger… based on values of solidarity…, redistribution, inclusion and equality."*[52] The PNDH was the product of broad national consultation with principal segments of public, private, nongovernmental, and workers' organizations. However, at the time the CS was prepared, the PNDH was not yet finalized. Thus, the draft that the Bank used to frame its program did not prioritize among areas of intervention, nor did it contain an evaluation framework that the Bank could use to gauge its contribution.

C. The Bank's Country Program 2008-2012

The general objective of the Bank's program in Nicaragua was to *"provide selective support for the Nicaraguan government in reducing and managing vulnerabilities, which inhibit the attainment of the country's goals of growth and equity."*[53] In that context, the Bank's financial and technical support was woven across five objectives: "(i) fiscal sustainability and the strengthening of public management; (ii) reliability of the electric power supply and improvement of the existing road system; (iii) management and coverage of social services, including the development of a social welfare system; (iv) productive development; and (v) institutional management for natural disaster prevention."[54]

Conceptually, the Bank's strategy was based on the principle of *"supporting the government's development priorities in a more targeted manner, with a clearer definition of the contribution expected from the Bank and actions in sectors where the Bank has comparative advantages."*[55] While the Office of Evaluation and Oversight (OVE) was able to confirm that the Bank's program was aligned with the strategic objectives of the PNDH, it was not able to discern why the Bank prioritized the areas that it did over others of equal or potentially greater relevance. For example, "governance," one of three strategic pillars in the prior CS, was absent from CS 2008-2012 as an objective and as a risk, despite the observation by the 2002-2007 CPE that "issues related to institution building of governance-enhancing institutions and reforms have not been adequately addressed and remain outstanding for future strategies."[56] (Annex 27 summarizes the findings of the prior CPE). Education, a sector in which the Bank had cultivated a long history of technical and financial collaboration, was also dropped from the Bank's country program and "dialogue agenda," despite its strong correlation with the goal of poverty reduction. Land regularization, which the growth diagnostic identified as one of the most critical constraints to development and growth in the country, was also omitted from the Bank's program.

Another recommendation of the prior CPE was to concentrate the Bank's program in fewer sectors, with larger operations –an approach that had been discussed and agreed with the government. While the CS anticipated reducing the number of loan operations in execution from 35 in 2007 to 21 by 2012, OVE's analysis confirmed that the scope of Bank operations actually increased from 13 to 14 sectors, while the average loan size remained stable.

The level of generality in the Bank's CS reflects the absence of a strong diagnostic. The CS did not present evidence that its identification of core areas of intervention was rooted in a deep analysis of trade-offs between development priorities, on a critical examination of the root causes of underdevelopment in the selected sectors, or its comparative advantages as a development partner. In the absence of an explicit *ex ante* evaluation of alternative interventions, energy, financial management, public sector management, health care, social protection, housing, productive development, sustainable economic growth, poverty reduction, rural development, transportation, water and sanitation, and natural disaster prevention were all identified as "selective" areas of support by the Bank. The Bank should integrate its analytical work more deeply into the formulation of its sector dialogue with and policy response to the government.

In 2009, the government finalized its national consultation and approved a complete version of the PNDH, including an array of indicators that enabled the Bank to align its program with government targets in subsequent programming exercises (Annex 28). According to government authorities interviewed by OVE, the Bank's program does address relevant development challenges, and is coherent with the strategic objectives outlined in the PNDH. In fact, the majority of loans that originated over the review period grew out of government initiatives complemented with Bank consultations. In this context, the Nicaraguan authorities consider the Bank to be a good partner to finance relevant operations. As Table II.1 illustrates, the coherence between the Bank's programmatic intent and approvals over review period is high.

1. Fiscal sustainability and the strengthening of public management

The objectives of the CS in this area sought to: (i) strengthen national systems of financial management, public investment, civil service, procurement, monitoring, and evaluation; and (ii) improve public management. The strategic rationale for Bank intervention was based on the growth diagnostic that was undertaken at the end of 2007. The study concluded that inefficient public sector management and weak governance posed serious constraints to growth in Nicaragua, and recommended greater emphasis on the modernization and strengthening of public-sector institutions.

The Bank's intervention was framed in a series of three policy-based loans (US$20 million each) that complemented each other within the context of a programmatic approach. The PBP series was designed to support a *"new generation of fiscal reforms"*

Table I Table II.1. Sovereign Guarantee (SG) Loans Programmed and Approved (January 2008 to March 2012)

Number	Name	Type	Approval year	Final disbursement	Amount programmed	Amount approved	% disbursed
2008 Program							
NI-L1011	Fiscal and Social Management Improvement	PBP	2008	1/30/2010	20,000,000	20,000,000	100%
NI-L1020	Program to Support Agrifood Production	ESP	2008	5/11/2014	20,000,000	20,000,000	61%
NI-L1022	Electricity Sector Support Program II	ESP	2008	11/5/2014	40,200,000	40,200,000	28%
NI-L1010	Storm water Drainage & Development Mgmt Sub Watershed III Managua	ESP	2009	12/18/2012	9,800,000	13,000,000	29%
2009 Program							
NI-L1016	Foreign Trade Support Program	ESP	2009	12/18/2013		10,000,000	21%
NI-L1023	Support Improve Fiscal Management and Reform of Social Expenditure II	PBP	2009	12/18/2010	20,000,000	40,500,000	100%
NI-L1035	Supplementary Road Infrastructure for Competitiveness Program	SUP	2009	12/18/2013	9,800,000	43,500,000	46%
NI-L1036	Electricity Sector Support Program III	ESP	2009	11/26/2013	20,000,000	20,000,000	31%
NI0155	Urban Welfare for Children in Extreme Poverty	PFM	2009	5/10/2013	20,000,000	15,000,000	13%
NI-L1029	Water Supply Program for Managua	ESP	2010	2/18/2016	30,000,000	30,000,000	1%
NI-L1033	Public Sector Financial Mgmt. Modernization	ESP	2010	2/18/2016	10,000,000	10,000,000	1%
NI-L1037	Strengthening Tax Administration	ESP			10,000,000		
S/N	POSAF II	ESP			10,000,000		
NI-L1046	Global Multisector Credit Program	GCR	2009	12/18/2014	20,000,000	20,000,000	19%
2010 Program							
NI-L1047	Fiscal Management Improvement and Social Expenditure Reform III	PBP	2010	12/17/2011	20,000,000	42,500,000	100%
NI-L1040	National Sustainable Electrification and Renewable Energy Program I	ESP	2010	9/29/2014	30,500,000	30,500,000	13%
NI-L1049	Support to Transportation Sector I	GOM	2010	2/18/2014	20,200,000	20,200,000	5%
NI-L1032	Implementation of the Development Plan for the Caribbean Coast	ESP			10,000,000		
S/N	Water and Sanitation	ESP			30,000,000		
NI-L1055	Cost overruns for SIEPAC Project	SUP	2010	12/21/2011	4,500,000	4,500,000	100%
NI-L1056	Comprehensive Child Care (PAININ, IV)	ESP	2010	2/18/2013	12,500,000	12,500,000	41%
NI-L1039	National Program of Tourism	ESP	2010	2/18/2016	10,000,000	10,000,000	5%
NI-L1048	Environmental Program for Disaster Risk and Climate Change Management	ESP	2010	2/18/2016	10,000,000	10,000,000	6%

Number	Name	Type	Approval year	Final disbursement	Amount programmed	Amount approved	% disbursed
	2011 Program						
S/N	Fiscal Management and Social Expenditure IV	PBP			20,000,000		
NI-L1050	National Sustainable Electrification and Renewable Energy Program II	ESP	2011	10/28/2015	22,000,000	22,000,000	0%
NI-L1051	Improvement of Social Protection and Health Spending and Management I	PBP	2011	12/16/2012	55,000,000	45,000,000	100%
NI-L1052	Support to Transportation Sector II	ESP			59,200,000		
NI-L1054	Improving Family and Community Health in Highly Vulnerable Municipalities	ESP	2011	1/28/2017	20,000,000	20,000,000	7%
NI-L1059	Comprehensive Child Care (PAININ, V)	ESP			20,000,000		
	2012 Program						
S/N	Fiscal Management and Social Expenditure IV	PBP			20,000,000		
NI-L1068	Integrated Health Networks II	ESP			20,000,000		
NI-L1053	Housing and Comprehensive Habitat Improvement Program	ESP	2011	11/10/2015	20,000,000	20,000,000	0%
NI-L1063	National Sustainable Electrification and Renewable Energy Program III	ESP			35,000,000		
NI-L1064	Improvement of Social Protection and Health Spending and Management II	PBP			45,000,000		
NI-L1065	Access to Social Housing for the Majority	ESP			5,000,000		
NI-L1067	Sustainable Agricultural Productivity Development Program	ESP			40,000,000		
	Total				768,700,000	524,400,000	

Source: PISTA. Includes all SG loans programmed in CS2008-2012, CPD 2010, CPD 2011, CPD 2012.

to improve tax and customs administration, strengthen the quality and effectiveness of public expenditures in the social sector, consolidate ongoing reforms in justice, and modernize public sector institutions, including the national statistics system. The Bank's decision to increase the second-round allocation of FSO resources led to a doubling of the value of the second and third loans, bringing the total of the PBP series (2008, 2009, and 2010) to US$103.5 million. The initiatives identified were closely aligned with government efforts to achieve the macroeconomic and social targets established under the ECF, and were considered essential to stabilize social expenditures during a time of strong economic contraction. This set of operations was complemented by a US$10 million investment loan for the Modernization of Public Sector Financial Management, an active portfolio of seven loans approved under the previous CS, and 19 Technical Cooperations (TCs) that boosted government compliance with specific conditions related to the disbursement of the programmatic loans. As outlined in Annex 29, the package of loans and TCs also added value by providing technical assistance to strengthen internal controls, institutional systems, and management capacity across a wide array of public sector institutions responsible for fiscal management and social policy.

2. Reliability of the power supply and improvement of the existing road system

Nicaragua's high level of technical and nontechnical losses; its shortfall of capital to reliably generate, transmit, and distribute electricity; and the economic constraints posed by a heavy dependence on oil for the generation of electricity have been widely documented.[57] The Bank's program focused on: (i) reducing the number of interruptions in the flow of electricity; (ii) reducing the level of technical and nontechnical losses in power distribution; and (iii) increasing the capacity of transmission lines in the context of the Electrical Interconnection System for Central American Countries (SIEPAC).

At the request of the government, and to ensure the reliability of the energy sector to meet medium-term demands, the Bank included the following areas of support in its strategy: (i) an increase in coverage through investments in transmission and the rehabilitation of generation plants; (ii) the promotion of energy integration with Central America through the SIEPAC project; (iii) the search for alternative sources of generation; and (iv) institutional strengthening to improve the conditions of the electrical service in the country. Given the immediacy and scope of investment needs, the CS also committed to search for cofinancing, including investment in power generation projects through its private sector window.

The Bank programmed six sovereign guarantee loans in the electricity sector and approved five, totaling US$117.2 million. Two of the loans (NI-L1022 and NI-L1036) focused on the refurbishment of existing hydropower facilities and the expansion/improvement of the existing transmission system; two loans (NI-L1040 and NI-L1050) provided funding for rural electrification;[58] and the fifth loan bridged cost overruns related to SIEPAC. This round of investment was closely articulated with three active loans (US$91.3 million) that had been approved under previous strategies. The mix of instruments programmed by the Bank also included a combination of Multilateral Investment Fund (MIF) operations, TCs, and an investment grant (totaling US$9.7 million) that focused on renewable energy, including initiatives to expand access to solar power in rural areas, develop a market for biogas, and manage the watershed of the Apanas and Asturias lakes. A US$30.3 million private sector loan for the San Jacinto–Tizate Geothermal Power Project was also approved. Energy accounts for the highest share of programmed and approved resources in the portfolio.

Nicaragua's **national road network** is the main link between the productive sectors and external markets. Current levels of investment are insufficient to expand and maintain the system, and institutional oversight is weak. Recognizing the links among productive infrastructure, job creation, and economic growth, the CS confirmed that the Bank's objective in the sector was to *"undertake interventions to improve the connection of the productive sectors to export markets, and to integrate the nine regions of the country into the national economy, and the country into the Mesoamerican Region."* The

The Bank proposed to contribute to the achievement of the MDGs by improving the provision and coverage of water and sanitation59 in rural and urban areas. *©IDB, 2008*

Bank's program focused on: (i) expanding the paved road system; and (ii) supporting the Road Maintenance Fund (FOMAV) in maintaining the existing road network. It also included support for institutional strengthening in the sector. Of the three loans programmed in the sector over the course of the country program, two were approved (US$63.7 million), and one remains in the pipeline. The approved loans built on the Bank's long track record in Nicaragua's roads sector, and lent continuity to four active loans from earlier strategies (US$148.2 million).

3. Development of a social welfare system and improvement, management, and coverage of basic social services

The CS proposed that Bank activity in this area *"contribute to an increase in the effectiveness of public expenditure destined for the reduction of poverty"* by supporting actions in four areas: *"(i) interventions that articulate a system of social protection, with an emphasis on peri-urban areas; (ii) actions for the comprehensive development of children under age six in low-income families; (iii) programs that reduce the social vulnerability of families in extreme poverty in rural and peri-urban areas; and (iv) interventions to mitigate poverty in vulnerable groups."* The Bank identified its contribution to the PNDH in the context of increasing access to maternal and child health-care services, expanding the supply of water and sanitation services in rural and urban areas, and extending the supply of low-income housing.

In the area of **health and child protection**, the CS sought to *"improve the quality and coverage of healthcare for the most vulnerable populations, through the creation of integrated networks of maternal and child health and the institutional strengthening of the Ministry of Health."* It also supported a Master Plan to strengthen national policies and harmonize donor contributions. Five poverty-targeted operations were programmed and three approved (US$47.5 million) in the areas of: social protection, family and community health, and integrated child development. Two investment grants totaling US$4.6 million were also approved to support Nicaragua's participation in the Mesoamerica Health Initiative and the SIDA-IDB Partnership Program. Notable among the TCs was support for the impact evaluation of the Comprehensive Care Program for Families in Extreme Poverty.

The Bank proposed to contribute to the achievement of the MDGs by improving the provision and coverage of **water and sanitation**[59] in rural and urban areas. The CS provided support for the development of a national strategy in the sector, and for institutional strengthening interventions to target efficiencies, improve quality, and ensure the sustainable delivery of services. Two of the three operations identified by the Bank's program were approved, for a total of US$43 million. Areas covered included improvements in storm water drainage, expanded access to water and sanitation services in Managua, and strengthened technical and management capacity in the sector.

While the CS did not reflect a specific indicator in the PNDH for the **housing** sector, the Bank programmed and approved a US$20 million operation to *"increase access to housing for low and moderate income families."* A second US$5 million operation, Access to Social Housing for the Majority, was included in the 2012 Country Program Document (CPD) but is not yet approved.

A second series of two PBPs totaling US$90 million was programmed in 2011, to improve the prioritization, effectiveness, and efficiency of **public expenditure in social protection and health** by deepening reforms to strengthen results-based management in those sectors.

4. Productive development

In accordance with the findings of the growth assessment, in the area of productive development the Bank aimed to increase the rate of growth of the agriculture sector and diversify exports by *"financing rural development initiatives linked to micro, small, and medium-sized producers" with the objective of "boosting competitiveness and increasing the exportable supply."* The CS sought to finance its program through a combination of SG and non-sovereign guarantee (NSG) operations that *"promote employment (and include technical assistance and training institutional strengthening, modernization of agricultural health services, incorporation of international standards, expanded facilities for access to credit, and others), and address gender gaps in the rural economy."* Given the country's tourism potential, the CS also included support to promote sustainable rural tourism. Of the six investment loans programmed in this area, four were approved (US$60 million). One private sector loan (US$10.6 million) was also approved, along with eleven MIF operations (US$7.74 million) that provided technical assistance in competitiveness for small and medium enterprises, microcredit, and job training.

Although property rights were identified as one of the most pressing issues facing the country, the strategy did not propose any activities in this area.

5. Institutional management for natural disaster prevention

The CS envisioned that the Bank would support government efforts to mitigate the potential negative social and economic impacts of natural hazards by financing interventions to strengthen institutional management for natural disaster prevention and management. However, the strategy did not program any activities in the area of environmental protection, which was considered a priority in the PNDH, and is a sector in which the Bank has considerable value-added in the country. Over the course of the Bank's program, two loans were added to the indicative pipeline, and the Environmental Management of Natural Disasters and Climate Change loan (US$10 million) was approved in 2010. This operation aims to strengthen municipal planning processes and the preparation of local plans for risk management in the lower watersheds.

D. Instruments

The CS was designed around the strategic use of a wide array of financial instruments: TCs; sector facility, traditional investment, multiphase, and policy-based loans; and private sector resources. As a D-2 country with a moderate risk of debt distress,[60] Nicaragua is eligible for a blend of concessional resources consisting of 50% FSO and 50% OC. To introduce greater flexibility in the execution of the Bank's program, the CS proposed channeling FSO funds into activities that strengthened national systems and government's capacity to efficiently administer public sector programs. For example, the sector programmatic approach drew upon the use of traditional investment loans and PBPs. The CS also proposed to step up private sector participation in the Nicaragua portfolio. MIF maintained its historical level of approvals (of US$3 million per year), having approved 24 operations for US$16.2 million over the review period. Structured and Corporate Finance approved a US$30 million loan in the energy sector, a Trade Finance Facilitation Program for US$3 million, and a TC for US$1.1 million. In addition, Opportunities for the Majority approved an agriculture sector operation for US$9.5 million. The Inter-American Investment Corporation approved seven operations that totaled US$71.2 million.

As for TCs, the CS also proposed maximizing the use of trust funds to benefit country programming and improve the framework for private investment. Approximately 40% of TC resources supported trade sector activities, and 16% supported social investment initiatives. The greater part of these resources (57%) was used for strengthening institutional capacity and improving national systems. OVE considers the link between the TCs and PBP conditionality an important measure to ensure disbursement. This is a lesson learned. Although non-refundable investment grants were not mentioned in the CS, three projects were approved for a total of US$8.7 million: two in the health sector, and the other for watershed conservation.

E. Risks

The evaluation found that the CS anticipated important risks associated with the execution of the Bank's program, including cost overruns, donor coordination, and weak program monitoring (Annex 30). It recognized that *"delays in the approval of the budget and insufficient budget allocations could put off execution of the projects in the portfolio."* To mitigate this risk, the Bank proposed to *"maintain constant communication with the budget authorities to act preventively. If so requested, it could provide support for the dialogue with the National Assembly."* In the context of project execution, the CS also noted that the *"weakness of executing agencies constitutes a risk for the attainment of development objectives"* and proposed that the risk be mitigated through training, "action, and investments." It did not, however, describe the institutional weaknesses, analyze their root causes, or explain what interventions could best address them.

The CS did not identify the political economy as a risk to project execution. As an example of the importance of the area, in 2007 the Bank began a process of reviewing loans in execution with a view to aligning them with the priorities of government's program. According to the CS, adjustments were made to seven loans, including Comprehensive Childhood Care (NI-L1009), to reorient the program's delivery model. While this modification was necessary to align the loan with the new administration's decision to deliver social services directly to beneficiaries, rather than go through nongovernmental organizations and other intermediary institutions, it prompted a temporary suspension of services to more than 80,000 beneficiaries. In the absence of resources to sustain the execution of the project, services were not resumed until December 2008. Furthermore, the loan has experienced seven changes in the leadership of the coordinating unit, and five in the ministry to which it pertains. Similarly, the Urban Welfare for Children in Extreme Poverty (NI0155) loan has experienced delays associated with government's ratification of the loan contract and the release of technical staff. The sustainability of operational costs, continuity of staff, and the political economy in which decisions are made are critical to maintaining project benefits; thus, they should be addressed in the analysis of risks at the project level.

F. National systems

In line with the Paris Declaration and consistent with Nicaragua's ambitious process of reforming the budgetary framework, systems of internal control, access to information, and transparency in financial management, the Bank and the

government agreed on a plan of action to modernize the national system of procurement. Under this plan, the Bank has contributed to the evaluation and strengthening of Nicaragua's national systems using methodologies and internationally accepted instruments.[61] The PBP series and related technical cooperation, including a CT-Intra to Chile, have also helped to strengthen fiscal management, public procurement, social spending, and reform of the tax system.

Land regularization, which the growth diagnostic identified as one of the most critical constraints to development and growth in the country, was omitted from the Bank's program.

3 Implementation

The Bank's country program in Nicaragua increased significantly in terms of volume of approvals, from US$496 million during the previous strategy (2003-2007) to a projected US$831 million over the current strategy (2008-2012). Notwithstanding the increased approvals, the size of the active portfolio has remained comparatively stable. At the beginning of the CS, in 2008, the country portfolio comprised 30 SG loan operations for a total value of US$683.7 million, distributed among 13 sectors (Annex 31). As of March 2012, the portfolio contained 31 SG loans totaling US$659.6 million, in 14 sectors (Annex 32).

When the CS was prepared, FSO funding for the 2009-2012 period had not been determined. Accordingly, the CS estimated a low (US$399.4 million) and high (US$560 million) scenario for SG approvals for the five-year period. The biannual allocation of FSO resources is based on a review of country policies and the performance of the Bank portfolio. Even though the Nicaragua's Country Institutional and Policy Evaluation rating showed no significant improvement, the country benefited from the Bank's effort to increase capital availability to all FSO countries during the second allocation round (Annex 33). Consequently, the level of concessional resources available to the country nearly doubled, to US$754.8 million (Table III.1). Of this amount, US$519.4 million has been approved, and the 2012 program is expected to absorb the remaining US$235.4 million (Annex 34).

The volume and timing of the FSO increase have increased the complexity of portfolio management and limited the Bank's ability to program strategically. This is particularly apparent in the proposed 2012 program, in which expected approvals are twice the amount of the previous year. Given the fact that FSO resources cannot be carried over to the subsequent allocation cycle, the country program risks forfeiting its assigned allocation if the seven remaining operations in its pipeline are not approved by the close of 2012. This constraint renders the programming process particularly inflexible within the two-year period. It also poses risks to timely approval and project quality.

Table III.1 Concessional Resource Allocation to Nicaragua 2008-2012 (US Million)					
Period	**FSO**	**OC**	**Supplement**	**Annual Allocation**	**Approvals**
2007-2008	40,1	40,1		80,2	80,2(2007) - 80,2(2008)
2009-2010	48,0	48,0	32,9(2009) - 37,1(2010)*	161,8-170,2	160(2009) - 170(2010)
2011-2012	85,6	85,6		171,2	107(2011) - 234 (2012)p
*GN-2442-34 p=projected					

The original base-case scenario envisioned decreasing the size of the portfolio from 35 operations in 2007 to 21 in 2012, which implied an increase in the average project size. However, because of the 88% increase in allocated resources, 31 SG operations were in execution as of March 2012, with an additional seven pending approval by December 2012. The average number of approvals varied from 4.4 projects per year during the prior strategy to 6.2 per year between 2008 and 2011. The average loan size remained stable at about US$22 million per approval.

The total of 14 sectors is high, considering the relatively small size of the program. Most of the resources (82%) are concentrated in six sectors: energy; reform and modernization of the state; transportation, agriculture; social (social investment, education, and health); and water and sanitation. As Figure III.1 shows, infrastructure (roads and energy) received the lion's share of resources (41%); fiscal governance, 24%; and social investment, health, education, water, and housing together, 16%. While the amount of resources allocated to roads and energy is aligned with the CS emphasis on productive infrastructure, a question remains as to whether the investments in agriculture and the social sectors are adequate and consistent with the pro-poor focus of the program. Furthermore, the proliferation of small operations in multiple sectors calls into question the cost-effectiveness of Bank technical assistance and supervision in this segment of the portfolio.

During the past 15 years, Nicaragua has benefitted from a positive SG and NSG cash flow from the Bank. Moreover, the Bank provided a timely countercyclical response to increased country demand in the context of the global financial crisis and deteriorating fiscal accounts (Figure III.2). SG and NSG disbursements over the 2008-2011 totaled US$588 million —an average annual disbursement of US$147 million, compared to an average of US$130 million during 2004-2007 (Annex 35). The four PBPs approved annually between 2008 and 2011 accounted for US$148 million, or 25% of total disbursements. During the same period there has been little increase in disbursement from investment loans.

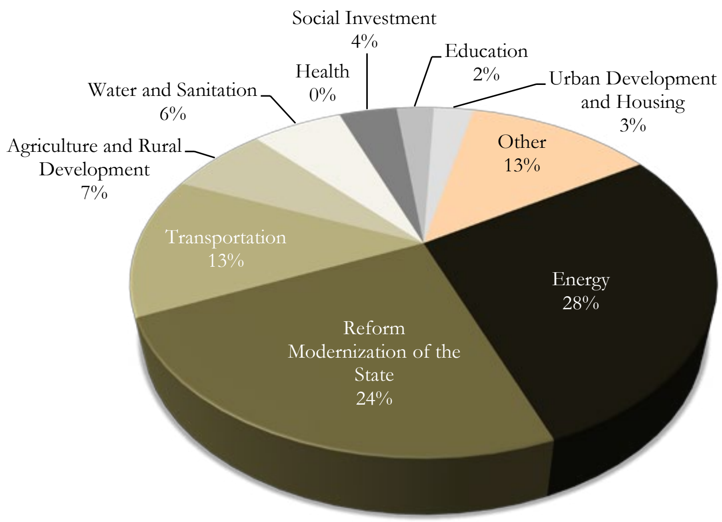


Figure III.1
Approvals by Sector (2008-2012)

In general, execution efficiency has improved as a result of various initiatives that strengthened both the country office and executing agencies. One indicator is the average age of active investment projects, which diminished from 3.88 years in January 2008 to 2.35 years in March 2012. This improvement is also demonstrated by the efficiency delivery curve, which shows a shorter portfolio disbursement period than the Bank average (Figure III.3)

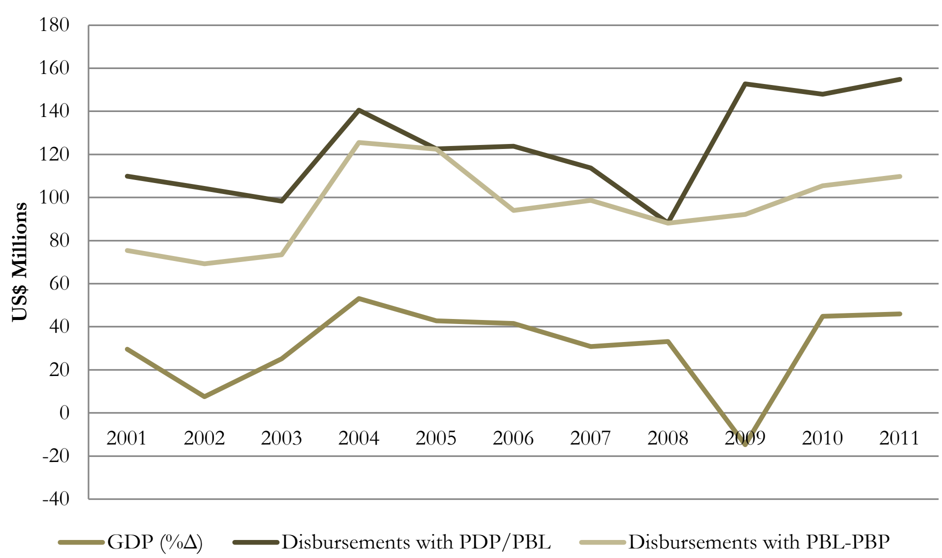


Figure III.2
Disbursements

Source: OVE and *Banco Central de Nicaragua*

One important initiative to improve execution efficiency is the significant strengthening of personnel and consultants in the Bank's Country Office, with an increase in the workforce budget from US$2.1 million in 2007 to US$4 million in 2011 (Annex 36). Other initiatives implemented by the Nicaragua country office to improve **portfolio efficiency** include: (i) creation of SWAT teams to support executing agencies and review fiduciary processes (procurement, audit, finance, and modern business procedures), ensuring compliance with the Bank policies and thus improving Bank response time; (ii) development of the Country Strategy Monitoring System to compile information from multiple Bank databases and generate performance monitoring reports, which contributed to identifying and closing overextended lagging projects in the portfolio; (iii) financing a liaison to facilitate communication between the Ministry of Finance and Public Credit and the Bank; and (iv) formulation of high-level portfolio review instruments that incorporate results-based management principles. This represents a good example of how an information system supported by staff focused on results can improve portfolio efficiency.

The **technical cooperation** portfolio showed behavior similar to loans, increasing from 43 operations worth US$9.5 million in 2004-2007, to 52 operations valued at US$17.3 million in 2008-March 2012. The CS projected total TC funding, including MIF, of US$25.6 million, and, as of March 2012, a total of US$25.4 million in TC and MIF funds had been approved (see Annex 37 for approved TC and MIF projects).

According to the new project monitoring system (PMR), as of March 2012, of the 32 projects under implementation, four (13%) were on alert, and five others (16%) were considered problem projects. This **performance** is close to that of the Bank's global portfolio, which registers 20% on alert status and 10% as problem projects (Annex 38).

Of the audited financial statements (AFS) for the period 2008-2011, 27% were qualified—almost double the Bank average of 15% for the same period. More significantly, 13% of the qualified AFS in Nicaragua were designated as problematic compared to 6% for the Bank and 10% for the Bank's Regional Department for Central America (Annex 39). On a positive note, in recent years OVE has observed a general reduction in qualified, problematic, and overdue AFS, improvement that can be attributed to the work of the country office SWAT teams in supporting executing agencies.

In sum, over the period of the strategy the Bank has significantly increased the resources allocated to Nicaragua, which has resulted in greater complexity of programming and portfolio management. The Bank accompanied this growth by significantly increasing the administrative and personnel resources in the country office and instituting numerous initiatives to enhance operational efficiency. This has reduced the age of the portfolio and increased execution performance in terms of faster disbursements of investment projects. Nevertheless, constraints related to the biannual allocation of

FSO resources have made the programming process particularly inflexible and have ultimately generated risks associated with project quality and the potential forfeiture of resources.

TThe country's National Plan for Human Development (PNDH), presented in 2008, frames the government's vision to reduce inequality and poverty through an orthodox macroeconomic policy and an ambitious program of social expenditure and public investment.
© Federico Delgado, 2009

4 Results

This chapter examines the Bank's program implemented during the 2008-2012 CS in terms of its relevance and effectiveness – that is, by whether investments facilitated growth or reduced poverty. Not all projects are reviewed. Most investment loans designed and approved under the 2008-2012 CS have low disbursement rates and few if any documented outcomes. Therefore, the results analysis focuses on the PBP loan series approved and executed under the current strategy, and investment loans approved under previous strategies that had disbursed at least 50% but were not included in the results analysis of the previous CPE. It is important to note that information presented in this section is drawn largely from the Bank's Monitoring and Evaluation system – Project Portfolio Management Reports/and PMRs for active projects and Project Completion Reports (PCRs) for closed projects. This information has not been validated by OVE.

A. Constraints to identifying results

Country strategies typically include a results matrix with proposed projects in each programmed priority area, along with development indicators that are close to the proposed interventions but are also aligned to country priorities. CPEs use this matrix as part of the development effectiveness criterion to evaluate whether the specified indicators show improvement. To the extent possible, the results analysis considers outcomes at both the strategy and project levels.

This approach is feasible where there is a clearly defined causal connection between the actions proposed in the operations of the assistance program and the results indicators chosen to measure the outcomes of the strategy. It is important to note that the overall ex ante evaluability of the Bank's country program is relatively low.

For the Nicaragua CS, the absence of a complete metric to measure 14 of the 17 original outcomes proposed in the Results Matrix limits the Bank's ability to measure its contribution to the achievement of PNDH results. Bank efforts to improve the evaluation of its program in subsequent CPDs resulted in the identification of 103 program and project indicators. Because the 2012 CPD was only able to document progress toward the achievement of a mere 13 of these indicators,[62] the effective utilization of indicators dropped from 18% to 13% between 2008 and 2012.

The low evaluability of the Nicaragua country program calls into question the Bank's ability to critically assess the developmental impact of its effort. Moreover, it impedes generating knowledge to advise the country on the best means for producing results in future interventions. The Bank should give particular priority to strengthening project-level results measurement and reporting.

B. Objective 1: Fiscal sustainability and strengthening public management[63]

The objectives of the government's program in this area are: (i) macroeconomic stability, development, and modernization of the financial system; and (ii) improved coordination, effectiveness, and efficiency on all levels of public planning and intervention. The Bank identified its contribution as: (i) strengthening national financial administration, procurement, public investment, and monitoring and tracking systems; and (ii) improving public management. The indicators that the CS proposed to measure the Bank's impact included: (i) a taxpayer master file operating in accordance with good international practices; and (ii) improved efficiency and effectiveness of expenditures through the (ex ante) evaluation of at least 50% of central government projects registered in the Sistema Nacional de Inversión Pública for the budget year.

Eight investment operations are related to public and fiscal management, one of which was approved under the current strategy in 2010, but which had only disbursed 1% as of 2012.[64] Individually, each operation contains clear objectives for reducing administrative bottlenecks, and the range of topics responds to the country's development challenges. The following are among the results attained to date: (i) prepare Law 339 that gave autonomy to the customs service and Law 712 to modernize the tax administration; (ii) connect 16 tax offices to the tax information system and complete five years of outstanding audits; (iii) create an electronic public procurement information website, install requisite computer hardware in 95% of the municipalities and 30% of the central government entities, and train 700 people; and (iv) approval of the Fiscal Responsibility Act and regulations. (Annexes 40-41 summarize the achievements of all eight investment operations.)

The Fiscal Management and Social Spending Reform PBP, was designed to sustain economic growth and poverty reduction by improving fiscal and social management through more efficient and transparent revenue collection and expenditures. The operation provides an opportunity to analyze Bank actions in times of crisis in Nicaragua, and offers two lessons for future policy-based lending. First, by acting decisively in supporting Nicaragua's fiscal emergency, the Bank strengthened its presence in the country and is now one of the most important partners in many priority areas, including fiscal management. Second, although the results of the PBP were positive, they were small in relation to the scope of the investment.

The original PBP series of three loans coincided with two unexpected events that negatively affected Nicaragua's fiscal position: (i) the international financial crisis, which resulted in a real contraction of 1.5% of GDP, leading to lower tax collections than projected; and (ii) the suspension of budget support by bilateral donors and the World Bank. The Bank reacted fast to the deteriorating fiscal condition by decisively engaging the authorities in negotiations that resulted in an increase of the overall size of the programmatic operation. Further, to help fill the financing gap under the IMF program, the Bank increased the amount of the second and third loans of the PBP to US$83.5 million from the original US$40 million, bringing the total amount of the programmatic series to US$103.5 million over a three-year period. Because the situation required that decisions be made in a short period of time, the reform program negotiated with government in the PBPs was composed largely of areas in which government was already committed and where the Bank had provided support in the past, rather than including new and deep areas of policy reform. The PBP series did support an increase in the number of tax payers in the tax registry, improved tax collections, improved transparency in procurement, and the preparation and publication of audits of the 2006, 2007, 2008 budgets.

One important exception was Objective 4: *"promote the transparent management of government resources"*, which had a high potential for value-added, and generated reforms which would not have been accomplished without Bank intervention (see Annex 42). The objective to *"improve the efficiency of spending on poverty reduction"* also offered an opportunity to improve the targeting and delivery mechanisms of programs designed to reduce poverty. This most relevant reform was presented in the first loan of the series, and identified the need to analyze initiatives, define priorities, and identify programs with the highest impact on poverty as conditions for the second and third loans. It suggested that the trigger for the second operation include a proposal to: review expenditures on poverty reduction, prioritize spending on vulnerable groups, and design a system to monitor and evaluate pro-poor expenditures. The third tranche

IIn 2010, CEPAL reported that electricity exports and imports for Nicaragua accounted for only 1.3% and 0.3%, respectively, of the energy generated in the National Interconnected System.
©Marc Lee Steed, 2011

was to be based on evidence that the proposal was used to improve expenditures, and that the monitoring system was in place. These conditions were dropped from the second and third loans. To fulfill the original intent of this component, the Bank would have had to invest significant resources in the analysis of ongoing social programs and their capacity to deliver targeted support to the poor. However, by not analyzing the coverage, impact, and delivery mechanisms in programs like *Hambre Cero*, the Bank missed an opportunity to significantly improve the delivery of benefits to the poor. Future PBPs could benefit from investments in strong analytical work, which can also be used to define conditionality related to the next generation of programmatic loans. (Annex 42 summarizes the five main objectives of the programmatic series, the direct results obtained according to the Bank's PCR, and OVE's analysis of the counterfactual relevance of the results).

C. Objective 2: Reliability of the electricity supply and improvements to the existing road network

The government confirmed with the Bank that the **energy** sector was a high priority, and that its objectives included: (i) increasing the installed capacity and efficiency of the sector; and (ii) spurring public and private investment in power generation, particularly from renewable sources. The indicators identified by the Bank to measure its contribution to sector development were: (i) the number of annual average interruptions, and (ii) the percentage of technical and non-technical losses in the distribution of energy. Both have baselines and indicators that are being monitored.

Seven SG loans totaling US$162.4 million were in execution over the course of the Bank's country program, five approved under the present CS[65] and two under the prior.[66] Except for the US$4.5 million loan to fund cost overruns for SIEPAC, none of the loans approved under the present strategy had disbursed more than 28%; however, the earlier loans have achieved advanced levels of disbursement. Since many project-level outcomes depend on the completion of large-scale infrastructure investments, it is premature to report progress on higher-level indicators at this time. Nonetheless, countrywide indicators from the 2011 Progress Report on the PNDH demonstrate that: (i) nominal installed generation capacity expanded by 343 MW between 2007-2011;[67] (ii) total final consumption of energy also increased by 17% between 2006 and 2011;[68] and (iii) 158 km of new transmission lines were installed, ensuring the supply of energy to 326,000 new beneficiaries, and an increase in regional transmission capacity under SIEPAC from 72% in 2001 to 87% in 2010.[69] According to CEPAL, non-technical losses declined by 3.4% over the period 2006-2010, thanks in part to a 2008 law establishing sanctions for electricity theft. These gains were achieved through public and private investment of US$1.4 billion, of which the Bank contributed about 8%. Notwithstanding this progress, more than two-thirds of the country's electricity is generated by fuel plants and the gap between generation costs and revenue is causing liquidity problems, requiring US$100 million in subsidies in 2011 (1.5% of GDP). This shortfall is being financed with concessional resources from Venezuela.

The future viability of the energy sector requires continuing investment in the country's generation, transmission, and distribution capacity; moving the energy matrix away from imported petroleum-based fuel and toward renewable alternatives; and further reducing non-technical losses. It will also require adjusting consumer rates to cover costs, improving the targeting of subsidies to those most in need, and increasing the efficiency and transparency of public investment and expenditures in the sector.

In the **transportation** sector, the country aims to *"develop a public investment program prioritizing rehabilitation and construction of roads that enhance connection between productive sectors and export markets."* The total road network increased by 15% between 2006 and 2010, from 18,712 km to 21,441 km. Nearly 20% (516 km) of this increase corresponds to new paved roads, and 56% (1,529 km) to new rural roads. The Bank's objectives were aligned with those of the country. The indicators that it used to measure its contribution to government's targets in the sector included: (i) total kilometers of paved roads rehabilitated; and (ii) annual kilometers of roads maintained by FOMAV. Neither indicator included a quantifiable baseline or target.

The Bank's portfolio in the transportation sector included six loans totaling US$218.1 million. As of March 2012, only one operation was fully disbursed and four others were in advanced stages of completion. These are old projects that suffered significant delays. The oldest loan, San Lorenzo-Muhan Road (NI0146),[70] supported the rehabilitation of 88 km of roads and the reinforcement of six bridges. Although the PCR reported that "the loan has helped to reactivate agricultural and livestock production and that communities in the Atlantic Region (Caribbean) are now integrated with the rest of the country," the economic impact of the highway in the areas served had not been measured. Two important outcomes of the loan were the establishment of FOMAV as an autonomous institution to oversee road maintenance and the adoption of a fuel consumption tax to generate revenue to sustain FOMAV's ongoing work. Despite this important outcome, the PCR concluded that the gas tax is only sufficient to cover costs associated with the maintenance of about 30% of the road network, rather than 70% as planned.[71]

Between 2004 and 2009, the Bank also approved four loans[72] to improve, expand, and integrate Nicaragua's principal highways with those of neighboring countries through the Mesoamerican Highway Initiative (formerly Plan Puebla Panamá).[73] While OVE did find indicators and baseline data related to the measurement of results at the project level (including the cost of transportation, time and speed of travel, and changes in agricultural production), impact has thus far been documented only in terms of outputs: 417 km of highway and 591 km of secondary roads rehabilitated.

D. Objective 3: Development of a social welfare system, and improvement, management and coverage of basic social services

A central tenet goal of the PNDH is "economic growth with increased employment and reduced inequality and poverty,"[74] and the instruments it proposed to achieve this goal include: (i) social policies to strengthen the capabilities and living conditions of the most vulnerable populations; (ii) the development of a national system of targeted programs that promote social welfare and use the MDGs as reference points; and (iii) protected government spending. According to the 2009 Household Survey, extreme poverty decreased from 17% to 14% from 2005-2009. The country has also progressed toward specific MDG indicators in education, health, and gender equality.

The Bank's program in this area is consistent with the targets of the PNDH and with the Bank's social development strategy (GN-2241-1), which gives priority to helping countries accelerate social progress to achieve the MDGs. The Bank's contribution includes a portfolio of technical assistance grants and loans in water and sanitation, housing, health, and social protection. The indicators proposed by the CS to measure its developmental effectiveness included: (i) the number of children under age six from neighborhoods benefited by the program attending child development centers; (ii) deliveries in health-care institutions; (iii) percentage of health-care coverage; (iv) percentage of effective water supply coverage; (v) percentage of sanitation coverage; (vi) long-term strategy for sector development; and (vii) percentage of coverage of aggregate annual demand for low-income housing. Only indicator (ii) contained a complete metric to measure progress. None of the others had targets, and only one presented a baseline.

Water and sanitation. During the strategy period, the Environmental Sanitation of Lake Managua project (NI0142) closed, and two additional loans reached advanced levels of execution: Modernization of Potable Water and Sewage Services (NI0097), and the Water and Sanitation Investment project (NI-L1017). These operations collectively provided for: (i) the completion of wastewater collection and treatment facilities in Managua –these facilities began operation in 2009; and (ii) expanded delivery of water and sanitation services to 120,522 new beneficiaries.[75] To put this in perspective, according to the WHO/UNICEF Joint Monitoring Program that was specifically implemented to follow up on MDG progress, total coverage of drinking water increased from 83% in 2006 to 85% in 2010, benefitting 346,000 additional persons. Given this progress, the MDG of 87% could be in reach by 2015. In urban areas, total coverage has reached 98%.[76] This set of loans also assisted the *Empresa Nicaragüense de Acueductos y Alcantarillados* (ENACAL) to successfully increase consumer water metering from 49.2% to 61.8%, implement a nationwide registry of 500,000 users, and reduce the volume of unbilled water from 54.9% to 50.8%, which exceeded the end-of-project target of 51.4%. Despite these advances, it is unlikely that the country will reach the MDG of universal access to safe drinking water by 2015 without further modifying existing investment patterns and substantially improving management practices. ENACAL continues to operate at a deficit, and it relies heavily on transfers from government to sustain the delivery of services.

Housing. Bank financing to the Multi-Stage Housing Program for Low-Income Populations-II (NI-L1013) contributes to the national housing policy by granting subsidies to low-income families, and by stimulating commercial banks and microfinance institutions to construct and sell houses. According to a recent diagnosis of the sector,[77] the subsidized housing scheme has not encouraged private sector participation, and the direct subsidies have not reached the lowest-income families; rather, the scheme has benefited higher-income families and has focused primarily on constructing new housing projects. Notable among the TCs in the sector is Innovation in the Program for Housing and Integral Habitat Improvement (NI-T1133), which identified ways to stimulate greater participation of the private sector and microfinance institutions in the financing scheme as an input for a new Bank loan.

Comprehensive child care. Since 1996, the Bank has supported government efforts to break the intergenerational transmission of poverty through a series of four Comprehensive Child care (PAININ) loans. This evaluation reviewed PAININ III (NI-L1009) and PAININ IV (NI-L1056), which deliver child development services to children under age six, along with neighborhood-level support for their families, to help ensure the children's timely entry into the formal education system. The program model provides integrated interventions in early childhood development, nutritional support, training, and increased preschool coverage, as well as assistance with the registration of births in the country's poorest rural communities. The Ministry of the Family, which is responsible for oversight and execution of PAININ, has been strengthened through MIFAMILIA (NI-L1004).

Among its long-term achievements, the program consolidated standards of care that subsequently were contained in the National Social Welfare Policy and the National Policy on Integrated Early Childhood Development. According to end-of-project data at the closing of the MIFAMILIA and PAININ III projects in 2011, community participation, an integral part of the model, contributed to the mobilization and training of 6,000 promoters and parent volunteers and over 1,200 parent committees. Anemia in participating children was reduced from 29% to 19.8% by the distribution of more than 10.4 million packets of "sprinkles," a micronutrient supplement. In 2010, 82,505 children (95% of the goal) in 66 of the poorest municipalities[78] were enrolled in PAININ's program.

In addition, 11,801 pregnant and lactating women (90.5% of the goal) received prenatal counseling and nutritional supplements through the PAININ/Ministry of the Family programs. OVE was not able to substantiate outcomes in terms of cognitive development, or the flow of beneficiaries from preschool to primary schools. During site validation visits, OVE noted the need to maintain basic infrastructure and replenish didactic materials.

PAININ III suffered severe implementation problems, suspending services in 2007 and 2008 because of a restructuring of the service-delivery model ~~(see paragraph 2.29)~~. The Ministry of the Family has since resumed the provision of services at historical levels. In 2010, the government signaled that additional external financing would be required to ensure the execution of PAININ without a further interruption. The approval of PAININ IV in 2010 guaranteed the continuation of services to vulnerable children in poor communities.

Maternal and child health. As reported in Chapter I, Nicaragua has made significant strides in reducing maternal and infant mortality. Women's health indicators show substantial progress. According to Ministry of Health data, maternal mortality has fallen from 190 deaths per 100,000 live births in 1990 to 67.4 in 2010. Preliminary reports show that 88% of all maternal deaths are related to obstetrical causes. Infant mortality also fell by half over the same period. Historical data show a link between Nicaragua's infant mortality rate, socioeconomic status, and access to services.[79]

During the execution of the CS, the Maternal and Child Health (NI-L1001) loan fully disbursed, and the Health Networks I (NI-L1014) loan reached an advanced stage of implementation. The objective of the first operation is to *"improve health conditions for the country's poorest people, by helping to reduce the profile of maternal and infant morbidity and mortality from avoidable causes that especially affect people living in poor rural areas,"* thus reducing disparities between these indicators and the national averages. The target population for the program is women of child-bearing age and children under the age of five living in rural communities in the country's 76 most vulnerable municipalities. The second loan supports the sustainability of the first by refurbishing and equipping hospitals and extending service coverage to remote communities through the national system of health networks.

Infant mortality also dropped by half between 1990 and 2009; and between 2006 and 2010, the proportion of children under one year of age suffering from malnutrition dropped from 13% to 9%.

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According to the PCR for Maternal and Child Health Program (NI-L1001), the Bank's first performance-driven loan, the program outperformed two of its three intermediate targets. The increase in births attended by trained staff in the health network (nearly 40,000) represented 137% of the goal. In terms of the final indicator –reduction in neonatal asphyxia in hospital births– the project achieved 82% of its revised target. A second final indicator which measured maternal mortality was eliminated because of concerns about the reliability of the data. While these outcomes cannot be attributed exclusively to this operation, the performance-based funding mechanism has facilitated a more rigorous documentation of results through independent audits of Ministry of Health performance and data. The Health Networks loan suffered a slow start. Designed under the previous administration, the operation went through a lengthy process of appropriation by country authorities, resulting in a 17-month delay between Bank approval and eligibility. Furthermore, the Ministry of Health did not include resources for component two in its budget request for 2010 or 2011, generating an implementation lag. The baseline and targets for project indicators were not confirmed by the government as of the close of 2011, so data on results are not available.

Social protection and health spending: managing for results. This PBP series benefitted from investment in strong analytical work, which was used to define strong conditions. The disbursement of resources in December 2011, under the Social Protection and Health Spending and Management PBP (NI-L1051) was triggered, in part, by government's adoption of a policy of greater transparency and access to public data. As a first step, the Nicaraguan Institute of Statistics posted the results from the 2009 Household and Living Standards Survey on its website, making the results of the survey publicly available for the first time. Now that the information is obtainable, the Bank and other development partners have an enhanced capacity to document and evaluate the quality of social expenditures. It is, however, premature to measure the effectiveness of this operation in terms of development outcomes.

E. Objective 4: Productive development

Government priorities in the productive development sector include: (i) expanding opportunities for small agricultural producers to access adequate financing, technical assistance, and marketing channels, with emphasis on food security; and (ii) strengthening access to external markets through the negotiation of new trade agreements and optimum use of existing ones. Between 2008 and 2011, the average growth rate in the agricultural sector was 15%, much of which was due to a significant increase in trade with Venezuela, Europe, and Canada.[80]

The CS proposed two indicators to measure the Bank's contribution to rural development: *"(i) effective mechanism to support food security and boost the productivity of rural families receiving production support; and (ii) an increase in economic activity in sectors that the Bank supports (tourism, coffee, meat, dairy, basic grains, certified seeds, shrimp farming, forestry and wood products)."* The complexity of these indicators and the lack of baseline data have prevented reporting effectively on project results. Monitoring of farm-based economic activity tends to rely on national-level indicators.

Projects in advanced stages of execution either demonstrate mixed results or present incomplete data. One example of this is the US$60 million Rural Productive Reactivation project (NI0159), which ended in 2010 after eight years in execution. The final evaluation indicates that the project was only able to document 18,168 of the intended 35,000 beneficiary families; however, the problem was due to the difficulty of calculating the indicator, rather than the coverage of the 117 competitiveness support projects. The performance of the project in terms of boosting agricultural productivity was nonetheless deemed positive by the PCR, as results could be inferred through official data on increased productivity of certain crops.[81]

The Improvement of Plant, Animal and Forest Health Services project (NI0182, 2003, US$7.3 million) has among its most important achievements the implementation of a system of bovine traceability at the national level and an increased capacity to certify agricultural products for exportation. While indicators based on exports show that the project has achieved the expected results (expanded access to external markets), the many factors that affect the volume of exports means that it is difficult to directly attribute benefits to this project.

Support to the Implementation of the National Development Plan (NI-L1005) has met with cost overruns and important delays in execution and in the midterm evaluation. While data on outcomes are not available, the tourism infrastructure component has shown progress: minor infrastructure for the water route project has been completed, the rehabilitation of 228 km of rural roads is 95% complete, the San Carlos aerodrome is functioning, and the tourism fund is being implemented.

During the review period, the Global Multisector Credit program (NI0167, 2005, US$30 million) concluded. This project aimed to provide second-tier financing, administered by the *Financiera Nicaragüense de Inversión* (FNI), to support retail institutions that supply credit to small- and medium-sized enterprises. The program achieved higher than expected growth in portfolio size and in successful levels of operational efficiency, thus contributing to the financial sustainability of the FNI.[82].

F. Objective 5: Institutional management for disaster prevention

The Bank's CS promoted the integrated management of risks associated with natural disasters, prioritizing highly vulnerable watersheds with interventions to reduce damage to the population and infrastructure. In upstream watersheds, interventions included affordable soil management and erosion control practices to reduce the risk of landslides and enhance producers' adaptation to climate change. In downstream watersheds, investments focused on flood control and riverbed protection to reduce the risk of damage. Actions to strengthen the institutional framework for risk management provided continuity and sustainability at the national level. Indicators identified by the Bank to measure the effectiveness of its contribution were "(i) building a system of indicators and baselines for natural disaster prevention and management and improved institutional management of risks in natural disasters; and (ii) reducing the main sources of risk in urban areas (Managua)." Neither indicator was assigned a SMART metric.

A key Bank instrument accompanying the government's efforts to mitigate disaster-related risk and reduce the effects of climate change was the Socio-Environmental and Forestry Development program (NI0141), which ended in 2009. The project had an auditable registry of beneficiaries that permitted a specialized team of technical experts to systematically register project goods and services and subsequent benefits. The measurable direct effects of the project included (i) over 100% increase in income per hectare from agro-forestry production; (ii) registry of 14,150 direct farmer beneficiaries in the program; (iii) adoption of at least 40% of the menu of interventions; (iv) 20,000 hectares of new vegetation coverage in nine critical watersheds; (v) reduced category of vulnerability of 130 critical areas; and (vi) a 30% increase in total productivity on beneficiary farms. This program is a best-practice example of the technical, administrative, and financial capacity of the coordinating unit, which facilitated the implementation of all components with satisfactory levels of efficiency.

Nicaragua also is vulnerable to instability stemming from frequent and severe natural disasters.
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5 Findings and Recommendations

A. Principal Findings

Over the course of the current country program, the Bank consolidated its substantive relationship with the government while maintaining its original program intent and relevance in the areas of fiscal management, productive infrastructure, and social expenditures. In parallel, the Bank's broader efforts to improve responsiveness to D-2 countries during the international financial crisis benefitted the Nicaragua program by providing a significant increase in FSO allocations. To a reasonable extent, the country program incorporated these opportunities to consolidate and enhance ongoing interventions that address key development obstacles.

The Bank maintained a strategic presence in the area of fiscal sustainability and public management through the use of both PBP and investment operations that were relevant to Nicaragua's needs. The PBPs represented an important contribution to closing the fiscal gap in 2008-2009, and the investment operations generated movement in several areas of fiscal management. The results obtained from the first PBP series of three loans (as measured by reforms implemented) were nonetheless modest, largely because of the difficulty of conducting in-depth analytical work and negotiating firm technical positions within the time constraints imposed by the fiscal urgency. Although laudable for providing a countercyclical response to sustain advances towards achieving the MDGs and to avoid a dramatic recession, the first PBP series served more as a fast-disbursing emergency loan than as an instrument for deep policy reform. This highlights the fact that the Bank does not have the appropriate lending tools to react to financial emergencies in D-2 countries.

The government has prioritized integrating the national highway system with regional initiatives, including Plan Mesoamérica, and expanding the road network in regions of the country with the greatest productive potential.
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At the conclusion of the 2008-2012 country program, the Bank finds itself working in a development context that is considerably different from the one that existed in 2007. Bilateral agencies are reducing their presence, and several donors have withdrawn from the country or moved to a regional program of support.[83] Since the termination of the Budget Support Group, the Bank and the IMF are the only sources of budget support to the central government. Moreover, the private sector has grown in importance, both as a recipient of loans and as program executor, particularly in the context of ALBA-TCP cooperation to state-owned enterprises.

The topic of debt sustainability continues to be central in Nicaragua. The Bank's decision to act independently of the Budget Support Group consensus has not gone without criticism from the international community, particularly with regard to substituting grant resources with loans (albeit on concessional terms) and doubling the Bank's exposure in the country on the heels of the US$1.17 billion debt relief in 2007. The principal source of loan financing to Nicaragua is now off-budget cooperation though the ALBA-TCP framework, which reached US$2.2 billion over the 2007-2012 period. Given that CBN considers debt accrued by State-owned enterprises as private sector debt, it is not included in the calculation of government indebtedness.

With regard to the sustainability of the Bank's country program, it is important to highlight that the Bank has at times overlooked the issue of government's absorbing operational costs for the continued provision of services initiated under investment loans. This weakness in planning and negotiation has led to the untimely suspension of programs, which undermines the effectiveness of the initial investment.

Although significant effort has been expended to improve evaluability, the Bank needs to improve its efforts to measure and document its contribution to the achievement of government PNDH goals. OVE observed wide variation in the measurement of output indicators and little current data on project outcomes. The original CS results matrix contained 17 indicators, of which 14 lacked a complete metric for evaluation. Subsequent efforts to improve the evaluability of the program resulted in

the identification of more than 100 indicators at the program and project levels, of which CPD 2012 was able to document progress toward 13. The effective utilization of indicators has dropped from about 18% to 13%.

In terms of approvals, the Bank has assigned a significant proportion (41%) of new sources to the energy and transportation sectors, thereby contributing to the long-term resolution of critical problems plaguing the Nicaraguan economy. Although the Bank also identified agriculture and social development as drivers of growth and poverty reduction, just 6.7% of approved resources targeted agriculture, and 15.4% were allocated to health, education, water, and housing.[84] While the amount of resources allocated to roads and energy is aligned with the strategy's emphasis on productive infrastructure, a question remains as to whether the volume of investments in agriculture and the social sectors is adequate and consistent with the pro-poor focus of the program.

OVE found little evidence that the Bank took time to step back and take a broader view of significant contextual changes, including the shift in the dynamics of international cooperation, the significant reduction in bilateral aid, the larger role of the Bank among the multilaterals providing budget support, and the predominance of ALBA-TCP cooperation directed primarily to state-owned enterprises. Within the ongoing policy dialogue with the government, there is ample room for the Bank to reassess where it can provide additional value, identify greater cost-effectiveness to enhance pro-growth initiatives, address sustainability issues, and mitigate future vulnerabilities and risks.

Finally, overall efficiency of program execution has improved as a result of various initiatives to strengthen fiduciary and operational management in both the country office and executing agencies. Net cash flow to the country was positive throughout the entire period, and the significant increase in 2008 disbursements reflected a countercyclical response during the financial crisis.

Challenges to sustainability, recognized by government in its sector framework, include the need to: make continued investment in Nicaragua's generation, transmission, and distribution capacity33; move the energy matrix toward renewable sources of energy; reduce unbilled and technical losses; adjust consumer rates to cover operational costs; and focus transparent subsidies on the most vulnerable populations.

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B. Recommendations

In view of this conclusions, OVE recommends that the Administration:

- **Undertake further diagnostic and analytic work to delineate the Bank's potential role and value-added in Nicaragua.** The country's mixed record of economic performance, its dynamic political context, and the withdrawal of some international partners have left the Bank in a sensitive position. As the largest multilateral partner, the Bank needs to consider carefully where it can contribute most effectively to Nicaragua's economic development, and take measures to focus its program accordingly. A highlight of the analytic work prepared for CS 2008 was the Growth Diagnostic. The Bank should update this body of work to fill in data and information gaps previously encountered.

- **Support Nicaragua in improving the efficiency of public expenditure, including in the electricity sector.** The country's ability to expand public external indebtedness is likely to be limited in the future. The Bank could usefully assist the country in identifying and implementing reforms to increase the efficiency of public spending and improve the financial sustainability of public enterprises. One area of potentially high impact is the electricity sector, where there are large subsidies and significant non-technical losses.

- **Work with the Government of Nicaragua to strengthen the measurement and reporting of results at the project level.** It is incumbent upon the Bank to document and track the results of its program with the country. The Bank should give higher priority to strengthening project-level results measurement and reporting than to defining detailed targets for results in Country Strategies and annual programs, given the difficulty of attributing country-level results to Bank engagement.

- **Enhance the sustainability of investment lending to Nicaragua by estimating the likely increase in recurrent costs, and as part of project design, request that government identify potential sources of financing for the continued provision of services beyond project completion.**

- **Consider ways to provide D-2 countries with access to emergency lending facilities to meet fiscal needs in times of crisis.** The use of policy-based lending to disburse emergency financial relief undermines the original intent of the PBP instrument to support deep policy reform. Short-term liquidity needs in crisis situations should be addressed with other instruments – not yet available in D-2 countries – to avoid compromising the role of policy-based lending.

Endnotes

Endnotes

[1] According to World Economic Outlook (IMF), the projected GDP per capita for 2012 is 6,572 córdobas (constant prices, 2000). This amount is similar to the levels in the 1960s.

[2] World Economic Outlook (April 2012). IMF. Washington, DC. Comparator countries include Guatemala, El Salvador, Honduras, Costa Rica, and Panamá.

[3] Government of Nicaragua (2009). Encuesta de Hogares sobre Medición del Nivel de Vida.

[4] According to the official UNDP MDG website, Nicaragua has reduced extreme poverty from 32.5% in 1993 to 14% in 2009. The country has also made progress toward MDG targets in primary education, gender, infant and child health, and maternal mortality. It is off track in terms of achieving the goal of access to water and sanitation.

[5] Agosin, M., Bolaños, R., and Delgado, F. Nicaragua: A la Búsqueda del Crecimiento Perdido. Paper sponsored by the IDB, November 2007.

[6] Aguste, S. and Manzano, O., eds. (2012). ¿Tiempo de Cosecha? Desafíos y Oportunidades del Sector Agrícola en Centroamérica y la Republica Dominicana. Banco Interamericano de Desarrollo. Washington, DC.

[7] IMF Article IV.

[8] IDB (2008), op. cit.

[9] The Bank's Country Strategy for 2002-2007 identified "efficient, effective and ethical government" as a strategic pillar. In particular, it emphasized "intensive actions for modernization and reform of the three branches of government".

[10] The Budget Support Group included Switzerland, the European Union, Holland, Finland, Norway, Germany, the United Kingdom, World Bank, and the IDB.

[11] The CPE reviews the execution of the Bank's program over the period January 1, 2008 through March 31, 2012. Subsequent to this period, 12% of the approved portfolio through October 25, 2012, targeted agriculture.

[12] As of October 25, 2012, social sector approvals comprised 35% of the operational portfolio.

[13] GDP per capita estimated for 2012, based on IMF World Economic Outlook Database.

[14] Elias C. (2011). "Economic Analysis and the Identification of Development Challenges in Nicaragua: Input to the Evaluation of the IDB's Work Program in Nicaragua 2007-2011." This study demonstrates that over the past several decades, Nicaragua has not been able to sustain an average rate of GDP per capita greater than 3%. This coincides with the study by de Franco, M., "Causas del crecimiento económico de largo plazo de Nicaragua," Serie de Estudios Especiales, Número 7, June 2011, which suggests that Nicaragua is in a poverty trap because of low economic growth and insufficient capital investment.

[15] According to World Economic Outlook (IMF), the projected GDP per capita for 2012 is 6,572 córdobas (constant prices, 2000). This amount is similar to the levels in the 1960s.

[16] World Economic Outlook (April 2012). IMF. Washington, DC. Comparator countries include Guatemala, El Salvador, Honduras, Costa Rica, and Panamá.

[17] Agosin, M., Bolaños, R., and Delgado, F. Nicaragua: A la Búsqueda del Crecimiento Perdido. Paper sponsored by the IDB, November 2007, p. 13.

[18] The ECF provides continuity to the policies under the debt relief initiatives. In January 2004, Nicaragua completed the HIPC (Highly Indebted Poor Countries) program, reducing its debt by US$3.3 billion. In December 2006, Nicaragua completed the implementation of the Multilateral Debt relief Initiative, reducing its debt by an additional US$140.5 million.

[19] IMF Country Report No. 11/322. October 2011.

[20] The Alianza Bolivariana para los Pueblos de Nuestra America (ALBA) is an international cooperation organization formed by the governments of Antigua and Barbuda, Bolivia, Cuba, Dominica, Ecuador, Nicaragua, Saint Vincent and the Grenadines, and Venezuela. Its vision for regional economic integration is based on the principals of social welfare, mutual economic support, and trade, as an alternative to the terms of trade under the free trade agreements.

[21] Central Bank of Nicaragua (2012). Fiscal Sector Statistics of Central Government Operations.

22 Central Bank of Nicaragua (2011). Fiscal Sector Statistics of Central Government Operations. Numbers for 2012 are projections from the IMF Country Report, October 2011.

[23] IMF (2011). Article IV review.

[24] The principal agricultural exports, in order of importance, are coffee, peanuts, cattle, beans, and bananas. Source: Nicaragua Central Bank Statistics.

[25] IMF Country Report, October 2011.

[26] Venezuela sells petroleum to Nicaragua at market prices; 50% of the cost of the petroleum is converted into a 25-year loan at 2% interest. This arrangement and the disbursement of the resulting investment funds are managed by Albanisa, a business jointly owned by Petróleos de Venezuela and the Compañía de Petróleos Nicaragüense. Agricultural exports are the primary mechanism by which Nicaragua pays "in kind" for Venezuelan petroleum. According to the Central Bank of Nicaragua (March 2012), agricultural exports to Venezuela have grown from US$2 million in 2006 to an estimated US$350 million in 2011, and represent approximately 23% of the country's total agricultural exports. These exports are managed by a jointly-owned business, Albalininsa, which also invests in projects related to food production, such as construction of slaughterhouses, dairy processing plants, and a corn flour processing plant.

[27] IMF Country Database, April 2012.

[28] IDB (2011). Fund for Special Operations: Review of the Implementation of the Debt Sustainability Framework and Enhanced Performance-Based Allocation 2009-2010. http://www.iadb.org/en/about-us/idb-financing/fund-for-special-operations-fso,6063.html

[29] During the period 2007-2012, cooperation through the ALBA-TCP framework reached US$2.2 billion. According to the Central Bank of Nicaragua (CBN), 76.8% of this total represents loans to public sector enterprises, including investments in electricity and agricultural productivity.

[30] The Central Bank of Nicaragua reported for the first time in 2012 the sources and use of ALBA-TCP cooperation.

[31] Aguste, S. and Manzano, O., eds. (2012). ¿Tiempo de Cosecha? Desafíos y Oportunidades del Sector Agrícola en Centroamérica y la Republica Dominicana. Banco Interamericano de Desarrollo. Washington, DC.

[32] The Economist Intelligence Unit (2012). Country Report: Nicaragua. London, United Kingdom. January 2012.

[33] Limited distribution capacity is related to low access to electricity. For 2010, CEPAL reported an access to electricity index of 74.6% for Nicaragua, while the remaining Central American countries averaged 89.4% (Costa Rica, 99.2%; El Salvador 99.1%; Panama 90.1%; Guatemala, 85.3%; and Honduras 81.3%).

[34] IDB (2010). La Acción del Banco en el Desarrollo de Carreteras Principales. OVE Working Paper. Washington, DC.

[35] INIDE, Instituto Nacional de Información de Desarrollo, Principales Indicadores del Sector Transporte, 2008.

[36] World Economic Forum (2011). Global Competitiveness Report 2011-2012. Geneva, Switzerland.

[37] World Bank (2012). Ease of Doing Business 2012. The "Doing Business" project provides objective measures of business regulations and their enforcement in 183 economies and selected cities at the subnational and regional level. Economies are ranked on their ease of doing business, from 1 to 183. The index is a simple average of the economy's percentile rankings on nine topics: starting a business; dealing with construction permits; employing workers (not included in 2011); registering property; getting credit; protecting investors; paying taxes; trading across borders; enforcing contracts; and closing a business. The ranking in each area is, in turn, the simple average of percentile rankings of the component indicators.

[38] Household and Living Standards Survey (EMNV, 2009).

[39] EIU (2012). 21st Century Socialism: Achieving development by working around capitalism: Nicaragua, Ortega and ALBA. Marcus Hololand. January 26, 2012.

[40] The objective of Programa Productivo Alimentario, better known as Hambre Cero, is to satisfy the nutritional needs of rural households in extreme poverty. Through this initiative, 48,015 women and their families have benefitted from the distribution of animals and seeds for projects relating to animal husbandry and agricultural cultivation (http://www.magfor.gob.ni/webppa/index.html). The Programa Amor aims to protect the rights of children. From 2008 to 2010, the program achieved the registration of 64,156 children in the Civil Register (IMF, 2011). AMOR a los más Chiquitos is designed to get pregnant women to go to health centers and provides early stimulation, health care, and education to children between 0 and 6 years of age. In 2010, the Programa de Desayunos Escolares delivered breakfast to 966,647 children in preschool and primary school (2011 IMF). El Modelo de Salud Familiar y Comunitario seeks to bring health services to remote communities. Ahora Puedo Leer y Escribir and Si, yo Puedo Continuar are campaigns that provide access to various forms of primary education to young people and adults.

[41] According to EMNV 2009, the overcrowding indicator measures the minimum suitable for the home, describing the number of people per room intended exclusively as sleeping quarters

[42] Nicaraguan households also have significantly fewer services inside the home: 65% of the population has indoor water compared to 81% for the developed LAC countries; and 74% has electricity compared to 92% in the same countries.

[43] IMF, 2011.

[44] Government of Reconciliation and National Unity (2011). Technical Progress Report on National Human Development Plan as of 2010.

[45] UNDP MDG Monitor: www.mdgmonitor.org.

[46] World Governance Indicators, http://www.govindicator.org. The Worldwide Governance Indicators are a research dataset summarizing the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, international organizations, and private sector firms.

[47] Agosin et al., 2007.

[48] The Budget Support Group included Switzerland, European Union, the Netherlands, Finland, Norway, Germany, United Kingdom, World Bank, and the IDB.

[49] Nicaraguan Central Bank (2012), "Informe de Cooperación Oficial Externa 2011."

[50] Gobierno de Reconciliación y Unidad Nacional (2007): Nicaragua: Programa Económico-Financiero 2007-2010.

[51] Gobierno de Reconciliación y Unidad Nacional: Plan Nacional de Desarrollo Humano 2008-2012. Documento Borrador 0 – para discusión. Abril 2008.

[52] Idem, ¶s4, 27, 28: "El modelo de desarrollo global hegemónico que ha prevalecido en Nicaragua en los últimos 16 años es el capitalismo NEO-LIBERAL, en su etapa de globalización. El modelo de desarrollo alternativo, que se está construyendo mediante la transformación de la estructura del poder y la liberación de la capacidad de desarrollo humano de las mayorías, es el PODER CIUDADANO."

[53] Country Strategy with Nicaragua 2008-2012. Document GN-2499, December 5, 2008, p. i.

[54] Ibid.

[55] Ibid. 1.2

[56] OVE. Country Program Evaluation Nicaragua: 2002-2007. Presentation to the Programming Committee of the Board, October 6, 2008.

[57] Agosín et al. (2007), op. cit.

[58] NI-L1040 and NI-L1050 also financed the building new distribution infrastructure, expansion of the existing transmission system, feasibility studies for major renewable energy projects, energy efficiency, and strengthening and expansion of existing off-grid systems.

[59] Ibid.

[60] Independent Macroeconomic Assessments (2007, 2008, 2009, 2010, 2011). Internal Bank document.

[61] For example, OECD/DAC, Country Procurement Assessment Report, etc.

[62] Nicaragua – Country Program Document 2012.

[63] The Citizen Security Program (NI0168, US$7.2 million) and Modernization of the Judicial Branch (NI0081, US$12.0 million) loan, approved under CS 2003 and CS 1999 respectively, were reviewed in the previous Country Program Evaluation

[64] Public Sector Financial Management System (NI-L1033) was approved in 2010 for US$10 million.

65 NI-L1022: Electricity Sector Support Program II (2008, US$40.2 million, 28% disbursed); NI-L1036: Electricity Sector Support Program III (2009, US$20 million, 31% disbursed); NI-L1040: National Sustainable Electrification and Renewable Energy Program I (2010, US$ 30.5 million, 13% disbursed); NI-L1055: Cost Overruns for SIEPAC Project (2010, US$4.5 million, 100% disbursed); NI-L1050: National Sustainable Electrification and Renewable Energy Program II (2011, US$22 million, 0% disbursed).

66 NI-L1015: National Transmission Strengthening for Integration SIEPAC (2007, US$12.5 million, 0% disbursed); NI-L1021: Electricity Sector Support Program (2007, US$ 32.7 million, 0% disbursed).

67 Ministerio de Hacienda y Crédito Público de Nicaragua (2012). Considerations on the Country Program Evaluation: Nicaragua 2008-2012, of the Office of Evaluation and Supervision (OVE).

68 Ibid.

69 According to the PNDH, the increase in SIEPAC transmission capacity is 5 percentage points higher than the target.

70 NI0146: Carretera San Lorenzo-Muhan (2001, US$33 million)

71 According to PCR, to solve this problem, some in the construction sector have suggested increasing the gas tax from the current US$0.16 per gallon, to US$0.20 per gallon, which is the current rate in El Salvador.

72 NI0170: Programa Vial para la Competitividad Zonas II y III del PPP (2004, US$40 million); NI0113: Programa Vial PPP – Zona III (2004, US$26 million); NI-L1006: Programa de Integración Vial Fronteriza Ruta Acoyapa–San Carlos (2006, US$49.5 million); NI-L1035: Programa Suplementario para la Infraestructura Vial para la Competitividad (2009, US$43.5 million).

73 In support of the National Development Plan, which sought to promote investment, productivity, and the generation of more and better jobs, in 2003 the Government of President Enrique Bolaños established a new set of priorities for investing in road development. These priorities focused on four strategic areas for the efficient mobilization of raw material, productive infrastructure, finished goods and services, and domestic and international marketing. To meet these four priority areas, the government prepared a program that complemented Plan Puebla Panama (now known as Plan Mesoamerica). The program included several important strategies: (i) identification of road networks that are key for development; (ii) linking the ability to effectively meet the networks of each of the four zones; (iii) ensured available external financing and coordination; and (iv) facilitation of the identification, funding and implementation of complementary public investment in other sectors.

74 Government of Reconciliation and National Unity (2011). Nicaragua: Technical Progress report on National Human Development Plan as of 2010.

75 The indicator agreed to report water and sanitation coverage is the number of household beneficiaries which, corresponds to the number of connections multiplied by the standard ratio of 6 persons per connection.

76 Based on “Access to Improved Sources of Water” as defined by WHO/UNICEF Joint Monitoring Program.

77 Morris, Felipe. Diagnóstico del sector de vivienda de Nicaragua. March 2012.

[78] In 2007, the Government of Nicaragua requested the reformulation of both PAININ III (1729/SF-NI) and Strengthening the Ministry of the Family (1576/SF-NI) to enhance the program's ability to assist vulnerable groups in underserved areas with high incidence of malnutrition. The reformulation permitted MIFAMILIA to directly offer a package of integrated child care services at the municipal level, under the supervision of 18 departmental delegations. This change in execution mechanism allowed for the direct delivery of services to beneficiaries, as compared to PAININ I & II under which services were delivered through contracts with NGOs.

[79] According to MINSA data, while the overall infant mortality rate in 2001 was 28 deaths per 1,000 live births, the rural figure was 43.

[80] Central Bank of Nicaragua. National Account Statistics. March 2012.

[81] Final Evaluation Report (OSTCORP, 2011) and PCR 1110/SF-NI.

[82] A second multisector global credit loan (NI-L1046) was approved in 2009, but was not included in the evaluation of results due to its low level of disbursement (19%)

[83] In 2011, the principal sources of bilateral cooperation to the public sector were the Russian Federation, United States, Switzerland, and The Netherlands. Source: Nicaraguan Central Bank (2012), "Informe de Cooperación Oficial Externa 2011."