Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No. 39637-NI

THE INTERNATIONAL DEVELOPMENT ASSOCIATION

AND

THE INTERNATIONAL FINANCE CORPORATION

COUNTRY PARTNERSHIP STRATEGY

FOR THE

REPUBLIC OF NICARAGUA

October 11, 2007

Central America Country Management Unit
Latin America and Caribbean Region
International Bank for Reconstruction and Development

International Finance Corporation
Latin America and the Caribbean Region

The last joint Interim Strategy Note for Nicaragua was discussed by the Executive Directors on August 4, 2005 (Report No. 32570-NI dated July 6, 2005).

CURRENCY EQUIVALENTS
Currency Unit = Cordoba
1 US Dollar = 18.5575 Cordoba

FISCAL YEAR:
January 1 – December 31

ACRONYMS AND ABBREVIATIONS

AAA	Analytical and Advisory Activities
ALBA	Bolivarian Alternative for the Americas
ALN	Nicaraguan Liberal Alliance
AS	Advisory Services
BCIE	Central American Bank for Economic Integration
BEE	Business Enabling Environment
BSG	Budget Support Group
CAFTA-DR	U.S. - Dominican Republic - Central America Free Trade Agreement
CAPRA	Central American Probabilistic Risk Assessment
CARICOM	Caribbean Community
CAS	Country Assistance Strategy
CEM	Country Economic Memorandum
CFAA/CPAR	Country Financial Accountability and Procurement Assessment Report
CGR	General Comptroller Office
CONAPAS	National Commission for Water and Sanitation
CPI	Consumer Price Index
CPIA	Country Policy and Institutional Assessment
CPPR	Country Portfolio Performance Review
CPS	Country Partnership Strategy
CSO	Civil Society Organization
DfID	Department for International Development
DGCP	General Directorate of Public Credit
DPR	Development Policy Review
DSA	Debt Sustainability Analysis
EC	European Commission
ECF	Expanded Catalytic Fund
ECOM	Esteve Commodity
EFA-FTI	Education For All – Fast Track Initiative
EFP	Economic and Financial Program
ENACAL	National Water and Sewage Company
ENEL	National Electricity Company
ENITEL	Nicaraguan Telecommunications Company
ERC	Emergency Recovery Credit
ERCERP	Economic Growth and Poverty Reduction Strategy
EU	European Union
FISE	Emergency Social Investment Fund
FITEL	Telecommunications Investment Fund
FLEG	Forest Law Enforcement and Governance
FM	Financial Management
FOGADE	Deposit Guarantee Fund
FSAP	Financial Sector Assessment Program
FSLN	Sandinista Nacional Liberation Front
FTI	Fast Track Initiative
GDP	Gross Domestic Product
GE	General Electric
GEF	Global Environment Facility
H&A	Harmonization and Alignment
HIPC	Heavily Indebted Poor Country
IBRD	International Bank for Reconstruction and Development
ICA	Investment Climate Assessment
ICT	Information and Communication Technology
IDA	International Development Association
IDB/IADB	Inter-American Development Bank
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IGR	Institutional Government Review
IMF	International Monetary Fund
INE	Nicaraguan Energy Institute
INIDE	National Information and Statistics Institute
INSS	Social Security Fund
IP	Indigenous Peoples
JFA	Joint Financing Agreement
JSAN	Joint Staff Advisory Note
LAC	Latin American and Caribbean

	Region (of the World Bank)
LIC	Low Income Country
LSMS	Living Standards Measurement Survey
M & E	Monitoring and Evaluation
MCC	Millennium Challenge Corporation
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MIGA	Multilateral Investment Guarantee Agency
MINSA	Ministry of Health
MRS	Sandinista Renovation Movement
MSME	Micro, Small, and Medium-size Enterprises
MTI	Ministry of Transport and Infrastructure
NDP	National Development Plan
NGO	Non-Governmental Organization
NIP	National Indicative Program
NPV	Net Present Value
OAS	Organization of American States
ODA	Official Development Assistance
OECD/DAC	Organization for Economic Development/Development Assistance Committee
PA	Poverty Assessment
PAM	Performance Assessment Matrix
PASEN	Nicaragua Education Support Program
PEFA	Public Expenditure Financial Assessment
PER	Public Expenditure Review
PERZA	Off-grid Rural Electrification for Development
PFM	Public Financial Management
PHRD	Japan Policy and Human Resource Development
PIU	Project Implementation Unit
PLC	Liberal Constitucionalist Party
PRGF	Poverty Reduction and Growth Facility
PRODEP	Land Administration Project
PRORURAL	Rural Productivity Project
PRSC	Poverty Reduction Strategy Credit
PRSP/PRS	Poverty Reduction Strategy Paper
PSTAC	Public Sector Technical Assistance Credit
PTA	Agriculture Technology Program
RAAN	North Atlantic Autonomous Region
RAAS	South Atlantic Autonomous Region
ROC	Regional Operations Committee
SETEC	Technical Secretariat of the Presidency
SIICAR	Integrated Land Registry Information System
SIGFA	Integrated System for Financial Management and Auditing
SILAIS	System of Local Health Care Centers
SINAPRED	National System for Disaster Prevention
SINASID	National System of Development Indicators
SME	Small and Medium Enterprise
SNIP	National Public Investment System
SWAp	Sector Wide Approach
TA	Technical Assistance
TELCOR	Telecommunications Regulatory Agency
TFP	Total Factor Productivity
UF	Union Fenosa
UN	United Nations
UNDP	United Nations Development Program
W & S	Water and Sanitation
WASP	Water and Sanitation Program
WBG	World Bank Group

	IDA	IFC
Vice President:	Pamela Cox	Farida Khambata
Country Director:	Jane Armitage	Atul Mehta
Country Manager:	Joseph Owen	Marcos Brujis
Task Manager/ Co-Task Manager:	Joseph Owen & Coleen R. Littlejohn	Eduardo Wallentin & Junko Oikawa

TABLE OF CONTENTS

BOXES:

ANNEXES:

MAP

The World Bank Group greatly appreciates the close collaboration with the Government of Nicaragua in the preparation of this Country Partnership Strategy.

The World Bank Nicaragua Country Team's contributions were critical to the production of this document. Special thanks go to several colleagues including: Laura Rawlings, Jessica Poppele, David Gould, John Kellenberg, Todd Crawford, Tevfik Yaprak, Erika Jorgensen, Roberto Tarallo, Sabine Perrissin, Ulrich Lächler, Karina Garcia-Casalderrey, Florencia Castro-Leal, Megan Gavin, Pauni Obregon, Yolaina Montoya, Linda Castillo, Mayela Murillo, Juan Gonzalo Flores and Dean Thompson for his editorial touch.

The team would also like to thank Nicaragua's aid partners for their valuable contributions. Special thanks to DfID for their financial support for the CPS consultation process and other preparation activities.

FOREWARD

A category 5 hurricane, Felix, hit the North Atlantic Autonomous Region (RAAN) of Nicaragua on September 4, 2007 causing numerous fatalities and widespread damage to infrastructure, housing stock, agriculture, fisheries and the natural habitat. The RAAN is one of the poorest parts of the country and hosts a majority population of various indigenous and ethnic communities. In response to the Government's request, the Bank intends to reallocate undisbursed IDA funds from an ongoing credit, the Enhanced Competitiveness Project II, to finance an Emergency Recovery Credit.

EXECUTIVE SUMMARY

1. The FY03-05 CAS and the FY06-07 ISN were aligned around Nicaragua's first Poverty Reduction Strategy Paper (PRSP) which was later revised and renamed the National Development Plan in 2005. Although Nicaragua's core objective to reduce extreme poverty was not achieved to the extent desirable, achievements were made across the program with considerable progress in promoting a stable macroeconomic environment, reducing the fiscal deficit significantly, and lowering external debt to sustainable levels by achieving the HIPC Completion Point and obtaining further debt reduction through the Multilateral Debt Relief Initiative (MDRI). Growth has been modest averaging around 3.2 percent per year since 2002, and exports have doubled. Though the Bank was instrumental in the increase of poverty spending from 9.6 percent of GDP in 2002 to 13.6 percent in 2006, greater expenditure has yet to translate into significant gains in poverty reduction.

2. Nicaragua remains the second poorest country in Latin America after Haiti. Although economic gains have reduced the scale and severity of poverty in Nicaragua, it is still unacceptably high with 46 percent of the population living below the poverty line. To achieve the Millennium Development Goals (MDGs), the rate of progress will have to be stepped up. The key development challenges are to accelerate growth over a sustained period and ensure that its benefits are broadly shared. To achieve these objectives, Nicaragua will need to maintain a sound macroeconomic and fiscal policy, improve poverty targeting and efficiency of public expenditures, dramatically improve human capital formation, and expand economic opportunities for the poor by creating an enabling environment for investments and job creation.

3. The proposed Bank Group Country Partnership Strategy (CPS) for Nicaragua (FY08-12) is aligned to the Government's priorities and its evolving poverty reduction strategy, and is structured around support for four strategic objectives: (i) reactivating the economy, stimulating productivity and competitiveness; (ii) human capital development by improving social equity and opportunity; (iii) infrastructure and sustainable development; and (iv) strengthening governance and accountability by modernizing state institutions and promoting citizen participation.

4. Indicative International Development Association (IDA) allocations for the five year period FY08-12 could amount to around US$ 240 million. In the proposed CPS, the Bank Group has selectively chosen focal areas for engagement. The annual series of budgetary support operations, the Poverty Reduction and Support Credits (PRSCs), together with an associated technical assistance credit would allow the Bank to engage in the reform program of the Government focused on governance and public sector modernization, the investment climate (property rights and regulatory institutions), and improvements in social service provision. New investment operations would be limited to urban and rural water and sanitation, public sector management, land administration, and rural roads.

5. The Bank's ongoing portfolio of eleven operations, many of them relatively new, and recent analytic work provide ample opportunities to stay engaged on key policy issues. In energy, the Bank will work closely with the lead donor, the Inter-American Development Bank (IADB), to ensure that our programmed Analytical and Advisory Activities (AAA) contribute to

improved sector performance. We will also continue to support the education sector through the Education for All Fast Track Initiative's (EFA-FTI) Expanded Catalytic Facility, and help the Government develop a national strategy to combat chronic malnutrition through appropriate advisory services.

6. Complementing the Bank, the International Finance Corporation (IFC) aims to help accelerate private sector development supporting projects both at the regional and country levels. In Central America, IFC has been focusing on deepening regional integration, with priorities including: i) strengthening and broadening the financial sector, including access to term financing by micro, small, and medium size enterprises (MSMEs); ii) helping improve physical infrastructure; iii) supporting competitive firms in agriculture, industry and services; and iv) promoting south-south investments and helping local companies become regional and global players. These priorities are reflected in IFC's operations in Nicaragua with a focus on: a) improving the investment climate by simplifying business regulations at the municipal level; b) strengthening MSMEs' competitiveness and improving their access to finance; c) assisting exporters and hard currency earners, such as in agribusiness and tourism; and d) addressing critical infrastructure needs such as transport and energy (including renewable energy).

7. Nicaragua remains highly aid dependent with over 30 percent of its budget coming from Official Development Assistance (ODA) in its recent past. With annual aid disbursements of around US$550 million annually and with over forty donor countries and institutions involved, aid harmonization and alignment are major challenges. The Bank Group will work with donor partners under the Government's leadership to ensure greater donor alignment to the new administration's priorities, and a more coordinated attempt at harmonization to improve overall development impact.

8. The main risks to the Bank Group's FY08-12 Country Partnership Strategy arise from the possibility that the new administration may be unable to generate broad consensus on the politically challenging reform agenda or to resist measures that could threaten macro stability, undermine investor confidence and jeopardize growth prospects. These challenges will be addressed by maintaining a continuous and close dialogue with the authorities and coordinating with key stakeholders, including the International Monetary Fund (IMF) and the Budget Support Group (BSG), a roundtable of key donors. Weak institutional capacity could hinder reform and program implementation. This will be partially mitigated and supported by capacity building and strengthening fiduciary and sectoral oversight at the Country Office. Natural disasters pose a significant risk during the CPS period, which will be partially mitigated by AAA to better identify risk and its impacts (i.e., the FY08 Central American Probabilistic Risk Assessment) and help with the design of a regional risk insurance mechanism. A final key risk stems from the challenges of effective donor harmonization and alignment. The Bank will strengthen its strategic role in enhancing the Government's capacity to lead these processes and work closely with our donor partners to follow up on the implementation of the national harmonization and alignment plan. A mid-term CPS Progress Report is scheduled for early 2010, which will allow the Bank to review and discuss necessary adjustments.

I. INTRODUCTION

1. The last Country Assistance Strategy for Nicaragua (FY03-05) was discussed in December 2002 and the Interim Strategy Note[1] (FY06-07) was discussed in July 2005. A new World Bank Group Country Partnership Strategy (CPS) has been developed for Nicaragua to cover FY08 through FY12 with a mid-term CPS Progress Report scheduled for early 2010. The proposed CPS is aligned to the Government's priorities and the country's poverty reduction strategy (see paragraph below). It will provide a clear sense of the strategic options for Nicaragua, the World Bank Group and other donor partners in support of a coordinated partnership strategy to achieve the country's development goals.

2. Nicaragua's long-term development vision and poverty reduction strategy are delineated in its National Development Plan (NDP), 2005-2009, which gives greater importance to economic growth than the strategy document that preceded it.[2] The plan centers around five strategic themes: (i) generating economic growth and employment for poverty reduction, (ii) developing human capital and social protection, (iii) developing productive and social public infrastructure, (iv) governance and state reform, and (v) macroeconomic stability. The primary objective of the Ortega administration, which was recently elected in January 2007, is ***wealth creation and poverty reduction through broadly shared economic growth***. Additional key principles of the Government include: a commitment to sound macroeconomic and fiscal policy, as well as a healthy investment climate with private sector-led growth as a means to create national wealth and achieve poverty reduction; better harmonization of aid and less dispersion of projects; expanded economic relationships with new partners; the reactivation of rural production; small and medium enterprise (SME) development to create jobs; and targeted social programs, which are important elements of Nicaragua's evolving poverty reduction strategy. The Ortega administration is in the process of updating the NDP, renaming it the Plan for Socioeconomic Development, and plans to hold consultations on it by the end of 2007. This Plan would be presented for discussion along with a Joint Staff Advisory Note (JSAN) at the Boards of the Bank and the IMF in mid-2008.

3. The above mentioned priority areas and key principles are strongly aligned with the Millennium Development Goals (MDGs), some of which appear to be on track to reach the targets for 2015. Those on track include poverty reduction, infant and child mortality, and access to sanitation. However, major challenges remain in reaching the MDG targets in literacy, net primary enrollment, chronic malnutrition, and access to water. The targets for maternal mortality and access to reproductive health services also seem very unlikely to be met (see Table 1 on page 3 for further details).

II. COUNTRY CONTEXT AND DEVELOPMENT CHALLENGES

4. **The people of Nicaragua lived through great upheavals during the last three decades.** During the 1950s and 1960s, Nicaragua boasted one of the region's fastest growing economies, albeit during a repressive military dictatorship. But subsequent years of economic mismanagement, corruption, political strife, natural disasters and civil war, which took the lives

[1] An ISN was prepared in July 2005 to enable the new CPS to be fully aligned with the political cycle in which a new government administration was voted in to office in January 2007.

[2] The first PRSP, called the Economic Growth and Poverty Reduction Strategy (ERCERP), was prepared by the Aleman administration in 1997, and was subsequently revised and updated by the Bolaños administration to become the National Development Plan covering 2005-2009.

of over 50,000, transformed the nation of about five million from a star performer into the slowest growing country in the region. By the early 1990s, Nicaragua had become one of the most highly indebted and economically unstable countries in the world. Half of the population was living in poverty and one-fifth in extreme poverty.

5. **Nicaragua made rapid strides towards becoming a market-based economy during the first half of the 1990s.** It lowered trade barriers, reduced the size of its public sector and began modernizing government. More public spending was aimed at the poor. The education and health sectors were reformed and extreme poverty declined quickly. However, after the devastation of Hurricane Mitch in October 1998, the government was overwhelmed by short-term emergency needs and lost its focus on long-term development. As the huge flows of emergency aid money slowed, the government failed to reduce its spending, and budget deficits spiraled out of control. Nicaragua abandoned its program with the IMF, and by 2002 economic growth had fallen to less than one percent. Hurricane Mitch, in effect, flattened the gains of Nicaragua's return to a market-based economy.

6. The administration of President Bolaños, upon taking office in 2002, **focused on establishing fiscal discipline and attacking corruption.** Its efforts paid off when Nicaragua became the tenth country in the world to comply with conditions for debt relief under the Highly Indebted Poor Country (HIPC) Initiative (to date, only 20 countries worldwide have met the HIPC completion point milestone). Over US$3 billion of public debt were forgiven in early 2004. Investors returned, and economic growth jumped to 5.1 percent in 2004, and has since remained at around four percent.

7. **There have been noteworthy improvements in Nicaragua's macroeconomic performance since 2001**. The economy has continued to grow moderately at an annual rate of 3.2 percent, complemented by a low 7.6 percent annual inflation rate and high levels of international reserves. Exports doubled to about $2 billion, including *maquila value added*, and the public debt is expected to fall from 200 percent of GDP to 55 percent by end-2007. Moreover, important fiscal consolidation efforts helped reduce Nicaragua's deficit from 6.6 percent of GDP in 2001 to a modest surplus in 2006. The financial sector was also stabilized after the 2000 – 2001 crises.

8. The Ortega administration is interested in maintaining policy continuity on key issues and tackling pending development challenges, with a special focus on social issues that impact the poorest. The administration is particularly interested in efforts to improve the country's growth performance while reducing poverty through shared economic growth.

Status on Achieving the MDGs

9. Based on forecasts from current data, many MDG targets for 2015 are unlikely to be achieved. The sole target projected as **likely** to be achieved is *access to sanitation*. It is **possible** that targets will be met in reducing *extreme poverty*, *infant mortality*, and *under-five mortality*. It is **unlikely** that targets will be met in reducing *chronic malnutrition*, increasing *access to safe water*, reducing *illiteracy*, and achieving *universal net primary enrollment*. Targets considered **very unlikely** to be met include reducing *maternal mortality* and improving *access to reproductive health services* (see table on the following page). Although reaching each target is important by itself, targets should be viewed collectively as they are mutually reinforcing. Better access to clean water improves health; better health care increases school enrollment and reduces

poverty; and better education leads to better health. Increased incomes give people more resources to pursue better education and health care and work for a cleaner environment. Nicaragua clearly has a long way to go to achieve the 2015 MDG goals, and will require strong public support, a concerted effort by all state actors, a good governance environment, and considerable donor resources to accelerate progress.

Table 1: Nicaragua: Achievement of MDGs and Long-Term PRSP Targets

PRSP goals (MDGs)	PRS-I [a] Base 1993	PRS-II [b] Base 2001	Actual 2005	Target PRSP-II 2010	Forecast 2015 [c]	Target PRS-II 2015	Target 2015 will be achieved?
Extreme Poverty (%)	19.4	15.1	14.9	11.5	11.0	9.7	Possible
Net Primary Enrollment (%)	…	82.6	84.1	90.5	87.0	100	Unlikely
Infant Mortality (per 1,000 live births)	58	31	…	27	63.7	20	Possible
Under-Five Mortality (per 1,000 live births)	72	40	…	33	31.2	24	Possible
Chronic Malnutrition (%)	19.9	17.8	17	12.8	11.7	7	Unlikely
Maternal Mortality (per 100,000 live births)	160	88.6	95.7 [d]	63	80.3	22	Very unlikely
Access to Reproductive Health Services	…	16.1	12.9	29	21.3	100 [e]	Very unlikely
Access to Water (%)	…	75.8	71.5	83.5	76.4	90	Unlikely
Access to Sanitation (%)	...	87.1	89.3	90	95.9	95 [f]	Likely
Illiteracy Rate (%)	19	18.7	18.4	15.6	15.3	10	Unlikely

Source: PRS-I, LSMS 2005, PRS-I 1st and 2nd Progress Reports, PRSP-II, and own estimates. (a) MDGs base year is 1990, Nicaragua's PRS-I explains data was not always available, then closest year was used, for most cases 1993 or 1994, except malnutrition and illiteracy 1998; (b) PRS-II base year is 2001 for poverty, infant and child mortality, malnutrition and illiteracy, or 2004; (c) Estimated on the basis of SimSIP elasticities for Nicaragua and LAC, methodology cited in World Bank Technical Paper No.467; (d) 2006; (e) Target for 2010 is 29 from a 16.1 in 2004; (f) National target.

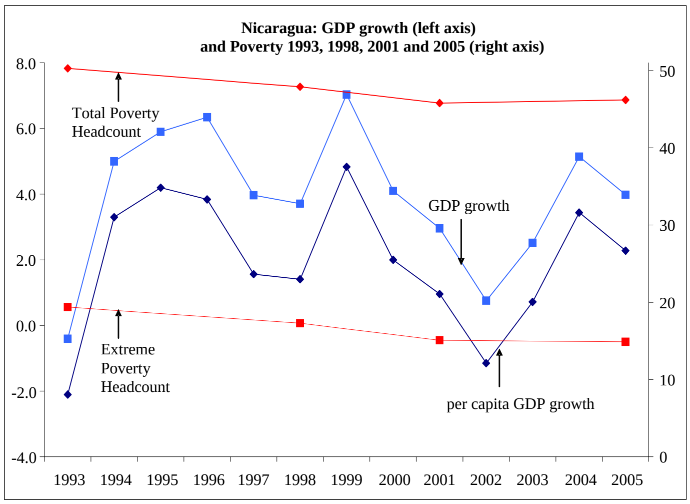
Growth Dynamics

10. **Nicaragua's annual GDP growth over the last five years has been modest and highly variable.** GDP growth averaged around 3.2 percent per annum from 2002 to 2006, or 1.3 percent in per capita terms. Though reasonable by LAC standards, growth is below the average achieved by other medium-low income countries worldwide. Nicaragua's growth was also marked by strong fluctuations, continuing a pattern observed over the previous decade (Figure 1 on the following page) and generally reflecting the economy's vulnerability to external economic shocks (e.g., commodity price declines and oil price increases), natural disasters (e.g., El Niño, hurricanes, and earthquakes) and domestic policy reversals (such as pre-election spending). The modest level and erratic nature of growth have hampered progress in poverty reduction.

11. Nicaragua's growth performance was analyzed in the 2004 Nicaragua Development Policy Review, which concluded that its difficulties in achieving fast, sustained growth were attributable partly to insufficient rates of capital accumulation, but more importantly to insufficient productivity growth. It also noted that Nicaragua exhibited particular shortcomings in several key determinants of growth, namely in education attainment, public infrastructure, financial sector development and governance, exacerbated by notably unstable macroeconomic management over previous decades. Looking ahead, there are several good reasons to hope that Nicaragua's future growth may become more stable. First, in contrast to previous electoral transitions, the stable macroeconomic legacy left by the outgoing Bolaños administration obviates the need for a costly adjustment and breaks the tradition of policy-induced spending cycles that characterized previous electoral periods, removing one of the most important sources of macroeconomic instability. Furthermore, the risk of banking crises has declined significantly

with the consolidation of the banking system in the early part of this decade and the implementation of reforms to strengthen the financial system. Exports are also likely to grow from implementation of the Dominican Republic-Central American Free Trade Agreement (DR-CAFTA) and negotiations of new trade deals with the European Union (EU), Brazil, Canada, the Caribbean Community (CARICOM), and the Bolivarian Alternative for the Americas (ALBA). Education attainment has also risen, though its impact on growth is likely to be felt only in the long run, and the development of public infrastructure exhibits a mixed record, with significant progress made in roads, but less momentum in the water and energy sectors.

Figure 1: Nicaragua: GDP Growth and Poverty 1993, 1998, 2001 and 2005



Poverty and Inequality

12. Poverty in Nicaragua declined slightly between 1993 and 2005. *Overall poverty* fell between 1993 and 2001, but the 46 percent poverty rate in 2005 is nearly the same as the rate in 2001. In rural areas, poverty dropped substantially from 76 percent in 1993 to 69 percent in 1998 and has not gone down since then. Despite the slow progress in overall poverty reduction, *extreme poverty* dropped significantly from 19 percent in 1993 to 17 percent in 1998 and to 15 percent in 2005. Due to substantial changes in extreme poverty, Nicaragua's *poverty gap* has narrowed, particularly the *extreme poverty gap* (Figure 2 on the following page).[3] Inequality, as measured by the Gini coefficient[4] also declined from 0.49 in 1993 to 0.40 in 2005, suggesting that the consumption gap between the rich and poor is narrowing, although much still remains to be done to improve the living standards of the poorest segments of society.

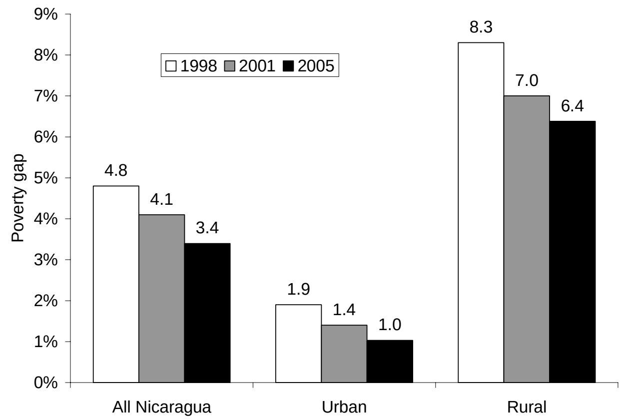
13. Although the consumption gap remains substantial, various measurements of basic needs have improved according to census data and household data from the Living Standards Measurement Surveys (LSMS). Reductions in four basic, negatively framed needs indicators based on census and household survey data between 1995 and 2005 are shown in Figure 3 on the following page. The basic needs index components include *crowding* (more than 3 people per room), *inadequate access to water and sanitation* (potable tube or well water), *inadequate housing materials* (unsafe materials used in the construction of walls, floors and ceilings), and *lack of school attendance* (children of school age not attending school). The government has

[3] The poverty gap measures how far the poor are from the poverty line.

[4] A measure of inequality in which zero is perfect equality and one is total inequality.

defined levels of inadequacy for each of these indicators to indicate when these basic needs are unsatisfied. All four indicators show consistent reductions (i.e., overall improvement) from 1995 to 2005.

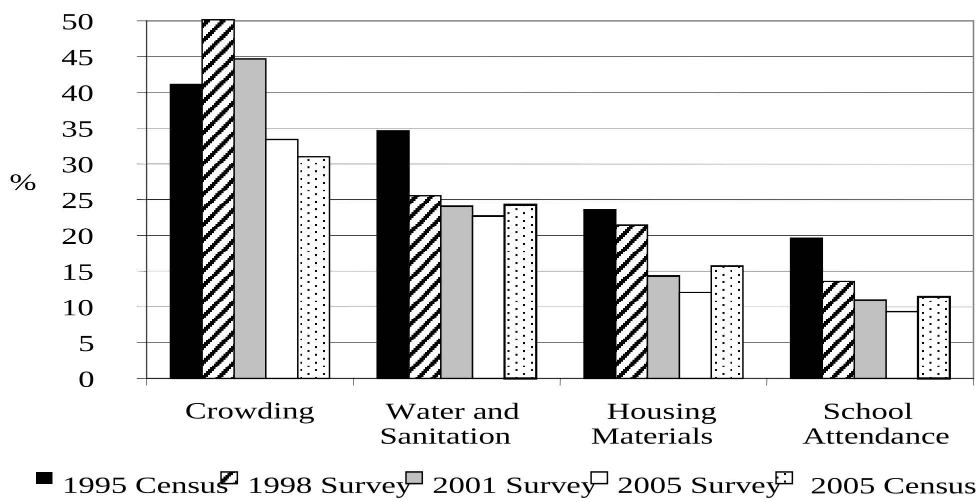
Figure 2: Poverty Gaps by Region 1998-2005 (Extreme Poverty Line)



Source: World Bank (2007) NI PA. Report No. 39736 – NI

14. Household survey data from 1998 and 2005 show that crowding dropped from 50 percent to 33 percent, inadequate access to water and sanitation from 26 to 23 percent, inadequate housing from 21 to 12 percent, and children out of school from 13 to 9 percent. Some of this progress reflects better public services, such as in the water and education sectors, but even here access hinges partially on private contributions, and thus income, to cover costs. Housing quality clearly reflects higher income and consumption. It is difficult to believe that significant improvements in housing quality could have occurred without a significant increase in disposable income used to improve the quality and size of dwellings (including better roofs, digging wells for water, and improved flooring).

Figure 3: Basic Needs Index Components, 1998-2005 (National Level)



Source: World Bank (2007) NI PA Report No. 39734-NI

15. **Nevertheless, Nicaragua can expect to advance in poverty reduction only with significantly faster economic growth**. From 1993 to 2005, Nicaragua exhibited a poverty-growth elasticity of -0.4 for total poverty and of -1.1 for extreme poverty. Based on these

elasticities, Nicaragua's annual GDP growth would have to average 5.5 percent from now until 2015 to reduce extreme poverty to the 9.7 percent MDG target, from 14.9 percent in 2005.

Development Impact of Remittances

16. **Flows of workers remittances are very important in the Nicaraguan context.** In 2005 Nicaragua received remittances amounting to US$650 million (about 13 percent of GDP) reaching approximately 15 percent of Nicaragua's households. According to *The Development Impact of Worker' Remittances in Latin America* (WB Report No. 37026), remittances are contributing to significant improvements in both education and health indicators. For example, school enrollment for 12-17 year-olds in households that receive remittances is about 15 percent higher than in households without remittances. According to standardized measures of health outcomes of weight and height by age, children in households that receive remittances have better health outcomes than children in households that do not receive this form of income. Similarly, children in households that receive remittances have better nutritional indicators.

17. **Remittances should be seen as an opportunity that complements a good development strategy rather than a substitute.** Despite the positive effect of remittances on a wide range of development indicators, the evidence indicates that these flows are accompanied by a number of policy challenges. For example, remittances appear to reduce the labor supply and can lead to real exchange rate appreciation. Thus, in countries experiencing large remittance inflows like Nicaragua, there may be a need for interventions aimed at achieving external competitiveness gains. Similarly, the positive impact of remittances on development appears to be related to the use of financial services by recipient households, which is much more limited in Latin America than in the rest of the world. Potential reasons for that are: (i) lack of trust in the financial sector; (ii) high banking costs; and (iii) limited access to physical branches. Thus, additional efforts to deepen and improve access to the financial sector, both areas where public intervention can make a difference, would likely contribute to enhance the development impact of remittances.

Public Spending and Efficiency

18. Poverty spending increased from 9.1 percent of GDP in 2002 to 13.6 percent of GDP in 2006; however, this has yet to translate into significant gains in poverty reduction. **Social spending does not adequately target the poor (e.g., 47 percent of poverty reduction spending goes to the non-poor).** Health and education spending has the largest redistributive impact, but efficiency of expenditures in these sectors is low.

19. The 2007 Public Expenditure Review (PER) analyses key public sector issues in Nicaragua, with the aim of recommending policy options that can improve the effectiveness and transparency of public resource allocation in ways that promote economic growth and poverty reduction (see Box 1 on the following page).

Box 1: Nicaragua Public Expenditure Review (PER), 2007

Nicaragua has made impressive progress since 2001 in reducing its overall fiscal deficit. At the same time, external debt declined substantially, reflecting the debt relief provided under various initiatives. These results put Nicaragua in a good position to implement its poverty reduction strategy in a sustained manner. Further, an analysis of fiscal sustainability revealed that if Nicaragua can generate a 4 percent annual growth rate and maintain the prudent macroeconomic policies of recent years (with a primary surplus between 1% and 2% of GDP), then its current debt burden appears sustainable. However, several important vulnerabilities, if not properly addressed, could undermine fiscal discipline. These include: (i) the growth in current transfers (reflecting increased fiscal transfers to the municipalities mandated by Law 466); (ii) the growth in public wages, which is sustainable only with rapid productivity growth; (iii) the actuarial deficit of the pension system; and (iv) an energy crisis, which threatens to develop into a major obstacle for economic growth. To address theses threats, it will be necessary to: **(i) develop a political consensus on a decentralization strategy that results in more explicit linkage between central government transfers and expenditure responsibilities of municipalities; (ii) develop and adopt appropriate framework legislation for a public sector remuneration policy; (iii) introduce pension reforms to reduce the actuarial deficit to a fiscally sustainable level; and (iv) encourage more investment in the energy sector by creating a more stable policy environment for private investors.**

Looking beyond macroeconomic stability, Nicaragua also needs to accelerate the pace of economic growth to generate greater momentum in poverty reduction. The total amount of public infrastructure spending and social spending appears to be adequate given Nicaragua's economic capacity, but there is much room to improve the quality and efficiency of public spending. The PER identified various options to improve the intra-sector allocation of resources and the quality of public expenditures in key areas relevant to economic growth. It also pointed out the most important measures needed to modernize public expenditure management and thereby facilitate adjustments to improve the quality of public spending in a cost-effective manner.

Inadequate Social Services – An Obstacle to Human Capital Formation

20. ***Education*** is a cornerstone of an individual's economic productivity. The 2007 Poverty Assessment identifies education as the most important factor for higher household well-being and emphasizes that at least 11 years of education are needed to break out of the cycle of poverty. The education system in Nicaragua has made important strides in expanding coverage, with primary enrollment rates reaching 88 percent in 2006. From 1998 to 2003, pre-primary and secondary school enrollment also increased, respectively, from 23 to 31 percent and from 36 to 39 percent. However, challenges remain with respect to access, equity, efficiency and quality at all levels, as well the overall challenge of strengthening institutional capacity and efficiency in the sector. Repetition and dropout rates are also high: one of every three students repeats first grade, only 69 percent complete primary school and of those who do complete only 43 percent do so within six years (2004). The twin challenges of ensuring continued expansion in access and continued improvements in the quality of teaching and learning continue to be pillars of the education agenda at all levels.

21. ***Health.*** Nicaragua made substantial progress in the health sector over the last decade. MDGs for infant and child mortality are within reach, reflecting important advances in access to basic health services. However, substantial challenges remain, particularly in maternal and infant health. Maternal mortality remains high, demand for contraception is unmet, and pre-teen and teen pregnancy rates are the highest in Latin America. Progress also recently stalled in increasing the coverage of pre-natal care and the share of births attended by health personnel, and vaccination coverage for tuberculosis and polio declined since 2002. Within the health system, large inequities persist in access and quality of health services across socio-economic groups and regions. The per capita allocation of public healthcare resources, for example, is concentrated in richer regions, such as Managua and the Pacific. Public health services are also geared towards curative health, despite a substantial unmet need for preventive health care.

22. ***Nutrition and social protection***. Too many Nicaraguan households suffer from chronic malnutrition, elevated school dropout rates, and high levels of child labor, youth unemployment and domestic violence, exacerbated by a social protection system that lacks adequate coverage and coordination. Although the prevalence of stunting for children under 5 years old declined from 27 to 22 percent from 1998 to 2005, more than one in five children still suffers from chronic malnutrition with significant attendant impacts on health, cognitive capacity and lifetime productivity. To reach the MDG goal of addressing extreme poverty as measured by chronic malnutrition, Nicaragua would need to prioritize this goal and make rapid advances across several sectors, including expanding access to water and sanitation, expanding growth monitoring in children under two, launching prevention campaigns, and improving access to maternal and child healthcare and practices. Moreover, the most vulnerable must have equal access to quality basic services and opportunities to build their human capital and protect them from natural and economic shocks. In addition, the social protection system must be aligned to meet these goals.

23. ***Water***. Access to water improved slightly from 70.3 percent in 2001 to 71.5 percent in 2005, but appears unlikely to attain the MDG target of full coverage by 2015. Moreover, this slight gain belies continuing challenges, including frequent water rationing, high system losses, lack of domestic metering, low collection rates, and poor water quality, especially in rural areas. Most Nicaraguans without access to water live in rural areas in the Atlantic, Central and North regions. ENACAL, the state-owned water operator, remains responsible for providing services in urban areas, while the Social Investment Fund (FISE) remains responsible for the rural sector. Limited institutional capacities, including within the National Commission for Water and Sanitation (CONAPAS), an inconsistent legal framework, and excessive political interference are underlying factors impeding water coverage expansion and service quality improvements.

Infrastructural Bottlenecks – Impediments to Growth and Investment

24. ***Energy***. Infrastructure deficiencies hamper growth and private sector investment, especially in energy. Energy supplies have been unreliable due to generation constraints (obsolescence and lack of new investments) and elevated costs due to high dependency on thermal (oil-fired) generating plants. Tariffs have been politicized and lack an automatic adjustment mechanism. In addition, high distribution losses of 28 percent have provoked cash-flow problems in the system (arrears to generators) and losses for the private sector distributor, Union Fenosa (UF).[5] The contentious relationship between UF and the Government, partially attributable to a poorly designed and hastily executed privatization strategy, coupled with a weak legal framework and politicized regulator discourages badly needed new private sector investments. It is imperative to bring new generating capacity on line, rehabilitate existing power plants to improve supply, address legal and regulatory shortcomings that impede new capacity being added to the system, and improve the connectivity and reliability of the regional market.

25. Nicaragua's 69 percent electrification rate, the lowest among Central American countries, underscores the need to expand and improve access to rural electrification. Rural coverage is much lower, around 34 percent, and is provided through a combination of on-grid and off-grid extension programs. Improving the business climate in the sector will require confidence building measures by the Government and better legal clarity to attract the sizeable private

[5] Union Fenosa has filed a claim with MIGA, but negotiations to resolve the dispute with the GoN are far advanced.

investments necessary to turn-around performance and exit the present crisis. The State should be more proactive in prosecuting large scale theft of electricity and facilitate the "normalization" of poor communities that have connected illegally, with a view to gradually increasing cost recovery in line with their ability to pay. The mandates of key state institutions in sector policy and operations, such as the Ministry of Energy and Mines,[6] the Ministry of Finance, the *Instituto Nicaragüense de Energía* (INE), the National Electricity Company (ENEL) and the National Assembly, should be better defined to clarify their respective roles as policy maker, fiscal agent, regulator, operator and legislator. Strengthening property rights (i.e., water rights for hydropower development) and addressing the weaknesses in the electricity law are also critical for success.

26. ***Telecommunications.*** After years of poor service, the GoN took bold steps to privatize the National Telecommunications Company (ENITEL) and establish the Telecommunications Regulatory Agency (TELCOR). New cellular licenses were granted in 2001 and 2003. Services improved with IDA support; national coverage of fixed and mobile phones increased sevenfold from 194,000 to more than 1.3 million in 2005, and mobile phone coverage in the provincial capitals increased from 50 percent in 1999 to 100 percent in 2003. However, despite large increases in fixed and mobile telephone usage, Nicaragua still has the lowest penetration rates in Latin America (23.6 per 100 people). Moreover, despite Nicaragua's Telecommunications Investment Fund (FITEL), which supports improved access in rural areas by offering subsidies where private operators are reluctant to operate, dramatic disparities persist in access to information, technology, and telecommunication (ICT) infrastructure between urban and rural areas. Urban centers, such as Managua, have 12.7 fixed phones per 100 inhabitants, compared to less than 0.4 fixed phones for rural areas where more than 48 percent of the population lives.

27. ***Transportation***. Road networks are vital to connect people to markets and social services, and help the poor access finance and build productive assets. However, the condition and coverage of Nicaragua's paved road network are the poorest in Central America; only 20 percent of 19,036 km are reported to be in good or fair condition. According to the 2005 LSMS, a little above one-fifth (22.3 percent) of Nicaraguan households have access to a paved road; demographically, access is 30 percent among the non-poor, but only 11 percent among the poor and seven percent among the extreme poor. In addition, there are large inequities in access across regions, especially the Atlantic Region.

28. Future initiatives will need to improve and expand the paved road network for Nicaraguan producers to effectively compete under CAFTA-DR and other potential trade arrangements. To ensure the sustainability of the road network, it will be essential that the roads that have been rehabilitated are not left to deteriorate and once again allowed to become transport bottlenecks. The capacity of the Ministry of Transport Infrastructure (MTI) needs strengthening to help it carry out road condition inventories, fully install the Pavement Management system, and seek least cost solutions to technical and engineering problems. The local consulting and contracting industries also require considerable capacity building. Road network management also needs to be further decentralized; the MTI is currently responsible for 19,000 km of the road network, of which many are secondary and tertiary roads that can be better managed locally. Urban transport also remains inadequate in Managua and other large cities.

[6] The Ministry of Energy and Mines was only recently set up under the Ortega administration and is viewed as a positive step forward, in line with the Bank's prior policy recommendations.

29. ***Land***. The modernization of the Cadastre and Registry systems is vital for land tenure security and to facilitate land transactions and promote agricultural investments. However, there are discrepancies between the Cadastre's land records and those of the Property Registry. Progress is being made in the modernization of the Cadastre and the Property Registry and in the establishment of an Integrated Information System (SIICAR). A law to modernize the Cadastre was enacted and its regulations published in 2005. The establishment of a new National Directorate of Public Registries is pending legislative approval of the Public Registry Law.

Financial Services – Limited Access to Credit hinders SME growth

30. ***Financial Sector.*** The Nicaraguan financial sector is no longer as fragile as it once was, but it still requires careful supervision. After the reintroduction of private banks in the early 1990s, credit to the private sector expanded rapidly. This expansion was followed by a banking crisis in 2000-01 leading to the closure of four banks. Since then, the financial sector has experienced a significant process of concentration and consolidation. Following a series of mergers and acquisitions involving international banking groups, the financial sector has grown substantially in recent years. Banking assets rose to US$3 billion at end-December 2006, compared with US$2.7 billion a year earlier. However, dollarization remains high,[7] with 66 percent of deposits in dollars as of end-November 2006. In the Doing Business Report 2007, Nicaragua ranks 48th in the category "Getting Credit", sharing its rank with Argentina, while Chile ranks 28th and Bolivia 65th. Nicaragua improved its ranking considerably through the establishment of a new credit registry and the creation of a new private credit bureau.

31. Today, seven private domestic commercial banks and two private finance companies dominate the financial sector. In 2005, they provided credit to the private sector in an amount equal to 29.1 percent of GDP, which is larger than in Peru (with 18 percent), but modest compared to Bolivia (38.4 percent) or Chile (62.4 percent). Access to finance is generally very limited, and long and medium term financing, especially for SMEs, is mostly unavailable. Also, a large segment of the population does not have access to banking services, which is reflected in a comparatively low ratio of bank deposits to GDP of 35% in 2005. On average, there are only 96 bank accounts for every 1,000 Nicaraguans, compared with 316 in Peru and more than one per person in Chile. On the positive side, the microfinance sector has expanded by 26 percent per year since 1999, reaching about 350,000 clients with an outstanding loan portfolio of US$223 million by end of 2006.

Gender, Indigenous Peoples and Civil Society

32. ***Gender***. Some progress has been made in achieving gender equity, and the Ortega administration has signaled its commitment in this area by appointing many more women to high level positions than in the past. Social, cultural and legal factors hinder Nicaraguan women's economic development potential by limiting their access to, *inter alia*, opportunities, markets and financial and technical resources. Although more women than men participate in microfinance borrowing, they receive a smaller percentage of overall lending. In urban areas, women receive 38 percent of microfinance lending, but in the rural areas they receive only 21 percent. Women also sometimes face discriminatory interest rates due to an unfair perception of being seen as "high risk" borrowers. Domestic violence is prevalent and abusers are rarely prosecuted.

---

[7] Given Nicaragua's crawling peg exchange rate arrangement and a relatively open capital account, a reversal in depositor confidence could lead to a rapid depletion of international reserves and threaten a financial sector crisis.

33. ***Indigenous peoples (IP) in Nicaragua have been a historically disadvantaged minority***. In December 2002, the Indigenous Titling Law was enacted, creating an institutional framework to promote, coordinate, and manage demarcation and titling processes. Land security for indigenous peoples is critical to successful poverty reduction, their economic empowerment and environmental sustainability of the protected areas in which they live. In March 2005, five titles of indigenous communities in the Bosawas natural reserve were provisionally registered in the two registries of Jinotega and RAAN. Progress in issuing permanent titles has been painfully slow due to institutional bickering and lack of a political consensus. The first title was formally handed over to the Mayagni Sauni As community in late 2006 – a historic, landmark achievement. Recently, under the Ortega administration, four more titles were permanently registered.

34. ***Civil Societ***y. There has been an impressive increase in the number of civil society organizations (CSO) active in policy dialogue and social accountability at the local and national levels. However, CSO capacity to effectively influence decisions and shape policy is still limited. Formal participatory mechanisms are legally mandated in some areas (e.g., education and local development), but their impact has been mixed. The lack of adequate access to public information has been a major obstacle to more effective participation and social accountability. Efforts to achieve a consensus on a Freedom of Access to Public Information Law had been underway for some time now, with IDA assistance, and final legislative approval was obtained in May of 2007.

Coping with Natural Disasters

35. Geographic location combined with weather and geological conditions make Nicaragua one of the world's most disaster-prone countries (see details in Annex D), with a major disaster occurring on average every two years. In the last ten years, disasters resulted in the deaths of over 3,300 people, displaced or adversely impacted over 1.35 million people and caused nearly US$1.5 billion in economic losses. Recurring disasters have highlighted Nicaragua's need for effective disaster mitigation and response management. A national System for Disaster Prevention, Mitigation and Response (SINAPRED) was established in 2000 and has been supported by a Bank credit in 2001 – the Natural Disaster Vulnerability Response Project.

Summary of Development Challenges

36. Nicaragua remains the second poorest country in Latin America after Haiti. Although the economic gains have reduced the scale and severity of poverty in Nicaragua, it is still unacceptably high with 46 percent of the population living below the poverty line. To achieve the Millennium Development Goals, the rate of progress will have to be stepped up. Nicaragua’s main challenges can be grouped into five areas.

37. ***Maintaining macroeconomic stability.*** It took almost 15 years to achieve a sustainable external debt position, but large domestic debt is still worrisome. Nicaragua will need to continue to spend prudently. It faces possible threats from public sector wage demands, the temptation to give more resources to municipal governments without clear transfers of

responsibilities, the impact of an unsustainable pension system, and pressure to reinstitute a state development bank.

38. ***Pursuing public sector efficiency.*** Because public investment and spending needs will always exceed limited public funds, careful planning is needed to ensure that what is spent is spent well. Progress has been made as previously noted. The next steps could focus on improving the professionalism of the civil service, expanding the use of financial management systems, providing freedom of information that would allow citizens to hold government more accountable, and strengthening the quality and targeting of public spending.

39. ***Building a competitive investment climate.*** Despite real progress in recent years in meeting the challenges of freer trade and globalization, Nicaragua is still not taking full advantage of global markets because of infrastructure and regulatory bottlenecks. New investments are needed to provide reliable electricity supplies and substantially increase the network of paved roads. Bureaucratic red tape needs to be slashed to ensure predictable and transparent regulatory processes, secure property rights, and deepen financial markets, with special attention to providing a level playing field to help small and medium enterprises thrive.

40. ***Maximizing human potential.*** Nicaraguans need access to quality education and adequate nutrition and health services if they are to enjoy the benefits of a vibrant global economy and break out of inter-generational cycles of poverty. Primary school enrollment has increased significantly, but high drop-out and repetition rates remain a problem and access to pre-school and secondary education remains limited. Curriculums need to be revised and updated for greater relevance. Investment in secondary and vocational education will also be very important to Nicaragua's future. In health, the big challenge is to continue to expand the coverage and quality of primary health services in affordable ways, especially with respect to maternal and infant health. Chronic malnutrition, which remains alarmingly high, needs immediate attention focused on a multisectoral action plan. Special efforts will be required to provide services and opportunities to isolated populations along the Atlantic coast who have traditionally been marginalized and, overall, to bridge gaps in access and quality of social sector services across regions and socio-economic groups.

41. ***Expanding economic opportunities for the poor, predominately in rural areas***. To boost the productivity and income-earning potential of the rural poor, tools must be provided to help them compete globally. More funds will be needed for water, roads, telephone connections, agricultural extension services and land titles. Nearly 80 percent of the country's road network is too unreliable to serve as regular transport routes. Telecommunications and electricity supplies are still lacking in many of Nicaragua's smallest towns and rural communities, and land titling coverage remains limited to a few areas in Nicaragua's northeast. Access to financial services in rural areas is limited and will require deepening of financial markets.

Governance – an overarching theme

42. Governance is a cross cutting theme that critically impacts the development process in a country. The 2007 Nicaragua Institutional Government Review (IGR) provides an overview of the political and legal system and analyzes and proposes recommendations in three areas where IDA has comparative advantages and would avoid duplication with other donor work: i) the regulatory system for public services, including electricity, telecommunications and water and sanitation; ii) the real estate property registration system; and iii) accountability systems,

including within the Comptroller's Office and social accountability systems. The IGR's preliminary key findings are summarized in Box 2 on the following page.

43. ***Public Financial Management (PFM) system***. The performance of PFM systems is a critical factor in fiscal discipline, strategic allocation, operational efficiency and transparency in the use of scarce public funds. Building on earlier CFAA and Public Expenditure Financial Assessment (PEFA) exercises, the Bank's recent PER assessed Nicaragua's PFM performance in seven critical dimensions: (i) budget credibility; (ii) comprehensiveness and transparency; (iii) budget planning; (iv) predictability and control in budget execution; (v) accounting, recording and reporting; (vi) external scrutiny and auditing; and (vii) donor practices that affect PFM. The IMF also reviewed PFM issues as part of its Nicaragua-Fiscal Strategy Brief dated January 2007. In general, **considerable progress has been made to date,** especially the enactment in 2005 of the Financial Management and Budget Regime Law (Law 550), which sets strict limits on budget modifications and brought almost all donor assistance within the budgetary framework.

Box 2: Key Findings of the Institutional Government Review

- The system of regulation of public services has worked well in the telecommunications sector, but faced serious difficulties in the electricity sector, and was weak in the water and sanitation sector. Progress needs to be made to ensure the independence and professionalism of regulatory institutions.

- The security of property rights is quite uncertain and negatively affects the poorest Nicaraguans. The approval of the draft Law on Public Registries, which has been under congressional review for a few years, would make the registry system more reliable by providing a legal framework to both integrate the cadastre and legal registry, and implement the computerized Integrated Information System (SIICAR).

- The Comptroller's Office has concentrated most of its efforts on investigating accusations to the detriment of planned audits. Despite this focus, the State has not, to date, been able to recuperate any resources as a result of its investigations due to the lack of follow up in the judicial system.

- The execution of the country's annual budget was audited for the first time in 2007. The Comptroller's Office needs to allocate adequate financial and human resources to undertake this annually.

- Social accountability systems are very weak despite some efforts from various local civil society organizations and foreign NGOs. The recent approval of the Freedom of Access to Public Information Law should go a long way towards improving social accountability.

44. **However, some key weaknesses in the PFM system still need to be addressed**, including: (i) improving budget classification; (ii) reducing budgetary rigidities and earmarking, which account for about 19 percent of total expenditures; (iii) increasing budget coverage to include all decentralized entities; (iv) integrating the public investment system (SNIP) in the overall budgetary formulation process; (v) strengthening budget execution and reporting requirements; and (vi) institutionalizing annual audits of budget execution by the Office of the Comptroller General (CGR) with subsequent accountability to the National Assembly.

45. ***Public Procurement.*** The Government is developing an e-procurement module to complement the existing public financial management information system, SIGFA, which, when completely implemented, will further transparency. Currently, the public can access a webpage with the Government's annual procurement plan, bid invitations and contract adjudications. Standard bidding documents have been prepared, but are still not widely used by all public institutions. The Bank and the IADB, together with other bilateral donors, have worked extensively with the Government to draft a new Country Procurement Law, which is expected to

be presented to the National Assembly for approval by end 2007. The Bank and the IADB also provided procurement training and certification in 2006 to around 300 public officials.

III. GOVERNMENT STRATEGY AND ECONOMIC OUTLOOK

46. The Government recently outlined **a new Economic and Financial Program (EFP**), 2007-2009, a short to medium term program of policies and actions based on the priorities of the Ortega Administration, which in turn complements the longer term poverty reduction strategy of the 2005-2009 National Development Plan. The EFP has been introduced as the Government's proposal for a new IMF arrangement to follow up on the Poverty Reduction and Growth Facility (PRGF) that expired in December 2006. The EFP is being fleshed out in further detail, especially in the areas of poverty reduction and social policy, for future discussions with the Bank, the IADB and other budgetary support donors. Figure 4 on page 15 shows how the Government's stated priorities have evolved within the framework of the NDP and the original poverty reduction strategy, the ERCERP. The Ortega administration's poverty reduction strategy, the Plan for Socioeconomic Development, is a work in process that is expected to be the subject of wide consultations and be finalized by early next year, and then presented for Board discussion in mid-2008.

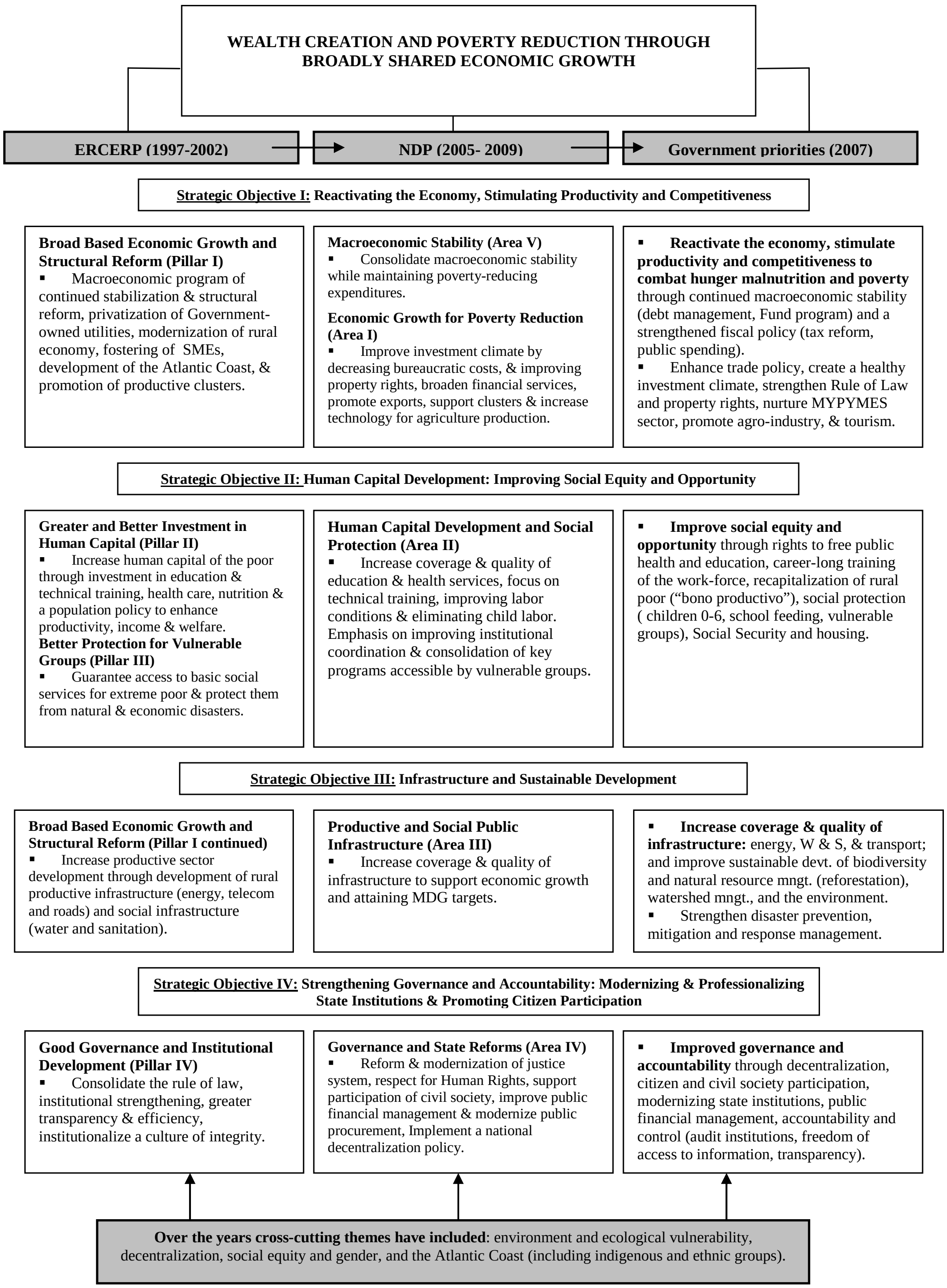
47. **The EFP has as its central objectives wealth creation and poverty reduction as inseparable elements of the country's economic and social development**. Sustained growth at over 5 percent per annum together with inflation under 7 percent is planned in the context of macroeconomic stability and sustainable public finances and external accounts. The Government intends to create a policy and institutional environment that favors public and private investments to stimulate productivity and promote quality employment generation. Increasing small and medium enterprise (SME) production is a key stated goal, with a focus on the agro-industrial sector by facilitating business alliances, producer associations and access to finance.

48. The Government's **social policy will focus on immediate priorities and the achievement of the MDGs**. Budgetary expenditures, public investments and institutional planning and execution will be better aligned with MDG targets and **a system of *Managing for Results* is to be introduced to monitor development impact**. In general, the policy will eschew short-term social assistance and focus on strengthening the poor's capacity and skills to improve their productivity, and including the poor more proactively in developing solutions to their problems. Basic public health and education services will be provided free of charge.

49. **In education**, the key objective is to provide free universal public primary education and reduce illiteracy. The previous school autonomy system is to be reformulated because it led to many parents having to pay for school programs and services that were deemed to be mandatory by some school authorities. Four key stated education policies are: (i) **more education –** with emphases on reducing illiteracy, achieving full primary enrollment and expanding access to pre-school, secondary, technical and vocational schools; (ii) **better quality education** – by improving the curriculum, strengthening teacher training, fostering responsible citizenship, celebrating Nicaragua's cultural diversity and rehabilitating school infrastructure (approximately 30 percent of rural schools lack potable water and 50 percent have no electricity); (iii) **holistic and integral education** that stresses ethics and values and includes education beyond the schoolroom environment; and (iv) **decentralization of school management and community participation.** Teacher salaries, which could be considered low by regional standards, are to be raised, and a full census and inventory of the public school system is to be carried out.

50. In **health, the policy** aims to ensure that basic health services are free of charge and that both coverage and quality are improved. Public procurement of medicines[8] and medical supplies is a priority and the purchase of generics is encouraged. Preventative family medicine is to be delivered in a decentralization manner through seventeen local area health systems (SILAIS). A strategy is also being developed to combat chronic malnutrition.

Figure 4: Nicaragua's Evolving Poverty Reduction Strategy



8 About 80 percent of total out-of-pocket costs for family health go to purchase medicines.

51. **A new policy on food security and sovereignty** is envisaged that would provide, over a five year period, about 75,000 households, or about 40 percent of the families in extreme poverty (but who own sufficient agricultural land with titles), with access to subsidized agricultural inputs, livestock, and extension services to eradicate hunger and promote income generation amongst the poorest. The package being offered, known as "Bono Productivo," would cost around US$ 1,500 per family and complement two other elements of the government's flagship "Cero Hambre" program, which are micro-nutrient supplements to children under 6 years and public school food.

52. The **policy on water and sanitation** would target both coverage and service quality. Investments would be made to reduce system losses and improve cost recovery. A new Water Law was recently approved in May 2007 to strengthen water resource management. The Government has identified among its priorities improving access to water and sanitation to marginalized communities, strengthening participation of municipalities in water resources management and environmental conservation, and promoting rational use of water and other natural resources.

53. **The EFP is being anchored on a prudent and sustainable fiscal policy.** Poverty reduction expenditures are targeted to increase from 13.4 percent of GDP in 2006 to 17.6 percent in 2009. New public investments would focus on energy and water and sanitation, and attention will be given to improve the finances of public entities in these sectors. Additional fiscal resources to finance poverty reduction expenditures would be mobilized through tax reform measures, refinancing internal debt, restructuring state institutions, cutting expenditures in non-priority areas and obtaining external assistance.

54. **Strengthening of the macroeconomic framework** (see Table 2 on the following page) is expected to continue over the medium term and to serve as the basis for the Government's social spending agenda. The significant financial sector development over the last decade is also expected to continue and together with improved prudential regulation contribute to foster economic growth. As indicated in paragraph 11, several important factors that had contributed to macroeconomic instability and low growth in Nicaragua have been eliminated or significantly reduced (e.g., banking sector weaknesses and the pre-election spending boom). These two developments alone should help raise Nicaragua's growth rate above the average level achieved since 2001. Moreover, a medium-term growth rate of 5 percent is not overly ambitious when compared with average growth rates achieved in other lower-middle income countries worldwide, or with Nicaragua's own growth rates in the second half of the last decade. [9]

[9] Note that the growth simulations reported in the 2004 Nicaragua DPR (Annex C) indicate that Nicaragua, under a modest reform scenario, can expect to grow by over 5 percent per annum over the next decade (which raises the values of its growth determining variables to the top 25th percentile of the LAC).

Table 2: Nicaragua: Key Macroeconomic Indicators

	Program					
	2005	2006	2007	2008	2009	2010
	----actual----		------------projection------------			
Real GDP growth (percent)	4.3	3.7	4.2	4.5	5.0	5.0
CPI Inflation (percent change, eop)	9.6	9.5	7.3	7.0	7.0	7.0
CPI Inflation (percent change, average)	9.6	9.1	8.2	7.3	7.0	7.0
Investment and Savings	(in percent of GDP)					
Gross Domestic Investment	29.6	29.5	28.8	29.3	29.1	28.6
Private sector	22.7	23.7	21.5	21.4	21.1	20.7
Public sector	6.9	5.8	7.3	7.9	8.0	7.9
Gross Domestic Savings	14.7	13.7	13.0	13.0	13.8	14.0
Public Sector Indicators	(in percent of GDP)					
Central Government Revenue	18.1	18.8	19.6	19.7	19.8	19.9
Central Government Expenditure	23.3	22.7	24.7	25.1	24.5	24.5
Of which: interest	1.9	1.8	1.6	1.4	1.3	1.2
Central Government Balance after grants	-1.8	0.1	-0.9	-1.2	-0.5	-0.6
Combined Public Sector Balance after grants	-1.6	0.2	-1.0	-1.8	-1.0	-1.0
Combined Public Sector Primary Balance after grants	0.8	2.2	0.8	-0.1	0.4	0.3
Total Public Debt	137.7	108.7	55.5	55.4	54.8	53.6
External Public Debt	110.2	85.4	36.3	39.6	42.9	45.4
External Sector Indicators	(in US$ millions)					
External current account balance	-724	-838	-896	-993	-998	-1,020
(in percent of GDP)	-14.9	-15.8	-15.2	-15.3	-14.4	-13.6
Exports of goods, f.o.b.	1,654	1,978	2,185	2,520	2,878	3,230
Imports of goods, f.o.b.	2,956	3,422	3,735	4,186	4,590	4,977
Gross International Reserves	730	924	925	1,044	1,184	1,317
In months of import of goods (excl. Maquilas)	3.1	3.4	3.1	3.2	3.4	3.5
In percent of foreign current deposits	54	68	65	69	73	76
Net international reserves (adjusted stocks)	282	535	595	665	745	835
WEO Oil price (US$ per bbl)	53.4	64.3	63.8	68.8	68.5	66.0

Source: Fund Staff

55. **Debt Sustainability.** An updated joint IDA-IMF Low Income Country (LIC) Debt Sustainability Analysis (DSA) was recently completed in August 2007 (see Annex G). The analysis indicates that the risk of Nicaragua experiencing debt distress is moderate, but manageable, provided that sound macroeconomic policies are applied. Nicaragua's external debt in net present value (NPV) terms is expected to decline from 40 percent of GDP in 2005 to about 28 percent of GDP by the end of 2007. However, Nicaragua also has a high level of domestic debt, which is projected to reach 21 percent of GDP (in NPV terms) by the end of 2007. The DSA indicates that this combined debt of approximately 49 percent of GDP, or 57 percent in nominal terms, is manageable under the macroeconomic framework projected for 2007 (characterized by annual GDP growth of around 4 percent and a primary fiscal deficit of less than one percent of GDP). Nevertheless, this overall public debt is still high, leaving Nicaragua vulnerable to destabilization from internal and external shocks (key sources of risks were identified in the PER and are listed in Box 1). The results of the joint DSA also conclude that the

fiscal stance of the program presented by Nicaraguan authorities is consistent with declining public debt ratios over the medium term. The DSA also considers an alternative scenario with an increase in concessionary oil financing from Venezuela under an ALBA agreement, assuming annual inflows equivalent to 0.8 percent of GDP. Even with these higher inflows, the total external debt levels are deemed manageable.

56. **External trade policy** would promote export growth and diversification. In addition to maximizing trade prospects under CAFTA-DR, the Government intends to sign new trade deals with ALBA, CARICOM, the EU, Brazil, Canada, Taiwan, Iran and Panama. Negotiations on a Central American Customs Union are also being advanced. **Monetary policy** would continue the existing crawling peg arrangements and improve the domestic payments system. Open market operations of the Central Bank and reserves management would be consistent with maintaining adequate financial system liquidity and low and stable inflation. Net International Reserves would be targeted at 2.1 times the monetary base.

57. **A reform agenda complementary** to the above mentioned policies and actions is also being proposed in the EFP to advance pending structural activities that include: (i) building consensus on a fiscal responsibility framework; (ii) obtaining consensus between employers and beneficiaries on an actuarially sound pension system; (iii) pursuing decentralization to municipalities; (iv) establishing a development bank to improve access to credits for SME producers; (v) attracting new electricity generation capacity, especially in renewable energy; and (vi) strengthening Central Bank capacity.

IV. WORLD BANK GROUP – NICARAGUA PARTNERSHIP (FY03 – FY07)

58. The FY03-05 CAS and the FY06-07 ISN were aligned around the first PRSP which was later revised and renamed as the National Development Plan in 2005. The CAS Completion Report attached in Annex C and the evaluations by the IEG of the PRSP process attached in Annex F provide a detailed assessment of Bank Group performance and lessons learned going forward. Although the CAS's core objective to reduce extreme poverty was not achieved, achievements were made across the program with considerable progress in promoting a stable macroeconomic environment, reducing the fiscal deficit significantly, doubling exports and lowering external debt to sustainable levels by achieving the HIPC Completion Point and obtaining further debt reduction through the MDRI. Though the Bank was instrumental in the increase of poverty spending from 9.6 percent of GDP in 2002 to 13.6 percent in 2006, greater expenditure has yet to translate into significant gains in poverty reduction.

Progress made in critical areas

59. The Bank's budgetary support operations combined with those of other donors played a critical role in furthering policy dialogue and economic reform. This contributed to macroeconomic stability and modest growth. Significant progress was also made in each of the following strategic areas: (i) **Broad-based economic growth and structural reform**. Annual growth, though uneven, was modest, averaging around

one percent per capita during the CAS period. Consolidated public debt fell from over 200 percent of GDP to 65 percent in 2006, and the fiscal deficit fell from 6.6 percent to less than one percent, reflecting buoyant tax revenues. International reserves also increased substantially to cover about 2.9 months of imports. Important gains were made in improving the investment climate, increasing employment, simplifying business registration procedures, and doubling exports. Following the 2000-2001 banking crisis, the Government's response led to a quick stabilization of the financial sector, albeit at considerable cost. (ii) **Investment in human capital development**. Progress was made in increasing primary school enrollment, strengthening Social Investment Fund (FISE) programs for road and health center construction and increasing attended births. (iii) **Productive and social public infrastructure**. Most notable was the construction of about 240 km of secondary and rural roads using the *adoquine* method, which has proven to be both less costly and more durable. The Bank also financed the rehabilitation of about 150 km of national highways and promoted the development of the micro-enterprise model for routine maintenance. Telephone coverage, mainly cellular, expanded significantly after privatization was introduced. Progress was also made in modernizing the land registry system, and the landmark of registering several indigenous territories was achieved. Many municipalities improved their infrastructure to cope with natural disasters through the implementation of mitigation works. (iv) **Good governance and institutional development**. A new civil service law was implemented and public financial management improved after the establishment of a single treasury account and the passing of the financial administration law.

…but there were key shortcomings

60. Areas less successful with respect to the CAS objectives included the following: (i) **In economic growth,** the resolution of the banking crises of 2000-2001 led to a significant increase in internal public debt, which remains an area of some concern. The failure to achieve full fiscal neutrality of municipal transfers as decentralization was accelerated and the postponement of the pension reform due to serious design flaws were key setbacks. (iii) **Investment in human capital development** also saw less successful results due to service delivery and quality problems in public services, especially health and education. No serious attempt was made to implement a national policy on social protection. In education, the school autonomy model was questioned due to weaknesses in financial management (e.g. school management charging discretional fees, arrears to utilities, etc.) and the policy was reversed under the new administration. (iii) Similarly, less successful aspects of **social and productive infrastructure development** included the lack of consensus on a new land registry law, and the fact that privatization of the energy distribution system failed to lead to better service, leading to widespread public disenchantment. (iv). Finally, in **good governance and institutional development**, there continue to be very poor institutional capacity development in public institutions and weak and politicized utility regulation.

Box 3: Lessons and Recommendations

Budget Support is critical for policy dialogue and reform
- Maintain broad donor support through the Budget Support Group process.
- Need to simplify and use a common performance assessment matrix.

Aid fragmentation hampers development impact
- Greater need for donor's selectivity and larger operations to avoid aid dispersion.

Government ownership and commitment
- Institutional reforms and design and implementation of public policies and programs are more successful when there are political consensus and unwavering commitment from the Government over a sustained period.
- Constant turnover of ministers and project implementation staff directly affect the quality of project implementation.
- Need to involve the National Assembly in policy discussions and in project design phases to ensure buy-in and support.

Public outreach and stakeholder consultation
- Need for adequate time for consultations within government and civil society to ensure understanding and ownership by beneficiaries of programs.
- Managua is not Nicaragua – need to broaden coverage of stakeholder consultations.

Strengthening institutional capital in project design and implementation
- Project design should better reflect existing institutional capacity of the Government and include capacity strengthening components – instead of relying on quick fixes such as project implementation units (PIUs).
- The practice of financing public officials in line functions as "consultants" and paying them well above public sector salaries (quite often based on private sector comparators) is distortionary and does not build public institutional capacity.
- Better coordination and information flows between government institutions are desirable.

Need to strengthen donor alignment and harmonization agenda
- Notable progress in donor harmonization and alignment, but much more needs to be done to improve development impact.
- Concerted effort needed to ensure quality of Bank's supervision in Sector Wide Approaches (SWAp) and similar operations.
- Harmonization and Alignment (H&A) agenda should include strengthening of national systems.

Monitoring and Evaluation
- National M&E systems still weak and inadequate (despite costly investments by donors).

61. **Portfolio Quality and Financial Management.** Overall, portfolio quality improved steadily through the CAS period (see details in Annex C). A financial management specialist has been placed in the Country Office to systematically follow up on the two areas where there were weaknesses, namely improving audit compliance and monitoring Special Accounts, with particular emphasis on projects that have lapsed or are about to close.

62. **IFC's Contribution.** IFC's efforts were centered primarily on under-served segments, including the MSME sector, small-scale farmers and lower-income households (see details in Annex C, paragraphs 51-53). IFC's activities in the past had been limited partly due to a business enabling environment that was not conducive to private sector development. Since then, there has been considerable progress, particularly in simplifying business regulations at the municipal level to improve the investment climate. Working with financial sector institutions, IFC has had a catalytic role in improving access to finance for MSMEs. Finally, IFC's investments in three firms are helping to finance innovative schemes to expand linkages with smaller producers and vendors and support corporate social responsibility initiatives. These three projects are: (i) financing to a leading sugar exporter for its upgrading and expansion and advisory support to promote MSME supply chain linkages between the sugar mill and surrounding communities; (ii) financing to a regional project for an international agricultural commodities company to establish a capital lending program to improve the production

practices of small-holder coffee suppliers in Central America – related advisory work is helping 1,500 coffee farmers in Nicaragua achieve certification; and (iii) an investment in the retail sector where the IFC is supporting the company in the training of its MSME tenants to improve their business practices. IFC's portfolio (on a commitments basis) has grown from US$6.3 million at the end of FY03 to US$52.6 million (including US$11.5 million for Participants' account) at the end of FY07, while advisory services stand at about US$5 million approved to date. Around 50 percent of advisory services are linked to IFC's investment portfolio, which is high compared to other countries in the region.

Development Partners – Harmonization and Alignment for Development Impact

63. **Nicaragua remains highly aid dependent with over 30 percent of its budget coming from ODA in its recent past.** With aid disbursements of around US$550 million annually and with over forty donor countries[10] and institutions involved, aid harmonization and alignment are major challenges and improvements should lead to greater aid effectiveness. Nicaragua has played a leading role internationally in the harmonization of donor practices and pushed assertively for greater use of sector wide approaches (SWAps) and more predictable budgetary support. Nicaragua has been a pilot country for a number of Organization for Economic Development/Development Assistance Committee (OECD/DAC) Harmonization and Alignment (H&A) initiatives, and it has prepared, jointly with donor partners, a 2005 National Plan for H&A with country-specific indicators and a monitoring mechanism embedded in local processes. Bilateral assistance accounted for 45 percent and multilateral assistance for 55 percent of all aid disbursed during 2002-2006. Of the total aid disbursed in the same period, about 55 percent were donations.

64. **The institutional arrangements for donor harmonization take place at several levels.** The Donors Global Roundtable *(mesa global de donantes)* is the most inclusive forum with most donors participating. A subset of nine donors who provide generalized budgetary support have formed a **Budget Support Group (BSG)**, which, in addition to the Bank, includes the European Union, the Netherlands, Sweden, Switzerland, Germany, Finland, Norway and Great Britain. The IADB has indicated that it will be joining the BSG shortly. A Joint Financing Agreement (JFA) was agreed with the Government in 2005 to guide and harmonize budgetary support and agree on a Performance Assessment Matrix (PAM). Finally, Sector Working Groups *(mesas sectoriales)* have been established to coordinate donor assistance in key sectors. The new administration will need to take clear ownership and leadership of these mechanisms if harmonization is to lead to more effective and tangible development impact.

65. **The Bank, for its part, has been the second largest donor during the 2002-2006 period (about $434 million disbursed)** and has been recognized for its high quality analytical work, leadership in policy dialogue, setting fiduciary and safeguard standards, and its catalytic role in promoting the use of SWAps in education, health and rural development (PRORURAL). The Bank also played a critical role in keeping the Government and donors focused on achieving the HIPC Completion Point and obtaining further debt reduction through the MDRI.

[10] See Annex J for a mapping of external donors against economic sectors where they are active.

66. **The Inter-American Development Bank (IADB)** is the largest single donor, and accounted for about 22 percent of all aid disbursed during 2002-2006. Though the IADB is still in the process of preparing its new CAS, it has agreed on an interim operative program for 2007-2008 that includes eight investment operations totaling US$160 million and two policy-based loans for US$20 million each. Major areas of focus are: (i) **energy** – about US$73 million will support priority investments to reduce system losses, rehabilitate generation plants and transmission lines, promote energy efficiency and finance a program to "formalize" connections to poor neighborhoods that are presently hooked up illegally; (ii) **health** networks, US$20 million; (iii) **housing,** US$15 million; (iv) **poverty reduction**, US$20 million; and (v) the Managua Water Basin, US$10 million. A significant package of technical assistance has also been tentatively agreed, which includes support for the design of a development bank, preparation of a national tourism development strategy, investment promotion, and public investment programming in housing, energy and the environment.

67. **The European Union** (Member States and the European Commission (EC)) accounts for more than 50 percent of all cooperation aid, and during 2002-2006 the EC for its part disbursed a total of US$232 million. The EC has recently finalized its Country Strategy Paper Nicaragua, 2007-2013, during which its National Indicative Program (NIP) allocation amounts to approximately Euro 214 million. The three focal areas for EC support are: (i) **governance, democracy and rule of law** (20 percent of total NIP), (ii) **education** (35 percent), and (iii) **macroeconomic stability, trade and business climate** (40 percent). The preferred financing instruments are non-earmarked budgetary support and SWAps. Technical assistance for institutional capacity building and cross-cutting issues, such as the environment, would receive 5 percent of NIP allocations.

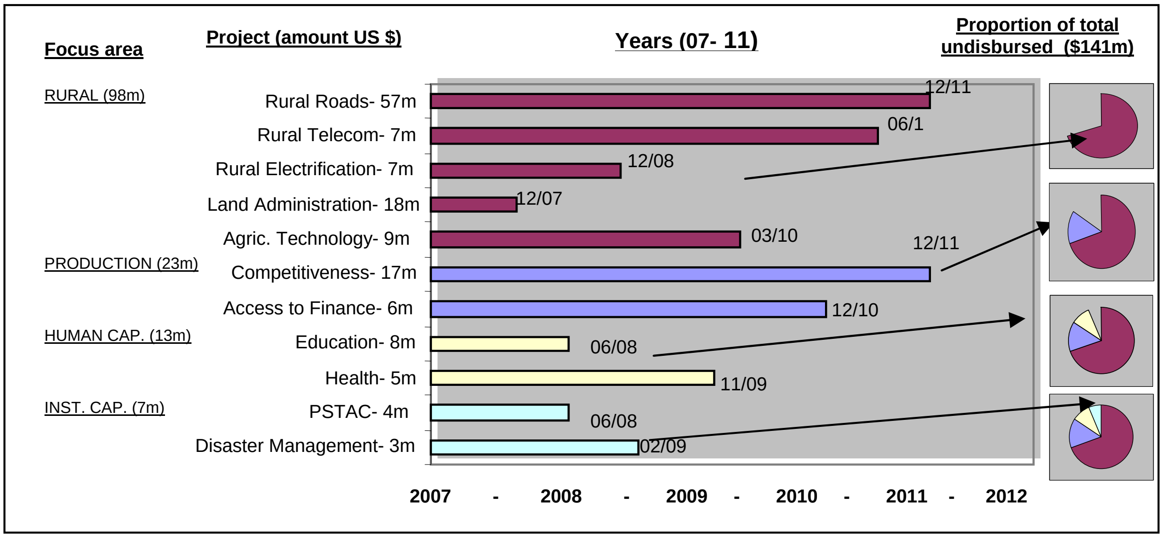
68. In July 2005, the **Millennium Challenge Corporation**'s (MCC) Board of Directors approved a five-year compact with the Nicaraguan Government for US$175 million. The MCC's development strategy addresses **property rights, under-developed infrastructure, and low value agriculture production,** and focuses on the northwestern region of the country where there is significant economic growth potential due to its fertile land and strategic geographic location (neighboring Honduras and El Salvador). The MCC will provide a total of US$26.5 million to improve the property registry with a gender focus; US$92.8 million to improve 58 kilometers of the Pacific Corridor between Managua and León; and US$33.7 million to extend rural business development services for higher profit agriculture. In addition, US$22 million will be provided for program management, oversight, and monitoring and evaluation.

V. WORLD BANK GROUP – NICARAGUA PARTNERSHIP STRATEGY (FY08-12)

69. The Bank Group's Nicaragua Country Partnership Strategy (FY08-12) would support the Government's development objective of wealth creation and poverty reduction through more broadly shared economic growth. The program intends to strengthen sector dialogue and reform by effectively implementing our ongoing operational portfolio of 11 projects (detailed in Figure 5, following page, which includes US$141 million yet to be disbursed), and disseminating a number of recently completed

AAA products that have decisively influenced this CPS's design. These include a Poverty Assessment (including a qualitative *Voices of the Poor* contribution), a Public Expenditure Review, an Energy Policy Note (all FY07 deliverables), and an Institutional Governance Review (FY08). Bank staff will also work with donor partners, who together have about US$1,350 million in additional undisbursed funds committed for CY 2007-2012, to ensure greater donor alignment to the new administration's priorities and a more coordinated attempt at harmonization to improve overall development impact.

Figure 5: Ongoing Operational Portfolio of 11 Projects



70. The proposed CPS for Nicaragua (FY08-12) is firmly aligned to the Government's priorities and its evolving poverty reduction strategy and structured around support for four strategic objectives: (i) **reactivating the economy, stimulating productivity and competitiveness;** (ii) **human capital development – improving social equity and opportunity**; (iii) **infrastructure and sustainable development**; and (iv) **strengthening governance and accountability by modernizing state institutions and promoting citizen participation**. Figure 6 on the following page provides an overview of the Bank Group's proposed CPS of ongoing lending, new proposed lending, AAA services and IFC operations in support of these four strategic objectives.

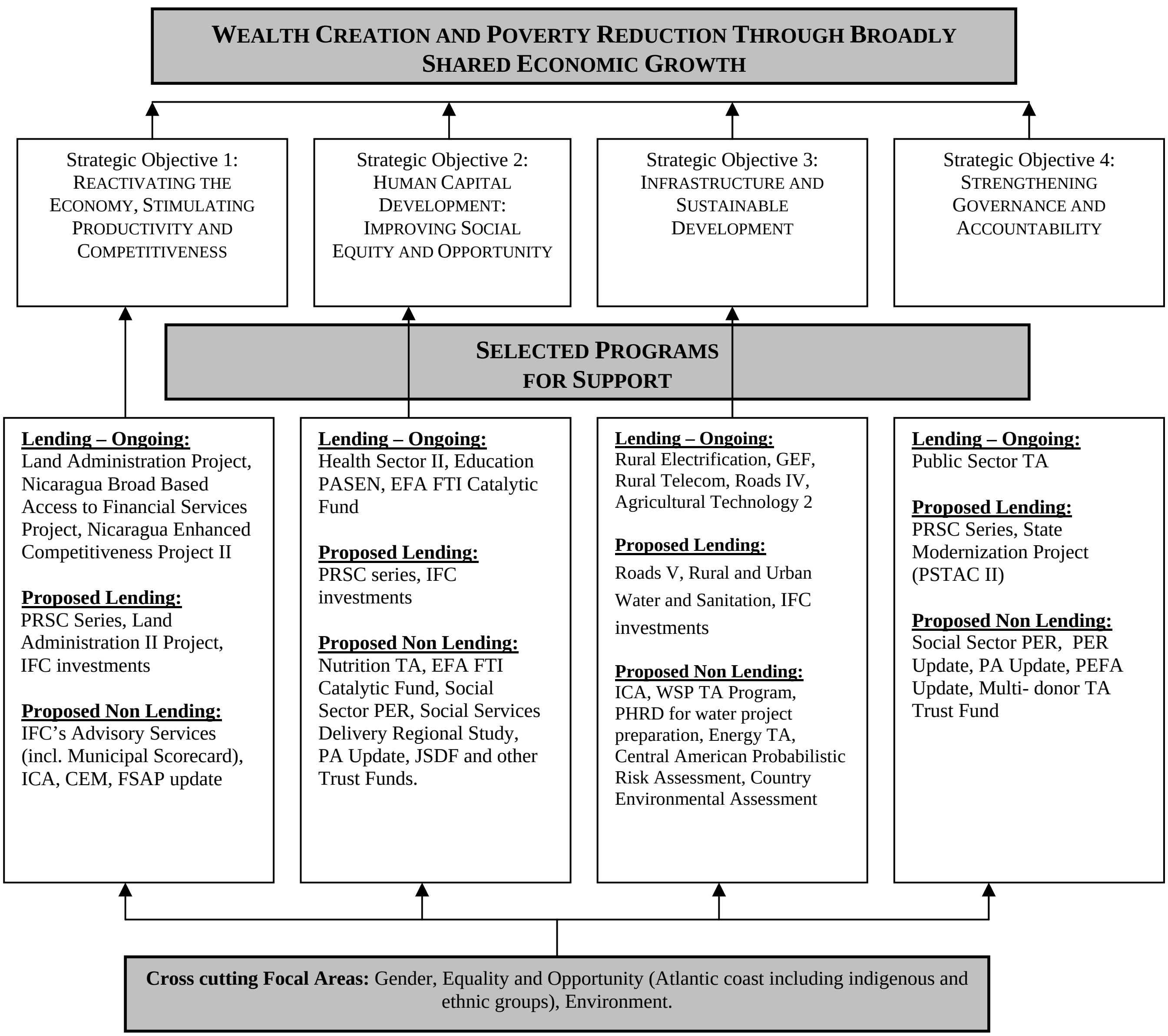
71. Proposed new lending is **anchored on a series of annual budgetary support operations (PRSCs) to constructively engage the government on key policy reforms**, while selectively undertaking up to five or six new investment operations in areas where the Bank has comparative advantages. New lending could indicatively amount to US$240 million equivalent[11] depending on: (i) Nicaragua's country performance rating; (ii) performance ratings of other IDA recipients; (iii) reactivation of any IDA countries currently on non-accrual status; and (iv) total IDA15 and IDA16 resources mobilized and made available. During the recently held CPS consultations, the Government confirmed its interest in new investment credits in water and sanitation, roads, land administration

[11] IDA allocations are SDR based and the US$ equivalents will vary according to exchange rate fluctuations.

and public sector management. The Bank will also continue as an active donor in support of EFA-FTI in the education sector (see Box 4, page 29).

72. ***Budgetary Support Lending.*** Five annual Poverty Reduction Support Credits (PRSCs) during FY08-12 of about US$20 million each are proposed. These would help provide the Government with budgetary support to ensure predictability in financial programming. Key policy areas for engagement include elements related to the strategic

Figure 6: CPS Program Objectives and Selected Areas of Action



objectives mentioned above, namely: governance and public sector management, investment climate (property rights and regulatory institutions), and social sector development. Although the relatively positive working relationship that the new Government has with the National Assembly bodes well for passing a progressive legislative agenda (and thus policy-based credits), the Government has strongly indicated that it does not want to include specific legislative action as part of any future donor operation. Should the Government's reform program stall, macroeconomic conditions deteriorate significantly, or the Bank fail to secure a credible policy matrix to underpin budgetary support lending, PRSC resources would be reallocated to less risky investment operations.

73. The **tentative investment lending program, FY08-12,** is intended to finance investments and capacity building in public sector management, urban and rural water, land administration and transport as detailed in Table 3 below.

Table 3: Tentative IDA allocation and Indicative Lending Program, FY08-12

	IDA 14	**IDA 15**			**IDA 16**	
Allocations in US$m	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**	**TOTAL**
IDA Allocation	40	50	50	50	50	**240**
PRSC	20	20	20	20	20	**100**
Investment credits [12]	20	45	45		30	**140**

- Proposed investment credits include: **FY 08**: Rural Water, $20m; **FY 09**: Urban Water, $45m; **FY10**: Rural Water 2, $15m; Public Sector TA Credit 2, $10m; and Land Administration 2, $20m; **FY 12**: Roads V, $30m
- The Bank will also continue to be actively engaged in the EFA-FTI Trust Fund in education.

74. IFC aims to help accelerate private sector development and help facilitate Nicaraguans to take advantage of globalization and free trade agreements, supporting projects at both the regional and country levels. In Central America, IFC has been focusing on deepening regional integration, with priorities including: i) strengthening and broadening the financial sector (including access to term financing by MSMEs); ii) helping improve physical infrastructure; iii) supporting competitive firms in agriculture, industry and services; and iv) promoting south-south investments and local companies' becoming regional and global players. These priorities are reflected in IFC's operations in Nicaragua, with emphases placed on: a) improving the investment climate by simplifying business regulations at the municipal level; b) strengthening MSMEs' competitiveness and their access to finance; c) assisting exporters and hard currency earners, such as in agribusiness and tourism; and d) addressing critical infrastructure needs such as energy (including renewable energy) and transport. IFC's engagement in Nicaragua has increased considerably during the last few years and the outlook for further expansion looks promising. The co-location of IFC's advisory services staff in the Bank's Country Office in Managua provides an ideal arrangement to leverage Bank-IFC synergies in the coming CPS period.

[12] Actual project amounts will be aligned, within each replenishment period, with Nicaragua's performance-based allocations.

Selectivity of Bank Group Operations

75. For the proposed CPS, FY08-12, the Bank, like the other major donors, intends to be selective in choosing focal areas for engagement. The annual series of budgetary support operations (PRSCs) together with the associated technical assistance credit (PSTAC2) would allow the Bank to engage in the overall reform program of the Government in **governance and public sector modernization, the investment climate and improvements in social service provision.** New investment operations would be limited to **urban and rural water and sanitation, public sector management, land administration,** and **rural roads.** The Bank would also aim for a phased disengagement and/or exit strategy in sectors where other donors are willing and capable to take leadership. The Bank's ongoing portfolio of eleven operations (see Figure 5 on page 23), many of them relatively new, and the package of AAA products presently being finalized (the Poverty Assessment, the Public Expenditure Review, the Institutional Governance Review and the Energy Policy Note), provide ample opportunities to stay engaged on key policy issues, while allowing other donor partners to progressively take the lead role in areas such as energy, environment, agriculture, rural development and municipal decentralization. In natural disaster management, where the IADB and the UN system agencies are better positioned to take a lead role at the country level due to their greater field presence and ready access to multi-disciplinary specialist skills, the Bank would focus on the design of a regional catastrophic risk insurance pooling mechanism, similar to the successful Caribbean initiative.[13] Some BSG donors, including the European Commission, have been actively working on judicial reform. The Organization for American States (OAS) and the United Nations Development Program (UNDP) have been engaged in furthering political and legislative reform. The Bank intends to proactively work with the authorities to ensure better aid effectiveness within the overall donor assistance program.

76. The Bank Group has unique comparative advantages that we intend to build upon in **business climate strengthening** and **private sector development**. Several IFC staff are co-located at the Bank's Country Office providing a range of advisory services intended to improve the productivity and competitiveness of Nicaraguan firms. Recognizing the Bank's advantage, and its convening powers and facilitation skills, the U.K. Department for International Development (DfID) has seconded a private sector specialist to the Bank. We will also look to maximize IFC and MIGA engagement in Nicaragua, especially in private sector development and infrastructure through investments related advisory services and guarantee operations.

Bank Group Activities and Results Expected

77. The CPS Results Matrix is attached as Annex B. The Matrix provides an overview of all ongoing and proposed Bank activities in support of the four strategic objectives that underpin the Government's overall goal of wealth creation and poverty reduction through broadly shared growth, and clearly indicates what are the monitored outcomes and intermediate milestones expected during the CPS period (FY08-12). A short summary follows (see Figure 6, page 24).

[13] The Caribbean Catastrophic Risk Insurance Facility.

Strategic Objective I: Reactivating the Economy, Stimulating Productivity and Competitiveness

78. Proposed new lending to support the above objective includes a series of budget support credits (PRSCs) and a repeater project for Land Administration that would complement ongoing operations such as *Broad Based Access to Finance, Enhanced Competitiveness* and the first *Land Administration* credit. An Investment Climate Assessment is envisaged for FY08 to take stock of progress to date and identify remaining bottlenecks. IFC will seek to play an active role in furthering economic resurgence through investments and advisory services. A Country Economic Memorandum (CEM) is planned for FY10 which would assess the complementary agenda in support of maximizing benefits of trade arrangements and opportunities from regional integration and globalization. A Financial Sector Assessment Program (FSAP) Update is scheduled for late 2008 to identify remaining weaknesses and suggest remedial actions.

79. To create a favorable **Business Enabling Environment (BEE)**, IFC is providing assistance in business simplification at the municipal level, with a focus on those regulations blocking MSME growth in Leon, Masaya, Managua, Granada, Chinandega, Rivas, Matagalpa and San Juan del Sur. Ten municipalities were included in the Municipal Scorecard 2007[14] to further improve their private sector enabling environments and strengthen social accountability. Three additional municipalities are now considering joining this initiative.

80. Complementing the BEE advisory services, IFC will continue to focus on helping MSMEs increase their access to finance and improve their competitiveness and business opportunities by helping to link together smaller producers and larger well established companies in **Sustainable Value Chains,** mainly in the agribusiness and forestry sectors. In agribusiness, the IFC supported innovative firms to integrate corporate social responsibility initiatives into core business operations. In one case, a leading **sugar** exporter, for which IFC provided US$36.5 million financing (including US$11.5 million in syndications) for its upgrading and expansion, is also being considered for IFC's advisory support to help the sponsor to work with the local community in planting eucalyptus trees on eroded land, fuel thermal power plants installed in the nearby sugar mills, and improve environmental and social practices. In another case, IFC provided US$25 million in a regional project for an international agricultural commodities company to establish a capital lending program to improve the production practices of small-holder **coffee** suppliers in Central America. To date, IFC has helped Nicaraguan coffee producers obtain about US$5 million for thirteen investment projects related to meeting certification standards. This project was complemented by another IFC advisory project that is helping 1,500 coffee farmers in Nicaragua to achieve certification, sell to large multinational buyers and significantly increase their income.

81. **Forestry** is yet another area that holds considerable promise for both IFC investments and advisory services, with the latter assisting indigenous and local communities in obtaining social and environmental certification from the Forestry Stewardship Council for sustainable forest commercialization. Under the Forest Law and Enforcement of Governance initiative (FLEG), the Bank will support the Government to improve forest sector governance and legislative compliance, while enabling an investment friendly environment and ensuring fair

[14] A benchmarking tool that provides comparative information on the quality and efficiency of private sector regulations at the municipal level.

access rights and opportunities to indigenous and ethnic communities in the Atlantic Coast region. BEE and Sustainable Value Chain AS activities complement, and are being coordinated with, the Bank's recently approved **Enhanced Competitiveness Credit (FY07)**.

82. In the financial sector, IFC has been supporting via its **Access to Finance** advisory services work to develop the housing finance, microfinance and leasing markets and has strong complementarities with the Bank's **Broad-Based Access to Finance Credit**. IFC has provided advice on the legal framework to facilitate leasing activities. Once the draft Law on Leasing is approved, IFC stands ready to provide institution building support to banks and leasing companies, tax authorities and judges to ensure a successful and vibrant leasing market. Like most of Central America, the financial services sector in Nicaragua is undergoing rapid consolidation and attracting regional and global players, like GE Capital and HSBC. IFC could play a useful role in strengthening the corporate governance and balance sheets of mid-sized, local banks which would lead to further financial sector deepening. IFC's investments in a leading microfinance institution and a recent US$20 million investment and TA package to a local bank for MSME financing and housing loans for low income households are examples of this.

83. IFC also seeks to support companies aiming at becoming regional and global players, in particular, via south-south investments. In supporting competitive firms in agriculture, industry and services, IFC will seek opportunities to promote exporters and hard-currency earners, such as tourism operators, to increase Nicaragua's gains from trade. **Tourism sector investments** along Nicaragua's Pacific Coast are blossoming. IFC has had some exploratory discussions with potential investors. The prospects are even better on the Atlantic Coast, if infrastructure connectivity is significantly improved. The Bank's ongoing rural roads, electrification and telecommunications projects could play a catalytic role in this respect.

Strategic Objective II: Human Capital Development – Improving Social Equity and Opportunity

84. Proposed new lending in support of this objective would consist of the proposed PRSC series and continued support for the EFA-FTI Expanded Catalytic Fund (see Box 4 on the following page). A Social Sector PER will be undertaken to provide support to improve the efficiency and effectiveness of spending in health, education and social protection. This will underpin key areas of the PRSC and will complement ongoing operations such as *Education* and *Health II*, the latter focused on maternal and child health. A Poverty Assessment Update is scheduled towards the end of the CPS period to help measure progress in improving the targeting of poverty spending. Additionally, specific non-lending technical assistance will be provided to help Nicaragua develop and implement a national strategy for combating chronic malnutrition. A proposed Regional Study on Social Service Delivery and Accountability will focus on linkages between governance and results, and facilitate the dissemination of best practices. In the **health sector**, IFC plans to consider further investments in support of private health care facilities; a potential niche exists in Central America for a high quality, affordable health care hub as a cheaper alternative to the USA.

Box 4: EFA - FTI in Nicaragua

The Education For All-Fast Track Initiative (EFA-FTI) in Nicaragua was endorsed in 2003 and, to date, Nicaragua has benefited from $17 million from the multi-donor Catalytic Fund (CF) trust managed by the World Bank. Support from the CF is envisaged as a way to enable countries to scale up the implementation of sector programs in coordination with a range of interested donors. Since the endorsement of the EFA-FTI, Nicaragua has achieved promising results in sector planning, harmonization of external financing, donor coordination and reduction of transaction costs for government officials as well as external agencies supporting the sector.

In 2007 the EFA-FTI partners at the international level scaled up the Catalytic Fund (CF) into what is now called the Expanded Catalytic Fund (ECF). The main objective of the ECF is to provide a predictable source of funding to enable eligible recipients to engage in long-term planning, which has been a weakness of the EFA-FTI. The Bank and other participating donors expect to continue providing technical support to Nicaragua to update the technical content and cost/financing framework of the sector plan, with a view to both leveraging external financing and applying to the ECF for a third allocation in 2008.

Strategic Objective III: Infrastructure and Sustainable Development

85. Proposed new lending would consist of credits for urban and rural water and sanitation and a follow-up operation in secondary and rural roads. The Government has requested that the Bank take a leadership role in articulating water sector policy and harmonizing donor assistance. The Bank plans to provide significant financing, about US$80 million, for water sector investments over FY08-12. Ongoing credits, which consist of the recently approved *Roads IV* (FY07), and the *Rural Electrification*, *Rural Telecom* and *Agricultural Technology 2* credits, are all making innovative and path-breaking contributions in infrastructure and sustainable development. Advisory services would also be made available to help provide timely responses to the energy crisis. A Country Environment Analysis is also programmed for FY09, which would examine pressing environmental issues, institutional capacities and constraints and develop strategies for promoting environmentally sustainable development. The Bank's Water and Sanitation TA program, together with a proposed Policy and Human Resource Development (PHRD) grant for project preparation, would facilitate the Bank's increased engagement in the water sector. A regional study, the Central American Probabilistic Risk Assessment (CAPRA) would help to strengthen the analytical underpinnings of risk management and to design a regional risk insurance pooling mechanism.

86. Although the IADB would take the lead role in energy, the IFC and the Bank intend to work closely together to develop business opportunities in energy, especially from renewable sources. Nicaragua has considerable potential in hydro, geothermal, wind and solar power that has been barely tapped, but which would be seriously attractive to investors if political and country risks were mitigated and reduced, and the business climate improved. The Bank's ongoing technical assistance for energy sector reform is important in this respect. Prospects are also good for investing in bio-fuel production from palm oil and sugar. IFC has recently supported the production of ethanol by a leading sugar exporter, and is currently working on another project for energy cogeneration from bagasse and eucalyptus. IFC will continue to actively look for opportunities to address the critical needs of the energy sector as well as other infrastructure sectors such as transport. Utilizing its global expertise, IFC is prepared to provide advisory services in strengthening the regulatory framework, in project structuring and facilitating private sector participation in infrastructure.

Strategic Objective IV: Strengthening Governance and Accountability by Modernizing State Institutions and Promoting Citizen Participation

87. Proposed new lending would include the proposed PRSC series and the follow-up Technical Assistance Credit, PSTAC 2. An ongoing *Public Sector TA Credit* together with a multi-donor Trust Fund is providing capacity building and modernization support to improve governance and accountability in public institutions. A major focus has been strengthening public financial management and civil service reform. Three recent pieces of AAA anchor the Bank's ongoing dialogue with the Government on public sector reform and governance. These are the Poverty Assessment (FY07), the Public Expenditure Review (FY07), and the Institutional Governance Review (FY08). Proposed AAA includes a Social Sector PER in FY08, and updates of the PER and PEFA towards the end of the CPS period. Assistance on promoting rule of law and furthering the professionalization of the judiciary is being provided by the European Commission and other BSG members. The Bank will continue to work with civil society organizations to strengthen the demand for more effective social accountability by supporting implementation of the recently approved Freedom of Access to Public Information Law. To improve outcomes, public-private partnerships will be promoted to institutionalize social accounting mechanisms in health and education.

88. **Monitoring and Evaluation.** The Government of Nicaragua is committed to improving its monitoring and evaluation systems to help strengthen transparency and accountability, and has requested donor support for this effort, which is being coordinated by UNDP. The Bank will continue to be an active participant in these efforts by supporting Central Ministries (Finance, Foreign Affairs, SETEC and the National Information and Statistics Institute (INIDE)) and key line ministries, notably Education and Health, in generating reliable statistics on a regular basis and building capacity for better monitoring and evaluation. Trust funds, the PSTAC operation, and sectoral projects will be used to finance Bank support in this area.

CPS Consultations and Outreach

89. The CPS consultations broadly validated the Government's development strategy and the Bank Group's proposed activities in support of this strategy. Two key sets of consultations were programmed, and both were supported by DfID financing. First, there was a series of thematic workshops on key development challenges and governmental priorities and, second, a broad process of consultations on the Bank partnership strategy (see Annex E). Additional insights on the developmental priorities of poor households came from a qualitative survey carried out during preparation of the 2007 Poverty Assessment (see Box 5).

Box 5: What the Poor Say

To complement the quantitative analysis based on the 2005 Household Survey (LSMS), the 2007 Nicaragua Poverty Assessment carried out a qualitative survey, using a methodology similar to the *Voices of the Poor*, of about 150 households in 18 different poor communities over three months. The most important development priorities identified by the poor in order of ranking were: **water, construction and repair of roads, productive opportunities and health**. These findings correlate highly with the quantitative assessments, except for **education,** which households tend to see as a medium for long-term investment rather than an immediate priority.

90. **Key messages received during the consultation process, and which have influenced the Government's strategy and the design of the Bank's CPS, include:** (i) the importance of micro and small farmers and businesses' having access to credit with affordable interest rates, (ii) the need to strengthen citizen participation and social auditing opportunities, (iii) the desire that decentralization processes be better articulated from the local level to the national level, (iv) the importance of rapidly expanding land titling processes, and (v) the value in investing in infrastructure development to facilitate the country's economic and social development.

Risks Mitigation and Response

91. The main risks to the Bank Group's FY08-12 Country Partnership Strategy arise from the possibility that the new administration may be unable to generate broad consensus on the politically challenging reform agenda or to resist measures that could threaten macro stability, undermine investor confidence and jeopardize growth prospects. Key threats to macroeconomic stability stem from vulnerabilities due to high levels of dollarization, potentially unsustainable increases in public sector wages, failure to resolve the energy crisis and off budget aid flows without adequate control. Despite recent declines, Nicaragua's public debt is still considerable and will require positive primary fiscal balances to maintain debt sustainability. These risks will be addressed by maintaining a continuous and close dialogue with the authorities and coordinating with key stakeholders, including the IMF and the Budget Support Group. In addition, the Government and the private sector have established a number of thematic working groups[15] to maintain a fluid dialogue and ensure adequate feedback. Weak institutional capacity, exacerbated by civil service turnover, is a risk that could hinder reform and program implementation. This is being mitigated by maintaining a continuous dialogue with the authorities through the PRSC series, support for capacity building through technical assistance, and strengthening Country Office staffing with fiduciary and sector expertise. Natural Disasters also pose a significant risk during the CPS period, which is being partially mitigated by: (i) the possibility of making pipeline and portfolio adjustments as necessary; and (ii) undertaking AAA to better identify risks and their impacts (i.e. the CAPRA study) and possible assistance for the design of a regional risk insurance mechanism. A final key risk stems from the challenges of effective donor harmonization and alignment. The Bank will strengthen its strategic role in enhancing the Government's capacity to lead these processes and work closely with our donor partners to follow up on the implementation of the national harmonization and alignment plan. A mid-term CPS Progress Report is scheduled for early 2010, which will allow the Bank to review and discuss necessary adjustments.

92. A summary of the key risks, risk mitigation measures and likely Bank responses is provided in Table 4 on the next page.

[15] The Vice-President coordinates these Working Groups, which consist of nine economic clusters (tourism, manufacturing, meat, dairy, coffee, agro-industry, fisheries, sugar and peanuts) and six cross-cutting issues, namely energy, infrastructure, finance, technical and vocational education, social and the Atlantic Coast.

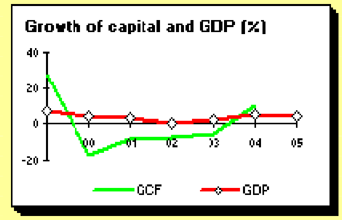
Table 4: Program Risks

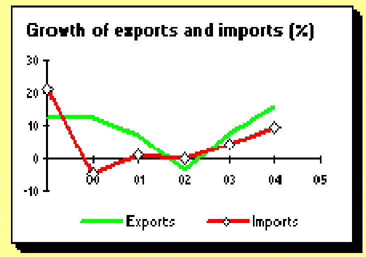
Risk	Assessment	Mitigation	Response
Loss of macro stability and investor confidence jeopardizing growth prospects ▪ Vulnerable to shocks due to high dollarization ▪ Unsustainable increases in wage bill ▪ Off budget aid flows without adequate control	Moderate	▪ PRSC dialogue ▪ Close coordination with IMF & BSG	▪ PRSCs scaled back or dropped, resources shifted to projects ▪ IFC support for clients and attention to portfolio management
Inability to resolve dispute with *Union Fenosa* ▪ Leading to de facto re-nationalization of electricity distribution company	Moderate to High	▪ Energy strategy note dialogue and MIGA mediation ▪ Coordinate with BSG to strengthen rule of law	▪ IFC support for co-generation by private sector companies
Weak institutional capacity hinders reform and program implementation ▪ Civil service turnover ▪ Inability to attract qualified staff	Moderate	▪ Support for implementation of civil service reform (PSTAC) ▪ Strengthen fiduciary and sector capacity building	▪ Slow down new lending and increase resources for supervision and capacity building
Governance deteriorates ▪ Impasse with Congress on key legislative agenda ▪ Increased politicization of regulatory institutions ▪ Increased corruption	Low to Moderate	▪ Close coordination with BSG ▪ Strengthen fiduciary oversight in CO	▪ PRSCs scaled back, resources shifted to sectors with strong institutions
Natural disasters ▪ Hurricane/earthquake causes extensive destruction of infrastructure and economic disruption	Moderate to High	▪ CAPRA and regional risk insurance ▪ Portfolio preparedness	▪ Portfolio adjustment ▪ CPS Update with realignment ▪ IFC support for affected private firms
Inadequate donor alignment and harmonization ▪ Excessively supply driven ▪ Aid fragmentation ▪ Weak institutional capacity	Moderate	▪ Strengthen and promote GoN capacity for H&A ▪ Follow-up implementation of national H&A plan	▪ Convene GoN and donors for remedial action

Annex A1: Nicaragua at a Glance

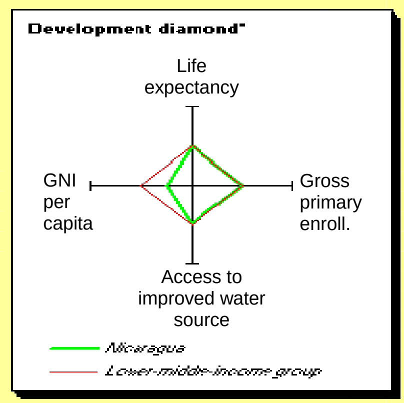
9/15/06

POVERTY and SOCIAL		Nicaragua	Latin America & Carib.	Lower-middle-income
2005				
Population, mid-year *(millions)*		5.5	551	2,475
GNI per capita *(Atlas method, US$)*		910	4,008	1,918
GNI *(Atlas method, US$ billions)*		5.0	2,210	4,747
Average annual growth, 1999-05				
Population *(%)*		2.0	1.4	1.0
Labor force *(%)*		3.3	2.2	1.4
Most recent estimate (latest year available, 1999-05)				
Poverty *(% of population below national poverty line)*		..	..	..
Urban population *(% of total population)*		59	78	49
Life expectancy at birth *(years)*		70	72	70
Infant mortality *(per 1,000 live births)*		31	27	33
Child malnutrition *(% of children under 5)*		10	7	12
Access to an improved water source *(% of population)*		79	91	82
Literacy *(% of population age 15+)*		77	90	89
Gross primary enrollment *(% of school-age population)*		112	119	114
Male		113	121	115
Female		111	117	113

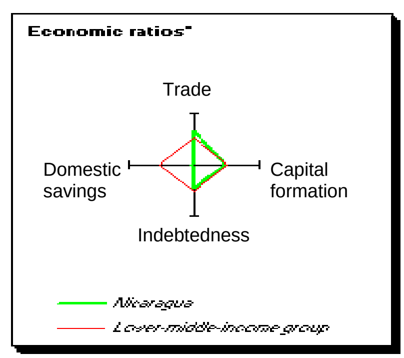




KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1985	1995	2004	2005
GDP *(US$ billions)*	2.7	3.2	4.5	4.9
Gross capital formation/GDP	23.1	22.0	28.8	..
Exports of goods and services/GDP	14.8	19.1	26.7	..
Gross domestic savings/GDP	16.1	6.4	1.0	..
Gross national savings/GDP	9.8	-0.9	10.4	..
Current account balance/GDP	-31.8	-22.6	-17.7	-19.4
Interest payments/GDP	1.0	2.4	0.9	..
Total debt/GDP	215.1	325.6	114.4	..
Total debt service/exports	18.5	38.8	6.1	..
Present value of debt/GDP	..	..	31.7	..
Present value of debt/exports	..	..	68.6	..
	1995-05	**2004**	**2005**	**2005-09**
(average annual growth)				
GDP	3.8	5.1	4.0	2.9
GDP per capita	1.8	3.0	1.9	0.5
Exports of goods and services	8.8	15.8	..	..



STRUCTURE of the ECONOMY	1985	1995	2004	2005
(% of GDP)				
Agriculture	..	22.8	18.5	..
Industry	..	26.6	29.6	..
Manufacturing	..	18.2	19.4	..
Services	..	50.5	51.9	..
Household final consumption expenditure	48.2	82.9	88.5	..
General gov't final consumption expenditure	35.7	10.6	10.6	..
Imports of goods and services	21.8	34.7	54.5	..
	1985-95	**1995-05**	**2004**	**2005**
(average annual growth)				
Agriculture	0.6	4.0	6.0	..
Industry	-2.3	4.4	7.7	..
Manufacturing	-3.1	4.5	6.6	..
Services	-2.8	4.3	4.7	..
Household final consumption expenditure	4.7	4.7	3.3	..
General gov't final consumption expenditure	-10.7	1.5	2.8	..
Gross capital formation	-5.2	2.1	9.8	..
Imports of goods and services	2.2	6.7	9.4	..

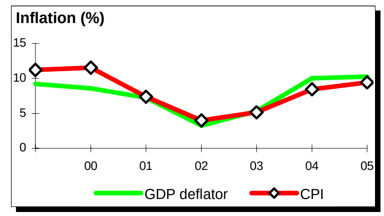


Note: 2005 data are preliminary estimates.

Annex A.2: Nicaragua at a Glance

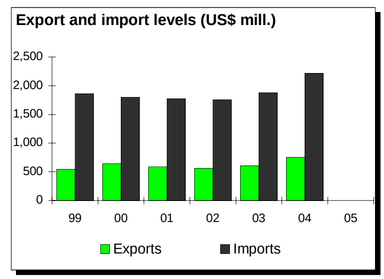
PRICES and GOVERNMENT FINANCE

	1985	1995	2004	2005
Domestic prices				
(% change)				
Consumer prices	300.0	10.9	8.4	9.4
Implicit GDP deflator	167.2	13.4	10.0	10.3
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	16.9	21.8	21.3
Current budget balance	..	3.5	8.2	2.7
Overall surplus/deficit	..	-3.1	-1.5	-2.5



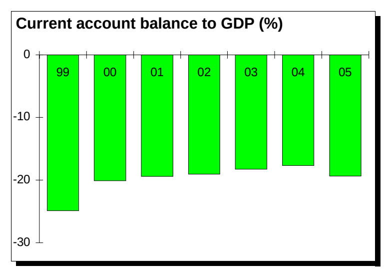
TRADE

	1985	1995	2004	2005
(US$ millions)				
Total exports (fob)	305	466	756	..
Coffee	118	131	127	..
Shrimp and lobster	13	74	81	..
Manufactures	36	134	342	..
Total imports (cif)	892	975	2,212	..
Food	132	199	570	..
Fuel and energy	164	148	428	..
Capital goods	251	232	405	..
Export price index *(2000=100)*	83	119	..	..
Import price index *(2000=100)*	50	85	..	..
Terms of trade *(2000=100)*	167	139	..	..



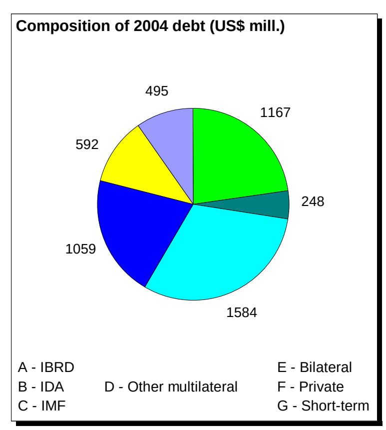
BALANCE of PAYMENTS

	1985	1995	2004	2005
(US$ millions)				
Exports of goods and services	344	660	1,547	1,756
Imports of goods and services	924	1,149	2,768	3,261
Resource balance	-579	-489	-1,222	-1,505
Net income	-274	-372	-192	-178
Net current transfers	0	138	619	732
Current account balance	-853	-723	-795	-951
Financing items (net)	732	711	964	1,092
Changes in net reserves	121	12	-169	-141
Memo:				
Reserves including gold *(US$ millions)*	..	151	668	782
Conversion rate *(DEC, local/US$)*	8.60E-9	7.5	15.9	16.7



EXTERNAL DEBT and RESOURCE FLOWS

	1985	1995	2004	2005
(US$ millions)				
Total debt outstanding and disbursed	5,772	10,390	5,145	..
IBRD	163	65	0	0
IDA	59	276	1,167	1,136
Total debt service	64	288	126	..
IBRD	0	21	0	0
IDA	0	3	6	18
Composition of net resource flows				
Official grants	47	410	1,129	..
Official creditors	680	169	270	..
Private creditors	13	-81	26	..
Foreign direct investment (net inflows)	0	89	250	..
Portfolio equity (net inflows)	0	0	0	..
World Bank program				
Commitments	0	93	116	..
Disbursements	0	18	126	63
Principal repayments	0	16	0	9
Net flows	0	3	126	54
Interest payments	0	8	6	9
Net transfers	0	-6	120	45



Note: This table was produced from the Development Economics LDB database. 9/15/06

Annex A.3: Private Sector at a Glance

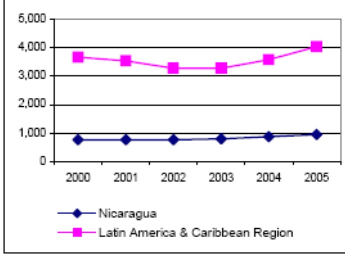
World Bank Group • Private Sector at a Glance

Nicaragua

	Nicaragua		*Lower-middle-income group*	*Latin America & Caribbean Region*
	2000	**2005**	**2005**	**2005**
Economic and social context				
Population, total (millions)	4.9	5.1	2,475	551
Labor force (millions)	1.7	1.9	1,301	253
Unemployment rate (% of labor force)	9.8	*7.8*	*5.9*	*9.6*
GNI per capita, Atlas method ($)	760	950	1,923	4,045
GDP growth, 1995–2000 and 2000–05 (average annual %)	5.0	3.0	6.3	2.3
Agriculture value added (% of GDP)	20.1	18.6	11.5	7.5
Industry value added (% of GDP)	27.2	28.0	41.9	33.7
Manufacturing value added (% of GDP)	16.4	17.9	26.6	..
Services value added (% of GDP)	52.7	53.4	46.6	58.8
Inflation (annual % change in CPI)	11.5	9.4		
Exchange rate (annual average, local currency units per US$)	12.7	16.7		
Exports of goods and services (% of GDP)	23.9	28.0	34.2	25.8
Imports of goods and services (% of GDP)	51.1	57.6	31.2	22.9
Business environment				
Ease of doing business (economy ranking 1-175; 1=best, April 2006)	..	67		
Starting a business (time required, days, April 2006)	..	39	57	77
Procedures to start a business (number, April 2006)	..	6	10	10
Firing cost (weeks of wages, April 2006)	..	23.8	51.3	61.2
Closing a business (time to resolve insolvency, years, April 2006)	..	2.2	3.2	3.3
Time dealing with government officials (% of management time)	..	*13.0*		
Total tax rate (% of profit, April 2006)	..	66.4	50.0	49.4
Highest marginal tax rate: corporate (%)	25	..		
Business entry rate (new registrations as % of total)	..	..	*10.0*	*7.4*
Micro, small and medium size enterprises (per 1,000 people)	*32.8*	..	..	..
Top 5 Investment climate constraints perceived by firms (2003) /a				
Access to/cost of financing		65.9		
Corruption		65.7		
Economic and regulatory policy uncertainty		58.2		
Anticompetitive or informal practices		50.2		
Crime		39.2		
Private sector investment				
Investment in infrastructure with private participation ($ millions)				
Telecommunications	*33*	38	18,337	13,066
Energy	115	0.0	11,051	6,052
Transport	104	..	4,535	3,243
Water and sanitation	..	..	1,439	139
Net private FDI (% of GDP)	6.8	4.9	3.1	2.9
Gross fixed capital formation (% of GDP)	26.5	28.4	29.1	19.3
Gross fixed private capital formation (% of GDP)	19.8	21.6	20.6	16.5
Finance and banking				
Government cash surplus or deficit (% of GDP)	-3.1	-0.7	*-1.7*	..
Government debt (% of GDP)	..	..	..	..
Deposit money banks assets (% of GDP)	31.8	*28.6*	*39.6*	*32.5*
Total financial system deposits (% of GDP)	33.5	*35.3*	*41.2*	*31.2*
Bank capital to asset ratio (%)	*6.3*	8.8	10.2	9.5
Bank nonperforming loans to total gross loans (%)	5.2	8.0	7.2	3.1
Domestic credit to the private sector (% of GDP)	33.2	29.1	73.1	27.8
Real interest rate (%)	8.8	1.7		
Interest rate spread (lending minus deposit, percentage points)	7.3	8.1	7.5	7.8
Infrastructure				
Paved roads (% of total roads)	11.1	..	*46.3*	*23.1*
Electric power consumption (per capita kWh)	349	*417*	*1,448*	*1,674*
Electrical outages (days)	..	*23*	22	16
Fixed line and mobile phone subscribers (per 1,000 people)	52	260	511	*496*
Internet users (per 1,000 people)	10	27	95	156
Cost of telephone call to U.S. ($ per 3 minutes)	3.20	*3.15*	*2.08*	*1.80*

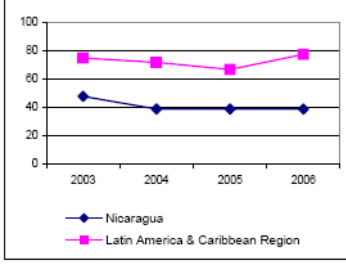
GNI per capita, Atlas method

Current US$



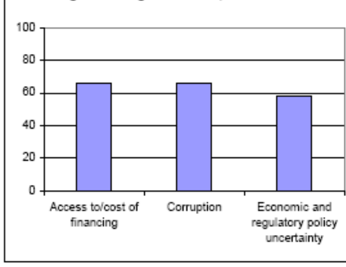
Starting a business

Number of days required



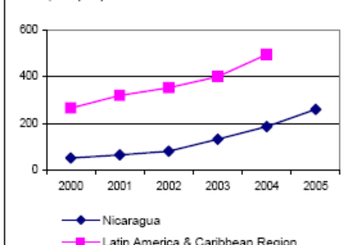
Top 3 business constraints

Percentage of managers estimate, 2003



Fixed line and mobile subscribers

Per 1,000 people



Notes: Figures in italics are for years other than those specified. .. indicates data are not available. GDP refers to gross domestic product; GNI refers to gross national income.
a. Share of senior managers who ranked this investment climate indicator as a major or very severe business constraint.
World Bank, Development Data Group and IFC Small and Medium Enterprise Department. 5/1/07

Annex A.4: Millennium Development Goals

	1990	1995	2000	2005
Goal 1: Eradicate extreme poverty and hunger				
Poverty gap at $1 a day (PPP) (%)	..	*20.4*	*16.7*	..
Poverty headcount ratio at $1 a day (PPP) (% of population)	..	*47.9*	*45.1*	..
Poverty headcount ratio at national poverty line (% of population)	..	*50.3*	*47.9*	..
Prevalence of undernourishment (% of population)	*30*	*33*	..	*27*
Goal 2: Achieve universal primary education				
Literacy rate, youth total (% of people ages 15-24)	68	..	..	*86*
Persistence to grade 5, total (% of cohort)	*44*	..	54	*54*
Primary completion rate, total (% of relevant age group)	44	55	66	76
School enrollment, primary (% net)	*73*	..	80	87
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliament (%)	15	*11*	10	21
Ratio of girls to boys in primary and secondary education (%)	*108*	..	107	103
Ratio of young literate females to males (% ages 15-24)	101	..	..	*106*
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	41.1	..	..	..
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12-23 months)	82	85	86	96
Mortality rate, infant (per 1,000 live births)	52	41	34	30
Mortality rate, under-5 (per 1,000)	68	53	43	37
Goal 5: Improve maternal health				
Births attended by skilled health staff (% of total)	..	..	*67*	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	230	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Contraceptive prevalence (% of women ages 15-49)	*44*	..	*69*	..
Incidence of tuberculosis (per 100,000 people)	147	108	79	58
Prevalence of HIV, female (% ages 15-24)	..	..	..	..
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	0.2
Tuberculosis cases detected under DOTS (%)	..	72	84	88
Goal 7: Ensure environmental sustainability				
CO2 emissions (metric tons per capita)	0.7	0.6	0.8	*0.8*
Forest area (% of land area)	54	..	46	43
GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent)	5.3	5.8	5.9	*5.2*
Improved sanitation facilities (% of population with access)	45	..	..	*47*
Improved water source (% of population with access)	70	..	..	*79*
Nationally protected areas (% of total land area)	..	..	..	*23.1*
Goal 8: Develop a global partnership for development				
Aid per capita (current US$)	83	145	114	144
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	2.3	41.8	16.8	4.8
Fixed line and mobile phone subscribers (per 1,000 people)	12	23	52	260
Internet users (per 1,000 people)	0	0	10	27
Personal computers (per 1,000 people)	..	10	24	43
Total debt service (% of exports of goods, services and income)	3.9	38.7	19.7	6.9
Unemployment, youth female (% of female labor force ages 15-24)	..	24.7	13.6	*15.8*
Unemployment, youth male (% of male labor force ages 15-24)	..	22.4	7.0	*10.8*
Unemployment, youth total (% of total labor force ages 15-24)	..	23.3	9.1	*12.5*

Source: World Development Indicators database, April 2007

Annex B:CPS Results Matrix FY 2008 - 2012

COUNTRY DEVELOPMENT GOALS	ISSUES AND OBSTACLES	OUTCOMES INFLUENCED BY THE BANK	MILESTONES	WORLD BANK GROUP PROGRAM
I. REACTIVATING THE ECONOMY, STIMULATING PRODUCTIVITY AND COMPETITIVENESS (TO COMBAT HUNGER, MALNUTRITION AND POVERTY)				
Maintenance of an adequate macroeconomic framework for growth and poverty reduction	Fiscal and macroeconomic challenges include: - Increase in quality and efficiency of targeted poverty spending. - Maintenance of sustainable external and internal debt levels. - Maintenance of fiscal discipline in National Budget.	Principal macroeconomic indicators are consistent with fiscal and macro stability and sustainability. The targeting, quality and efficiency of poverty reduction expenditures have been improved as reflected by the poverty incidence of poverty reduction expenditures. Baseline: 47% (2005) Target: 55% (2011)	GoN fiscal and macroeconomic management are assessed periodically through Bank and IMF evaluation mechanisms, and dialogue between Budget Support Group (BSG) and GoN. GoN has revised and has improved current definition of poverty spending (2008). Bank TA/ESW provides recommendations for improving the targeting, quality and efficiency of social sector spending.	**Non Lending-Ongoing** - Public Expenditure Review Poverty Assessment, IGR **Proposed Lending** - PRSC Series **Proposed Non Lending** - Updates: Poverty Assessment, PER - Social sector PER
Diversify and promote value added Micro-SME sector (urban and rural) in order to promote their increased participation in internal and external markets	Need to reduce transaction costs and to simplify procedures and regulations to stimulate the creation of Micro-SMEs and to facilitate registering of properties. Limited access to financial services available for urban and rural Micro-SMEs. Weak national regulation and supervision capacity towards microfinance operations from commercial banks, financial companies and FNI hinders access to credit.	Number of days for business and property registration (both Commercial Register and National Cadastre) reduced by 30%. Commercial Register (days) Baseline: 42 (2006) Target: 28 (2010) National Cadastre (days) Baseline: 30 (2006) Target: 21 (2010 Increase in access to credit for small and medium urban and rural Micro-SMEs with data segregated by gender.	MIFIC has promoted the establishment of a Nicaraguan Competitiveness Forum with other private sector organizations in order to promote SME agenda and developed specific recommendations for improving business climate for this sector (2008). Increase in number of access points for rural financial services.[1] Baseline: 200 (2005). Target: 220 (2010). Five MFIs have been transformed into regulated specialized financial institutions for micro credit. Baseline: 0 (2006). Target: 5 (2011). Development of baseline and target dates for second outcome will be presented in the CPS Progress Report in FY10.	**Lending-Ongoing** - Nicaragua Broad Based Access to Financial Services Project - Nicaragua Offgrid Rural Electrification (PERZA) Project - Nicaragua Enhanced Competitiveness Project II **Proposed Lending** - PRSC Series **Proposed Non Lending** - Investment Climate Assessment

Annex B:CPS Results Matrix FY 2008 - 2012				
COUNTRY DEVELOPMENT GOALS	***ISSUES AND OBSTACLES***	***OUTCOMES INFLUENCED BY THE BANK***	***MILESTONES***	***WORLD BANK GROUP PROGRAM***
Improved land tenure security	Land administration institutions are not currently providing efficient and transparent land administration, access to land services, and conflict resolution mechanisms to poor urban and rural households, women and indigenous populations.	Indigenous communities have territories demarcated, titled and registered. Number of territories Baseline: 1 (2006) Targets: 15 (2009) 25 (2012)	SIICAR operations established and fully operational to reduce time and costs by at least 30% in order to register titles via Intendence (INETER) and the Property Registry (2010).	**Lending-Ongoing** - Land Administration Project **Proposed Lending** - PRSC Series - Land Administration II Project **Proposed Non Lending** - Land policy regional study (FY08)
II. HUMAN CAPITAL DEVELOPMENT: IMPROVING SOCIAL EQUITY AND OPPORTUNITY				
Reduce chronic malnutrition among children (0-5 years old)	Programs to combat chronic malnutrition are insufficient and not effectively coordinated. High chronic malnutrition rates affect cognitive capacity of young children. Insufficient focus on preventing malnutrition in 0-2 year olds. Need for coordination with water and sanitation programs given high correlation of malnutrition and lack of potable water and sanitation.	The prevalence of chronic malnutrition (stunting) in children under 5 years old has been reduced. Baseline: 21.5% (2005) Target: 15 % (2011) MDG: 7.0% (2015)	Establishment of a coordinated approach to combating chronic malnutrition among children focused on prevention (2009). MINSA primary health package fully incorporates malnutrition prevention and growth monitoring for 0-2 year olds (2009).	**Lending-Ongoing** - Health Sector II **Non Lending-Ongoing** - Social Risk Management Impact Assessment - Social Services Delivery and Accountability regional study (FY09) - Social Sector PER **Proposed Lending** - Water & Sanitation Services I (rural) and II (urban) - PRSC series **Proposed Non Lending** - Nutrition TA
Improved access to health services and improved health outcomes for women and children	Low percentage of women receiving recommended prenatal care and low percentage of births attended by trained medical personnel. Inefficient health service quality, regressive distribution of public health subsidies and insufficient focus on preventive health services. Limited access to reproductive health services, poor birth spacing and high percentage of child and teen pregnancy.	Maternal, infant and child mortality have been reduced. Maternal mortality (per 100,000 live births) Baseline: 96 (2006) Target: 90 (2009) Infant Mortality (per 1,000) Baseline: 35 (2006) Target: 26 (2011) MDG: 20 (2015)	Percentage of pregnancies with four pre-natal medical check-ups in targeted municipalities. Baseline: 49.5 (2005) Target: 55 (2009) Over 5% increase in births attended by skilled health staff in targeted municipalities (2009). Baseline: 100,060 births (2007) Immunization coverage (pentavalent vaccine, third dose) in infants under 1 in targeted municipalities. Baseline 36.2% (2006) Target 37.9% (2009) MINSA primary health package fully incorporates access to reproductive health services (2009).	

Annex B:CPS Results Matrix FY 2008 - 2012

COUNTRY DEVELOPMENT GOALS	ISSUES AND OBSTACLES	OUTCOMES INFLUENCED BY THE BANK	MILESTONES	WORLD BANK GROUP PROGRAM
Improved access to educational services and improved educational outcomes	Access and completion rates in primary education are less than universal. Poor internal efficiency of the education system, especially in grade one where repetition and drop out rates are highest. Limited information on student learning outcomes and on the factors and interventions linked to improving student performance over time.	Net Primary enrollment (% of relevant age group). Baseline: 87.7% (2006) Target: 90.1% (2009) Gross primary school completion rate. Baseline: Boys 62 (2004) Girls 75 (2004) Target: Boys 75 (2010) Girls 85 (2010) MINED has developed (2010) a reliable internal M&E system which generates information on key education quality and access indicators. The system includes periodic standardized testing, results of which offer comparisons to previous years.	Reduction of drop out rate of students in grade one. Baseline: 15% (2005) Target: 5% (2010) Results of student standardized exams initiative is disseminated widely using social auditing mechanisms (2008). Completion of MINED indicator baseline which has been coordinated with SETEC and INIDE (2008).	**Lending-Ongoing** - Education PASEN - EFA FTI Catalytic Fund **Proposed Lending** - PRSC Series **Proposed Non-Lending** - EFA FTI Catalytic Fund - Social Sector PER - Social Services Delivery Regional Study - EFA FTI Review including Fiscal Framework - Poverty assessment update
III. INFRASTRUCTURE AND SUSTAINABLE DEVELOPMENT				
Improved access to and quality of water and sanitation services	Poor state of water and sanitation infrastructure, resulting from a lack of good management, proper maintenance and adequate investment. National water and sanitation strategy needs to be revised and better define institutional roles and sector priorities. Water and sanitation infrastructure is not complemented with hygiene promotion contributing to poor health indicators.	Increased water and sanitation coverage in Managua (% of population). Water Baseline: 60 % (2005) Target: 85 % (2012) Sanitation Baseline: 57 % (2005) Target: 80 % (2012) Increased effective water and sanitation coverage in rural areas (% of population). Water Baseline: 44% (2005) Target: 70% (2012) Sanitation Baseline: 69 % (2005) Target: 90 % (2012)	Government has approved revised water-sanitation sector strategy that promotes sustainability of service provision and roadmap to achieving universal access (2008). Mechanisms (SWAp Roadmap) to coordinate, design and implement national water and sanitation program have been established and are being implemented between GoN ministries (ENACAL, FISE, MINSA, municipalities) and donors (2010). New sector information system in place and operational in majority of municipalities (2009).	**Proposed Lending** - Water & Sanitation Services I (rural) and II (urban) - PRSC Series **Proposed-Non Lending** - WSP TA Program - PHRD for project preparation

Annex B:CPS Results Matrix FY 2008 - 2012

Country Development Goals	*Issues and Obstacles*	*Outcomes Influenced by the Bank*	*Milestones*	*World Bank Group Program*
Improved quality and access to energy and telecommunications for rural areas	Insufficient investment in new renewable energy generation and limited electricity expansion for on-grid and off-grid systems at rural level. Lack of an adequate legal and regulatory framework to address issues of tariffs and subsidies in energy sector. Low coverage of telecom services in rural areas.	Percentage (%) of households in rural areas which have access to electricity. Baseline: 28.9 (2005) Target: 40 (2012) Percentage of rural population with access to at least one public telephone. Baseline: 14% (2006) Target: 70% (2011)	New installed capacity (off-grid) with renewable energy (MW) in rural areas. Baseline: 0 (2005). Target: 15 (2012). At least 6 MW total installed capacity in PERZA minigrids (2009). Bank IDB TA/ESW provides recommendations for improving cost recovery of energy distribution (2008). Number of towns of 400 population or more with at least a public telephone. Baseline 200 (2006). Target 1,000 (2011).	**Lending-Ongoing:** - Off-Grid Rural Electrification GEF and (PERZA) - Rural Telecom **Non-lending Ongoing** - Regional Energy Strategy Study (FY09) - TA Nicaraguan Energy Study (FY08) **Proposed Lending** - PRSC Series
Improved access to and quality of roads	Economic growth and competitiveness impeded by high transport costs that in turn result from the limited provision of all season roads coupled with inadequate maintenance.	Increased access to all-season roads – percent of rural population. Baseline: 19% (2005) Target: 25% (2011) 15% reduction in vehicle operating costs, as measured by lowered road roughness indices (IRI). Baseline: 9 (2005) Target: 5 (2010)	Kilometers of trunk and secondary roads maintained by FOMAV. Baseline: 543 (2005) Target: 2,200 (2010) Kilometers of all season roads rehabilitated. Baseline: 120 (2005) Target: 575 (2010)	**Lending-Ongoing:** - Road Rehab & Maintenance IV **Proposed Lending:** - Road Rehab & Maintenance V
Increased agricultural productivity and sustainable use of natural resources	Government agriculture and environmental agencies rely predominantly on external cooperation which threatens sustainability. Weak capacity of rural producers to adjust to a more open trading environment. Sustainable rural development threatened by poor land management and expansion of agricultural frontier in or near protected areas.	Farmers participating in agricultural and forestry extension services have adopted at least two new production and/or processing technologies. Baseline: 0 (2006) Target: 25,000 (2009) Men: 17,500 Women: 7,500	Rural producers, 30% of whom are women, receive TA to increase productivity (number of people). Baseline: 0 (2005) Target: 50,000 (2010)	**Lending-Ongoing:** - 2nd Agricultural Technology Project **Proposed Lending**: - *PRSC Series* **Proposed Non Lending** - Central America Probabilistic Risk Analysis (CAPRA) – Regional - Environmental Assessment

Annex B:CPS Results Matrix FY 2008 - 2012

Country Development Goals	*Issues and Obstacles*	*Outcomes Influenced by the Bank*	*Milestones*	*World Bank Group Program*
IV. Strengthening Governance and Accountability: Modernizing and Professionalizing State Institutions and Promoting Citizen Participation				
Improved civil service management	Public sector wage policy in the context of civil service reform should be transparent, equitable and conducive to efficiency in public service delivery.	The percentage of public sector workers subject to the Civil Service Law who are remunerated under an official public wage policy has increased. Baseline: 25% (2006) Target: 70% (2010)	A policy on public sector remuneration has been developed and consensus has been reached between the National Assembly and Executive (2008).	**Lending-Ongoing** - State Modernization Project (PSTAC I) **Non Lending-Ongoing** - Programmatic Public Expenditure Review - Poverty Update - Institutional Governance Review - Social Sector PER. - Public Sector TA. **Proposed Lending** - PRSC Series - State Modernization Project (PSTAC II) **Proposed Non Lending** - Public Expenditure Review for the Social Sector - CEM - PER Update - PA Update - PEFA Update - Multi-donor TA Trust Fund
Increased public sector accountability: improved public sector planning and financial management; and increased citizen participation in social Accountability	Deficiencies in the planning and monitoring of public expenditures and related outcomes increase fiscal vulnerabilities, reduce efficiency and constrain effective public sector policies and service delivery. Weak institutional capacity in the external audit institution (CGR) and internal control undermines public sector accountability.	National monitoring and evaluation system designed and implemented, strengthening SIGFA, SYSODA and the M&E systems in Health and Education ministries (2011). Medium term expenditure framework (including all norms and guidelines consistent with M&E) is implemented in all central government entities and key decentralized agencies (2012). All public entities certified by CGR for the use and implementation of the Technical Norms of Internal Control according to international standards. Baseline: 43% (2006) Target: 100% (2012) Social accounting mechanisms with civil society participation are institutionalized in the Ministries of Education and Health at a decentralized level (2010).	M&E system includes mechanism to monitor and evaluate quality and gender impact of public expenditure in Health and Educ. ministries (2010). Multi-year strategy formulated to strengthen PFM practices (2008). Medium term expenditure framework is used in the decentralized agencies DGI, INIFOM, FISE and DGA (2010). By 2010, 50% of special audits are conducted under CGR risk-based systems according to latest national budget audit (Baseline: 0% in 2006). New budget classification and chart of account manuals finalized (2008). Civil society proactive in demanding effective implementation of Public Access to Information Law (2008).	
Decentralization	Centralized decision making on local public investment programs limits both local government and civil society participation in the budgetary allocation processes.	Increase in percentage of public investment programs registered in SNIP which were proposed at municipal level. Baseline: 30% (2007) Target: 60% (2012)	Design and implementation of fiscally responsible decentralization strategy which was subject to consultations with key stakeholders (2008). Municipal information systems are integrated into SIGFA. Baseline: 100% (2006) through TRASMUNI (only in one direction) Target: 50% of municipalities are integrated to SIGFA´s core financial modules (2012).	

Annex B:CPS Results Matrix FY 2008 - 2012

COUNTRY DEVELOPMENT GOALS	ISSUES AND OBSTACLES	OUTCOMES INFLUENCED BY THE BANK	MILESTONES	WORLD BANK GROUP PROGRAM
CROSS CUTTING ISSUE				
Reduce poverty in the Autonomous Regions of the Caribbean Coast (RAAN and RAAS)	The 11% of Nicaraguans living on the Caribbean Coast, 30% of whom are indigenous (Miskitos, Mayangnas and Ramas) and Afrodescendent (Creoles and Garifunas) face a legacy of marginalization, poor human development indicators, and limited access to infrastructure. Targeted interventions in these sectors in this region are necessary.	Development outcomes for the RAAN and RAAS have improved by 2011 and the gaps between national averages and RAAN/RAAS averages for key indicators have diminished. **Baseline (2006)** **Pacific Cent. RAAN/RAAS** ***Electricity*** 86.8% 56.8% 34.2% *Children in Primary School* 86.10% 84.9% 80.8% *Students in High School* 51% 35.9% 27% *Access to Paved Roads* 60% 39% 9.9% *Families who received credits (2004)* 60% 39% 9.9%	The Nicaraguan Government has elaborated a cross-sector approach for the Caribbean Coast Region with indicators developed for health, education, roads, access to electricity and water (2008). The integrated approach will include a gender focus. *Operations supported by the World Bank will have identified program results and impacts planned for the RAAN and RAAS and will report on these in ISRs.*	**Lending-Ongoing:** - Land Administration Project - Health Sector II - Education PASEN - Off-Grid Rural Electrification (PERZA) - Road Rehab & Maint. IV **Non Lending-Ongoing:** - Social Risk Management Impact Assessment (FY08) - Social Services Delivery and Accountability regional study (FY09) - Social Sector PER (FY08) **Proposed lending:** - Road Rehab & Maintenance V - PRSC Series

[1]Access points refer to branches or any other physical infrastructure where financial services are offered to rural clients.

Annex C: CAS Completion Report

Country: Nicaragua
Date of CAS: December 18, 2002
Date of ISN: July 6, 2005
Period covered by CAS Evaluation Report: FY03-FY07

INTRODUCTION

1. **This report appraises the World Bank Group's Nicaragua CAS FY03-05 and the ISN FY06-07** and has been prepared as an input to the preparation of the new Country Partnership Strategy FY08-12, due to be presented to the Bank Board in September 2007. Throughout the document the "CAS period" refers to both the CAS and ISN periods. The report follows the standard Bank outline: **Section A** reviews the Long Term Strategic Goals that were supported by the CAS, discussing their appropriateness, their linkage to the country's development strategy, and the advances made during the CAS period. It should be noted that the strong emphasis on policy lending in the CAS strategy meant that the development outcomes and policy climate reforms outlined as Strategic Goals for Nicaragua in the CAS period were also directly adopted as the planned outcomes of the Bank's own program.

2. **Section B concentrates on the Bank Program for Nicaragua over FY 03-07, that is, how the Bank Group's assistance program hoped to contribute to the achievement of the long term strategic goals.** It discusses whether the outcomes were well chosen to support the goals, and indicates how different Bank Group's instruments (IDA investment lending, AAA work, and the activities of the MIGA and IFC) contributed towards the outcomes and whether the mix of instruments was appropriate. It considers other factors that affected the outcomes, such as exogenous shocks, the actions of other donors, and the performance of the borrower.

3. **Section C reviews the Bank's performance during the CAS period, focusing on three themes:** (a) *the quality of products and services* including: the degree to which project designs were results based; project ratings and the incidence of portfolio problems according to ISRs and ICRs; and the findings of independent evaluations by QAG and OED; (b) *portfolio performance*, including the disbursement ratio, the incidence of problem projects and the timeliness of delivery of major programmed operations and AAA; (c) *country dialogue and aid coordination*: how the Bank contributed to the development of policy dialogue during the CAS period, including the quality of dialogue around the CAS itself, and how well the Bank coordinated with other donors. **Section D summarizes the lessons learned from the CAS period, and makes recommendations for the new CPS.** Finally, the report presents recommendations for the new country partnership strategy.

SECTION A: NICARAGUA'S DEVELOPMENT OBJECTIVES AND PROGRESS OF CAS OUTCOMES

4. **The FY03-05 CAS and the FY06-07 ISN were aligned to the first PRSP, which was later revised and renamed the National Development Plan (NDP) in 2005, a few months after the Board discussion of the ISN.** The NDP 2005-2009 delineates Nicaragua's long-term development vision and poverty reduction strategy and more strongly emphasizes economic growth than the strategy documents that preceded it. During the CAS period under review, there were changes, though not substantial ones, in the organization of the GoN's objectives as expressed in the different PRS/NDP documents presented to the Bank with respect to pillars, areas, and cross themes. Given that the CASCR is reporting on two planning periods with two different results matrices, the report team decided to use the results matrix of the ISN, taken from the National Development Plan 2005-09, which describes an ambitious agenda of programmed outcomes which, if met, would result in major advances in the development and poverty reduction agenda in Nicaragua.

5. **The CAS supported strategic development objectives that were rooted in five basic areas:** (I) Macroeconomic stability, (II) Economic growth for poverty reduction, (III) Human capital development and social protection, (IV) Productive and social public infrastructure, and (V) Governance and state reforms. These can be seen in the second column (NDP 2005-09), Figure 1, on the following page.

6. **The Ortega Administration is currently revising the NDP 05-09 to better reflect its priorities**. The Administration's main objective is to promote broadly shared economic growth by creating wealth and reducing poverty. A revised version of the NDP will be ready by early 2008. Figure 1 presents a comparison of the GoN's development objectives throughout the entire CAS period, including the first six months of the incoming government (following page).

PROGRESS AGAINST CAS OUTCOMES

7. **The CAS period can be divided into two phases:** a first phase of rapid advances (up to HIPC Completion Point in January 2004) and a second phase of growing political crisis and programmatic delays. The strong emphasis on Poverty Reduction and Support Credits (PRSCs) during the CAS period meant as mentioned above that most important CAS outcomes were directly related to the national strategic goals. Advances towards the goals and outcomes are laid out in the CAS/ISN Matrix (Annex C.1). The following paragraphs summarize the most important developments.

Figure 1. Evolving Poverty Reduction Strategy

WEALTH CREATION AND POVERTY REDUCTION THROUGH BROADLY SHARED ECONOMIC GROWTH

ERCERP (1997-2002)	NDP (2005- 2009)	Government priorities (2007)

Strategic Objective I: Reactivating the Economy, Stimulating Productivity and Competitiveness

Broad Based Economic Growth and Structural Reform (Pillar I) ▪ Macroeconomic program of continued stabilization & structural reform, privatization of Government-owned utilities, modernization of rural economy, fostering of SMEs, development of the Atlantic Coast, & promotion of productive clusters.	**Macroeconomic Stability (Area V)** ▪ Consolidate macroeconomic stability while maintaining poverty-reducing expenditures. **Economic Growth for Poverty Reduction (Area I)** ▪ Improve investment climate by decreasing bureaucratic costs, & improving property rights, broaden financial services, promote exports, support clusters & increase technology for agriculture production.	▪ **Reactivate the economy, stimulate productivity and competitiveness to combat hunger malnutrition and poverty** through continued macroeconomic stability (debt management, Fund program) and a strengthened fiscal policy (tax reform, public spending). ▪ Enhance trade policy, create a healthy investment climate, strengthen Rule of Law and property rights, nurture MYPYMES sector, promote agro-industry, & tourism.

Strategic Objective II: Human Capital Development: Improving Social Equity and Opportunity

Greater and Better Investment in Human Capital (Pillar II) ▪ Increase human capital of the poor through investment in education & technical training, health care, nutrition & a population policy to enhance productivity, income & welfare. **Better Protection for Vulnerable Groups (Pillar III)** ▪ Guarantee access to basic social services for extreme poor & protect them from natural & economic disasters.	**Human Capital Development and Social Protection (Area II)** ▪ Increase coverage & quality of education & health services, focus on technical training, improving labor conditions & eliminating child labor. Emphasis on improving institutional coordination & consolidation of key programs accessible by vulnerable groups.	▪ **Improve social equity and opportunity** through rights to free public health and education, career-long training of the work-force, recapitalization of rural poor ("bono productivo"), social protection (children 0-6, school feeding, vulnerable groups), Social Security and housing.

Strategic Objective III: Infrastructure and Sustainable Development

Broad Based Economic Growth and Structural Reform (Pillar I continued) ▪ Increase productive sector development through development of rural productive infrastructure (energy, telecom and roads) and social infrastructure (water and sanitation).	**Productive and Social Public Infrastructure (Area III)** ▪ Increase coverage & quality of infrastructure to support economic growth and attaining MDG targets.	▪ **Increase coverage & quality of infrastructure:** energy, W & S, & transport; and improve sustainable devt. of biodiversity and natural resource mngt. (reforestation), watershed mngt., and the environment. ▪ Strengthen disaster prevention, mitigation and response management.

Strategic Objective IV: Strengthening Governance and Accountability: Modernizing & Professionalizing State Institutions & Promoting Citizen Participation

Good Governance and Institutional Development (Pillar IV) ▪ Consolidate the rule of law, institutional strengthening, greater transparency & efficiency, institutionalize a culture of integrity.	**Governance and State Reforms (Area IV)** ▪ Reform & modernization of justice system, respect for Human Rights, support participation of civil society, improve public financial management & modernize public procurement, Implement a national decentralization policy.	▪ **Improved governance and accountability** through decentralization, citizen and civil society participation, modernizing state institutions, public financial management, accountability and control (audit institutions, freedom of access to information, transparency).

Over the years cross-cutting themes have included: environment and ecological vulnerability, decentralization, social equity and gender, and the Atlantic Coast (including indigenous and ethnic groups).

<u>Overall Goal: Poverty Reduction and Poverty Spending during the CAS Period</u>

8. **The overarching goal of the CAS period was to help the country's MDG on cutting extreme poverty in half between 1995 and 2015, which (on a geometrical projection) implied reaching 13.7 percent rate in 2005.** This goal was not achieved. The latest poverty figures from the 2005 LSMS report an extreme poverty rate of 14.9 percent, composed of a 5.4 percent rate in urban areas and a much higher 26.9 percent rate in rural areas. Total poverty stood at 46.2 percent (29.1 percent in urban areas and 67.9 percent in rural areas). Importantly, due to insufficient broad-based economic growth, increases in poverty spending did not translate into significant gains in poverty reduction (to be discussed in greater detail below). Although movements in the poverty rate are a long term phenomenon, short-term shocks, such as macroeconomic adjustments or shifts in key commodity prices such as coffee, have had important impacts on poverty, especially among vulnerable groups.

9. **Poverty spending targets as outlined in the PRGF framework were met.** Poverty spending increased from 9.6 percent of GDP in 2002 to 13.6 percent of GDP in 2006. This outcome was initially made possible by directing a substantial share of the HIPC debt relief towards poverty-reducing programs. But again, increased poverty spending did not translate into significant gains in poverty reduction. Nonetheless, reforms to the financial administration system made it possible to track this outcome using SIGFA, and in-depth Poverty and Social Impact Appraisals (PSIAs) were carried out on the country's tax and education reforms. These measures contributed to the institutionalization of the PRSP process. Nevertheless the government's systems for tracking the PRSP/NDP outcomes still require strengthening. To accomplish this objective, SINASID was put on-line and provides valuable information; however, its user-friendliness and source documentation need improving.

Area I: Macroeconomic stability

Maintenance of adequate macroeconomic framework: <u>Reduce fiscal deficit to sustainable level and restore growth:</u> Good progress

10. **The CAS aimed to promote a stable macro-environment through reduction of the fiscal deficit and to lower the government debt to sustainable levels.** These goals were achieved (see Table 1). From a starting point of 0.8 percent in 2002, annual GDP growth averaged around 3.2 percent from 2002 to 2006, or 1.3 percent in per capita terms. Though reasonable by LAC standards, growth was below the average achieved by other medium-low income countries worldwide. Two tax reforms were passed, which removed exceptions and increased the efficiency of collection. Spending programs were also rationalized – while protecting poverty spending – and the fiscal deficit (overall public sector deficit before grants) fell sharply, from 11.8 percent of GDP in 2001 to 4.19 percent in 2006. Inflation remained under control averaging 7.6 percent since 2001, although it increased in 2005 to 9.6 percent due to a rise in petroleum prices. International reserves increased from $US383 million in 2001 to $US896 million in 2006, and since CAFTA-DR (April 2006) exports increased 20 percent. The value of foreign private investment increased from US$75 million in 1995 to US$230 million in 2005.

Table 1 - Nicaragua - Key Macroeconomic Indicators

(% of GDP unless otherwise noted)	2000	2001	2002	2003	2004	2005	2006	2007 Proj.
Real GDP	**4.1**	**3.0**	**0.8**	**2.5**	**5.1**	**4.0**	**3.7**	**4.2**
GDP per capita in US$	**779**	**788**	**753**	**748**	**799**	**850**	**908**	**942**
Inflation rate (% end of period)	**9.9**	**4.7**	**4.0**	**6.6**	**8.9**	**9.6**		
Key Fiscal Indicators								
Overall balance (before grants)	**-8.5**	**-11.8**	**-8.3**	**-7.7**	**-6.7**	**-5.0**	**-4.9**	**-**
Overall balance (after grants)	**-5.1**	**-9.0**	**-5.4**	**-4.3**	**-2.8**	**-1.5**	**-0.3**	**-0.3**
Investment - Savings								
Total Investment	**31.0**	**28.2**	**26.1**	**25.9**	**28.3**	**29.3**	**28.2**	**29.1**
National Savings	**10.9**	**8.8**	**7.0**	**7.6**	**12.8**	**13.4**	**13.9**	**15.3**
Private	**8.6**	**9.0**	**7.4**	**5.6**	**8.3**	**8.2**	**9.5**	**10.0**
Public	**2.2**	**-0.2**	**-0.4**	**2.0**	**4.5**	**5.2**	**4.4**	**5.3**
External Sector Indicators								
Exports	**881**	**895**	**917**	**1,050**	**1,365**	**1,552**	**1,940**	**2,155**
Imports	**1,802**	**1,805**	**1,834**	**2,021**	**2,440**	**2,865**	**3,303**	**3,554**
Current Account Deficit	**-20.1**	**-19.4**	**-19.1**	**-18.3**	**-15.5**	**-15.9**	**-14.2**	**-13.7**
International Reserve Position								
NIR (stock, adjusted)	**187**	**16**	**64**	**83**	**211**	**282**	**528**	**628**
GIR (stock)	**497**	**383**	**454**	**504**	**670**	**730**	**896**	**986**

Source: Central Bank of Nicaragua (2007) and IMF (August 2007).

Reduction in Public Debt Load: Good Progress

11. **During the CAS period, public debt was reduced from 200 percent of GDP to 70 percent, and Nicaragua exhibits a moderate, but manageable, risk of experiencing debt distress, provided that sound macroeconomic policies continue to be applied.** This finding emerged from the joint IDA-IMF debt sustainability analysis carried out in early 2006. The IDB's decision to participate in the MDRI reduces this risk further. After all ongoing debt relief initiatives are implemented (i.e., HIPC, MDRI, commercial debt buy back), Nicaragua's external debt, in net present value terms (NPV) is expected to decline to about 35 percent of GDP. However, Nicaragua also has a high level of domestic debt whose NPV is currently estimated at 19 percent of GDP. This adds up to a combined public debt of approximately 54 percent of GDP, which is sustainable if Nicaragua can continue to grow by at least 4 percent per annum, maintain a primary fiscal surplus near the levels achieved in recent years, and keep various fiscal pressures in check. Payment on the internal debt, however, represents about 20 percent of the yearly national budget, which restricts the total available for development spending.

Financial Sector Reform: Good Progress

12. **Given the 2000-2001 financial crisis, the strengthening of the financial sector was an important achievement during the CAS period.** Following the $450 million bail-out of depositors in the 2001 crisis that bankrupted four banks, regulations were greatly improved through supervised audits, and the banking system has been consolidated at acceptable liquidity ratios. State actions to resolve the crisis were criticized by certain sectors, especially regarding transparency in the disposition of the failed banks' assets, and the fact that the measures taken to resolve the crisis led to an

increase of the country's internal debt. Remaining banks are stable and bank profitability is among the highest in the region, averaging 37.5 percent for return on equity and 2.2 percent for return on total assets. Intermediation costs are high at 11 percent. Data suggests that firms continue to rely heavily on retained earnings, and that bank finance makes up less than 15 percent of working capital for small and medium enterprises (SMEs) and less than 20 percent of investment finance. High interest rates are a disincentive for firms to expand and modernize. Consumer lending is the only segment of the commercial banks' portfolio that is growing in real terms.

.

Pension Reform: Poor Progress

13. **In pension reform, results have been less successful due to design flaws.** In December 2003, in compliance with HIPC Completion Point conditionality, a pension reform (Law 340) was passed, introducing individual capitalization accounts to replace the fiscally unbalanced pay-as-you-go system. In 2004, with tacit agreement of the IMF and the Bank, implementation was abandoned due to unexpectedly high fiscal costs of the transition. In early 2005, the focus shifted to containing the fiscal costs of the pension deficit, and discussions were underway on parametric reforms to the pay-as-you-go system. The Social Security Fund (INSS) estimates that the situation will become unsustainable in 2024, giving the government some time to design and seek consensus on a reform agenda, which will require a significant adjustment in the balance between employees' contributions and retirees' rights, and should avoid regressive subsidies and support increased coverage of the pensions system.

Area II: Economic growth for poverty reduction

14. **Nicaragua's annual GDP growth over the last five years has been modest and highly variable.** GDP growth averaged around 3.2 percent per annum from 2002 to 2006, or 1.3 percent in per capita terms. Though reasonable by LAC standards, it is below the average achieved by other medium-low income countries worldwide. Nicaragua's growth was also marked by strong fluctuations, continuing a pattern observed over the previous decade, and generally reflecting the economy's vulnerability to external economic shocks (e.g., commodity price declines and oil price increases), natural disasters (e.g., El Niño, hurricanes, and earthquakes) and domestic policy reversals (such as pre-election spending). The modest level and erratic nature of growth have hampered progress in poverty reduction. Nevertheless, advances in specific CAS goals continue to provide a supportive environment for investment, growth and future poverty reduction.

Supportive environment for investment and growth: Good progress

15. **Bank efforts to improve the environment for private sector investment and growth have been successful.** The Bank's Competitiveness Project was designed to improve the business environment in Nicaragua and to pilot new business development services (BDS) through developing sector clusters. Economic growth initiatives were led by the Presidential Commission on Competitiveness (CPC). Harnessing the experience

of MIGA, the Bank built capacity for *Pro-Nicaragua*, an investment promotion agency and *Nicaexport*, an export promotion agency. There were marked improvements in firm registration and licensing as well as property and land registration (to be discussed below). The number of days to register a business decreased from 71 to 39 between 2003 and 2006, and the number of steps was halved from 12 to 6.

Promote faster growth through cluster development: Good progress

16. To support cluster activities, the Bank drew on the extensive experience of the Foreign Investment Advisory Service (FIAS). The tourism, light manufacturing, dairy, shrimp, wood products, cattle and coffee clusters all expanded in terms of employment, sales, and exports. Maquila employment grew from 37,000 to 67,000 between 2000 and 2005. These contributions are reflected in the improved competitiveness ratings of Nicaragua in international benchmarks including "Doing Business," where Nicaragua jumped from 72nd to 67th in the world ranking of 175 countries. The implementation of business climate reforms and improved road infrastructure will also be key factors to improve Nicaragua's competitiveness. For the future, value chains may produce greater productivity gains than a simple cluster approach.

Modernize the commercial code: Mixed progress

17. The Commercial Code was not reformed but remains a top priority for the private sector and the Ministry of the Economy (MIFIC). Steps were taken, however, to improve the investment climate, including the establishment of investment and export promotion agencies and the preparation of a law to modernize the mercantile register. A competition law was passed but still has not been implemented. A reform plan for the training agency, INATEC, was prepared but is being reviewed by the new administration.

Modernize the cadastre and land registry system, regularize titling and demarcate and register indigenous territories: Good progress

18. **Progress has been made in land administration reform. Although the Cadastre law was approved in 2004, the Registry law is still waiting approval in the National Assembly.** This law will make possible the full implementation of the integrated information system, SIICAR, which serves to link the cadastre and registry systems. Advances have been made in the design and establishment of the SIICAR, with over 25% of the properties of Esteli, Chinandega and Madriz integrated into the system. The project, PRODEP, signed an agreement with the Millennium Challenge account to expand this work in the Leon and Chinandega area. During the CAS period, the cadastre system revised 3,326km^2 of land of which 2,224km^2 were approved, 37,862 parcels were registered, and 13,223 property documents were processed. A landmark for the period was the demarcation and titling of five indigenous territories and, to date, the registration of four, three of which have been registered under the new administration which has stated its commitment to this process.

<u>Improve rural financial services:</u> Good progress

19. **A significant constraint for small farmers is the lack of access to credit. The CAS proposed to improve this situation through a reform of the microfinance regulatory framework.** The Bank supported the development of a microfinance unit in the SIBOIF which helped that institution vastly improve its internal capacity to monitor the industry and to develop the norms necessary for future regulation. In addition, the Bank supported the capacity of the *Financiera Nicaraguense de Inversiones* to support microfinance institutions with technical assistance as well as financial resources. During the CAS period, more access to financial services has been provided to low income families and micro and small businesses.

<u>Improve agricultural technology to improve rural productivity:</u> Good progress

20. **Strengthening rural economic development during the CAS period concentrated on infrastructure, technical assistance, financial services and ultimately productivity.** Agriculture represents about 25 percent of Nicaragua's gross national product, and about 50 percent of total exports and 35 percent of employment. Coffee and sesame seed are export crops. Maize, beans, rice, and sorghum are produced for internal consumption. Agricultural growth is principally based on area expansion causing destruction of natural forests. Notwithstanding the recent increasing importance of agriculture, about 60 percent of rural dwellers live on less than two dollars per day. As world market prices for traditional crops are increasing, agricultural growth may make a significant contribution to overall growth. For this to happen in a sustainable way, land and labor productivity have to increase through technological innovation.

21. The Bank's Agriculture Technology project sought to address the needs of small and medium sized producers by establishing an efficient, demand-driven agriculture technology, knowledge, and innovation system. Bank support strengthened the institutional capacity of the two agencies responsible for agricultural growth and product diversification: MAGFOR and INTA. In coordination with several donors, the Bank was instrumental in promoting the formation of PRORURAL, a sector-wide initiative for rural development. A competitive, demand-driven (public/private) fund, FUNICA, was also established to improve agricultural productivity. Bank supported programs resulted in significant productivity gains during the CAS period; between 2002 and 2003, the productivity of corn increased by 37 percent and the productivity of beans by 63 percent. Nicaragua now meets 85 percent of internal demand for certified seed. In addition, in 2004, the number of farmers receiving technical assistance services increased from 21 to 33.3 percent.

Area III: Human capital development and social protection

<u>Basic Education:</u> Mixed progress

22. **The CAS included targets to increase primary enrollment, improve promotion rates, reduce inefficiency, and expand the coverage of autonomous**

schools. Despite confusion over the 2005 census figures, it is generally accepted that the primary coverage goal was met. According to Education Ministry (MINED) data, net primary enrollment increased from 81 percent in 2001 to 86 percent in 2006 (as seen in Table 2 below). However, completion of the primary cycle remains low at 40 percent. What are more alarming are repetition rates in the first grade, which have been estimated as high as 30 percent. Pre-primary net and gross enrollment rates have increased, presently at 52 percent (2006) as well as secondary school net enrollment rates, currently at 44 percent (2006). Literacy rates among 15-24 year olds also improved from 80 percent in 1993 to 90 percent in 2005 (LSMS). The Bank's Second Basic Education project targeted five poor municipalities (Condega, Achuapa, El Sauce, Ciudad Darío and San Isidro) and focused strongly on the Atlantic Coast Region where 98 percent of the indigenous people live. In addition to the national level gains mentioned above, 8,328 children in the Atlantic Region gained access to preschool education, and learning materials were translated into three indigenous languages. The project also supported the implementation of national assessments in Math and Spanish at the third and sixth grade levels, which were successfully completed in 2006. Results and analysis are still pending.

Table 2 - Nicaragua - Key Education Indicators

	2001	2002	2003	2004	2005	2006
Primary net enrollment rate, %	81	86	86	87	87	86
Pre-primary gross & net enrollment rate, %	28	32	33	36	39	52
Secondary net enrollment rate, %	36	37	38	40	42	44
Primary completion in 6 years, %	36	38	41	41	41	40
Rural 3rd grade promotion rate, %	83	78	77	76	76	75
Public schools in autonomy regime	2,952	2,978	3,033	4,064	4,108	5,211
Students in autonomy regime (thousands)	697	748	755	904	927	1,013
% of public schools in autonomy regime	50	49	47	62	61	69
% of students in autonomous schools	68	69	68	79	79	83

Source: MINED, 2007

23. **The expansion of the school autonomy regime was supported by CAS sector operations and Bank budget support.** In summary, the program entailed providing fiscal transfers to schools that left the central government system to be managed locally by parents and teachers. Through EFA and the Education Project (PASEN), the Bank supported the expansion of the program by providing technical assistance and financial incentives. Though coverage goals were met (5,211 schools by 2006), one of the first actions taken by the Ortega Administration was to suspend the transfers and school autonomy program and prohibit any charges in public primary and secondary schools. This measure was received by the public with little opposition and, in fact, public opinion polls rate the decision to abolish school fees as one of the most important accomplishments of the administration.[16] The government, however, has stated that it does maintain its commitment to local participation in school management, a concept at the heart of school autonomy and whose legal status is preserved in the 2003 "Ley de Participación Educativa." The Poverty Assessment (2007) confirms the need for more access and better quality secondary education in order to reduce poverty.

[16] It should be noted that part of the transfers were suspended under the previous administration, because school administrators were not paying their utility bills or social security payments to teachers.

Health and Population: Mixed progress

24. **The strategic goals to reduce infant and child mortality were met.** As seen in Table 3, the maternal mortality rate decreased from 125 per 10,000 births in 2001 to 96 in 2006. The coverage of institutional births improved more slowly from 47 percent in 1999 to 61 percent in 2006. Recent trends in immunization coverage are a source of concern, as coverage of polio and tuberculosis immunizations have declined since 2002. Chronic malnutrition amongst 0-5 year olds (stunting or growth retardation due to chronic malnutrition) decreased by six percentage points between 1998 and 2005, but remains very high at 21.5 percent. In addition, progress has slowed in recent years, as most of this gain (5 percentage points) took place between 1998 and 2001, with very little progress during the first part of this decade (only a 1 percentage point gain between 2001 and 2005).

25. **Progress on strengthening population policy, a strategic goal of the CAS, has been limited.** The CAS supported the incorporation of a reproductive health component into the standard primary health care model to be promoted through the System of Local Health Care Centers (SILAIS). It appears that access to reproductive health services decreased from 25 percent in 2001 to 13 percent in 2006. This may be attributed to the fact that women are seeking reproductive health services at institutions other than those included in the SILAIS system (for example, NGOs, given that the percentage of Nicaragua women using contraceptives has not declined). Teen pregnancy, however, continues to be a major problem. As planned, management autonomy was increased in health districts and hospitals: six hospitals established management agreements with the Ministry of Health, and a new legal and administrative framework was established for pharmaceuticals administration. The challenge is to turn the institutional changes achieved in the last few years into changes on the ground in health outcomes for the poor. There is need for more frequent data on the key issue of nutrition.

Table 3 - Nicaragua - Key health indicators

	1999	2001	2002	2003	2004	2005	2006
Infant mortality per 1000 l.b.	40	31				30	
Child mortality per 1000 l.b.	50	40				37	35
Maternal mortality per 10,000 l.b.	140	125	100	86	96		96
Institutional births (% of total)	47		50	50	51	58	61
Prenatal care cover (% of pregnancies)	72	71	71				
Immunization rate, tuberculosis			93	94	88		
Immunization rate, polio			85	86	80		
% of child deaths attributable to resp. infection			11	11	18		
Potable water coverage (national, %)		70*	73	73	75	70	72*
Rural disperse pot. water coverage, %			50	48	50		
Urban wastewater coverage, %			33	35	37		

Source: MINSA, 2007, *LSMS data, 2005

Water and Sanitation: Good progress

26. **During the CAS period, a national water and sanitation plan was prepared, assigning lead responsibility in dispersed rural areas to the Emergency Social Investment Fund (FISE) and in urban areas to the National Water and Sewage Company (ENACAL).** The national potable water coverage rate improved slightly from 70 percent in 2001 to 72 percent in 2005 (LSMS), well below the 1.4 percent annual target set in the CAS. In rural dispersed communities, coverage remained constant. The majority of the population without access to water resides in the Atlantic and Central and Northern regions of the country. Notably, access to sanitation increased from 86 percent to 89 percent between 2001 and 2005 (LSMS). Political resistance, limited institutional capacity and an inconsistent legal framework continue to limit the expansion of water coverage and the provision of quality service. The Bank's Water and Sanitation Program began operations in November 2005. Important contributions of the program include the promotion of a SWAp process in the sector, the facilitation of knowledge sharing with other active donor agencies, and the promotion of private participation at the local level in the management of water and sanitation systems. A stronger emphasis needs to be placed on coverage in rural areas, particularly in the Atlantic Coast and Central and Northern regions.

Social Protection: Mixed progress

27. **With Bank support, the Nicaraguan Institute for Municipal Development and FISE offered municipal programs to reduce the vulnerability of the poor through increased coverage of basic services**. Under FISE, specifically during the ISN period, 2,047 schools and 311 health centers were reconstructed or rehabilitated. These Bank supported initiatives were highlighted as good examples of decentralization and community guided projects, especially on the Atlantic Coast. The CAS also set a goal of designing and implementing a national social protection strategy to meet the needs of vulnerable groups**.** Nicaragua has a variety of programs administered by diverse agencies to address this issue, but there has been little and inadequate evaluation of the costs and benefits of alternative designs. In line with the CAS goal, the GoN Social Cabinet approved a National Social Protection Policy, *Solidaridad,* in 2005. Under the coordination of the Ministry of Family (*Mifamilia*) the policy sought to define the strategic priorities for developing an effective safety net and to establish the roles and responsibilities of the relevant agencies. Bank funds were used to finance pilot projects in five municipalities in 2006 (including a successful pilot for landslide victims). At the present time, the project team is advising the Ministry of the Family on several components of its social protection strategy. There are many active donors in this sector, and coordination needs to improve.

Area IV: Productive and social public infrastructure

Energy: Mixed progress

28. **During the CAS period the situation in the energy sector was complicated.** The privatization of the energy sector did not bring about the desired outcomes. The

contentious relationship between the government and the distribution company, *Union Fenosa*, has been a major political issue, although the new administration is now in discussions with the transnational. There continues to be an unreliable supply of energy due to generation constraints (including obsolescence of current infrastructure and lack of new investment) as well as elevated costs due to high dependency on thermal (i.e., oil-fired) generating plants. To attract private investment in the sector, the government will need to implement confidence building measures and provide better legal clarity. Although the current administration has sought short term solutions by importing small diesel generating plants, medium and long term solutions are still pending. In FY07, the Bank prepared an Energy Policy Note, which has been presented to the new administration.

29. **Access and expansion of rural electrification require more effort.** Nicaragua's 69 percent electrification rate is the lowest in the Central American region, and electrification is considerably lower in rural areas at only 34 percent. Bank support has been important in assisting the government in piloting innovative methodologies of service delivery using renewable energy sources. During the CAS period, 1,717 rural homes in el Bote, Francia Sirpe and La Union were provided with electricity. In addition, 1,482 credits totaling $1.5 million were provided to rural electrified zones. Strengthening rural infrastructure, particularly in the energy sector, is essential for future growth and private investment.

Telecommunications: Good progress

30. **Privatization of the National Telecommunications Company (ENITEL) and the creation of the regulatory entity TELCOR have boosted investment.** New cellular licenses were granted in 2001 and 2003. Services have improved with IDA support; national coverage of fixed and mobile phones increased sevenfold from 194,000 to more than 1.3 million in 2005, and mobile phone coverage in the provincial capitals increased from 50 percent in 1999 to 100 percent in 2003. However, despite these large increases in fixed and mobile telephone usage, Nicaragua still has the lowest penetration rates in Latin America: 23.6 per 100 people. Moreover, despite the Telecommunications Investment Fund (FITEL), which tries to improve access in rural areas by offering subsidies where private operators are reluctant to operate, there continues to be a dramatic disparity in access to telecommunications and ICT infrastructure between urban and rural areas. Urban centers, such as Managua, have 12.7 fixed phones per 100 inhabitants compared to less than 0.4 fixed phones in rural areas where more than 48 percent of the population lives. More access needs to be provided to rural areas. The second Bank Telecommunications operation, approved during the CAS period, will be addressing these issues.

Transportation: Good progress

31. **To more efficiently connect people to markets and social services, CAS targets were set to improve the road network.** The Road Transport II project was restructured after Hurricane Mitch and became a vital tool for rapidly restoring access,

resuming agriculture production and other economic activities, and generating short term employment through public works. The goal of paving 300 km of rural roads was accomplished using a labor-intensive, cost effective, local technology called *adoquines*. The Bank project also reconstructed major roads and important trade routes, including parts of the Pan American Highway from Muhan to El Rama (90.3 km) and from Managua to Izapa, Leon (62 km). To improve road maintenance, the Bank supported the development of a model of 33 micro-enterprises responsible for 2,080 km of the paved network, employing over 350 people under Transport III. Unfortunately, Nicaragua's roads remain the poorest in the Central American region, with only 20 percent in good or fair condition. According to the LSMS, a little more than one-fifth (22.3 percent) of all Nicaraguan households have access to paved roads (access is 7 percent among the extreme poor, 11 percent among the poor, and 30 percent among the non-poor). In order to adequately compete under CAFTA-DR, the paved and secondary road network requires improvement.

Area V: Governance and state reforms

Establishing a civil service: Mixed progress

32. **Though the new civil service law was passed during the CAS period, progress has been slow due to high fiscal costs.** The Bank's Economic Management Technical Assistance loan laid important groundwork, including the creation of a supervisory agency, the evaluation of public sector personnel and the development of new post descriptions. In 2005, the GoN initiated the accreditation and incorporation of public servants into a permanent administrative career regime, and by the end of 2006 over 4,000 employees from 18 institutions were incorporated. Rapid turnover of public sector employees is highly problematic. However, though there were changes in staff in January 2007, changes have been on a smaller scale than experienced in previous administrations. The problem of overdependence on highly paid consultants, many in line positions including higher management and financed by the donor community, continued to be a serious problem under the Bolaños administration, but has been tackled early on by the new administration.

Improve transparency in the use of public resources and improve public expenditure planning and management: Good progress

33. **The Bank helped to enhance Nicaragua's public financial management systems and modernize the legal framework for the financial sector, which led to greater fiscal transparency.** This assistance, channeled through the Country Financial Accountability Assessment, Country Procurement Assessment Report, and the Technical Assistance Credit operation, coupled with policy support through the PRSCs, improved the operation of internal controls and external scrutiny and analysis of fiscal performance, which has improved government accountability and the efficiency and impact of public expenditure. The programming of public investment was strengthened by a presidential decree consolidating all programs into the National Public Investment System (*Sistema Nacional de Inversion Pública*, SNIP). The SIGFA system for public sector financial administration continued to be consolidated and a single treasury account was established to channel all internal public revenues. A major step forward was the enactment in 2005

of the Financial Management and Budget Regime Law (Law 550), which set strict limits on budget modifications and brought almost all donor assistance within the budgetary framework.

34. **The Bank also engaged in work with Nicaragua's civil society on a series of issues, of which the most important was support for the construction of a civil society agenda in governance.** Trust funds were obtained to support work on social auditing of public policies and basic services, especially health and education at the municipal level. Another trust fund supported the work of a "Grupo Promoter," which promoted the design of a Public Access to Information Law that was passed in the first months of the Ortega administration.

<u>Implement a program of judicial reform:</u> Mixed progress

35. The strategic goal of the CAS in this area included institutional strengthening of the judiciary and modernization of the penal code and criminal process code. Some progress was made despite perceived politicization of the judicial system. The criminal process code was updated and progress was made on the modernization of the over 100 year old penal code, though final approval by the National Assembly is pending. The Law for Judicial Careers, which when effective will professionalize the process of selecting judges at all levels of the judicial system, was passed, but its statues have yet to be elaborated, although preliminary steps have been taken to prepare for implementation of the new law. This is a major concern of the Budget Support Group. Other advances seen over the CAS period include the implementation of a program of judicial facilitators in rural areas (43 percent of rural areas now have this alternative system). 72 municipalities now also have the capacity to offer complete judicial coverage; in other words, they have a judge, a district attorney and a public defender. Finally, over five special youth courts were established in response to the demands of the Children's Legal Code.

<u>Institutionalize the PRSP process:</u> Good progress

36. During the CAS period, the PRSP I and its successor, the NDP, remained the central instruments for the policy planning process, reinforced by the role of the Bank's budget support operations. Three progress reports were prepared. Poverty spending definitions were strengthened and targets were met under the PRGF program. The National System of Development Indicators (SINASID) was established and several PSIA studies were carried out. The existence of a satisfactory national poverty reduction strategy document has been and will continue to be necessary condition and will serve not only as a framework for national development efforts but also for donor coordination, especially budget support. The efforts, however, to design a national strategy with political consensus from most sectors of Nicaraguan society has been painfully slow. It is encouraging to note that the new administration has decided not to do a new National Development Plan; rather, it is producing a shorter term document within the longer term framework of the NDP to better reflect administration priorities for the next five years. The challenge will be to find national consensus. Another challenge on a technical level is the need to support the strengthening of planning capabilities at national and sector

levels and to provide a basis for more effective donor coordination to meet NDP goals. Support for the timely generation of data for tracking NDP outcomes and goals and the continued improvement of the tracking system, SINASID, are also required.

Cross Cutting Themes

Environment and ecological vulnerability: Good progress

37. **New legislation on biodiversity, water resources, fisheries, and forestry was approved and implemented.** The forest law marks a major shift in the legislative framework of the sector, reforming institutional roles and setting up appropriate incentives (e.g., giving ownership of trees to the owners of land and offering fiscal incentives to forestation and reforestation) and regulations (through a system of regents supervised by the forest institute, INAFOR). The major achievements of the GEF-financed Atlantic Biological Corridor (ABC) project were its legislative, institutional, capacity building, and cultural innovations, which created an enabling base to ensure the conservation and sustainable use of biological resources in this area. The recently initiated "Corazon" project is a follow-up to the ABC, given that, as pointed out by the OED ICR review of ABC, the establishment of a biodiversity conservation program requires a long-term program approach.

38. **The Bank successfully supported risk management and emergency preparedness through the expansion of the National Plan for Risk Management.** The Natural Disasters Vulnerability project experienced significant delays in project implementation in its first years, but a change in top management was the key to achieving principal project outcomes, especially in the areas of risk prevention programs on a municipal level with Civil Defense, and the completion of important mitigation projects again at the municipal level, implemented in coordination with FISE.

Social Equity: Good progress

39. **Bank work in gender and in other social equity areas increased over the last five years.** The Bank has continued efforts to promote the economic empowerment of women not only though coordination with the donor community's active Gender Group, but also through specific operations, including the Social Investment Fund (FISE), the Agricultural Technology project (PTAII), and the Land Administration project (PRODEP). Each of these projects incorporated gender aspects in its design and addressed gender issues during its implementation to achieve fairness and equity, particularly in the processes of land titling and registration. For example, in the majority of cases, titling is now done under the names of both the man and his spouse. Some advances have been made in improving coverage and quality of health services for women at childbearing age, including through *Casas Maternas*, a component of the Bank's Health Sector Reform Project that was selected as a regional best practice by the LAC gender department because of its effect in reducing maternal mortality. An evaluation of this component is underway.

40. **Nevertheless, social, cultural and legal factors hinder Nicaraguan women in achieving their economic development potential by limiting their access to, *inter alia*, assistance, opportunities, markets, land, and financial and technical resources.** However, more women than men participate in microfinance borrowing. In urban and rural areas respectively, women represent 55 percent and 52 percent of micro-credit clients, but they receive a smaller percentage of overall funds: available funds are "micro" with respect to their economic potential. With respect to land titling, there is still little legal recognition of common-law unions, which has presented problems when jointly registering titles. Women remain in a vicious circle of indebtedness, low productivity, low revenues, and little capacity for productive reinvestment, thus facing inequality in rights, resources and overall voice in the economy and in society.

41. **These issues have been and continue to be addressed by the Bank during the present CAS formulation.** A series of gender focused studies, funded by different trust funds as well as the regular Bank budget, are being prepared in coordination with IDB to better inform the implementation of current and future operations. DFID funding facilitated the contracting of a gender specialist to participate in the CAS process, and specific workshops have been held to review the results of gender mainstreaming efforts in Bank operations, as well as to inform INIM, donors and other groups about the Bank's new Gender Action Plan, which focuses on women's economic empowerment. Study results and trust funds will be used to design and fund four different pilot-level projects that combine conditional cash transfers with the work of gender focused microfinance organizations. A rigorous impact evaluation will monitor economic and social results.

Decentralization: Good progress

42. Good advances were made in municipal strengthening, supported by INIFOM and FISE, which began to coordinate their efforts. The Rural Municipal Development project sought to build the capacity of rural municipalities in delivery of municipal services, sustainable management of natural resources, and promotion of local economic development. Municipal revenue generation averaged 22.4 percent in 2003-4. Decentralized local mechanisms at the territorial level are being used to resolve environmental conflicts, replacing a rigid centralized scheme of conflict resolution. Decentralized citizen participation organizations, the Departmental Development Committees, have the responsibility to develop municipal investment plans, and, as of 2006, 32 percent of public investments registered in the SNIP come from this source. FISE supported the execution of over 2,600 small scale projects benefiting over 3.7 million people in all 153 municipalities of the country. The number of municipalities actually managing their own project cycle increased from nine (baseline) to 109 at the end of the project – about twice the expected target.

43. The previous administration, at the end of its mandate, also finalized a National Policy and Strategy for Decentralization that is now being revised by the new administration. The National Assembly approved a law that gradually increases transfers to municipal governments from 6 percent in 2005 to 10 percent in 2010. The increased transfers, however, have not been linked to a corresponding transfer of responsibilities for

service provision, creating a problem of un-mandated funding (the inverse of the classic fiscal problem of the unfunded mandate). Strengthening municipal governments will be a key theme for Nicaragua's development for the foreseeable future. But the sustainability of increased fiscal transfers to municipalities requires that service provision mandates be transferred too. The process should also take account of differences in local government capacity, and avoid undermining key sector goals by disturbing working institutional arrangements in health and education.

SECTION B: BANK PROGRAM NICARAGUA FY 2003-2007

44. **This section details the support given by the Bank Group to the advances achieved during the CAS period.** It starts with a description of the programmed and actual IDA lending commitments and the role of other instruments – such as AAA activities, and products by the WBI, IFC and MIGA activities – that were envisioned under the CAS framework. It then discusses whether the choice of instruments was appropriate and considers their fit with the overall goals laid out in the CAS Matrix, taking account of the activities of other donors, borrower performance, and exogenous shocks.

IDA Lending

45. **Table 4 (next page) details the planned and realized program of IDA lending commitments over FY03-07**. **The lending commitments approved during this period totaled $US 274.5 million.** All operations programmed in the two strategy documents were prepared and approved by the Board, with the exception of the Health APL 3, which was programmed for FY07 but postponed to the next CAS period per request of President Bolaños (to increase the amount available for Transport IV). The IDA resource envelope for FY03-05 was initially set at $120.5 million for the Base Case with an additional $39 million in the High Case. An additional $45 million was made available under the IDA amplification in early 2004, which was added to the Base Case, resulting in increases for the PRSC I operation ($35 million - which was divided into two tranches) and in the allotments for Basic Education III and the Public Sector TAC. There were, however, some important delays: Rural electrification was moved to FY04, and the rural microfinance, basic education and health projects were not approved until FY05.

46. Of the total allocated for FY 03-07, 48.6 percent was to programmatic lending, including support to the TA credit, consistent with the priority that both strategies gave to policy lending, provided through PSAC I and PRSC I and II. The 2002 CAS also proposed small investment operations to test innovative approaches to poverty reduction for possible expansion in the future, in rural microfinance, rural electrification, competitiveness, basic education and health and nutrition. The most recent project of the CAS period in review, Competitiveness II for $17 million, was approved by the Board in August of 2006, but still has not been signed by the new administration.

Table 4 - Nicaragua 2003 CAS - Programmed and Approved Commitments

	Programmed/1		Approved	
	Year	Original $mn	Year	$mn
CAS/ISN FY 2003-2007				
PSAC 1	FY 03	15.0	FY 03	15.0
Rural Financial Services (Broad Based Access to F.S)	FY 03	7.0	FY 04	7.0
Rural Electrification (PERZA)	FY 03	12.0	FY 03	12.0
PRSC 1	FY 04	35.0	FY 04	70.0
Competitiveness II	FY 04	8.0	FY 07	17.00
Basic Education III	FY 04	11.0	FY 05	15.00
Public Sector TAC	FY 04	17.5	FY 04	23.5
Health APL 2	FY 04	15.0	FY 05	11.0
PRSC 2	FY 05	25.0	FY 07	25.0
Agricultural Technology APL II	FY 05	7.0	FY 05	12.0
Rural Telecom Development	FY 05	7.0	FY 06	7.0
Transport IV	FY 06	47.0	FY 06	60.0
Grand Total		**206.5**		**274.50**

Note: 1/ The availability of extra IDA funds permitted an additional allocation of $45 mn for the Base Case in 2004 2/ Name later changed to Broad-based access to financial services.

IDA non lending services: trust funds

47. **The Bank's portfolio during the CAS period also included Trust Funds and Regional Projects.** At least 15 trust funds were active during the CAS period and represented approximately $45 million, supporting every sector to which the Bank offered assistance. Trust funds included: Education-For-All Fast Track Initiative (EFA/FTI), PHRD grants, one JSDF, two GEF grants, as well as other small grants supporting the work of civil society. In addition, Nicaragua was beneficiary of several regional projects of which the largest is the Central America HIV/AIDS project.

IDA non lending services: analytical work

48. **As would be expected in a CAS which places a high importance on programmatic lending, the non lending services for both planning periods included an ample program of studies to inform the policy process.** Cross-sector AAA work planned for the CAS period included two Public Expenditure Reviews; Joint Staff Assessments of the PRSP and PRSP Progress Reports; a Poverty Assessment and Update; a Country Economic Memorandum; PSIA studies of PRSP impacts; and an Institutional and Governance Review. Planned sector-level studies included CFAA and CPAR studies; work on agricultural growth, rural competitiveness, and land policy; studies of youth at risk and informal safety nets; an ex-post evaluation of the FISE; an education sector policy note; studies of off-grid electricity and renewable energy; an FSAP study of the financial sector; an investment climate assessment; and an infrastructure assessment. Other sector-level studies included Support for the Administration of Justice in

Nicaragua, a Decentralization Policy Note, several gender studies, and several other policy notes now being used in policy dialogue with the new government (Annex C.6 provides a list of non-lending analytical services delivered during the last five fiscal years).

49. **Many studies made important contributions to policy dialogue.** Particularly noteworthy were the activities in support of HIPC completion point. The relevance and quality of AAA work during the CAS period was generally high. However, the quality and impact tended to be higher in the cross sector studies, such as the Public Expenditure Review, and in the standard Bank products at sector level, such as the CFAA. Dissemination of studies remains an issue. In respect to the PSIAs, it has been argued by civil society that greater efforts are needed to not only improve dissemination of final products in Spanish, but also share drafts in order to stimulate debate. During preparation of the FY08-12 CAS, the Bank team with SETEC organized a series of thematic workshops at which some of the analytic studies were disseminated and informal policy notes requested by the government were discussed.

50. **More information has been made available and disseminated through the Development Information Center (CID).** The center, which opened in October 2003, was an initiative of the World Bank and other donors including the UN, DFID, CIDA, IDB, and Nicaragua's Central Bank. In October 2006, another CID was inaugurated in the city of Matagalpa. The CID maintains a useful virtual library containing donor studies and evaluations. Similarly, through hosting various events, the Global Development Learning Network has also played an important role in knowledge sharing over the past several years.

IFC and MIGA support during the CAS period

51. IFC's approach outlined in the December 2002 joint CAS was updated by the July 2005 joint ISN. IFC sought both regional projects and country-specific support opportunities for Nicaragua, focusing on: increased access to finance, particularly for MSMEs; competitive companies in agriculture, industry and service; south-south investments; and helping to improve infrastructure. IFC's work during the ISN period centered primarily on supporting underserved segments, including the MSME sector, small-scale farmers, and lower-income population. First, IFC has made considerable progress in engaging with municipalities in simplifying business regulations to help improve the investment climate in Nicaragua. With a focus on those regulations blocking MSME growth, IFC has been working in Leon, Masaya, Managua, Granada, Chinandega, Rivas, Matagalpa, and San Juan del Sur. For example, as a result of reform in Leon, the requirements to open a business were cut from nine steps to three (for simple firms that do not need inspections) while the required time was reduced from eighteen days to two days. Ten municipalities were included in the Municipal Scorecard 2007, a benchmarking tool that provides comparative information on the quality and efficiency of municipal-level private sector regulation, to strengthen social accountability. Second, IFC has been assisting with improving the legal framework for leasing, often the only feasible avenue for many MSMEs to finance their equipment purchases. The bill, which has the support of all political parties, is in the process of being submitted to the National

Assembly. Once the law is submitted, institution-building support is planned for banks and leasing companies, tax authorities and judges to ensure the success of the reform. Institution-building support will be complemented by a public education campaign, to highlight the benefits of leasing as a financial instrument for MSMEs.

52. Third, IFC's US$5 million investment in a leading microfinance institution, committed in FY07, is helping to expand available credit for micro-entrepreneurs. The financing is complemented by a technical assistance project, which is aimed at strengthening the microfinance institution's institutional capacity to manage rapid growth. In addition, IFC has recently approved a US$20 million investment and technical assistance package to support a local bank to provide finance to MSMEs and homeowners in the lower-income population. Fourth, IFC invested in three firms that would help increase opportunities for local producers and vendors, linking companies' Corporate Social Responsibility initiatives to core business operations: (i) a leading sugar exporter, for which IFC provided US$36.5 million financing (including US$11.5 million for syndications) for its upgrading and expansion, is also being considered for IFC's advisory support to promote MSME supply chain linkages between the sugar mill and surrounding communities; (ii) IFC provided US$25 million in a regional project for an international agricultural commodities company to establish a capital lending program to improve the production practices of small-holder coffee suppliers in Central America; to date, IFC has helped Nicaraguan coffee producers obtain about US$5 million for thirteen investment projects related to meeting certification standards. This project was complemented by another IFC advisory project that is helping 1,500 coffee farmers in Nicaragua to achieve certification, sell to large multinational buyers and significantly increase their income; and (iii) with a US$35 million regional investment (including US$10 million for the retail sector in Nicaragua), IFC is supporting an established group with multi-sector operations in Central America in providing training to foster their MSME tenants, and the training is planned for its tenants in Nicaragua. In addition to the above regional project, IFC provided on a regional scale a total of US$50 million to the leading automotive and agribusiness finance companies to promote their lending to SMEs.

53. IFC's engagement in Nicaragua has increased considerably during the last few years and the outlook for further expansion looks promising. During the ISN period (FY06-07), IFC's overall investment support for Nicaragua totaled US$51.5 million, including US$11.5 million mobilized from an international bank via syndications (excluding regional projects that benefit Nicaragua). IFC's portfolio (on the committed basis) has grown from US$6.3 million as of end FY03 to US$52.6 million (including US$11.5 million for Participants' account) at the end of FY07. In addition, IFC's advisory services stand at about US$5 million to date, and those linked to its investments have increased to around 50 percent, which is high compared to other countries in the region. The co-location of IFC's advisory services staff in the Bank's Country Office in Managua provides an ideal arrangement to leverage Bank-IFC synergies in the next CPS period.

Table 5. International Finance Corporation - Nicaragua

Investment Commitments 2003 - 2007 (US$ millions)

Fiscal Year	Project	Amount (IFC's own account)	Amount (Participants' account)	Amount (Total)
2004	Confia	5.00	0.00	5.00
2006	Multiplaza ISCH	10.00	0.00	10.00
2007	FINDESA	5.00	0.00	5.00
2007	Nicaragua Sugar	25.00	11.50	36.50
Total Commitments		**45.00**	**11.50**	**56.50**

Technical Assistance Commitmenets 2003 - 2007 (US$ millions)

Fiscal Year	Project	Amount
2005	Simplificación de Procedimientos Municipales	0.15
2007	Municipal Scorecard for Latin America and Caribbean Region	0.19
2006	Nicaragua National Plan	0.43
2005	Supply Chain In Nicaragua Fase I	0.16
2006	Supply Chain In Nicaragua Fase II	1.40
2007	Strengthening wood SMEs manufacturing linked to international MKTs	0.03
2007	Strengthening the Value Chain for Sustainable Coffee in CA	1.50
2006	Leasing Law	0.10
2006	Findesa	0.52
Total Commitments		**4.48**

54. **In cooperation with the IDA-funded Competitiveness LIL, MIGA** supported the development of the export promotion agency *ProNicaragua*, which is considered a model for the region and has played a direct role in attracting $150 million in new investment and approximately 12,000 new jobs during the CAS period. MIGA has a strong presence in Nicaragua, which is one of its top 20 host countries. Among the guarantees presently in place are those for a large geothermal energy plant and for a national electricity distribution concession. As mentioned earlier, the sector is an increasing concern, and in order for it to improve requires outside investors and higher levels of investor confidence. MIGA also supported an agricultural equipment leasing company.

Table 6. Multilateral Investment Guarantee Agency (MIGA) Program FY03-07

Compromisos Pendientes (Compromisos Brutos, millones US$) **Fiscal Year**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Distribución Sectorial						
Finanzas	0	1.4	1.4	1.4	3.4	3.4
Infraestructura	161.9	122.3	112.9	105.9	102	102
	161.9	123.7	114.4	107.3	105.4	105.4
Perfil de Riesgo						
Inconvertibilidad y Restricción de Transf	143.8	105.5	96.2	89.1	87.2	87.2
Expropiación	161.9	122.3	112.9	107.3	105.4	105.4
Guerra y Disturbios Civiles	161.9	122.3	112.9	107.3	105.4	105.4
Incumplimiento de Contrato	98.6	90.8	90.1	86.9	86.9	86.9
Compromisos Brutos	161.9	123.7	114.4	107.3	105.4	105.4
% de Compromisos Brutos	*3.1%*	*2.4%*	*2.2%*	*2.1%*	*1.9%*	*2.0%*
Compromisos Netos	81	62.3	57.7	54.2	53.9	53.9
% Compromisos Netos	*2.5%*	*1.9%*	*1.8%*	54.2	*1.6%*	*1.6%*

Appropriateness of chosen outcomes to support Nicaragua's strategic goals

55. **As noted in the introduction to this report, the large emphasis placed on budget support operations in the CAS period under review means that the most important CAS outcomes were directly related to the national strategic goals, as discussed in Section A.** The budget support operations supported a broad range of policy actions which were fully consistent with the CAS Matrix and whose implementation would likely contribute in important ways to the medium term goals of the PRSP/NDP. In addition, the CAS supported innovative pilot lending operations in key areas linked to PRSP/NDP goals, such as rural public services (i.e., education, health and nutrition) and infrastructure access (i.e., telecom, electricity and water and sanitation), where the use of publicly mandated investment funds will play an important role for the foreseeable future. Short-term results in these sectors, however, have been mixed. Innovative operations tied to policy reform and supported by both budget support and investment operations did not always have national ownership, and suffered not only from changes in government, but also ministers within the previous administration (case in point: the School Autonomy program). In these areas, the crystallization of strategies to improve the quality and effectiveness of investments should be supported by a national political consensus from both political actors and civil society.

Appropriateness of chosen instruments and triggers to support the CAS outcomes

56. **Given the overall country context, the country team judges that the lending and non-lending instruments laid out in the CAS program were broadly appropriate to supporting the CAS's planned outcomes and related development goals.** The fact that the base and excellent cases were largely implemented as planned confirms the appropriateness of the program's design to the country context.

57. **The portfolio inherited from the previous CAS included 15 ongoing investment projects with considerable amounts un-disbursed, and many projects were already delayed due to the difficulty of working in Nicaragua in the final years of the Alemán administration**. This made it sensible to avoid setting up many new investment operations. A further consideration was the difficult fiscal situation, which made it likely that investment operations would face counterpart funding constraints.[17] Also the HIPC Completion process placed a strong emphasis on the policy reform agenda rather than on the need for specific investments.

58. **These factors made it appropriate to concentrate the lending portfolio on programmatic lending, geared to supporting the PRSP and HIPC effort, limiting new investment operations to small pilot projects that explored new approaches to meeting key PRSP/NDP goals**, such as access to rural infrastructure, education and nutrition. The Bank's budget support operations, especially PRSC I and the supporting AAA work, proved decisively important in supporting Nicaragua through the HIPC Completion process, engendering one of the most dynamic periods of policy improvement seen in Nicaragua in recent years. As noted above, there was some loss of

[17] In this sense, the Bank rules on counterpart funding were biased in favor of budgetary support. This bias has now been eliminated.

momentum in 2004; nevertheless, the advances in macroeconomic and structural reforms achieved in 2002-2003 remain intact, and actually improved in the later years of the CAS period. At the same time, Bank task managers were able to concentrate on improving the performance of pre-existing investment operations, instead of preparing new loans, and portfolio performance improved correspondingly.

59. **However, inevitably, the strong emphasis on budget support policy lending also exposed the program to political uncertainties, which are the most important exogenous factor affecting the Nicaragua program.** It also made the advance of the program highly dependent on borrower performance in a country where the quality of the public administration and the lack of political consensus between the Executive and the National Assembly on implementing difficult policy reforms meant that budget support lending was likely to be very difficult. Despite the loss of momentum in 2004, the second tranche of PRSC I was disbursed in FY06 as was PRSC 2 in FY07; both testament to the ability of Nicaragua to achieve political consensus when least expected. During the design of the new CPS, the Ortega administration made it clear that future prior actions should not be related to constitutional issues (earmarked budgeting, for example) or laws that need approval by the National Assembly. Nevertheless, the initial program proposal to the IMF, which forms part of the negotiations for a new PRGF agreement with the Fund, does include a policy reform agenda.

SECTION C: MEASURING BANK PERFORMANCE

60. This section of the report looks at the quality of Bank group products and services, including linkages to results influenced by project designs, project ratings (both in-house and from QAG and OED), and the incidence of portfolio problems. It also discusses portfolio performance, looking at the disbursement ratio, the incidence of problem projects and the timeliness of deliverables. Finally, it reviews issues surrounding country dialogue and donor coordination.

61. At the beginning of the CAS period, as mentioned above, there was strong momentum in the policy reform process. At the same time, the Bank greatly strengthened its in-country presence, improving its capacity to resolve problems with project implementation and to play a leadership role in policy dialogue. The Managua Office now houses a team of nine senior professionals, including the country manager, an economist, specialists in operations/human development, public sector management (co-financed by four donors), and the private sector (seconded by DFID), as well as ESD, water and sanitation, procurement and financial management experts. These two factors came together to permit a sharp increase in disbursements of both budget support and traditional investment loans.

Disbursements

62. **Disbursement performance was generally strong over the last five years.** With an average disbursement ratio of 32.0 during FY02-07, Nicaragua has shown disbursement rates higher than those of other Central American countries (see Table 7 – Selected Indicators of Bank Portfolio Performance and Management). Initially, the major budgetary support operations, PSAC I and the first tranche of the PRSC I, disbursed quickly, and renewed momentum was achieved in several projects that had run into problems towards the end of the Alemán administration. However, in FY07, disbursements slowed due to the effects of Law 550 and a change in government.

The quality of products and services

63. The quality of the Nicaragua portfolio (see Annex C.2), as measured by OED and QAG reviews, and by in-house evaluations, is generally satisfactory. In the CAS period under review, 15 projects were subject to OED IEG/ICR review, and only one has been rated Unsatisfactory: the Pension and Financial Reform Technical Assistance Credit. One project – Transport II – was rated Highly Satisfactory, nine, Satisfactory, and four Moderately Satisfactory. A 2003 QAG Quality at Entry review of the first PBL operation under the present CAS, PSAC I, was critical of aspects of the macroeconomic strategy being supported, and rated the project Moderately Satisfactory. However, the country team strongly disagreed with the review team's judgment. The successful macroeconomic outcomes over the last two years would seem to bear out the country team's point of view on this matter. A subsequent QAG review rated PRSC I as highly satisfactory.

64. Portfolio quality has been improving over the CAS period. According to the CAS 2003-2005 Interim Completion Report, then available in-house criteria on the status of the portfolio showed all projects to be classified as either Satisfactory or Highly Satisfactory under ICR and OED reviews, except for the Pension and Financial Market (which was classified as Unsatisfactory for both) and Sustainable Forestry and NI FISE III, which were reported as Moderately Satisfactory under their OED reviews. Overall, only two projects, Land Administration and PRSC I, were judged "at risk," but five of the 16 active projects had risk flags: the Second Rural Municipal Development project and the Natural Disaster project (slow disbursement); the Telecom Reform project (M&E, financial management and counterpart funding); the Financial Services project (effectiveness delay) and the PRSC 1 operation (project management). During the ISN period, the portfolio continued to improve, but as a result of a financial management supervision mission covering the entire portfolio undertaken from March 12 to 24, 2007, several projects were downgraded in their Implementation Objectives. The current portfolio, according to ISR ratings, has no Unsatisfactory or Moderately Unsatisfactory ratings with respect to Development Objectives, but two projects, Competitiveness and Land Administration, are rated Moderately Unsatisfactory with respect to Implementation Progress; the former for effectiveness delay, and the latter attributable to the results of the FM review.

65. **According to the Financial Management team, there have been bottlenecks in the financial management side of operations in the Nicaraguan portfolio.** Compliance with financial and auditing requirements has been uneven, although the quality of audit and procurement reports, once received, is generally satisfactory. Two areas which require attention are the monitoring and registering of special accounts. Program disbursements, financial compliance and project implementation have also been adversely affected by the replacement of personnel owing to changes in the Administration and among ministers in the previous administration. Financial procurement and disbursement trainings for the government will need to be institutionalized in the next period to follow-up an initial training held in June 2007 that began to address the results of the FM review.

Table 7 - Selected indicators of Bank Portfolio Performance and Management (as of 7/10/07)

Indicator	2002	2003	2004	2005	2006	2007
Portfolio Assessment						
Number of Projects Under Implementation [a]	16	16	17	14	13	11
Average Implementation Period (years) [b]	2.4	3.2	3.4	3.5	3.0	3.2
Percent of Problem Projects by Number [a, c]	6.3	25.0	5.9	14.3	7.7	18.2
Percent of Problem Projects by Amount [a, c]	2.9	21.4	2.6	10.4	4.4	23.1
Percent of Projects at Risk by Number [a, d]	6.3	25.0	5.9	14.3	7.7	18.2
Percent of Projects at Risk by Amount [a, d]	2.9	21.4	2.6	10.4	4.4	23.1
Disbursement Ratio (%) [e]	23.8	26.8	43.3	41.7	37.8	19.0
Memorandum Item	**Since FY 80**		**Last Five FYs**			
Proj Eval by OED by Number	36		10			
Proj Eval by OED by Amt (US$ millions)	1,022.6		203.7			
% of OED Projects Rated U or HU by Number	8.6		10			
% of OED Projects Rated U or HU by Amt	4.5		3.8			

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

Country dialogue and aid coordination

66. **Donor coordination was considerably strengthened during the CAS period.** Nicaragua remains highly dependent on aid – nearly 30 percent of its budget comes from ODA. The Bank was the second largest donor during the FY02-07 period contributing $434 million, and continues to be recognized by other donors for its high quality analytic work, setting fiduciary and safeguard standards and for serving in a catalytic role in promoting the use of SWAps. Leadership in key policy dialogue has also been recognized, and energetic country dialogue and improved donor coordination were important facets of CAS implementation. PRSC operations placed policy dialogue at the center of the Bank’s activities. Nicaragua continued to play a leading role internationally in the movement to organize donor support around national poverty reduction programs, harmonize donor practices (e.g., on M&E frameworks, joint studies, and shared policy conditionality), and channel, as much as possible, donor assistance through budgetary support or pooled funding.

67. **The Bank has played a leading role in establishing and nurturing the Budget Support Group (BSG),** contributing $91.4 million between 2004 and 2007. Besides the World Bank, BSG members include the Netherlands, the European Union, Sweden, Switzerland, Germany, Finland, Norway and Great Britain. The largest active donor in Nicaragua, the IDB, signed up to the BSG and has recently been supportive of harmonization and alignment initiatives. In May 2005, the Bank and members of the donor community signed a Joint-Financing Arrangement (JFA), which was designed to support the government in effectively implementing policies and upgrading institutions. The JFA's Performance Assessment Matrix (PAM) facilitates the monitoring and evaluation of the Government's policy and actions**.** Nevertheless, more work is needed to streamline the PAM, and a joint commission between government and cooperation will be working on this in FY08.

68. Another noteworthy advance in donor coordination was the development of the EFA fast track initiative in the education sector, supported by the Bank and various important donors**.** A common work plan was agreed for 2004-2006 for donor support to the sector, within a results-based framework. Currently, the Bank is involved in sector wide approaches in education, health, and agriculture development. Working groups (*mesas sectoriales*) have also been established to coordinate donor assistance in most sectors, and their importance has also been noted by the new administration.

69. **The FY08-12 CPS has been prepared through a broad participatory process involving representatives of a wide range of government and non-government organizations as well as various sectors of society.** The consultations in the territories were implemented using a workshop format: presentations were made by the GoN and the WB and time was allocated for questions, comments and responses. A similar format was used for the consultations held in Managua with civil society, the private sector, active donors, and the Government; during these consultations, recently completed analytic work (the PER and the PA) was presented. Technical workshops were held on the following thematic areas: rural financial services, access to land, energy sector, transportation sector, gender, and nutrition. Each technical workshop varied in design and facilitation; however, as with all consultations, each relied on inputs from the government in creating the agenda and inviting participants.

70. **Findings from the territorial consultations include:** (i) the importance of micro and small farmers and businesses having adequate access to credit with low interest rates; (ii) the need to strengthen citizen participation and social auditing opportunities; (iii) the desire to have decentralization processes better articulated from the local level to the national level; (iv) the urgency and concern for reform of land titling processes; and (v) the value in investing in infrastructure development to facilitate the country's economic and social development. **In addition, suggestions from the work groups (civil society/private sector) included:** (i) in **social development**, attention should be focused on policies favoring the advancement of women and youth, as well as reevaluation of the role of the market in poverty reduction; (ii) concerning **governance,** government actors need to be held accountable around the tenets of legality, transparency, and legitimacy, and the law for citizen participation and access to public

information needs to be upheld; and (iii) pertaining to **economic development**, health, education and infrastructure and increasing dialogue are required to maintain economic growth.

SECTION D: LESSONS LEARNED & KEY CONSIDERATIONS FOR THE FY08-12 CAS

71. This section presents the principal conclusions and lessons learned from the CAS period, and recommendations for the new CPS. Annex C.4 provides an overview of the Bank's contributions to Nicaragua's advances under the CAS. Advances are ranked as *positive, mixed,* or *poor*. Bank contributions are ranked *very important, important* or *not important*.

72. **The lending strategy and non-lending instruments in the CAS/ISN programs were broadly appropriate and proved effective in supporting the planned outcomes.** The Bank's budget support operations and the supporting AAA work proved of decisive importance in supporting Nicaragua through the HIPC Completion process. Portfolio performance improved because Bank task managers were able to concentrate on improving the performance of pre-exiting investment operations instead of preparing new loans. However, the strong emphasis on policy based lending also exposed the program to political uncertainties, the most important exogenous factor affecting the Nicaragua program. Program advancements remained highly dependent on borrower performance, which is typically a risk in countries where the quality of the public administration remains uncertain. Nevertheless, the country's development agenda advanced during the last five years and laid the basis for even more advancement in the next five years. Better harmonization of aid and less dispersion of projects, expanded economic relationships with new partners, the reactivation of rural production, SME development to create jobs, and more efficient and targeted social programs will be important elements in Nicaragua's evolving poverty reduction strategy.

73. Budget support to promote further and deeper institutional reforms will continue to be crucial and the new government has signaled its desire for continued budget support from the Bank in the new CPS period. National ownership of those reforms is a necessary condition as it has been evident throughout the period under review that **institutional reforms can only be successful with political consensus and unwavering government commitment, at all levels, for a sustained period of time.** Operations must have buy-in not only from high level Ministry officials but also from mid-level management: i.e., the people who will be implementing on the ground. In addition, project design should better reflect existing institutional capacity within government and include capacity strengthening components, instead of relying on quick fixes such as PIUs.

74. **The Bank should continue to provide a series of budget support operations within the BSG framework to constructively engage the government on key policy reforms.** The new administration has stated that they will not accept reforms with prior conditions of new laws. In addition, the Bank should undertake up to five or six new investment operations in areas where the Bank has comparative advantages, together with

a well coordinated package of AAA services. The government has confirmed its interest in new investment credits in water and sanitation, roads, land administration, and public sector management.

75. **Over the last five years the Bank has greatly strengthened its in-country presence.** It has improved its capacity to resolve problems in project implementation and has strengthened its leadership role in policy dialogue. Cross-sectoral team coordination efforts have been successful. Future coordination should entail initiatives directed towards Nicaragua's Atlantic Coast, a region of extreme poverty but high economic potential.

76. **The Bank should, in coordination with other donors, continue to support the strengthening of Nicaragua's national statistical agency**, newly renamed INIDE, and its systems for Monitoring and Evaluation, as well as administrative systems of key line ministries. Problems with **the 2005 Census demonstrated that there is need for the GON to increase its capacity to monitor and evaluate and to produce reliable statistics.** Under the new CPS, the Bank should also support the more frequent production of poverty data and should ensure that the M&E systems for programmatic operations and for investment loans will generate data on poverty-related programs and project outcomes in a timely fashion. In addition, more work is required on the part of the Bank team to improve and adopt a results based focus for M&E. This was seen in the development of the CAS/ISN matrices and the lack of distinction between: (a) national development goals; (b) expected country actions and outcomes in pursuit of those goals; and (c) the expected outcomes of Bank projects in support of those goals.

77. **As in many countries, national development efforts and donor coordination are undermined by weaknesses of national leadership in development planning, as evidenced by the long delays in the production of the 2005 version of the National Development Plan.** Efforts to improve the investment planning process (through the SNIP) and to develop SWAp strategies are steps in the right direction, but Nicaragua will need ongoing support to strengthen its planning capabilities at sector and national levels to establish a strong framework for the effective orientation of donor assistance.

78. **The Ortega administration faces many opportunities as well as many challenges.** The new Administration has indicated that they would like the Bank to concentrate on sectors vital to meeting anti-poverty goals, including those of infrastructure (i.e., roads, water) and education. The GoN has also articulated that it would like Bank assistance to improve institutional models for better service delivery and sustainability. This coincides well with the Bank's focus, which reflects a process started during the last five years but needs deepening in order to concentrate significant resources on priority areas which will have a greater impact on poverty reduction.

79. The Bank should strengthen dialogue and reform through effective implementation of the ongoing portfolio ($141 million, 11 active projects). The Bank should undertake four or five new investment operations where it has comparative

advantages, and should determine areas for phased disengagement and/or exit strategies in sectors where donors are willing and capable to take leadership.

Annex C.1 Strategic Goals and Outcomes supported by the CAS/ISN		
CAS/ISN Goal	**Status at Completion/Advances**	**Issues/Lessons Learned**
OVERALL DEVELOPMENT GOAL: Reduce extreme poverty from 15.1% in 2001 to 13.7% in 2005 (MDG 9.7% (2015)	Mixed progress. The LSMS reports extreme poverty at 15.1% (2001) and at 14.9% (2005).	While poverty spending increased, this has not translated into significant poverty reduction gains: CAS goals were not met. For poverty spending to translate into greater gains in poverty reduction, more broad based economic growth is needed.
Increase poverty reduction expenditures as a percentage of GDP	Good progress. Poverty spending goals were met, increasing from 9.6% of GDP (2002) to 13.6% (2006). The PRSP served as a central instrument in policy planning. SINASID indicator system designed and implemented.	NDP process lengthy. Crucial momentum lost after HIPC completion. SINASID and tracking of NDP needs to be strengthened. There needs to be a more frequent production of key poverty indicators.
Area I. Macroeconomic Stability		
Reduce fiscal deficit to sustainable level and restore growth	Good progress. GDP growth averaged around 3.2% per annum from 2002 to 2006, or 1.3% in per capita terms. PRGF was successfully completed in December, 2006. Fiscal deficit (overall public sector deficit before grants) fell sharply, from 11.8% of GDP in 2001 to 4.19 % in 2006.	Nicaragua's macro economy remains very susceptible to external shocks and to the negative consequences of poor policy choices. Fiscal fragility remains a key issue; key risks include: non-neutralization of fiscal decentralization, the funding of civil service reform implementation and the INSS reform of the pensions system
Bring the public debt load to a sustainable level	Good progress. When all ongoing debt relief initiatives have been implemented (HIPC, MDRI, commercial debt buy back), Nicaragua external debt, in net present value terms (NPV) is expected to decline to about 35% of GDP by end 2007. Domestic debt (NPV) is currently estimated at 19% of GDP, which means a total combined public debt of approximately 54% of GDP, compared to 200% in 2001.	Analysis shows that the present level of debt is sustainable on reasonable assumptions about future economic growth and fiscal effort.
Financial system and capital markets strengthened	Good progress. Following the $450 mn bail-out of depositors in the 2001 crisis that bankrupted four banks, regulation has been greatly improved through supervised audits and the system has been consolidated at acceptable liquidity ratios. The remaining banks are stable and profitable and monetary deepening is underway.	State's actions to resolve crisis criticized by public in regards to transparency of disposition of assets. High interest rates are a disincentive for firms to expand and modernize. The next challenge is to reduce the cost of intermediation – which averages 11% - in order to provide funds on a more competitive basis to local businesses.
Complete social security reform and reform the capital markets and insurance laws	Poor progress. The Social Security law was reformed as proposed in Ley 340 (December 2003) to establish a private capitalization fund model but none of the goals for implementation of the reform was met. In 2004, with the tacit agreement of the IMF and the Bank, implementation was abandoned due to unexpectedly high fiscal costs of the transition. In early 2005 the focus shifted to containing the fiscal costs of the pension deficit and discussions were underway on parametric reforms	A future reform agenda is needed, which will require a significant adjustment in the balance between employees' contributions and retirees' rights and should avoid regressive subsidies and support increased coverage of the pensions system.

Annex C.1 Strategic Goals and Outcomes supported by the CAS/ISN		
CAS/ISN Goal	**Status at Completion/Advances**	**Issues/Lessons Learned**
	to the "pay as you go" system. The capital markets law was not passed.	
	Area II. Economic Growth for Poverty Reduction	
Supportive environment for investment and growth	Good progress. Investment agency- *ProNicaragua* - and export agency – *Nicaexport* - established. Days to register a business down from 71 to 36 and steps halved (from 2003 to 2006).	Future economic growth depends on continued advancement of legal and investment reforms. New government needs to articulate its private sector strategy.
Promote faster growth through cluster development	Good progress. Cluster organizations were promoted in milk, coffee, maquila and tourism. Maquila employment grew from 37,000 to 67,000 between 2000 and 2005.	To keep the tradable sectors competitive, exchange rate policy avoids real appreciation despite strong inflows of foreign currency from remittances. The implementation of business climate reforms and improved road infrastructure will also be key factors here. For the future, value chains may produce greater productivity gains than a simple cluster approach.
Modernize the commercial code	Mixed progress. The Commercial Code was not reformed but steps were taken to improve the investment climate including the establishment of investment and export promotion agencies. The law prepared to modernize the mercantile register is still pending. A competition law was passed and a reform plan for the training agency, INATEC, was prepared.	The reform for INATEC needs to be reviewed by new administration with the private sector. Commercial code remains top priority for private sector and MIFIC.
Modernize the cadastre and land registry system, regularize titling and demarcate indigenous lands.	Good progress. Cadastre law passed but Registry law still pending. Advances in SIICAR. Demarcation and titling of four indigenous territories under the new Administration.	The complete reform of the property registry system is a high priority for the new administration.
Improve rural financial services	Good progress. Access to credit for SMEs, both rural and urban, continues to be a major obstacle for development in Nicaragua and is a top development priority for the new administration. A policy note on the subject was prepared for the new administration and presented in a workshop to discuss sustainable financing alternatives for this sector.	There is a need to strengthen the capacity of the regulator, SIBOIF, to regulate this diverse sector. The Bank's Broad-based access to Financial Services project is addressing this issue.
Increase productivity of agriculture and forestry	Good progress. Strengthened institutional capacity of MAGFOR, INTA and FUNICA. Between 2002 and 2003 productivity of corn increased by 37% and of beans by 63%. In coordination with several donors, the Bank was instrumental in promoting the formation of PRORURAL, a sector-wide initiative for rural development.	Rural infrastructure reforms are crucial for future gains in productivity. A limiting factor remains access for small and medium farmers to credit.

Annex C.1 Strategic Goals and Outcomes supported by the CAS/ISN

CAS/ISN Goal	Status at Completion/Advances	Issues/Lessons Learned
Area III. Human Capital Development and Social Protection		
Increase the coverage and quality of primary education	Mixed progress. Primary coverage goals met, literacy rates improved, completion rates remain low, and repetition rates remain high. National standardized tests administered (third and six grades). Autonomous program expanded (though suspended).	Quality of education indicators remains poor and M&E systems need to be improved. Analysis of recently administered tests is pending. Poverty Assessment confirms need for more and better secondary education in order to reduce poverty.
Increase coverage and quality of heath services for women, children and adolescents and foster preventative approaches to malnutrition	Mixed progress. Advances in maternal mortality, as well as some improvements in infant and child mortality. Coverage of immunizations declined since 2002 and chronic malnutrition decreased only slightly. Health sector reform was successfully advanced with increased hospital and health district autonomy.	Increased hospital and district autonomy needs to translate into advances in health outcomes for the poor. The challenge is to turn the institutional changes achieved in the last few years into changes on the ground in health outcomes for the poor. There is need for more frequent data on the key issue of nutrition.
Expand rural water and sanitation coverage	Good progress. National water and sanitation plan elaborated where FISE is responsible for rural areas and ENACAL for urban areas. National Coverage improved slightly, stagnant in rural areas. Sanitation coverage increased.	A stronger emphasis needs to be placed on coverage in rural areas, particularly in the Atlantic Coast, and Central and Northern regions.
Reduce vulnerability for the extreme poor and strengthen social protection	Mixed progress. FISE constructed or rehabilitated 2,047 schools and 311 health centers in rural areas. Social protection strategy, *Solidaridad*, was designed but never implemented. Advances made in disaster/ risk management through SINAPRED project.	Bank staff is advising Ministry of the Family on their social protection work as GoN prepares its *Cero Hambre* program. There are many active donors in this sector, coordination needs to improve.
Area IV. Public Productive and Social Public Infrastructure		
Develop rural productive infrastructure: Energy	Mixed progress. Privatization did not bring about desired results. Contentious relationship between UF and GoN. Unreliable supply of energy due to generation constraints. High dependency on thermal generation.	Investment needs to be attracted through building confidence measures and legal clarity. Rural electrification needs more attention.
Develop rural productive infrastructure: Telecommunications	Good progress. Privatization results in better quality and coverage. Seven-fold increase in mobile and fixed line coverage as well as half a million rural inhabitants benefited from installed public telephones.	Dramatic disparities still exist between rural and urban regions. More access in rural needs to be achieve through greater private investment.
Develop rural productive infrastructure: Transportation	Good progress. Rural road paving targets met through *adoquine* method, important trade routes paved, and road maintenance model established with 33 micro enterprises. Also major roads constructed and employment provided.	Sufficient finance for road maintenance is important. Concessions for high volume roads should be considered. But, Nicaragua's roads remain the poorest in the region.

Annex C.1 Strategic Goals and Outcomes supported by the CAS/ISN

CAS/ISN Goal	Status at Completion/Advances	Issues/Lessons Learned
Area V. Governance and State Reform		
Approve and implement the Civil Service reform law	Mixed progress. Though the new civil service law was passed during the CAS period, progress has been slow due to high fiscal costs. In 2005, the GoN initiated the accreditation and incorporation of public servants into a permanent administrative career regime and by the end of 2006 over 4,000 employees from 18 institutions were incorporated.	The fiscal costs of the implementation of civil service reform had been underestimated and implementation of the reform should proceed cautiously to ensure maximum quality gains and limit the fiscal impact.
Improve transparency in the use of public resources and public expenditure planning and management	Good progress. Good advances were made with the SIGFA, SNIP and single treasury account reforms. But tensions remain between SECEP and MHCP regarding the investment planning process. Donor coordination was improved with the establishment of *mesas sectorales* and the development of SWAp initiatives in several sectors (notably education, health, agriculture). Work progressed with civil society on social auditing of public services and support for the successful passage of Public Access to Information Law.	The strengthening of planning capacity at national and sector level is a key challenge. Strong national ownership and leadership on the investment and development strategy is a sine qua non for really effective donor coordination. More work needed on improving national systems on procurement and financial management.
Implement a program of judicial reform	Mixed progress on the institutional strengthening of the judiciary and the modernization of the penal code and criminal process code. The criminal process code was updated and progress has been made on the modernization of the over 100 year old penal code; final approval by the National Assembly has not happened yet. The Law for Judicial Careers was passed but still not in effect. 43% of rural areas now have access to "judicial facilitators" and 72 municipalities now have the capacity to offer complete judicial coverage: a judge, a district attorney and a public defender. Finally, over 5 special youth courts have been established in response to the demands of the Children's Legal Code.	This is a difficult area but its importance for Nicaragua's future is critical. The European Union has assumed coordination of this work on the part of the donors who are closely following the issue of the reglamentation of the new Law for Judicial Careers.
Institutionalize the PRSP process	Good progress. The PRSP remained the central instrument for the policy planning process, reinforced by the role of the Bank's budget support operations. Three progress reports were prepared. Poverty spending definitions were strengthened and targets were met under the PRGF program. The SINASID indicator system was established and several PSIA studies were carried out. The new administration has accepted the PND but is revising priorities.	The GoN's major challenge is to construct national consensus around a revised NDP. Other challenges are the need to support the strengthening of planning capabilities at the national and sector levels to provide a basis for more effective donor coordination to meet NDP goals, and to support the timely generation of data for tracking NDP outcomes and goals and the continued improvement of the tracking system, SINASID.

Annex C.1 Strategic Goals and Outcomes supported by the CAS/ISN		
CAS/ISN Goal	**Status at Completion/Advances**	**Issues/Lessons Learned**
	Cross-cutting themes	
Reduce environmental vulnerability by passing new laws on biodiversity, fisheries, forestry and water resources, entering the market for carbon emissions, and establishing early warning systems	Good progress. **New legislation on biodiversity, water resources, fisheries, and forestry was approved and implemented.** Major achievement Atlantic Biological Corridor was its legislative, institutional, capacity building and cultural innovations, which initiated an enabling base for ensuring the conservation and sustainable use of biological resources in this area. The Bank also supported expansion of the National Plan for Risk Management. The project experienced significant delays in project implementation in the first years but a change in top management was the key to achieving principal project outcomes, especially in the areas of risk prevention programs on a municipal level, with Civil Defense and the completion of important mitigation projects again at the municipal level, implemented in coordination with FISE.	Future challenges include the implementation of the new water law and the design and implementation of a national program to protect water sheds.
Improve social equity by implementing a plan for gender equity in wages	Good progress. Notable advances have been made to integrate gender equity in various sector projects. The Social Investment Fund (FISE), the Agricultural Technology project, and the Land Administration Project (PRODEP), are some of the projects that have undertaken efforts to integrate gender issues during their implementation stages. Land titling now done in both men and women's names, though some legal barriers still exist. The *Casas Maternas* component of the Bank's Health Sector Reform Project was selected as a regional best practice by the LAC gender department for its effect in reducing mother's mortality.	Study results and trust funds will be used to design and fund four different pilot level projects which combine conditional cash transfers with the work of gender focused microfinance organizations. A rigorous impact evaluation will monitor economic and social results.
Define and implement a national decentralization strategy, strengthen municipalities and the regional governments of the Atlantic Coast, strengthen INIFOM and incorporate municipal investment programs in the SNIP	Good progress. Good advances were made with municipal strengthening, supported by INIFOM and FISE (which began to coordinate their efforts). Participatory investment plans were developed in 152 municipalities and implementation of FISE works was decentralized to 109 towns. Municipal revenue generation averaged 22.4% in 2003-4.	The strengthening of municipal government will be a key theme for Nicaraguan development for the foreseeable future. But the sustainability of increased fiscal transfers to the municipal level requires that service provision mandates be transferred too. The process should take account of differential local government capacity.

Annex C.2 OED ICR Reviews

Project Name	Doc Type	Date	P0 Number	Credit Number			
					ICR	**OED Review**	**Lessons**
Competitiveness Learning and Innovation	IEG Review	04/18/07	P070016	C3456	Satisfactory	Satisfactory	1. Initiatives taken by agencies that promotes the performance of business sectors clustered together should be focused, guided by a conceptual framework, and proactive rather than reactive. 2. Reforms in the policy and institutional environment require engagement with the legislative branch early in the process, not just at the end of the process. 3. A results-oriented M&E system is critical in a LIL.
Telecommunication Reform	IEG Review	03/28/07	P055853	C3291	Satisfactory	Satisfactory	1. A prior analysis of the cost of rural access requirements is appropriate in a telecommunications project designed for rural habitants 2. Frequent changes in managerial leadership and weak implementing agency capacity inhibit timely progress
GEF – Atlantic Biological Corridor	IEG Review	06/21/06	P041790		Satisfactory	Satisfactory	4. Decentralization, participation, communication and capacity building are typical core needs in a biodiversity program 5. Establishing a biodiversity conservation program generally requires a long-term program approach.
Agricultural Technology & Rural Technical Education Project	IEG Review	03/28/2006	P064915	C33714	Satisfactory	Satisfactory (*)	1. There is a need to think strategically about the institutional arrangements for managing competitive funds. 2. If a fund is a part of an effort that is to give specific attention to disadvantaged groups (such as indigenous population) then some special earmarking with the funds will be necessary to ensure that these groups gain access to some of the funds, given their lack of experience in preparing grant applications 3. Steps should be taken to ensure that adequate resources are provided to provide support disadvantaged groups in project preparation and review.
Pension and Financial Market Reform Technical Assistance Credit	IEG Review	03/09/06	P056087	C3344	Unsatisfactory	Unsatisfactory (*)	1. Projects on a pension reform should be based on a very careful assessment of the fiscal impact of reform proposals before any policy discussions take place. 2. It is extremely important to garner broad based popular and political support for reforms. Therefore, serious consultations should be pursued, and broad base consultations mechanisms supported with technical work, before particular proposals are supported.

Project Name	Doc Type	Date	P0 Number	Credit Number			
Ni Transport II	IEG Review	02/17/06	P053705	C3085	Highly Satisfactory	Highly Satisfactory (*)	1. Importance of sustained IDA presence. 2. Importance of borrower's donor coordination. Part of the project success is due successful donor coordination, IDA, IDB, DANIDA which leverage all financial aid to coordinate and ensure the effects of assistance. 3. Micro enterprise is a highly successful, culture-syntonic method of routine maintenance in Nicaragua.
Second Basic Education Project	IEG Review	12/21/05	P050613	C3281	Satisfactory	Satisfactory	1. Scholarships targeted to the underprivileged help to keep students in school. 2. Wider dissemination of information about the activities being implemented by a ministry can help win participation from key stakeholders and increase the impact of project actions. 3. Choosing adequate indicators can support assessing progress towards achievement of outcomes. 4. Investments on teacher training are most effective when based on clear strategies on how to improve teacher effectiveness through this vehicle.
Ni Health Sect II	IEG Review	09/15/05	P035753	C3084	Satisfactory	Satisfactory	Project interventions cannot be scattered across a wide geographical area to have meaningful impact. In this CPSe, project supported civil works and performance based management systems were concentrated in the same hospitals to optimize patient care 1. Testing alternative models of health care delivery can help identify the most innovative and cost effective approach. But if too many different approaches are being tested simultaneously, it can lead to scattered strategies, competing models, and increased supervision costs. 2. Inmediate goals of human resources development and financial management need to be linked to to the higher project objectives of delivering quality health services in an adequate manner.
Economic Management Technical Assistance	IEG Review	06/14/05	P049296	C3314	Satisfactory	Satisfactory	Dealing with a politically sensitive issue as Civil Service Reform, the Bank needs to take time to make a thorough assessment of the political ground that needs to be covered in order to achieve reform.
Sustainable Forestry	ICR Review	03/25/05	PO52080	C3160	Satisfactory	Moderately Satisfactory	1) New technology transfers that are appropriate and divisible are not necessarily expensive. (2) A project that finances subprojects with matching grants and that operates in areas with disadvantaged or special groups (or with activities in which they are significantly involved), should earmark funds for these groups.

Project Name	Doc Type	Date	P0 Number	Credit Number			
NI FISE III	ICR Review	9/12/04	P040197	C3142	Satisfactory	Moderately Satisfactory	The creation of a Preventive Maintenance Fund may only transfer the sustainability problem elsewhere rather than solve it--the sources of financing for such a fund need careful attention. 2. Allocating resources in strict adherence to a pre-agreed Poverty Map can help to ward-off political pressures and promote transparency. However, an accurate Poverty Map is critical. 3. Projects aimed at capacity enhancement and community participation should explicitly and systematically monitor and evaluate the extent to which these are achieved using both quantitative and qualitative measures.
Programmatic Structural Adjustment Credit	ICR Review	8/17/04	P074760	C3736	Satisfactory	Satisfactory	Close collaboration with the IMF is essential in programmatic adjustment operations. 2. Adequate time for extensive consultations is needed to ensure that the program is adequately owned and that conditionality reinforces ownership
* ICR Review							

Annex C.3 IDA Portfolio FY03 - 07 [/1] (in million US$)

Project ID	Credit No.	Project Name	Approval Date	Closing Date	Amount (US$) [/2]	2002	2003	2004	2005	2006	2007	Total Disbursed	Task Manager
		Investment Lending											
P040197	31420	FISE III	10-Nov-98	30-Jun-03	45.00	2.33	3.63	(0.11)				5.84	Andrea Vermehren
P052080	31600	Forestry	7-Jan-99	30-Jun-04	9.00	1.45	1.92	0.94	(0.03)			4.28	Ricardo Tarifa
P049296	33140	EMTAC	20-Jan-00	30-Jun-04	20.90	5.13	3.99	2.01	(0.03)			11.10	Alberto Leytón
P035753	30840	Health Sector II	2-Jun-98	31-Dec-04	24.00	4.61	4.04	2.59	0.08			11.32	Jesús Ma. Fernández
P050613	32810	Basic Education II	31-Aug-99	30-Apr-05	52.50	12.82	11.25	9.19	1.10			34.37	Suhas Parandekar
P053705	30850	Transport II	4-Jun-98	24-Jun-05	47.40	5.78	2.73	2.73				11.25	Emmanuel James
P056087	33440	Pension & Financial Market Reform	11-May-00	30-Jun-05	8.00	1.54	1.72	0.77	0.69			4.73	Aquiles Almansi
P064915	33710	Agricultural Technology & Rural Ed.	6-Jun-00	30-Jun-05	23.63	7.57	4.39	7.56				19.52	Norman Piccioni
P055853	32910	Telecommunication Reform	18-Nov-99	30-Jun-06	15.90	2.62	0.44	0.97	0.47			4.50	Eloy Vidal
P070016	34560	Competitiveness LIL	19-Jan-01	30-Jun-06	5.00	0.50	1.08	1.13	1.55	0.63		4.88	Michael Goldberg
P068673	34640	Transport III	15-Feb-01	30-Aug-06	75.00	14.02	33.70	18.60	14.73			81.05	Emmanuel James
P064916	34870	Natural Disasters Vulnerability Red.	3-Apr-01	29-Sep-06	13.50	0.71	1.78	1.50	4.81	2.10	1.50	12.39	Alexandra Ortiz
P064906	35040	Poverty Reduction & Local Dev. (FISE)	3-May-01	31-Dec-06	60.00	6.82	16.71	28.15	15.51	(0.84)	0.90	67.26	Benedicte de la Briere
P055823	34800	Rural Municipalities II	27-Mar-01	31-Dec-07	28.70	5.79	6.25	5.66	5.45	3.04	2.10	28.28	Mark Austin
P056018	36650	Land Administration	18-Jun-02	31-Dec-07	32.60		1.53	5.23	5.45	3.69	6.70	22.60	Frederic de Dinechin
P078891	38770	Public Sector TA	25-Mar-04	30-Jun-08	23.50			2.84	8.33	4.42	4.70	20.30	Alberto Leytón
P078990	39780	Basic Education III	2-Sep-04	30-Jun-08	15.00				1.50	3.11	2.59	7.20	Alexandria Valerio
P073246	37600	Off-grid Rural Electrification (PERZA)	15-May-03	31-Dec-08	12.00		0.91	0.21	3.02	1.07	1.30	6.50	Fernando Lecaros
P078991	40500	Health Services Ext. & Modern. (APL II)	5-Apr-05	30-Nov-09	11.00					2.26	1.84	4.10	Rafael Cortez
P087046	41270	Agricultural Technology II	29-Nov-05	31-Mar-10	12.00						3.80	3.80	Pierre Werbrouck
P077826	39030	Broad-based Access to Fin. Services	18-May-04	31-Dec-10	7.00				0.50	0.24	0.50	1.24	Michael Goldberg
P089989	41680	Rural Telecom	27-Apr-06	30-Jun-11	7.00						0.30	0.30	Eloy Vidal
P083952	41850	Roads IV	8-Jun-06	31-Dec-11	60.00						5.00	5.00	Emmanuel James
P092949	42300	Competitiveness II	24-Aug-06	31-Dec-11	17.00							0.00	Michael Goldberg
	Disbursements from closed operations					(0.02)							
	Total Investment Lending				**625.63**	**71.69**	**96.07**	**89.96**	**63.13**	**19.72**	**31.24**	**371.81**	
		Development Policy Lending											
P074760	37360	PSAC	13-Mar-03	31-Dec-03	15.00		16.23					16.23	Ulrich Lächler
P082885	38500	PRSC I	22-Jan-04	31-Dec-06	70.00			36.03		30.28		66.30	Amparo Ballivián
P089816	42430	PRSC II	07-Nov-06	30-Jun-07	25.00							25.00	Amparo Ballivián
	Total Development Policy Lending				**85.00**		**16.23**	**36.03**		**30.28**	**25.00**	**107.53**	
	Total Commitments/Disbursements 00 - 07				**710.63**	**71.69**	**112.29**	**125.99**	**63.13**	**50.00**	**56.24**	**479.34**	

[/1] As of July 25th, 2007 [/2] As signed in Credit Agreement

Sources: LoanKiosk, Business Warehouse, Client Connection.

Annex C.4 Overview of Bank Contributions		
Sector/Issue	**Country Advances**	**Bank Contribution**
OVERALL DEVELOPMENT GOAL: Reduce extreme poverty from 15.1% in 2001 to 13.7% in 2005 (MDG 9.7% (2015)	*Mixed progress.* The LSMS reports extreme poverty at 15.1% (2001) and at 14.9% (2005).	*Important.* PRSC I, Poverty red and local development, FISE, new health and nutrition project.
Increase poverty reduction expenditures as a % of GDP	*Positive.* Poverty spending goals were met, increasing from 9.6% of GDP (2002) to 13.6% (2006).	*Important.* PRSC I, AAA support.
Area I. Macroeconomic Stability and Related Structural Reforms		
Reduce fiscal deficit to sustainable level and restore growth	*Positive.* GDP growth averaged around 3.2 percent per annum from 2002 to 2006, or 1.3 percent in per capita terms. PRGF was successfully completed in December, 2006.	*Important.* PRSC I, PSTAC.
Bring the public debt load to a sustainable level	*Positive.* When all ongoing debt relief initiatives have been implemented (HIPC, MDRI, commercial debt buy back), Nicaragua external debt, in net present value terms (NPV) is expected to decline to about 35 percent of GDP by end 2007; domestic debt remains a concern.	*Important.* PSTAC, PRSC I.
Financial system and capital markets strengthened	*Positive.* Following the 2001 crisis that bankrupted four banks, regulation has been greatly improved.	*Important.* Pension and Financial Market TA, FSAP.
Complete social security reform and reform the capital markets and insurance laws	*Poor.* The Social Security law was reformed as proposed in Ley 340 (December 2003) to establish a private capitalization fund model but none of the goals for implementation of the reform was met.	*Important.* Pension and Financial market TA loan.
Area II. Economic Growth for Poverty Reduction		
Supportive environment for investment and growth	*Positive.* Investment agency – *ProNicaragua* – and export agency – *Nicaexport* – established. From 2003-2006, days to register a business fell from 71 to 36 and steps halved	*Important.* Competitiveness LIL, MIGA and IFC programs.
Promote faster growth through cluster development	*Positive.* Cluster organizations were promoted in milk, coffee, maquila and tourism. Maquila employment grew from 37,000 to 67,000 in the period 2000-2005.	*Important.* Competitiveness LIL. IADB is also supporting this sector
Modernize the commercial code	*Mixed.* The Commercial Code was not reformed but steps were taken to improve the investment climate including the establishment of investment and export promotion agencies.	*Important.* PSTAC.
Modernize the cadastre and land registry system, regularize titling and demarcate indigenous lands.	*Positive.* Cadastre law passed but Registry law still pending. Advances in SIICAR. Demarcation and titling of four indigenous territories under the Ortega Administration.	*Important.* Land Administration Project, PRSC I.
Improve rural financial services	*Positive.* During the CAS period more access to financial services has been provided to low income families and micro/small business.	*Important.* New Rural Microfinance Project. Rural electricity project PERZA also works with MFIs.
Increase productivity of agriculture and forestry	*Positive.* Strengthened institutional capacity of MAGFOR and INTA. FUNICA increased productivity: between 2002-2003, productivity of corn increased by 37% and of beans by 63%.	*Important.* Agricultural technology and rural education APL.
Area III. Development of Human Capital and Social Protection		
Increase the coverage and quality of primary education	*Mixed.* Primary coverage goals met, autonomous program expanded (though suspended) and national standardized tests administered. Quality is still a major issue and efficiency.	*Important.* Basic Education II & III, PRSC I.
Increase coverage and quality of heath services for women, children and adolescents and	*Mixed.* Advances in maternal mortality and more slowly in infant and child mortality. Malnutrition decreased slightly. Coverage of immunizations	*Important.* Health Sector II.

foster preventative approaches to malnutrition.	declined since 2002.	
Expand rural water and sanitation coverage	*Positive.* National water and sanitation plan, FISE-responsibility for rural areas, ENACAL for urban areas. National Coverage improved slightly, stagnant in rural areas. Sanitation coverage increased.	*Important.* PRSC I supported water plan.
Reduce vulnerability for the extreme poor and strengthen social protection	*Mixed.* Social protection strategy, *Solidaridad,* approved under the coordination of the Ministry of Family (MiFamilia). Advances made in disaster management through INIFOM and FISE programs. A National Social Protection policy was agreed	*Important.* PRSC I, Poverty red and local development –FISE-, new health and nutrition project.
Area IV. Public Investment for the Productive Development of Human Capital		
Develop rural productive infrastructure: Energy	*Mixed.* Privatization did not bring about desired results. Contentious relationship between UF and GoN.	*Important.* Rural Electrification.
Develop rural productive infrastructure: Telecommunications	*Positive.* Privatization results in better quality and coverage. Seven-fold increase in mobile and fixed line coverage as well as half a million rural inhabitants benefited from installed public telephones.	*Important.* Telecom Reform Project.
Develop rural productive infrastructure: Transportation	*Positive.* Rural roads paving targets met through *adoquine* method, important trade routes paved, and road maintenance model established with 33 micro enterprises.	*Important.* Roads and Maintenance II and III
Area V. Governance and State Reform		
Approve and implement the Civil Service reform law	*Mixed.* The new civil service law was passed, the independent rector agency was created, necessary posts were defined, the staff was evaluated and a plan was developed for retraining and replacing staff as appropriate. But no progress was registered with implementation, due to the high fiscal costs. The transition threatened to have an inflationary impact on remuneration.	*Important.* PSTAC, PRSC I
Improve transparency in the use of public resources and improve public expenditure planning and management.	*Positive.* Good advances were made with the SIGFA, SNIP and single treasury account reforms. But tensions remain between SECEP and MHCP regarding the investment planning process. Donor coordination was improved with the establishment of *mesas sectorales* SWAp initiatives.	*Important.* PSTAC, CFAA, CPAR, PRSC I.
Implement a program of judicial reform	*Mixed.* Little progress was registered in this area due to the politicization of the judicial system.	*Not important.*
Institutionalize the PRSP process	*Positive.* The PRSP remained the central instrument for the policy planning process, reinforced by the role of the Bank's PBL operations. Two progress reports were prepared. Poverty spending definitions were strengthened and targets were met under the PRGF program. The SINASID indicator system was finally established and several PSIA studies were carried out.	*Important.* PSAC I, PRSCI. Various AAA activities
Cross-cutting themes		
Reduce environmental vulnerability by passing new laws on biodiversity, fisheries, forestry and water resources, enter the market for carbon emissions, and establish early	*Positive.* New legislation on biodiversity, water resources, fisheries, and forestry was approved and implemented.	*Important.* Forestry loan, Natural Disaster vulnerability reduction loan

warning systems.		
Improve social equity by implementing a plan for gender equity in wages	*Positive.* Notable advances have been made to integrated gender equity in various sector projects. The Social Investment Fund (FISE), the Agricultural Technology project, and the Land Administration Project (PRODEP), are some of the projects which have undertaken efforts to integrate gender issues during the implementation stage.	*Important.* Land Administration/ PRODEP, FISE III, Agriculture Technology project.
Define and implement a national decentralization strategy, strengthening municipalities and the regional governments of the Atlantic Coast, strengthen INIFOM and incorporate municipal investment programs in the SNIP	*Positive.* Good advances were made with municipal strengthening, supported by INIFOM and FISE (which began to coordinate their efforts).	*Important.* 2nd Rural Municipalities Development / INIFOM, Poverty Reduction and local development / FISE, PRSC I, Decentralization policy note.

Annex C.5 Approved IDA Operations by Fiscal Year 2003 - 2007

Project ID	Project Name	No.	Amount (million US$)
	2003		
P073246	NI Offgrid Rural Electrification (PERZA)	1	12.0
P074760	NI PSAC	1	15.0
	2004		
P077826	NI Broad-Based Access to Finan Services	1	7.0
P078891	NI PUBLIC SECTOR TA	1	23.5
P082885	NICARAGUA PRSC I	1	70.0
	2005		
P078990	NI - EDUCATION	1	15.0
P078991	NI - (APL2)HEALTH SECTOR II	1	11.0
	2006		
P083952	NI (CRL) Roads Rehab & Maintenance IV	1	60.0
P087046	NI 2nd Agricultural Technology Project	1	12.0
P089989	NI Rural Telecom	1	7.0
P089816	PRSC II	1	25.0
	2007		
P092949	NI ENHANCED COMPETITIVENESS FOR INTERNAT	1	17.0
Overall Result		**12**	**274.5**

As of 8/8/07

Sources: Business Warehouse, Client Connections

Annex C.6 Nicaragua: Summary of ESW and AAA
FY 2003-2007 (8/8/07)

Project ID/ Report No.	Product Name	Task Manager	Status	Report Date
	NATIONAL			
25115-NI	Nicaragua: Promoting Competitiveness and Broad-Based Growth in Agriculture	Norman Piccioni	Completed	October 31, 2002
25104-NI	PRSP Progress Report and Joint Staff Assessment	Florencia Castro-Leal	Completed	November 11, 2002
25918-NI	Country Procurement Assessment Report (CPAR)	Vladimir Jadrijevic	Completed	January 16, 2003
25115-NI	Agriculture in Nicaragua -promoting competitiveness and stimulating broad-based growth	Graham,Hugh Trentham	Completed	June 30, 2003
26683-NI	Land policy and Administration	Isabel Lavandez P.	Completed	October 7, 2003
27500-NI	PRSP Progress Report and Joint Staff Assessment	Florencia Castro-Leal	Completed	December 16, 2003
26128-NI	Poverty Assessment Update	Florencia Castro-Leal	Completed	December 23, 2003
29115-NI	Development Policy Review	Ulrich Lächler	Completed	December 3, 2004
--	Decentralization Policy Note	Amparo Ballivián	Completed	December 15, 2004
--	4 PSIAs (Water, Tax Reform, Public Expenditure, Education)	Florencia Castro-Leal	Completed	--
--	Gender, time use, and models of the household		Completed	FY04
--	Financial Sector Assessment Program		Completed	FY05
--	Investment Climate Assessment		Completed	FY05
P101406	Energy Strategy Study	Fernando Lecaros	Active	June 20,2007
P094881	Public Expenditure Review (PER)	Ulrich Lächler	Active	June 29,2007
P101317	Institutional & Governance Review	Amparo Ballivián	Active	July 20,2007
P101315	Poverty Assessment Update	Florencia Castro-Leal	Active	July 27,2007
	REGIONAL			
31193-NI	Nicaragua: Drivers of Sustainable Rural Growth and Poverty Reduction in Central America	Francisco Pichón	Completed	December 31, 2004
29946	Central America: Education Strategy Paper	Emmanuella Di Gropello	Completed	November 30,2005
32288-LAC	DR-CAFTA Challenges and Opportunities for Central America	Felipe Jaramillo	Completed	December 6, 2005
31857-CA	Shocks and Social Protection: Lessons from the Central American Coffee Crisis	Andrew Mason	Completed	December 28, 2005
P082165	Key Issues in Central America Health Reforms	Christina Lao Pena	Completed	March 8,2007
	Social Safety Net Assessments from CA		Completed	FY04
P100826	6C-M&E in Invest. Climate Related Project	Susana M. Sanchez	Active	September 28,2007
P101639	Disaster Risk Management and Reduction Strategy	Tova Solo	Active	June 17,2008
P103865	TA-Improved Small-Scale Energy Supply	Fernando Lecaros	Active	May 21,2008

Annex D: Nicaragua Disaster Management Note

Devastating natural disasters have repeatedly highlighted Nicaragua's need for effective disaster management. Although over the past 30 years the national government has increasingly assumed operational and organizational responsibilities in this respect, the main focus has been disaster response and relief. Moreover, there has been little coordination and sustainability of programs due to the lack of a comprehensive disaster management system. A historical breakthrough took place with creation of a National System for Disaster Prevention, Mitigation and Response (SINAPRED) through Law No. 337 (officially published on April 7, 2000). The law's ratification has, for the first time, placed coordination of disaster management with a civilian organization, the Executive Secretariat, while also giving a major emphasis to prevention and mitigation. It was in support of SINAPRED and the Executive Secretariat’s expanded hazard and risk management mandate, and in response to the devastation brought by Hurricane Mitch, that the World Bank prepared the Disaster Vulnerability Reduction Project (DVRP) at the request of the Nicaraguan government.

How a comprehensive disaster management program supports the pillars of the previous CAS

Private sector development: Natural disasters cause losses in property, income, and investments as well as in human lives. The frequency of catastrophic natural events in Nicaragua discourages private sector investment and hampers its growth. Measures taken to reduce the adverse impact of catastrophic events such as the financing of small mitigation works contribute to a more conducive environment for private sector development.

Rural sector development and environmental protection: Like private sector development, rural development is also set back whenever natural disasters occur. Hurricane Mitch, for example, dealt a major blow to agricultural lands, severely damaging export crops, such as bananas and sugar, and affecting the production of basic grains. Besides financing planning and decision making tools such as vulnerability and risk maps and mitigation measures to protect lives and property in vulnerable communities of rural municipalities, the project financed an initiative specifically focused on rural sector development and on environmental protection. A vulnerability analysis for a major watershed established a methodology for watershed management from the point of view of disaster management and identified environmental protection measures to reduce disaster impacts.

Poverty alleviation: Poor communities are most vulnerable to natural disasters. In Nicaragua, the communities hardest hit by Hurricane Mitch directly overlap with the priority zones on the country's poverty map. It is widely recognized that vulnerability to natural disasters reinforces the "vicious circle" of poverty in Latin America. Mitigation measures can help to break the cycle and to reduce the risk of accelerated poverty in the event of natural disasters in highly vulnerable communities.

A Selected Chronology of Natural Disasters in Nicaragua

Geographic location combined with weather, temperature, pressure and geological conditions make Nicaragua one of the world's most disaster-prone countries, as documented in the World Bank's recent Hotspot study. A series of natural disasters in the twentieth century, at the rate of one major disaster every two years, severely affected Nicaragua. In the last ten years alone, disasters resulted in the deaths of over 3,300 people, displaced or otherwise adversely affected over 1.35 million people and caused nearly US$ 1.5 billion dollars in economic losses. A selected chronology of the principle disasters of the twentieth century follows:

- In 1926 Nicaragua suffered a strong earthquake, destroying 80 percent of the buildings in Le6n, and damaging 50 percent of housing stock in Managua. Likewise, in 1931, an earthquake measuring 5.9 on the Richter scale left at least 1,000 people dead and 2,000 injured. On December 23, 1972 three more major earthquakes occurred in the Managua metropolitan area, all measuring above 5.0 on the Richter scale. The earthquakes resulted in 10,000 deaths and 20,000 injuries. Managua required extensive rebuilding and replacement of critical infrastructure.

- In May 1982, Hurricane Alleta destroyed 60 percent of the country's corn crop, and disabled 90 percent of cotton production resulting in US$480 million of economic losses. In 1988, Hurricane Joan destroyed Bluefields, Rama, and Corn Island. The economic loss amounted to US$840 million.

- In 1992, the Cerro Negro volcano erupted, throwing thousands of cubic meters of volcanic sand and ash over several thousand farming fields. The ash devastated more than 500 houses and caused more than US$19 million in damages. An earthquake reaching 7.2 on the Richter scale at the bottom of the Pacific Ocean in the same year caused waves of 8 to 15 meters. The tsunamis affected approximately 250 Km of coastal inland along the Pacific coast resulting in an economic loss of US$25 million.

- September 1993 brought Tropical Storm Bret, which caused major infrastructure damage. The storm affected more than 65,000 people and incurred more than US$5 million in damages. In 1995, intense rainfall beginning on September 24 and ending on October 11 affected 1,300 people. Floods and mudslides caused US$17 million in damages, of which US$11 million corresponded to the agriculture sector.

- Hurricane Cesar's heavy rainfall in 1996 affected more that 6,000 people damaging the Inter-American highway, local roads, Leon neighborhoods and parts of the RAAN. The following year a prolonged drought resulted in substantial agricultural losses in Leon, Chinandega and Madriz. Estimated economic loss totaled US$93 million.

- Hurricane Mitch struck on October 1998 as the country began to emerge from a lingering economic depression extending back to the civil war. Hurricane Mitch caused almost 3,000 deaths and significantly affected more than 368,000 people. The hurricane also destroyed a significant portion of the national transportation infrastructure including 1,363 km of non-paved roads and 1,125 km of paved roads. Infrastructure losses, future revenue loss, and physical damage impacted all sectors of the economy. The agricultural market, particularly the coffee sector, lost 80 percent of production. The hurricane destroyed 325 education centers and 23 bridges. Electric systems and telecommunications incurred serious damages; however, authorities rapidly restored basic services. The indirect and direct economic loss amounted to US$3.8 billion. The extent of damage and the difficulty in responding more rapidly to the devastation of Hurricane Mitch influenced the government's decision in establishing the National System.

Whereas the greatest disaster of the twentieth century in terms of number of affected and economic losses was Hurricane Mitch, it is important to note that the scope of the destruction was not a result of wind, but rather rains and the ensuing flooding.

Summarized Table of Natural Disasters in Nicaragua from 1906 to 2005

Type of Event	# of Events	Killed	Injured	Total Affected	Damage US$ (000's)
Drought	4	0	0	553,000	2,000
Earthquake	9	12,686	20,534	735,894	887,000
Epidemic	9	80	0	17,584	7
Flood	10	394	10,369	327,2070	11,500
Landslides	1	29	0	5,769	0
Volcano	5	0	5,100	30,577	2,722
Wild Fires	3	0	0	16,000	80,000
Wind Storm	13	556	67,563	1,460,399	1,754,080
Total	**54**	**13,745**	**103,566**	**6,091,293**	**2,737,309**
Average per Event		**283**	**43**	**112,338**	**134,929**

Evolution of the National Disaster Management System and the role of the Nicaraguan Disaster Vulnerability Reduction Project

Following Hurricane Mitch, the Government took decisive measures to reduce Nicaragua's vulnerability to natural disasters. In the immediate aftermath of the disaster, the Government, with help from IDA, identified specific critical areas endangered in the aftermath of Hurricane Mitch, and carried out priority mitigation measures through two projects implemented by the Nicaraguan Social Emergency Fund (FISE) and the Nicaraguan Institution for Municipal Development (INIFOM).

With longer-term objectives in mind, the Nicaraguan Government decided to develop a national disaster management system. With help from UNDP and the Governments of Spain and Colombia, a task force headed by the Vice President designed a plan for a National System for Disaster Prevention, Mitigation and Response. The plan led to the passage of Law 337 of 2000, which created SINAPRED. To coordinate the System's members, the Law established the Executive Secretariat for Disaster Prevention, Mitigation and Response lodged within the Office of the Vice-Presidency and appointed an Executive Secretary. The regulatory framework required to apply and execute Law

337 was established through Decree 53/2000, which became effective on June 28, 2000. At the same time, the detailed responsibilities of all entities comprising the National System were assigned officially through Decree 98/2000 (effective since October 5, 2000).

Under the Law #337, the Secretariat is charged with:

- Making the System operational, ensuring appropriate staffing of the Secretariat and of member agencies;
- Preparing and activating a National Emergency Plan, clarifying policies, procedures and standards to be applied, and training System members in the Plan and, specifically, in their respective roles in disaster response, prevention and mitigation;
- Establishing a Disaster Management Fund to assure sustained financing for emergency response and relief;
- Establishing and maintaining a database, supported by geographical information systems (GIS), relevant to disaster management, including information on hazard and vulnerability assessments, as well as on programs, projects and actions relevant to disaster prevention, mitigation and response; and
- Establishing and coordinating working committees on sector issues and on territorial issues to support disaster prevention and mitigation through national agencies and local governments respectively.

In May 2001, the Government of Nicaragua signed an Agreement of Credit 3487-NI with the International Development Association for the execution of the Natural Disaster Vulnerability Reduction Project (NDVRP -P064916). The project, in coordination with UNDP, was designed to assist the Nicaraguan Government address the five major sector issues outlined above.

To address the need for a national mitigation strategy, the project supported the SINAPRED inter-institutional commission (which includes technical agencies such as INETER, MAGFOR, MARENA and MTI) by providing an information management system and financing key studies to define both mitigation policies and future mitigation activities.

Regarding the need to bring disaster awareness into public practice and to civil society, the project financed the development of curricula for the formal education system. It also financed a disaster awareness campaign for the general public through the media.

At the local level, the project supported emergency preparedness by ensuring the organizing, training and equipping of emergency response committees in a significant number of the at risk municipalities. In addition, the project provided mitigation help to twenty five municipalities, selected as most vulnerable to natural disasters, by carrying out technically supported risk assessments and vulnerability analyses and subsequently developing "preventative" land use plans and specific disaster mitigation programs.

Finally, the project provided financing to implement a small number of high-impact, priority mitigation measures identified in the twenty five target municipalities. In the process, the project established the capacity to review similar projects technically and environmentally.

Challenges

As a result of the activities financed by the DVRP, the Nicaraguan Government has reduced it overall vulnerability to adverse natural events and is much better prepared to deal with future events. Despite the advances realized in the institutionalization of the national disaster management system and its operationalization, certain challenges remain. They are as follows:

- In an effort to bring disaster awareness into public practice and to civil society, the project financed the development of curricula for the formal education system. The curricula have been developed and validated by the relevant Nicaraguan Ministries, but have yet to be implemented due to a number of factors.

- The application of various risk reduction instruments developed under the DVRP at the local and regional levels requires further assistance. The urban risk and vulnerability maps and the ensuing response plans need to be disseminated through formal workshops and public awareness campaigns. In addition, the areas covered by this initiative need to be expanded to ensure complete coverage of all those areas at risk in Nicaragua.

- At the moment, the Nicaraguan Institution for Territorial Studies (INETER) has successfully mapped the majority of the Pacific regions, yet lacks accurate cartographic base material for the North and South Atlantic regions. This undermines its ability to contribute to the application of the various risk reduction instruments, specifically as pertains to reducing risk in the Atlantic regions, which are extremely vulnerability to flooding.

- At the municipal and territorial levels, disaster risk management practices need to be integrated into the respective development plans so as to ensure compatibility with other development initiatives, in particular as they pertain to environmental management and housing.

Way Forward

In lieu of the need to extend the DVRP's closing date to March 2009 to complete the construction of the National Emergency Operations Center (CODE), which will house the Executive Secretariat in times of emergency and will serve as the headquarters of SINAPRED and the Nicaraguan National Civil Defense, a window exists to prepare an additional financing paper to secure the funds necessary to successfully address the identified challenges.

At the same time, the results of the Central American Probabilistic Risk Assessment will be finished by the end of 2008; therefore recommendations from this study can be further implemented by the government to address fiscal vulnerabilities to catastrophes.

Annex E: CPS Consultations

A. INTRODUCTION

1. **The FY2008-12 CPS has been prepared through a broad participatory process involving representatives of a wide range of government and non-government organizations as well as various sectors of society.** The CPS Consultations in Nicaragua were carried out over a three month span (see Box 1). This annex provides a summary of the issues raised during the consultations. The consultations in the territories were carried out using a workshop format; presentations were made by the Government and the World Bank, Nicaragua with time provided for questions, comments and responses in the first half of the day. In the afternoon participants were divided into thematic workgroups. The objective was to keep the process as simple as possible to facilitate dialogue.

> **BOX 1: THE CONSULTATION PROCESS**
>
> **Consultations in the Territories**. Matagalpa (June 12, 2007), Jinotepe (June 13), Granada (June 14), León (June18), Boaco (June 19), Estelí (June 21).
>
> **Consultations in Managua.** Civil Society and the Private Sector (June 26, 2007), Donors (June 25), Nicaraguan Government (June 27).
>
> **Technical Workshops.** Rural Financial Services (May 29-30, 2007), Access to Land Policy Note (June 22), Energy Sector Policy Note (May 21), Gender (June 20), Nutrition (May 25).

2. **The consultations held in Managua with civil society, the private sector, active donors, and the Government also included presentations by World Bank staff on recently completed analytic work including the PER and the PA.** Participants were selected in consultation with the Nicaraguan Government. In each of the consultation sessions, the Bank presented a summary of the rational and objectives of the CPS, the purpose of the consultations, a review of the previous CPS, an analysis of the current portfolio, and thoughts for the future CPS. Following the presentation opportunity was provided for discussion. Technical workshops were held on the following thematic areas; rural financial services, access to land, the energy sector, the transportation sector, gender, and nutrition. Each technical workshop varied in design and facilitation, more specific information is provided in part D of this document.

3. **Participants in the consultations were universally supportive of the consultation process.** Many participants articulated that this was one of the first times this type of consultation process had occurred. They also expressed the importance of continuing the process and of follow-up (to be discussed later in this document). Participants were provided a questionnaire on their opinions and perceptions about development in Nicaragua, poverty reduction, and the work of the World Bank. Box 3 details the results of this questionnaire. It is important to note financial support for these activities was provided by a trust fund from DFID. The following sections detail the key findings from the CPS Consultation process.

B. PARTICIPANTS' VIEWS FROM TERRITORIAL CPS CONSULTATIONS

4. **A key finding of the CPS consultations was the importance of having access to credit with low interest rates for micro and small farmers and businesses.** In regards to this topic, participants mentioned the high costs of financial services as well as the need for technical assistance. Some participants from Rivas argued that people would be less likely to migrate to other countries (Costa Rica, the USA) if they had access to credit (and thus income generation) here in their own country. In addition, in nearly all of the territories the World Bank Group was criticized for and associated with only offering loans with high interest rates via private microfinance companies.

5. **Promoting the creation of social audits was another primary concern raised during the CPS consultations.** Participants felt that the judicial order on social audits and its rights and responsibilities should be explained to civil society. What's more they articulated their belief that spaces should be provided and strengthened for citizen participation. On the topic of follow-up and evaluation, participants felt that there needs to be more investment in human capital in order to strengthen social auditing. On a local level, participants felt that cooperative projects pertaining to social audits needed to be strengthened as well more space provided for more functional open discussions (*cabildos*).

6. **A serious concern raised by participants was that decentralization needs to be better promoted in the territories.** Participants from Madriz stated that there must be plans created from the local level to the national level which take into account the needs of citizens. Importantly, institutional strengthening plans need to be made and set in place. What's more institutional coordination requires improvement and institutional policies need to be shared with citizens. Ultimately, participants in the consultations expressed the opinion that given decentralization efforts, the distribution of resources (and in turn responsibilities) need to be more equitable.

7. **Land titling was another key priority identified at the CPS consultations.** Participants highlighted the importance and urgency of this issue. They expressed their concerns about the need to have better processes in regards to land titling. They also voiced their feelings about judicial insecurity on the topic.

8. **Related to land titling improvement, CPS Consultation participants also identified infrastructure as a major area**

BOX 2: SUMMARY OF KEY FINDINGS

Access to credit with low interest rates. This issue was raised by participants in Boaco, Chontales, Estelí, Madriz, Rivas, Carazo.

Promote social audits. Participants from the following territories highlighted this issue: León, Chinandega, Rivas, Granada.

Improved decentralization. This topic was addressed in Madriz, Chinandega, Chontales, Boaco, Estelí, Rivas, Granada.

Land titling. Participants from the following expressed concern: Estelí, Carazo, Rivas.

Improved infrastructure. This topic was highlighted especially in Boaco, Estelí, Madriz.

which needs to be improved in order to facilitate the country's development. The territory of Boaco has many challenges in regards to obtaining potable water and sanitation, and for this reason this was a topic of major concern for this area of the country. In regards to production and income generation, participants from Estelí voiced the importance of building secondary roads for production and to access markets.

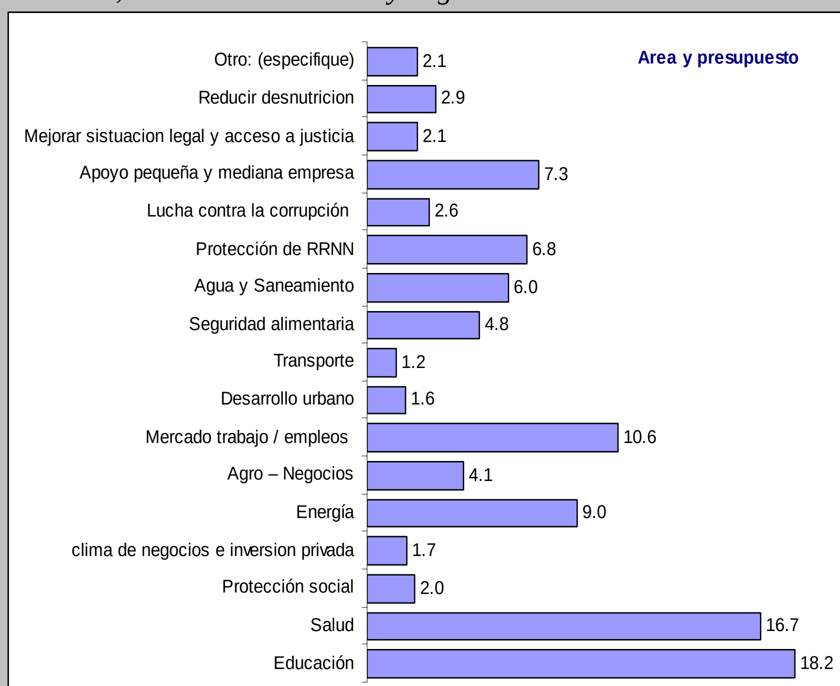
C. CONSULTATIONS IN MANAGUA

9. **Consultations in Managua included those with the Government, the private sector, civil society, and active donors.** Consultations in Managua included the presentations of recent analytic work (the PER and PA) as well as the policy notes mentioned above (Energy Policy Note, Land Policy Note, and Access to Financial Services). In addition, inputs from the territorial presentations were presented to participants as well as results from the questionnaire (See Box 3). For these consultations a Mission from Washington also joined the conversation.

10. **An important part of WB work includes coordination with other donors.** For this reason active donors were invited to participate in a conversation about the Bank's future CPS. The main message received was that there needs to be greater donor coordination and sector mapping in order to have a more efficient use of resources and in turn greater impacts. Priority areas discussed at the donor meeting included the high number of youth and what this means for the labor market, the importance of empowerment of women for the overall development of the country, and the importance of focusing on the zero to two year old population in order to develop productive future generations.

BOX 3: $100 MILLION DOLLAR QUESTION

If you were the Minister of Finance and you had $100 million dollars extra for the national budget, in what area would you invest these resources, and how much would you give to each area?



Education and **health** are the areas that received the most attention and the most funds allocated. The priority areas identified after these two were **work opportunities** (markets), the **creation of jobs** and **support to small and medium enterprises**.

11. **Donors raised questions on potential gaps they saw in the World Bank program**, including the little mention of a nutrition program, attention to gender, and fighting corruption. In regards to nutrition, the link was made between Bank support for a project in the water sector, and the positive implications in the GoN's Cero Hambre program. In regards to gender, the Senior Country Operations Officer highlighted efforts in the active portfolio, including the hiring of a gender specialist, the "cuadernos" or notebooks associated with gender on topics including land titling, microfinance, the Atlantic Coast, and a Legal diagnosis, and the visibility of gender indicators in the CPS Results Matrix. The Country Manager responded to the theme of corruption, identifying the areas of good governance, judicial reform and social auditing that serve to fight this important issue.

12. **An important input in the development of the CPS was the meeting held with civil society and the private sector.** Many comments were offered in response to the analytic work presented. Participants were divided into work groups along the following themes; social development, governance, and economic development (see Box 4 for a summary of findings). After the presentation of the Poverty Assessment, participants offered the following thoughts and questions: (1) to escape from poverty there needs to be a better redistribution of income; (2) they questioned if economic indicators contribute to the reduction of poverty; and (3) if there was a relationship between corruption and the current poverty indicators. To these questions, the presenter responded that the stabilization of the economy could reduce poverty in a sustainable way and she confirmed the idea of the relationship between corruption and poverty reduction and went on to state that the public spending on poverty reducing expenditures does not have the same impact for this very reason.

BOX 4. RESULTS FROM WORK GROUP SESSIONS
CIVIL SOCIETY/ PRIVATE SECTOR

Social Development

- Obstacles identified by the members of the social development group include corruption and the lack of transparency in the use of public funds and the legal framework, the lack of access to credit for micro and small businesses and farmers, and the exclusion of the Caribbean Cost in national dialogue.
- Suggestions offered were to reevaluate the role of the market, to offer more policies favoring the advancement of women and youth, and to promote social auditing and public control.

Governance

- The group working on the topic of governance offered the following insights in regards to obstacles: the negative effects of antidemocratic practices including intolerance, *caudillismo*, corruption, and no respect for laws (while there are democratic experiences they are not as visible); in addition, the World Bank and the donor community have helped the government, not institutions, therefore the government changes every five years and institutional weaknesses remain.
- Suggestions offered include: establishing and controlling the ethic of cooperation and ensuring that the government and its actors are held accountable to the rules of the game – transparency, legality, and legitimacy; strengthening education and values, especially in children; and that the law for citizen participation and access to public information needs to be respected.

Economic Development

- The work group focused on economic development highlighted the following obstacles: the lack of options in the country and little trust; the high costs of capital, energy and transportation; the restrictions of legislation and the lack of incentives; in addition, that the education system is not connected to the economic realities.
- The suggestions offered included prioritizing education, health and infrastructure, increasing dialogue and maintaining economic growth.

13. **Similarly, the Public Expenditure Review (PER) promoted dialogue at the consultation.** Participants noted that in addition to high public expenditures on education, there was also a high internal debt. They thought it would be valuable to know how public expenditure allocations were determined. Discussion addressed not only the GoN's response to the internal debt, but also the potential role the Bank could play. Additional comments in regards to the GoN presentation and the WB presentation included the following: (1) questions pertaining to why the WB was not involved in a regional approach to address the needs of the Atlantic Coast; (2) civil society members asked about the role and potential involvement of NGOs in the development of the new program in the water sector; and (3) the private sector voiced their concern that there are too many obstacles and conditions for private companies to participate in infrastructure development and that policies should be more flexible.

14. **The final consultation in this first series of the consultation process culminated with a meeting with the Nicaraguan Government.** The agenda was similar to those in previous consultations. The key pieces of analytic work were presented as well as the Bank CPS presentation and the Government priorities. The afternoon was devoted to reviewing the following themes and their associated sections of the CPS Results Matrix: (i) economic growth and macro economic stability; (ii) human capital development and social protection; (iii) productive and social infrastructure; and (iv) governance reform. It was important to sit with government representatives to define issues and obstacles as well as indicators and milestones for the Results Matrix.

D. TECHNICAL WORKSHOP FINDINGS

15. **Technical Workshops were held in the following thematic areas: Rural Financial Services, Gender, Nutrition, the Access to Land Policy Note, and the Energy Sector Policy Note.** This section discusses each workshop in depth. Key lessons learned and findings from these workshops are presented. Follow-up thoughts are suggested for future discussion. Each workshop was offered in coordination with counterpart Government agencies.

16. **The <u>Rural Financial Services</u> (RFS) Technical Workshop was organized in response to a request from the Minister of Agriculture (MAGFOR).** The agenda was developed in close coordination with IADB, RUTA and PROMIFIN-COSUDE. The main focus of the workshop was to improve the Ministry's understanding on ways to broaden rural financial services from the Stat based on recent experiences in Nicaragua and throughout the region. This included the ongoing discussion about a State Development Bank. As mentioned above, preparation of the ToRs for the workshop, the scope of the discussion, as well as the invitations of participants from private and public spheres was guided by MAGFOR.

17. **Recent analytic work was provided to participants at the workshop, and utilized as a platform for discussion.** The World Bank Policy Note, "Nicaragua – Access to Financial Services for the Productive Sectors" was presented at the workshop. In addition,

the Study on Public Policies and Rural Financial Services in Mesoamerica, written by a team of researchers from the Regional Unit for Technical Assistance (RUTA), was presented, as were regional experiences from BANRURAL-Guatemala and the *Banco Estado para Microempreseas* from Chile. A panel of top officials and board members discussed with participants lessons learned and best practices. A second panel of experts from Nicaraguan microfinance discussed their experiences and offered recommendations to the Government.

18. **Main recommendations in regards to Rural Financial Services delivered to MAGFOR include**: (1) build strong relationships with the existing network of microcredit institutions prior to the implementation of a State Development Bank (with a subsidized interest rate); (2) analyze the economic strategies in rural households, including non-farming income generating activities and the adaptation of RFS in this context; and (3) consider the use of incentives to encourage coverage of RFS in depressed areas.

19. **The Technical Workshop on the <u>Policy Note on the Energy Sector</u> allowed for continued dialogue about one of the most urgent matters for Nicaragua's development.** The Energy Policy Note was presented and main finding were discussed with a wide variety of audience members including Government officials in the energy sector as well as key donors who work in the sector. The workshop served as a platform for dialogue between different sector authorities on main challenges, potential solutions and recommendations. Space was also provided for the World Bank and other donors to propose next steps and to provide valuable technical support for strategic planning and decision making that will be the GoN's responsibility for the short and medium term.

20. **The <u>Policy Note on Access to Land</u> was prepared in response to a request from the Minister of Agriculture.** The Technical Workshop served to facilitate the sharing of technical knowledge on land-based productive development based on international experiences and lessons-learned from recent WB programs (Mexico, Guatemala, Honduras and Brazil). Discussion also revolved around the recent Agrarian Reform process in Nicaragua and its results. At the workshop, the Government expressed its desire to improve the current policy framework on land and to have access to land as part of the CPS. MAGFOR expressed that it is interested in a program that not only provides land *per se* to rural poor families, but also the mechanisms to deliver the required technical, managerial and financial services needed for these families to leave poverty.

21. **The <u>Gender</u> Workshop brought together Ministries and Government entities, cooperating agencies, and representatives from civil society organizations.** The workshop served to learn about World Bank programs and importantly to share activities executed by different government entities and cooperating agencies. In addition, the purpose of the event was to identify opportunities and propose areas where gender would have a more cross-cutting focus and impact. The Gender Action Plan was shared as well as presentations of experiences from PRODEP, INTA and UNIFEM.

22. **Conclusions from the Gender workshop include the following**: (1) the experiences and lessons learned from women should be taken advantage of; therefore, women should be identified as an integral part of economic development; (2) building knowledge about gender

issues needs to be promoted and concrete trainings should be implemented for practical use; (3) effective policies need to be designed in regards to gender such as agreements with mayors and concrete interventions; (4) the economic reality in Nicaragua must be recognized, i.e. its high dependency on the participation of women in informal economic activities; and (5) cooperating agencies should create safeguards for the theme of gender to ensure the sustainability of their activities.

23. **The <u>Nutrition</u> Workshop served to promote the discussion of the Bank's involvement in the health sector for the next CPS.** The workshop included presentations from Bank staff and nutrition researchers as well as nutrition experts from UNICEF. Presentations included: an analysis of the current situation in nutrition (1998-2005); the provision of a conceptual framework and general panorama of the multiple causes of malnutrition; and a presentation on a range of possible interventions targeted at the problem of malnutrition and evidence of their impact.

24. **Comments received by participants at the Nutrition Workshop include:** (1) every institution has a specific role and specific responsibilities in nutrition; there need to be a more common vision and central theme; although all believe in coordination, no one takes the lead in coordinating; (2) there needs to be a map covering all of the programs in regards to nutrition and health that reflects the current situation; thereby facilitating local and municipal coordination; (3) although the formal education sector is important for implementing nutrition programs, programs in the community are also important to develop hand in hand with capacity building of local actors and leaders; (4) human resources need to be strengthened with knowledge about nutrition; as it presently stands, there is no consistency in capacity building in the field of nutrition.

25. **As mentioned above, follow-up and future steps are an important part of the CPS Consultation process.** Primarily, the results from the consultations are used as inputs to the formation and development of the World Bank role in Nicaragua. Taking into account the departments' strategic development plans will also be an important reference point. What's more, the Bank has now distinguished itself in a new role, especially because of its consultations in the territories. Future work includes distributing findings from the consultations to the local level in written documentation (in Spanish), as well as holding follow-up meetings.

Annex F: Operations Evaluation Department – WB / Independent Evaluation Office – IMF

Nicaragua: Evaluation of the Poverty Reduction Strategy Paper (PRSP) Process and Arrangements under the Poverty Reduction and Growth Facility (PRGF)

July 6, 2004

Nicaragua is among the poorest countries in Latin America with a GNI per capita of US$710 in 2000. Poverty remains largely a rural phenomenon, heavily concentrated in the Eastern and Northern parts of the country. Between 1993 and 2001, the share of the population living below the poverty line declined from 50 to 46 percent and extreme poverty fell from 19 to 15 percent, but poverty reduction has been uneven across regions.

Nicaragua's political context is one of a polarized society and political system, and weak institutional capacity and governance. The nature of Nicaragua's polarized society, a century old phenomenon, and political instability have been a strong obstacle to consensus building, constraining the process of participation and opening the policy debate, and on reaching common grounds for broader ownership. Nicaragua's political characteristics have contributed to a weak institutional framework, blurring the separation of state powers, weakening the rule of law and the protection of property rights, and leading to governance problems. Moreover, the state has limited capacity to implement and control activities, with a highly fragmented structure.

Throughout the 1990s, after the dismal economic situation left by the Sandinista regime, Nicaragua has struggled with major macroeconomic problems, principally unsustainably large fiscal deficits and debt levels. Repeated efforts to consolidate the fiscal situation during successive government proved unsuccessful owing largely to recurrent expenditure overruns. These recurrent failures put Nicaragua several times in extremely vulnerable positions, on the verge of fiscal collapse and balance of payment crises. Hurricane Mitch at the end of 1998 inflicted serious damage to Nicaragua's infrastructure and disrupted the macroeconomic situation and fiscal consolidation efforts. The Bolaños government has made significant efforts to improve macroeconomic stability.

Nicaragua's macroeconomic vulnerability is one of the main challenges to poverty reduction, including external factors (such as terms of trade shocks and foreign aid dependence). Other major obstacles are the challenges in enhancing non-farm rural activities and in sustaining rural income growth, the inefficient health services, high rate of population growth, and chronic malnutrition.

The PRSP process

The timetable for implementing the PRSP process was rapid; in a year the government moved from launching the Interim PRSP to reaching a HIPC decision point and completing the PRSP. The Nicaraguan government embarked on the PRSP process because it was a precondition for entering the enhanced HIPC initiative. This underlying motivation appears to have driven many subsequent processes and decisions, including the depth and scope of policy debate, which affected ownership perception across stakeholders.

The PRSP approach has on balance been relevant for Nicaragua's national strategy process and its poverty reduction efforts. The approach has addressed important gaps found in past experiences, including through a widening participation efforts, appropriately focusing on a comprehensive vision of poverty, and addressing a sorely lacking results-oriented framework. In this connection, it has represented a more binding commitment than past national strategies.

However, the PRSP process has initially showed modest results, which needs to be viewed realistically in the context of political and institutional realities and very difficult starting conditions. The PRSP did not initially strengthen policy processes, while poor public expenditure management has been a hindrance to implementation. The fragmentation of policy making has generated problems for coordination and overview of public investment, and weak implementation capacity at the municipal level has remained an obstacle.

The consultation process for the PRSP was a step forward, but differences in views about the purpose and legitimacy of such participation have caused assessments of the participatory process to vary widely. This highlights the inherent difficulties of participation in a country with a highly polarized political system. As a result, broad country ownership of the PRSP has remained limited. Nevertheless, most observers agree that it was a helpful attempt to foster a dialogue among the government, donors, and civil society. Survey results highlight, however, that the area where participation was specially lacking was that of the formulation of the macroeconomic framework.

The new government's desire to modify the PRSP, with the introduction of a new development strategy that sought to change the expenditure composition guided by a greater emphasis on directly productive investment, was marked initially by tensions in the process. The government felt constrained in its ability to pursue a revised strategy, while donors were initially surprised by the initiative, expecting the PRSP to bring a more lasting and resilient policy framework. This illustrates some of the potential tensions between different elements of the PRSP process, notably between the provision of greater policy space to the government and other objectives such as partnership. These tensions were increased in Nicaragua by the poor alignment of the PRSP process with the domestic political cycle and the limited policy debate early in the process on the tradeoffs involved in the growth strategy. The potential tensions between normal political processes and the PRSP approach are illustrated by the fact that, despite the emphasis on greater participation, the issues concerning the growth strategy were not a topic of debate during the general elections. However, the approach did eventually contribute to bringing critical issues in the open, including through the Plan Nacional de Desarrollo (PND), thereby facilitating subsequent work to create a more effective approach to poverty reduction. Even with the considerable imperfections in the process, the fact that the debate has started to take place should be welcomed.

World Bank effectiveness

A number of key findings and lessons emerge from the Bank's support to the PRSP process thus far.

The Bank has provided important support to the PRSP process.

- The Bank was closely involved in the PRSP process, providing relevant analytic inputs and advice. These non-financial services have been well aligned to the needs of Nicaragua through the PRSP process, including two completed Poverty Assessments, a PER, and an agriculture growth study. Key on-going analytical work includes a CFAA, a CPAR, and a PSIA. The quality of the technical assistance and analytical advice provided by the Bank is held in high regard by most informants.

- The Bank's CPS is well-aligned with the PRSP and closely follows the main strategic pillars. The assistance strategy details the specific support to each pillar, in recognition of the main constraints to poverty reduction outlined in the PRSP. The move to programmatic lending through the PSAC and planned PRSCs is the most explicit expression of the alignment of Bank support to the PRSP on the ground.

The Bank is improving its behavior in terms of promoting the PRSP principles.

- According to stakeholders the Bank has become more open to dialogue with the country and is taking steps to increase its responsiveness to civil society, both reported as areas of weakness in terms of country ownership. The Bank is increasing the cohesion of its large country program and is addressing the decentralization of task managers. The agriculture growth study is an example of unprogrammed analytic work being undertaken at the request of the government and demonstrates greater responsiveness on the Bank's part. The study was also produced in very close cooperation with government officials, and represents a more participative approach to the Bank's work.

- While the Bank may contribute to a technically sound strategy, the durability of a strategy requires both the substance and process dimensions. The Bank could do more in focusing on improving processes in Nicaragua and not just working towards preparation and refinement of a strategy. The process management skills and collaborative attitudes of the Bank need strengthening to allow country ownership to grow, to allow negotiation processes to get to better results, and to achieve the vital balance between technical and political quality in advisory services.

The Bank could do more to advance the debate on broad based growth and the trade-offs between growth and poverty-related spending in Nicaragua.

- There is widespread perception that the emphasis on social sector spending has been imposed by the Bank. In reality, there is an inherent incentive and bias towards social sector spending by government given the link with use of HIPC resources and, rather than an imposition of a "social agenda" by the Bank, the key issue is the absence of a frank discussion of growth issues in Nicaragua.

- The growth-social balance is a technically very complex discussion. It is connected to highly contended political issues and to conflictive political processes—but it needs precisely for that reason to become a more public debate in an appropriate forum, based on arguments rather than mutual mistrust. The Bank should promote and participate in this discussion, integrating the process under the PRSP framework. The ongoing Development Policy Review, with its focus on sources of economic growth, may play a positive role in this regard. Involvement of stakeholders during preparation, for example through feedback on drafts or presentations of preliminary findings, and appropriate dissemination are likely to be important factors in this works value-added to the PRSP process.

The Bank could play a more aggressive role in supporting government led donor coordination.

- The Bank has in the past not played an effective role in coordinating its activities with those of other donors in Nicaragua. There have recently been promising steps taken towards improving the situation on which the Bank can build. These include improved coordination and participation in its analytical work and the emphasis on SWAps in theCPS.

- Improved aid coordination will require continuing efforts to clarify own policies, positions and procedures, willingness to cede donor-side leadership to other donors, and, as a particularly important signal in this area, assistance to the government enabling and motivating it to coordinate the support from the World Bank and the IDB.

The PRGF and IMF support

The Fund's internal policy formulation process for Nicaragua under the PRGF/PRSP approach was initially not very different from previous practices, although there is some evidence of improvement over time. Macroeconomic stabilization efforts took up most of the attention, and while emphasis on growth and poverty issues has occupied a more prominent place in the internal process, they have not received the consideration that would have been expected under the new approach. Fund technical assistance has generally supported the priorities highlighted in the PRSP, including tax reform and banking crisis resolution.

Program negotiations, rather than the PRSP, remained the driving force behind the formulation of the macroeconomic framework because of several factors including: pressing initial conditions and lack of government credibility; a PRSP macroeconomic framework that was quickly superseded by events; and lack of operational guidance on some major policy tradeoffs in the PRSP. Some sensitive but critical issues (i.e., the resolution of the banking crisis and its fiscal consequences) were not part of the broader policy debate, reflecting government choice. The focus of the PRGF-supported program on macroeconomic stability issues diverted efforts from its linkage to the PRSP's growth pillar. Moreover, limited growth analysis prevented the considerations of tradeoffs, including between alternative fiscal consolidation paths and infrastructure investment.

The initial design of the PRGF-supported program did not differ significantly from earlier ESAF-supported programs, with a key element of the macroeconomic framework being the path of fiscal consolidation. This was in part because both the government and the IMF staff considered stabilization a priority and made it the main axis of the program. However, more recently there appears to be greater fiscal flexibility, including with regard to the accommodation of potentially higher aid flows. Structural conditionality in the PRGF-supported program was streamlined, focusing on financial system and public sector issues that have major macroeconomic relevance in Nicaragua and have been highlighted in the PRSP as key priorities. But the burden of quantitative performance criteria did not diminish.

The policy space for government-led initiatives and flexibility to political considerations in the context of the PRGF-supported program did expand over time—mainly reflecting increased government credibility and a more stabilized macroeconomic environment. This was reflected, for example, in the context of policy choices associated with the approval of the 2003 budget, the passage of tax reform legislation, and the process of asset recovery from liquidated banks.

Key components of the PRGF-supported program—the need of fiscal consolidation and macroeconomic stability—have been government owned, but the program has lacked broader ownership. Despite recognition of increased outreach efforts by the Fund, the formulation of macroeconomic policy is still regarded as not being open to a broader policy debate outside of traditional negotiations between the IMF staff and the authorities.

To a large extent, this reflected the choice of the government. Opening program negotiations to non-government actors is not realistic, but efforts by both the government and the IMF to broaden the discussions of macroeconomic policy could contribute to an explanation of various policy choices and a better understanding of trade-offs. So far, the PRSP has had little impact in this area, although the use of technical commissions, akin to the one employed to formulate tax reform proposals, may be one approach worth exploring further.

The CPSe of Nicaragua illustrates that, when macroeconomic stability issues still require significant attention, PRGF arrangements may only be expected to move gradually to cover in-depth growth and poverty aspects, taking into consideration initial country circumstances. But the issues of how to transit from stabilization to growth and enhanced growth analysis—including consideration of key tradeoffs—would eventually require heightened attention to move towards the key features of the initiative.

Bank-Fund cooperation and the JSA

Joint Staff Assessments were insufficiently candid in some key areas, notably the constraints to participation, but nevertheless played a useful role, identifying country specific risks to the

implementation of the strategy as well as areas where further development of specific policies in the PRSP or policy prioritization was needed.
However, the Progress Report did not play the central role that would have been expected in the ongoing debate on the growth strategy and modification of the PRSP, and the associated JSA could have signaled the limited use of the Progress Report in this respect.

The World Bank and IMF have collaborated closely since the PRSP, with country offices playing a key role, providing inputs to the respective programs, and participating regularly in meetings with civil society groups in various fora. The area of governance and legal reform, of prominent importance in Nicaragua, is an example where collaboration appears to have been effective, leading to a clearer delineation of responsibilities and conditionality.

Annex G: Debt Sustainability Analysis

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

NICARAGUA

Joint IMF/World Bank Debt Sustainability Analysis[18] 2007 under the Debt Sustainability Framework for Low Income Countries

Prepared by the staffs of the International Monetary Fund and
the International Development Association

Approved by José Fajgenbaum and Martin Fetherston (IMF)
and Ernesto May and Vikram Nehru (World Bank)

August 14, 2007

Based on the joint Low-Income Country Debt Sustainability Framework of the World Bank and the IMF, Nicaragua is assessed to be at ***moderate risk*** *of debt distress. Its debt ratios have improved dramatically over the past several years (on the back of fiscal consolidation and debt relief under HIPC and MDRI) and are projected to remain on a declining trend in the medium term under the baseline scenario. However, some stress tests suggest that there are still potential debt vulnerabilities, particularly if substantial government borrowing takes place at less concessional rates and the projected increase in growth rates does not materialize. Reducing the risk of debt distress will depend on maintaining sound macroeconomic policies and continuing pursuit of fiscal consolidation. In addition, formalization of pending debt relief agreements with bilateral and commercial creditors remains a key challenge for further reducing Nicaragua's debt burden.*

I. BACKGROUND

1. This is the second debt sustainability assessment (DSA) for Nicaragua prepared under the joint Bank-Fund Low-Income Country (LIC) Debt Sustainability Framework (DSF).[19] The 2005 DSA showed that Nicaragua was at a moderate risk of debt distress. In the absence of reliable data on private external debt, the external sustainability analysis is limited to public and publicly-guaranteed external debt. That said, BIS data through end-2006 suggest that foreign claims on the Nicaraguan non-financial private sector are relatively small (US$270 million, about 5 percent of GDP).

2. ***Nicaragua has made progress in reducing its external debt burden in the context of the HIPC and MDRI initiatives***. External debt has fallen from about 160 percent of GDP in

[18] Prepared by the IMF and World Bank staff.

[19] See SM/05/201, Appendix V.

2003 to 85 percent in 2006, and is expected to decline further in 2007, following the debt relief offered by the IDB under MDRI. Still outstanding are the formalization of debt relief with non-Paris Club bilaterals and the restructuring of private commercial debt. Indeed, among low-income countries, Nicaragua has one of the highest ratios of outstanding debt to non-Paris Club creditors as well as to private commercial creditors.

- **Progress under HIPC.** After reaching the completion point in January 2004, Nicaragua received debt relief under the HIPC initiative from *all* its Paris Club creditors, the IMF, the World Bank and the IDB, as well as a number of non-Paris Club creditors. Nevertheless, delays persist in negotiations with other non-Paris Club creditors. As of May 2007, and despite best efforts to resolve outstanding arrears, Nicaragua had formalized only about three-fourths of the US$3.3 billion total debt relief (in 1999 NPV terms) foreseen in the Completion Point Document. The debt relief that has yet to be formalized (as of end-June 2007) amounts to about US$768 million in 1999 NPV terms, equivalent to the remaining 23 percent of the total debt relief, reflecting mostly claims due to non-Paris Club and commercial creditors.

Nicaragua. Stock of debt in nominal terms
(in percent of GDP)

	2003 1/	2006 1/	2007 3/
Total	161	85	36
Multilateral creditors	71	41	23
IADB	30	29	9
IDA	24	5	6
IMF	5	1	1
Others	12	6	6
Bilateral, Paris Club	37	2	2
Bilateral, Non-Paris Club	47	38	11
Commercial Creditors 2/	6	4	0

Source: BCN and Fund staff estimates

1/ Legal situation. Reflects the debt registered in books after HIPC and MDRI debt relief.
2/ Excludes accrued interests.
3/ Assumes that outstanding debt to non-Paris Club bilaterals and private creditors has been settled on HIPC-equivalent terms.

- ***Progress under MDRI.*** The IMF and the World Bank provided debt relief during 2006 under the MDRI in the amounts of US$133 million and US$694 million respectively**,** leading to a 16 percent of GDP reduction in stock of external debt. Further, in March 2007, the Inter-American Development Bank (IDB) joined the MDRI and agreed to provide debt relief for about US$786 million in nominal terms (14 percent of GDP). Total debt service savings from the MDRI are estimated at roughly US$1.9 billion.[20]

- **Progress in restructuring private external debt.** Negotiations are ongoing towards resolving outstanding debt in arrears to private creditors of roughly US$1.4 billion in nominal terms (about 20 percent of GDP).[21] A buy-back proposal, to be supported by the World Bank Debt Reduction Facility (DRF), has been prepared and the authorities hope to close the operation in the coming months. The operation is estimated to cost US$61 million (about 4.5 cents on the dollar), and it is expected that the World Bank will contribute up to a maximum of US$32.6 million, donors an additional US$25 million, and Nicaragua up to US$3.4 million.

[20] The estimated debt service savings include: US$143 million from the IMF, US$773 million from the World Banks and US$984 million from the IDB.

[21] The original face value of debt in arrears to private creditors is about US$0.2 billion, with accrued interest representing the remaining US$1.2 billion.

3. ***Domestic debt has fallen in recent years as a result of fiscal consolidation.*** Domestic debt jumped to over 35 percent of GDP in 2001-02 reflecting the fiscal cost of the 2000-01 banking crisis and the settlement of claims arising from property expropriations in the 1980's (the latter are labeled as recognition of contingent liabilities in our public sector DSA template). By end-2006, domestic debt fell to about 23 percent of GDP, reflecting an increase in the fiscal effort and a sharp reduction in real domestic interest rates. The bulk of the domestic debt now outstanding (80 percent) is in the form of claims arising from former property expropriations, with the remaining amounts mainly in the form of compensation bonds related to the banking crisis.

Nicaragua- Combined Public Sector Debt (in percent of GDP)

	2001	2002	2003	2004	2005	2006
Total debt	206.7	213.5	195.9	150.7	137.7	106.5
External debt	171.4	176.4	161.2	120.7	110.2	83.3
Domestic Debt	35.4	37.1	34.6	30.0	27.5	23.3
Nonfinancial public sector	28.6	30.3	30.1	27.3	25.8	22.9
Property settlement bonds	18.6	20.0	20.8	20.4	19.9	18.4
Bank resolution bonds	8.7	9.2	8.3	6.3	5.1	4.0
Other	1.3	1.1	1.0	0.6	0.8	0.5
Central bank	6.8	6.7	4.5	2.7	1.7	0.4

II. Underlying DSA Assumptions

4. ***The medium-term framework underlying the DSA envisages an important pickup in real growth, and gradual reductions in the external current account deficit and official assistance.*** The baseline scenario assumes improved macroeconomic conditions over the medium term on the back of continued prudent macroeconomic policies and the implementation of structural reforms in the energy sector and public financial management to underpin assumed productivity gains. The key assumptions are summarized in Box 1. The assumptions used in this year's DSA are broadly similar to those in the 2005 exercise, with the exception of output growth, which is projected to be somewhat higher on account of: (i) the implementation of reforms in the energy sector, resulting in cheaper and more reliable electricity service; (ii) the entry into CAFTA and increased regional integration, resulting in increased access to markets and trade spillovers; and (iii) increased efficiency of public investment following the adoption of public financial management reforms.

Box 1. Macroeconomic Assumptions in the Baseline Scenario

Real GDP growth is projected to average 5.0 percent for the period 2007–12, increasing to 5½ for the subsequent years. This reflects expected returns from higher investment in infrastructure and human capital, as well as productivity enhancing effects of CAFTA-DR and the implementation of structural reforms (including in the power sector). Real growth during 1997–2006 averaged 3.8 percent, reflecting several negative shocks including Hurricane Mitch in 1998 and the 2000–01 banking crisis, among others.

Inflation, as measured by the GDP deflator, decreases in the medium term and stabilizes at around 2.2 percent, in line with the rate of crawl and partner country inflation.

The external current account is assumed to improve gradually as exports benefit from continued investment in the tradable sector and rising volumes of traditional exports, while tourism activity converges to regional levels. Revisions to the external current account reflected unrecorded interest paid by the financial system.

- The non-interest current account deficit excluding official transfers gradually declines converging to under ½ percent of GDP by 2027. This definition of the external current account, which was also used in the 2005 DSA, captures the underlying trends in the current account and gaps to be financed externally by official loans and private capital flows (see Table 3).
- Imports are expected to grow at over 8½ percent per annum (compared to an average of about 11 percent over the past decade), while export growth is expected to remain robust, averaging over 11 percent during 2007–12 (slightly lower than the 13 percent historical average). The moderation in import growth is underpinned by the stabilization of oil prices and some strengthening of the import-substitution sector. The strong export performance reflects: (i) increased market access resulting from CAFTA-DR, (ii) enhanced competitiveness through the implementation of structural reforms under the program (resulting, among other things, in cheaper and more reliable electricity service and improvements in public infrastructure); and (iii) continued investment in the tradable sector.
- Improvements in the current account are being driven by an important increase in domestic private savings, reflecting a further strengthening in financial intermediation and increased corporate profits as productivity gains materialize.

Net official external assistance (loans and grants) is expected to decline from about 12 percent of GDP in 2007 to under 2 percent by 2027, as Nicaragua becomes an emerging economy and attracts more private capital inflows. New external borrowing after 2010 is projected to increase at an annual rate of 2 percent (in line with the U.S. inflation rate). Exposure to multilaterals and bilaterals is projected to remain unchanged at the average level during 2007–10, with the gap filled through commercial non-concessional loans.

Domestic debt issuance is limited to US$250 million during 2007–12 (US$50 million per year), reflecting additional claims arising from property expropriations. Domestic real interest rates are unchanged at 8 percent.

The primary surplus of the combined public sector is assumed to remain unchanged at around 0.3 percent, the levels agreed to for 2010, consistent with a policy of maintaining the revenue-to-GDP ratio constant at about 20 percent of GDP. Focusing on the combined public sector ensures that that projected deterioration in the finances of the social security system is offset by improvements in the finances of the rest of the public sector (i.e. central government).

CPS Primary Balance (% of GDP)

	Average	
	2007-11	2012-27
Primary balance	0.3	0.3
INSS	1.3	0.1
Rest of public sector	-1.0	0.2

5. ***The baseline scenario assumes that by end-2007 outstanding debt to non-Paris Club bilaterals will be settled on HIPC-equivalent terms, as well the restructuring of private external debt.*** Nicaragua is not currently servicing debt to non-Paris Club bilaterals, except for the outstanding debt to Taiwan Province of China. Therefore, the debt relief assumed from these creditors would imply an additional stock of debt cancellation in 2007 as well as a minor impact on the external debt service obligations paid in *cash*.[22]

6. ***The baseline scenario also captures the new lending terms from the IDB that were agreed with the implementation of the MDRI.*** These terms are the outcome of an evaluation similar to the one conducted by IDA after granting the MDRI, where resources are allocated consistent with a country's risk of debt distress. On a net basis, the level of concessionality of *new* IDB lending will be lower than before MDRI. Nicaragua would receive loans from the IDB on the following terms: half of the total amount of a loan will be lent at an interest rate of 0.25 percent, a loan maturity of 40 years, and a grace period of 39.5 years; the other half will be lent at an interest rate of 5.5 percent, a loan maturity of 30 years, and a grace period of 5 years. The concessionality of the combined loan is expected to be above 35 percent.

III. External Sector DSA

7. ***Under the baseline scenario all external debt indicators remain below the policy-dependent debt burden thresholds***. The debt-burden thresholds used for the analysis are those applying to medium performers in terms of policies and institutional quality, as measured by a three year moving average of the World Bank's Country Policy and Institutional Assessment Index (CPIA).[23] In the context of these thresholds, the main results of the DSA show that, in the baseline scenario, almost all the external debt indicators are expected to improve over the 20-year projection period (Annex Tables 1-2 and Figure 1), and also remain below the indicative risk thresholds for debt distress throughout. For instance, the NPV of the debt-to-GDP ratio initially increases from about 28 percent in 2007 to over 37 percent in 2013. Then it decreases to about 20 percent by 2027, remaining always below the 40 percent indicative threshold.

8. ***Debt service is expected to remain manageable throughout the DSA horizon, reflecting the high concessionality of both existing and projected new debt.*** Debt service indicators are projected to average 3.8 percent of exports (10 percent of revenues) during the medium term and slightly increase to about 5 percent of exports (16 percent of revenues)

[22] External debt service in cash (after debt relief from non-Paris Club bilateral creditors) would increase by an average of about ¼ percent of GDP per annum during 2007–12, falling gradually thereafter.

[23] The cut-off value of the CPIA index to be classified as a strong performer is 3.75. For the current DSA, the three year moving average of the CPIA for 2004-2006 corresponds to 3.74 which means that Nicaragua should be classified as a medium performer. The decline in CPIA has been driven by the deterioration in the indexes controlling for (i) gender equality, (ii) the quality of public administration, and (iii) transparency, accountability, and corruption in the public sector.

during the later years of the projection period. The increase is explained by the projected reduction in concessionality of new borrowing as Nicaragua has more access to international capital markets.

9. ***Further, the rate of external debt accumulation under the baseline scenario is manageable.*** The annual increase in the NPV of public external debt is substantially below 5 percent of GDP per annum during 2007–09 and declines gradually for the rest of the projection period. In addition, it is expected that as Nicaragua graduates as a PRGF and IDA country, access to highly concessional borrowing will gradually decrease over the medium term, as reflected by the reduction in the grant element indicators (see Annex Figure 1).

10. ***However, the standard stress tests reveal some potential vulnerabilities in Nicaragua's debt situation***. In particular, the NPV of debt-to-GDP ratio breaches the threshold of 40 percent under some specific standardized bound tests that simulate a series of negative shocks to real GDP growth, the contracting terms of new public sector loans, and current account adjustment , among others.

- **The less favorable official financing** scenario corresponds to the most extreme shock. In this scenario, the NPV of external-debt-to-GDP ratio breaches the threshold of 40 percent by 2011 and though it falls over the medium term it remains above the threshold level through-out the projection period. In addition, the NPV of debt-to-revenue ratio surpasses the threshold of 250 percent by 2016. Nonetheless, all other debt indicators, including debt service indicators, remain well below distress thresholds.
- **The lower growth scenario** assumes real GDP growth stabilizes at 3.8 percent, the equivalent of the average observed during 1996–2006. Under this scenario, the NPV of external-debt-to-GDP ratio also rises above the 40 percent threshold by 2012. This scenario is labeled as the *high-investment-low-growth* scenario, since it implicitly assumes that the programmed increase in investment does not translate into the productivity gains assumed in the baseline scenario over the medium term. As a rule of thumb, a one percentage point decline in long-term growth, *ceteris paribus*, would translate into roughly a 4-5 percentage point increase in the debt-to-GDP ratio over a 10 year period.
- **The no external adjustment scenario** (also labeled historical scenario) assumes that the current account remains at the high level of 16.8 percent of GDP observed in 2006.[24] Under this strong assumption, debt levels would increase without bound, with the NPV of the external-debt-to-GDP ratio breaching the 40 percent threshold by 2013.

11. ***Given uncertainties, the baseline DSA does not include potential aid flows from the ALBA Cooperation Agreement***.[25] There is still uncertainty about the types of aid from the

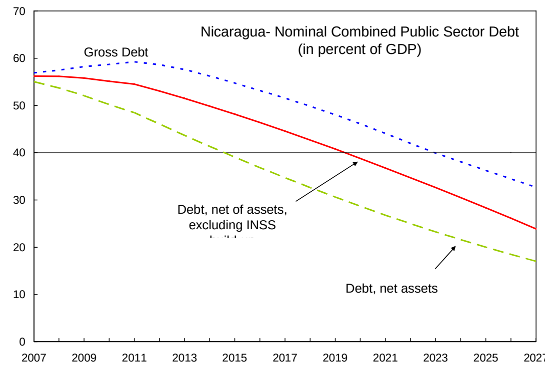
[24] Rather than using the current account average over the past 10-year (standard), the current account for 2006 was regarded as more representative, given current high oil prices and Nicaragua's reliance on oil imports.

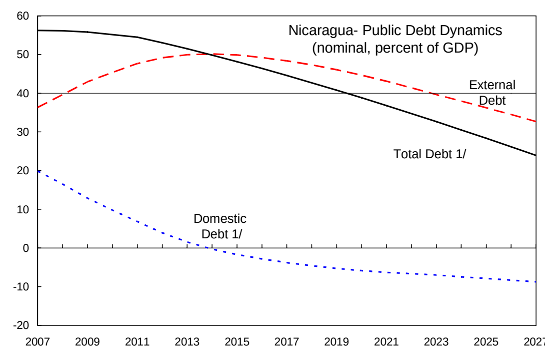
[25] ALBA stands for the Bolivarian Alliance for the America's, an initiative advanced by Venezuela to seek greater cooperation and provide development assistance to signatory countries including Bolivia, Cuba and Nicaragua.

ALBA agreement, the concessionality of the loans, and whether these aid flows will be channeled through the private or the public sector. Further analysis on these aid flows is presented in Annex Box 2.

IV. PUBLIC SECTOR DSA

12. ***Total public debt is projected to decline over the projection period*** (Annex Table 4 and Figure 2). Under the baseline scenario, while combined public sector debt in *gross nominal terms* is projected to increase over the next 5 years, debt levels decline when public sector assets accumulated as a result of the fiscal effort are included.[26] Moreover, debt in NPV terms is projected to decline sharply given its highly concessional nature. The underlying public sector debt position monitored under the program, which excludes the assets of the social security system,[27] is projected to decline by about 10 percentage points in roughly a decade, from about 56 percent of GDP in 2007 to about 46 percent in 2017, reaching about 30 percent of GDP by 2027. The assumed speed of debt reduction is considered reasonable given Nicaragua's social and infrastructure needs, and small gross financing requirements (averaging about 2 percent of GDP during 2007–12). Nicaragua's main public debt related vulnerability arises from less favorable growth and external financing terms (see Annex Table 5, and ¶10).





1/ Gross CPS debt net of deposits accumulated by public sector, excluding INSS.

13. ***The baseline scenario is associated with a sharp decline in domestic debt, and a hump in the share of external debt.*** Given the fiscal effort and the external financing assumptions under the baseline scenario (which envisage a sharp increase in concessional external borrowing during 2007–12), the share of domestic debt is projected to decline rapidly over the next 5 years. This decline in domestic debt is consistent with a buildup in government deposits in the banking system, the counterpart to an increase in net international reserves (as projected under the program), required to further increase coverage ratios. The

[26] Includes financial assets (i.e. deposits) accumulated by the combined public sector. Physical assets resulting from public investment expenditures are excluded.
[27] The public debt under the program excludes the social security system to avoid over stating the underlying improvement in the combined public debt dynamics during the projection period. While the social security system is projected to accumulate assets over the next 15 years, preliminary analysis suggests that ensuring its long-term sustainability will require a parametric reform, including reducing pension obligations.

substitution of expensive non-concessional domestic debt for concessional external debt also forms part of the government's strategy to reduce public debt vulnerabilities and ensure sustainability.

V. Conclusions

14. ***Nicaragua's external debt is subject to a moderate risk of debt distress***. The baseline projections that assume full HIPC and MDRI debt relief show that all the standard external debt indicators remain below the thresholds over the projection period. However, under some stress tests the NPV of external-debt-to-GDP ratio and the NPV of debt-to-revenue ratio breach the threshold of 40 and 250 percent, respectively. This combination of a favorable baseline, tinged with some downside risk, suggests an overall moderate risk of debt distress.

15. ***The risk of debt distress remains moderate once domestic obligations are introduced into the analysis***. Strong macro policies, including a primary public sector surplus of about 0.3 percent GDP—combined with favorable growth-interest rate dynamics arising from the high level of concessionality Nicaragua is expected to benefit from in the foreseeable future—would ensure putting public debt on a declining path. This path seeks to strike a reasonable balance between preserving space for needed public investment while reducing vulnerabilities given Nicaragua's large exposure to foreign currency denominated debt and external shocks, including natural disasters. It is important to recognize, however, that the baseline scenario represents a departure from some of the parameters seen in Nicaragua over the last decade, especially in terms of higher projected GDP growth and an improving trade balance. In this regard, it will be crucial that the authorities implement the policies and structural reforms underpinning this more favorable medium-term outlook.

Box 2. DSA Implications of ALBA Cooperation

The DSA baseline excludes potentially-large, yet uncertain, development finance under the auspices of the ALBA agreement. A brief description of the staff's current understanding is included below, though these are still tentative and subject to revision.

- **Structure.** The Venezuelan state-owned oil company (PDVSA) supplies crude oil and derivatives to Nicaragua's state-owned oil company (PETRONIC), which in turn has up to 90 days to sell these oil deliveries in the domestic market and transfer the full proceeds to PDVSA. Half of the total proceeds are then channeled to ALBA institutions: ALBA-Bank and ALBA-Fund. These multilateral institutions will be managed by a council of ministers from member countries. The ALBA-Bank would provide *concessional loans* to private and public sector entities in Nicaragua and in other ALBA-member countries (the terms of these loans remain unclear); while the ALBA Fund would provide grants. In addition, the authorities recently announced the creation of ALBANISA, a new consortium to develop an oil refinery in Nicaragua, with a 55 percent participation of PVDSA and a 45 percent stake of PETRONIC.
- **Size.** If fully implemented, the agreement could cover up to 27,000 barrels of oil and derivatives per day (Nicaragua's full oil import bill), which at current market prices could represent proceeds of up to 5 percent of the GDP per year. However, given domestic capacity constraints, actual oil imports under a scheme may be much smaller, since PETRONIC's share of the local retail market (including the demand of state-owned generators) is roughly 4,500 barrels per day, the equivalent of about 0.8 percent GDP.

The program has been designed to allow spending up to a maximum of 2 percent of GDP in ALBA-related concessional financing. In that regard, the program contemplates a downward adjustor on the overall fiscal balance floor on ALBA financing up to a threshold of 2 percent of the GDP per annum. According to staff's DSA analysis, additional concessionally financed spending of up to 2 percent of GDP per annum can be absorbed without crossing the 40 percent of GDP threshold on external debt sustainability applied to low-income countries (LICs) rated as medium performers with regard to policies and institutions under the joint IMF-WB DSA framework. The ALBA scenario assumes the new disbursements from the Agreement amount to 1 percent of Nicaragua's GDP in 2007 and 2 percent of the GDP during 2008–2010. Ceteris paribus, the NPV of external debt to GDP ratio is tangent to the 40 percent debt burden threshold in 2012–2013, and declines to converge to the baseline debt profile in the medium term.

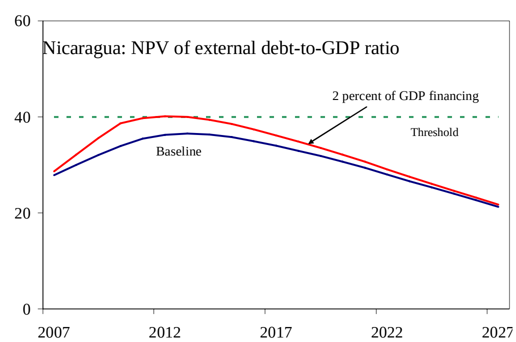


Table 1. Nicaragua: External Debt Sustainability Framework, Baseline Scenario, 2004-2027 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2004	2005	2006			2007	2008	2009	2010	2011	2012	2007-12 Average	2017	2027	2013-27 Average
External debt (nominal) 1/	**120.7**	**110.2**	**85.4**			**36.3**	**39.6**	**42.9**	**45.4**	**47.4**	**48.6**		**46.6**	**31.0**	
o/w public and publicly guaranteed (PPG)	120.7	110.2	85.4			36.3	39.6	42.9	45.4	47.4	48.6		46.6	31.0	
Change in external debt	-40.5	-10.6	-24.8			-49.1	3.3	3.3	2.4	2.0	1.2		-1.1	-1.6	
Identified net debt-creating flows	-13.3	-5.4	-4.3			1.5	4.7	3.4	2.5	2.0	1.7		-0.1	-5.8	
Non-interest current account deficit	**5.1**	**8.2**	**9.6**	**8.3**	**2.1**	**9.2**	**11.0**	**10.0**	**9.3**	**8.6**	**8.4**		**6.5**	**0.4**	4.6
Deficit in balance of goods and services	27.1	29.7	29.9			29.9	29.9	28.8	27.4	25.9	24.6		18.4	5.9	
Exports	37.1	40.4	43.8			45.2	48.2	51.1	53.4	54.6	54.9		56.2	58.7	
Imports	64.2	70.1	73.7			75.1	78.2	79.9	80.9	80.5	79.5		74.5	64.6	
Net current transfers (negative = inflow)	-23.8	-22.9	-21.5	-19.7	3.5	-22.0	-20.4	-20.3	-19.6	-18.9	-18.0		-13.8	-7.7	-12.0
o/w official	-6.9	-5.9	-5.3			-5.8	-4.6	-4.6	-4.6	-4.0	-3.6		-1.7	-0.2	
Other current account flows (negative = net inflow)	1.8	1.4	1.1			1.2	1.4	1.4	1.5	1.6	1.7		1.9	2.2	
Net FDI (negative = inflow)	**-5.9**	**-4.6**	**-5.6**	**-5.9**	**1.7**	**-5.2**	**-5.4**	**-5.5**	**-5.5**	**-5.5**	**-5.5**		**-5.4**	**-5.3**	-5.4
Endogenous debt dynamics 2/	**-12.5**	**-8.9**	**-8.4**			**-2.5**	**-0.9**	**-1.1**	**-1.3**	**-1.2**	**-1.2**		**-1.2**	**-0.9**	
Contribution from nominal interest rate	0.6	0.8	0.9			0.8	0.7	0.7	0.7	1.2	1.2		1.3	0.8	
Contribution from real GDP growth	-7.9	-4.8	-3.7			-3.3	-1.6	-1.8	-2.0	-2.3	-2.4		-2.4	-1.7	
Contribution from price and exchange rate changes	-5.2	-4.9	-5.5			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**-27.2**	**-5.2**	**-20.4**			**-50.6**	**-1.3**	**-0.1**	**-0.1**	**0.0**	**-0.5**		**-1.0**	**4.2**	
o/w exceptional financing	-31.4	-2.8	-0.1			-23.1	-0.2	-0.2	-0.1	0.0	0.0		0.0	0.0	
NPV of external debt 4/	...	...	26.5			27.9	30.0	32.1	33.9	35.4	36.3		34.0	21.3	
In percent of exports	...	...	60.6			61.7	62.1	62.7	63.5	64.9	66.1		60.5	36.2	
NPV of PPG external debt	**...**	**...**	**26.5**			**27.9**	**30.0**	**32.1**	**33.9**	**35.4**	**36.3**		**34.0**	**21.3**	
In percent of exports	**...**	**...**	**60.6**			**61.7**	**62.1**	**62.7**	**63.5**	**64.9**	**66.1**		**60.5**	**36.2**	
In percent of government revenues	**...**	**...**	**140.9**			**142.3**	**152.0**	**161.9**	**170.7**	**179.2**	**184.3**		**177.6**	**117.5**	
Debt service-to-exports ratio (in percent)	**4.6**	**4.4**	**4.3**			**3.7**	**3.3**	**3.2**	**3.0**	**3.2**	**4.0**		**5.7**	**4.5**	
PPG debt service-to-exports ratio (in percent)	**4.6**	**4.4**	**4.3**			**3.7**	**3.3**	**3.2**	**3.0**	**3.2**	**4.0**		**5.7**	**4.5**	
PPG debt service-to-revenue ratio (in percent)	**9.9**	**9.9**	**9.9**			**8.6**	**8.1**	**8.3**	**8.0**	**8.7**	**11.1**		**16.8**	**14.4**	
Total gross financing need (millions of U.S. dollars)	42.4	258.8	312.5			323.1	434.9	395.6	376.0	365.6	409.8		496.9	-560.8	
Non-interest current account deficit that stabilizes debt ratio	45.6	18.8	34.4			58.2	7.7	6.7	6.9	6.6	7.1		7.6	2.0	
Key macroeconomic assumptions															
Real GDP growth (in percent)	5.3	4.3	3.7	3.8	1.7	4.2	4.7	5.0	5.0	5.5	5.5	5.0	5.5	5.5	5.5
GDP deflator in US dollar terms (change in percent)	3.4	4.2	5.3	1.0	2.8	2.8	2.5	1.9	1.9	2.0	1.9	2.2	2.0	2.0	2.0
Effective interest rate (percent) 5/	0.4	0.7	0.9	1.7	1.2	1.0	2.1	2.0	1.8	2.8	2.8	2.1	2.9	2.7	2.8
Growth of exports of G&S (US dollar terms, in percent)	26.0	18.6	18.2	12.7	9.5	10.7	14.5	13.4	11.8	10.0	8.1	11.4	8.1	8.1	8.1
Growth of imports of G&S (US dollar terms, in percent)	19.3	18.8	14.7	11.4	9.4	9.2	11.7	9.4	8.3	7.1	6.2	8.6	6.2	6.0	6.1
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	39.8	35.7	35.4	31.8	30.1	30.0	33.8	26.3	20.1	24.4
Aid flows (in millions of US dollars) 7/	889	630	658			714	692	743	744	737	730		689	645	
o/w Grants	307	289	282			331	280	299	318	302	287		200	49	
o/w Concessional loans	345	267	296			334	406	439	426	434	443		489	596	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			8.2	7.0	7.0	6.5	5.8	5.2		2.8	0.7	2.2
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			69.8	61.9	61.6	61.0	58.8	57.6		47.6	26.2	40.9
Memorandum items:															
Nominal GDP (millions of US dollars)	4,465	4,855	5,301			5,675	6,092	6,513	6,970	7,498	8,065		11,620	24,158	
(NPVt-NPVt-1)/GDPt-1 (in percent)						3.4	4.3	4.3	4.2	4.2	3.6	4.0	1.6	0.3	1.3

Source: Staff simulations.

1/ Includes only public and publicly-guaranteed external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the NPV of new debt).

Table 2a. Nicaragua: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2007-27
(In percent)

	Projections							
	2007	2008	2009	2010	2011	2012	**2017**	2027
NPV of debt-to-GDP ratio								
Baseline	27.9	30.0	32.1	33.9	35.4	36.3	**34.0**	21.3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-27 1/	27.9	29.1	31.1	33.5	36.3	38.6	**47.9**	85.6
A2. New public sector loans on less favorable terms in 2008-27 2/	27.9	31.7	35.6	38.9	42.1	44.5	**48.2**	41.9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	27.9	30.7	33.8	35.7	37.3	38.2	**35.8**	22.4
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	27.9	33.9	43.5	45.1	46.2	46.7	**42.8**	24.5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	27.9	31.3	34.8	36.7	38.4	39.3	**36.8**	23.0
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	27.9	34.5	41.0	42.6	43.9	44.4	**40.8**	23.8
B5. Combination of B1-B4 using one-half standard deviation shocks	27.9	36.5	48.4	50.0	51.3	51.8	**47.4**	27.0
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	27.9	42.4	45.4	48.0	50.1	51.3	**48.1**	30.1
NPV of debt-to-exports ratio								
Baseline	61.7	62.1	62.7	63.5	64.9	66.1	**60.5**	36.2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 1/	61.7	60.3	60.9	62.7	66.4	70.3	**85.2**	145.8
A2. New public sector loans on less favorable terms in 2007-26 2/	61.7	65.8	69.6	72.8	77.1	81.1	**85.8**	71.4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	61.7	62.1	62.7	63.5	64.9	66.1	**60.5**	36.2
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	61.7	78.0	103.6	102.7	103.1	103.7	**92.8**	50.8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	61.7	62.1	62.7	63.5	64.9	66.1	**60.5**	36.2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	61.7	71.5	80.1	79.7	80.3	80.9	**72.7**	40.5
B5. Combination of B1-B4 using one-half standard deviation shocks	61.7	76.7	96.5	95.6	95.8	96.3	**86.1**	46.9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	61.7	62.1	62.7	63.5	64.9	66.1	**60.5**	36.2
NPV of debt-to-revenue ratio								
Baseline	142.3	152.0	161.9	170.7	179.2	184.3	**177.6**	117.5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 1/	142.3	147.5	157.2	168.5	183.5	196.1	**250.1**	473.0
A2. New public sector loans on less favorable terms in 2007-26 2/	142.3	161.0	179.6	195.6	213.1	226.2	**251.8**	231.6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	142.3	155.8	170.5	179.7	188.7	194.1	**187.0**	123.7
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	142.3	171.9	219.6	226.7	233.9	237.6	**223.7**	135.4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	142.3	158.6	175.4	184.8	194.1	199.6	**192.3**	127.3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	142.3	174.8	206.9	214.3	221.8	225.8	**213.2**	131.3
B5. Combination of B1-B4 using one-half standard deviation shocks	142.3	185.1	244.1	251.7	259.4	263.3	**247.5**	149.0
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	142.3	214.9	229.0	241.3	253.4	260.6	**251.1**	166.2
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	17.0	17.0	17.0	17.0	17.0	17.0	**17.0**	17.0

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 2b. Nicaragua: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2007-27 (continued)
(In percent)

	Projections							
	2007	2008	2009	2010	2011	2012	**2017**	2027
Debt service-to-exports ratio								
Baseline	3.7	3.3	3.2	3.0	3.2	4.0	**5.7**	4.5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-27 1/	3.9	3.4	3.4	3.2	3.3	4.3	**7.4**	11.2
A2. New public sector loans on less favorable terms in 2008-27 2/	3.9	3.4	3.3	3.5	3.6	4.1	**4.6**	6.1
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	3.9	3.4	3.3	3.2	3.2	4.0	**5.7**	4.7
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	3.9	3.7	4.4	4.9	4.8	5.8	**8.0**	6.7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	3.9	3.4	3.3	3.2	3.2	4.0	**5.7**	4.7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	3.9	3.4	3.7	3.8	3.8	4.6	**6.5**	5.3
B5. Combination of B1-B4 using one-half standard deviation shocks	3.9	3.6	4.1	4.6	4.4	5.3	**7.5**	6.2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	3.9	3.4	3.3	3.2	3.2	4.0	**5.7**	4.7
Debt service-to-revenue ratio								
Baseline	8.6	8.1	8.3	8.0	8.7	11.1	**16.8**	14.4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-27 1/	9.0	8.4	8.7	8.7	9.0	12.0	**21.6**	36.5
A2. New public sector loans on less favorable terms in 2008-27 2/	9.0	8.2	8.6	9.3	10.0	11.4	**13.5**	19.7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	9.0	8.4	9.0	9.1	9.2	11.7	**17.7**	16.2
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	9.0	8.2	9.4	10.8	10.9	13.2	**19.4**	17.8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	9.0	8.6	9.3	9.3	9.4	12.0	**18.2**	16.6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	9.0	8.2	9.5	10.3	10.4	12.7	**19.1**	17.2
B5. Combination of B1-B4 using one-half standard deviation shocks	9.0	8.6	10.4	12.0	12.0	14.5	**21.5**	19.6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	9.0	11.6	12.1	12.2	12.3	15.7	**23.8**	21.7
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	17.0	17.0	17.0	17.0	17.0	17.0	**17.0**	17.0

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Nicaragua: Current Account Decompostion 2004-2027
(In percent of GDP)

				Projection						2007 - 2012	Proj.		2013 - 2027
	2004	2005	2006	2007	2008	2009	2010	2011	2012	Average	2017	2027	Average
Current account	**-12.6**	**-14.9**	**-15.8**	**-15.8**	**-16.3**	**-15.3**	**-14.6**	**-13.8**	**-13.2**	**-14.8**	**-9.5**	**-1.4**	**-7.0**
Trade balance	-24.4	-26.8	-27.2	-27.3	-27.3	-26.3	-25.1	-23.6	-22.5	-25.3	-16.8	-5.5	-13.4
Exports, f.o.b.	30.7	34.1	37.3	38.5	41.4	44.2	46.3	47.5	47.8	44.3	49.2	52.0	50.0
Imports, f.o.b.	-55.0	-60.9	-64.6	-65.8	-68.7	-70.5	-71.4	-71.1	-70.2	-69.6	-66.0	-57.5	-63.4
Nonfactor services (net)	-2.8	-2.9	-2.7	-2.6	-2.6	-2.5	-2.4	-2.3	-2.1	-2.4	-1.6	-0.4	-1.2
Official interest obligations 1/	-0.6	-0.8	-0.9	-0.8	-0.7	-0.7	-0.7	-1.2	-1.2	-0.9	-1.3	-0.8	-1.1
Other current transactions (net)	15.1	15.6	15.0	14.9	14.3	14.2	13.5	13.2	12.7	13.8	10.2	5.3	8.7
Factor services receipts	0.2	0.5	0.8	0.9	0.8	0.9	0.9	0.9	0.8	0.8	0.6	0.3	0.5
Noninterest factor services payments	-2.0	-1.9	-1.9	-2.1	-2.2	-2.3	-2.4	-2.5	-2.5	-2.3	-2.5	-2.5	-2.5
Private transfers	16.9	17.0	16.1	16.1	15.8	15.7	15.1	14.8	14.4	15.3	12.1	7.5	10.7
Of which : remittances	11.6	12.4	12.4	12.6	12.5	12.6	12.5	12.2	11.9	12.4	10.2	7.0	9.3
Current account excluding interests	**-12.0**	**-14.1**	**-14.9**	**-15.0**	**-15.6**	**-14.6**	**-13.9**	**-12.7**	**-11.9**	**-13.9**	**-8.2**	**-0.6**	**-5.9**
Official grants transfers	6.9	5.9	5.3	5.8	4.6	4.6	4.6	4.0	3.6	4.5	1.7	0.2	1.3
Current account excluding interests and official transfers 1/	**-5.1**	**-8.2**	**-9.6**	**-9.2**	**-11.0**	**-10.0**	**-9.3**	**-8.6**	**-8.4**	**-9.4**	**-6.5**	**-0.4**	**-4.6**

Sources: Central Bank of Nicaragua; and Fund staff estimates/projections.

1/ This is the definition of the current account used in the DSA, which was also used in the 2005 DSA.

Table 4.Nicaragua: Public Sector Debt Sustainability Framework, Baseline Scenario, 2004-2027

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Estimate	Projections					2007-12 Average			2013-27 Average
	2004	2005	2006			2007	2008	2009	2010	2011	2012		2017	2027	
Gross public sector debt 1/	150.7	137.7	106.5			56.9	57.5	58.2	58.7	59.2	58.6		51.6	32.7	
Net of deposit accumlation 2/	150.7	137.7	106.5			56.2	56.2	55.8	55.1	54.5	53.0		44.6	23.9	
Foreign-currency denominated	120.7	110.2	83.3			36.3	39.6	42.9	45.4	47.7	49.1		48.4	32.7	
Domestic (net of deposit accumulation)	30.0	27.5	23.3			19.9	16.5	12.9	9.8	6.8	3.9		-3.8	-8.8	
Change in public sector debt	-45.1	-13.0	-31.2			-49.6	0.6	0.7	0.5	0.6	-0.6		-1.6	-1.8	
Identified debt-creating flows	-48.4	-15.8	-32.4			-52.6	-2.2	-2.7	-2.8	-3.0	-3.2		-3.0	-2.0	
Primary deficit	-0.3	-0.8	-2.2	0.0	1.6	-0.8	0.1	-0.4	-0.3	-0.3	-0.3	-0.4	-0.3	-0.3	-0.3
Revenue and grants	20.9	21.6	23.1			24.2	24.3	24.6	24.2	23.6	23.2		21.7	20.5	
of which: grants	3.6	3.5	4.3			4.7	4.6	4.8	4.3	3.7	3.3		1.8	0.6	
Primary (noninterest) expenditure	20.5	20.8	21.0			23.5	24.4	24.3	23.8	23.2	22.8		21.3	20.1	
Automatic debt dynamics	-15.3	-12.1	-9.2			-6.3	-3.0	-3.1	-3.2	-3.3	-2.8		-2.6	-1.6	
Contribution from interest rate/growth differential	-13.7	-9.9	-8.1			-6.0	-2.8	-3.1	-3.2	-2.9	-2.9		-2.4	-1.6	
of which: contribution from average real interest rate	-3.8	-3.6	-3.2			-1.7	-0.3	-0.4	-0.4	0.1	0.2		0.3	0.2	
of which: contribution from real GDP growth	-9.9	-6.3	-4.9			-4.3	-2.6	-2.7	-2.8	-3.1	-3.1		-2.8	-1.8	
Contribution from real exchange rate depreciation	-1.6	-2.1	-1.1			-0.3	-0.2	0.0	0.0	-0.4	0.0		...	...	
Other identified debt-creating flows	-32.7	-3.0	-21.1			-45.6	0.8	0.8	0.7	0.7	0.0		0.0	0.0	
Privatization receipts (negative)	-0.2	-0.2	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	1.5	2.6	1.1			0.9	0.8	0.8	0.7	0.7	0.0		0.0	0.0	
Debt relief (HIPC and other)	-34.0	-5.4	-22.2			-46.5	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	3.3	2.8	1.3			3.0	2.7	3.4	3.3	3.6	2.6		1.4	0.2	
Assets (flows, excluded from gross debt definition)	...	...	...			1.9	2.0	2.5	2.6	2.6	2.2		1.2	0.3	
Social Security Institute (INSS)	...	...	...			1.2	1.3	1.4	1.3	1.3	1.2		0.7	-0.5	
Rest of public sector						0.7	0.6	1.2	1.2	1.3	1.0		0.5	0.8	
Other						1.1	0.8	0.9	0.7	1.0	0.4		0.2	-0.1	
NPV of public sector debt	30.0	27.5	49.8			48.5	47.8	47.3	47.2	47.1	46.0		38.4	22.7	
o/w foreign-currency denominated	0.0	0.0	26.5			27.9	30.0	32.0	33.9	35.6	36.6		35.2	22.7	
o/w external	...	...	26.5			27.9	30.0	32.0	33.9	35.6	36.6		35.2	22.7	
Gross financing need 3/	4.2	2.8	0.9			2.0	2.7	1.9	1.8	1.9	2.2	2.1	3.1	2.5	2.8
NPV of public sector debt-to-revenue and grants ratio (in percent)	143.7	127.6	215.1			200.0	196.6	192.0	195.3	200.1	198.7		177.2	110.6	
NPV of public sector debt-to-revenue ratio (in percent) 4/	174.2	152.1	264.7			247.5	242.4	238.8	237.3	237.0	231.5		193.1	113.9	
o/w external 4/	...	...	140.9			142.3	152.0	161.5	170.3	178.8	183.8		177.0	113.9	
Debt service-to-revenue and grants ratio (in percent) 5/	20.5	15.8	12.9			11.1	10.8	9.3	9.0	9.3	11.1	10.1	15.7	13.8	14.9
Debt service-to-revenue ratio (in percent) 5/	24.8	18.9	15.8			13.8	13.3	11.6	10.9	11.1	12.9	12.3	17.1	14.2	15.9
Primary deficit that stabilizes the debt-to-GDP ratio	44.8	12.3	29.0			48.9	-0.5	-1.1	-0.8	-0.9	0.3		1.2	1.4	**1.4**
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	5.3	4.3	3.7	3.8	1.6	4.2	4.7	5.0	5.0	5.5	5.5	5.0	5.5	5.5	5.5
Average nominal interest rate on forex debt (in percent)	0.4	0.8	0.9	0.7	0.2	1.2	2.3	2.3	2.3	2.9	2.9	2.3	2.9	2.6	2.8
Average real interest rate on domestic currency debt (in percent)	-0.7	-3.8	-4.2	-3.2	2.9	-3.3	-2.0	-3.1	-3.5	-2.0	-1.6	-2.6	-1.8	...	-2.0
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.1	-1.9	-1.0	-1.6	0.5	-0.4	-0.5	0.1	0.0	-0.9	0.0	-0.3	-0.5	0.0	-0.1
Inflation rate (GDP deflator, in percent)	9.2	10.3	9.2	9.8	0.6	7.9	7.6	7.0	7.0	6.0	5.0	6.7	3.5	2.0	3.2
Growth of real primary spending (deflated by GDP deflator, in percent)	9.6	4.9	5.8	6.5	2.1	16.7	8.7	4.3	3.1	2.2	3.2	6.4	3.6	4.9	4.0

Sources: Country authorities; and Fund staff estimates and projections.

1/ Gross Combined Public Sector (CPS) debt includes: central government, Social Security Institute, Managua Municipality, Public Enterprises and Central Bank.

2/ Excludes net asset position of social security institute (INSS).

3/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

4/ Revenues excluding grants.

5/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

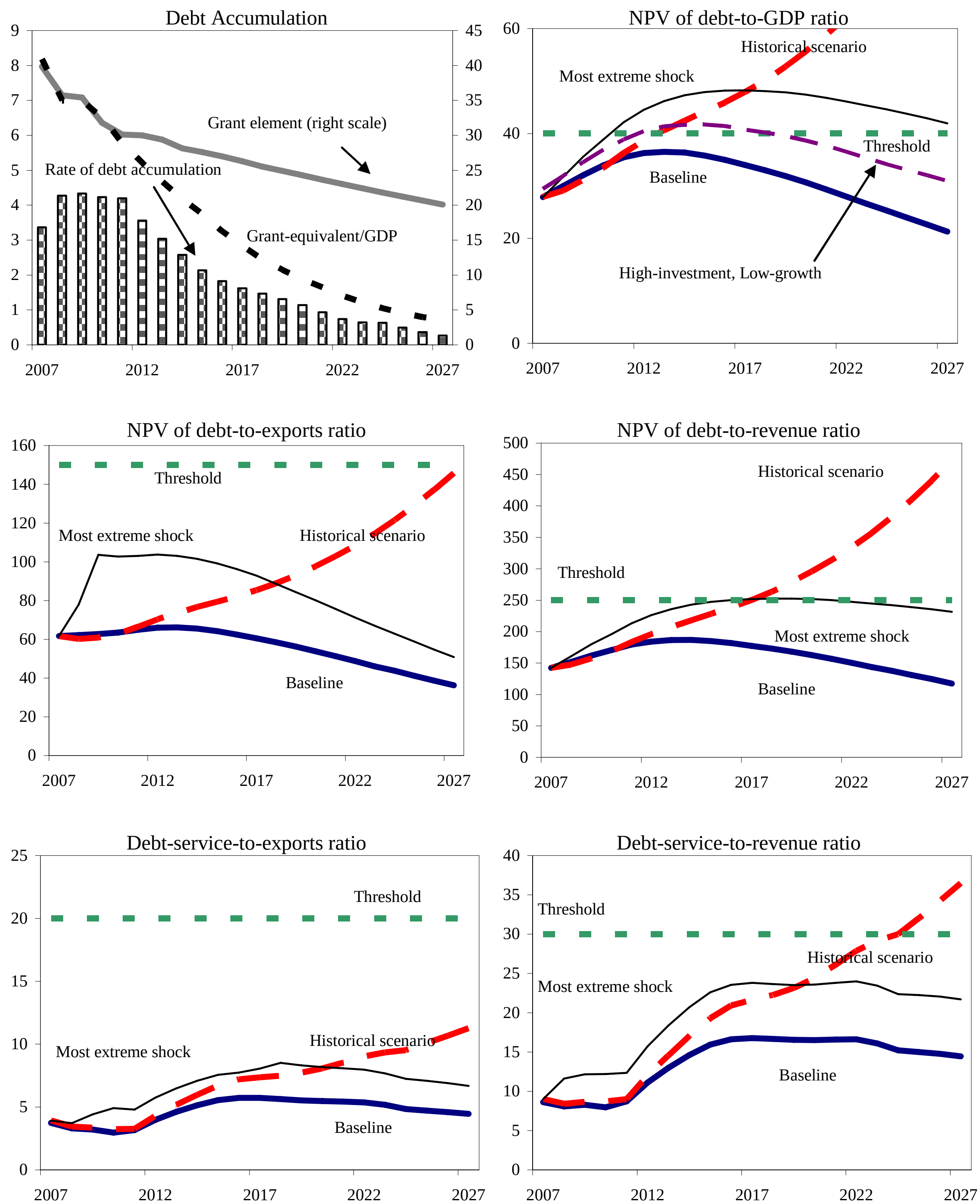
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 5. Nicaragua: Sensitivity Analysis for Key Indicators of Public Debt 2007-2027

	Projections							
	2007	2008	2009	2010	2011	2012	2017	2027
NPV of Debt-to-GDP Ratio								
Baseline	48.5	47.8	47.3	47.2	47.1	46.0	38.4	22.7
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	47.4	47.4	48.2	49.4	50.8	51.2	49.5	40.6
A2. Primary balance is unchanged from 2007	47.4	46.1	45.4	45.0	44.7	43.4	34.3	15.9
A3. Permanently lower GDP growth 2/	47.9	47.8	47.9	48.5	49.1	48.6	42.5	25.8
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	48.5	49.8	52.0	53.0	53.9	53.6	47.8	27.9
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	47.9	48.8	50.2	50.4	50.5	49.4	40.3	15.2
B3. Combination of B1-B2 using one half standard deviation shocks	47.9	49.1	51.0	51.0	51.0	49.8	40.1	14.6
B4. One-time 30 percent real depreciation in 2008	47.9	59.5	58.2	57.8	57.2	55.8	46.1	21.3
B5. 10 percent of GDP increase in other debt-creating flows in 2008	47.7	56.4	55.7	55.5	55.3	54.1	45.6	27.8
NPV of Debt-to-Revenue Ratio 3/								
Baseline	200.0	196.6	192.0	195.3	200.1	198.7	177.2	110.6
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	194.9	194.0	194.0	202.0	213.2	217.8	224.9	195.8
A2. Primary balance is unchanged from 2007	194.9	188.9	183.6	185.7	189.7	187.2	158.7	77.9
A3. Permanently lower GDP growth 1/	197.0	195.9	193.9	199.9	207.8	209.0	196.1	125.9
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	200.0	203.6	208.5	216.8	226.9	229.7	220.3	136.2
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	197.0	200.1	203.3	207.9	213.9	213.1	186.2	74.1
B3. Combination of B1-B2 using one half standard deviation shocks	197.0	200.4	204.4	208.6	214.6	213.4	184.9	71.5
B4. One-time 30 percent real depreciation in 2008	197.0	244.2	235.8	238.4	242.6	240.8	213.3	104.2
B5. 10 percent of GDP increase in other debt-creating flows in 2008	196.1	231.4	225.7	229.3	234.6	233.5	210.9	135.9
Debt Service-to-Revenue Ratio 3/								
Baseline	11.1	10.8	9.3	9.0	9.3	11.1	15.7	13.8
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	11.2	11.0	9.5	9.9	10.6	12.8	19.6	22.5
A2. Primary balance is unchanged from 2007	11.2	10.9	8.2	8.0	8.2	9.9	13.5	8.6
A3. Permanently lower GDP growth 1/	11.2	11.3	10.0	9.9	10.5	12.4	17.0	14.6
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	11.1	11.1	10.6	11.5	12.4	14.4	18.9	16.0
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	11.2	11.3	11.6	12.7	11.4	12.5	15.3	9.0
B3. Combination of B1-B2 using one half standard deviation shocks	11.2	11.5	10.9	11.5	10.8	12.2	15.4	8.4
B4. One-time 30 percent real depreciation in 2008	11.2	12.0	11.7	11.9	13.2	15.3	19.6	13.5
B5. 10 percent of GDP increase in other debt-creating flows in 2008	11.2	10.9	22.7	14.6	12.5	13.5	17.2	16.6

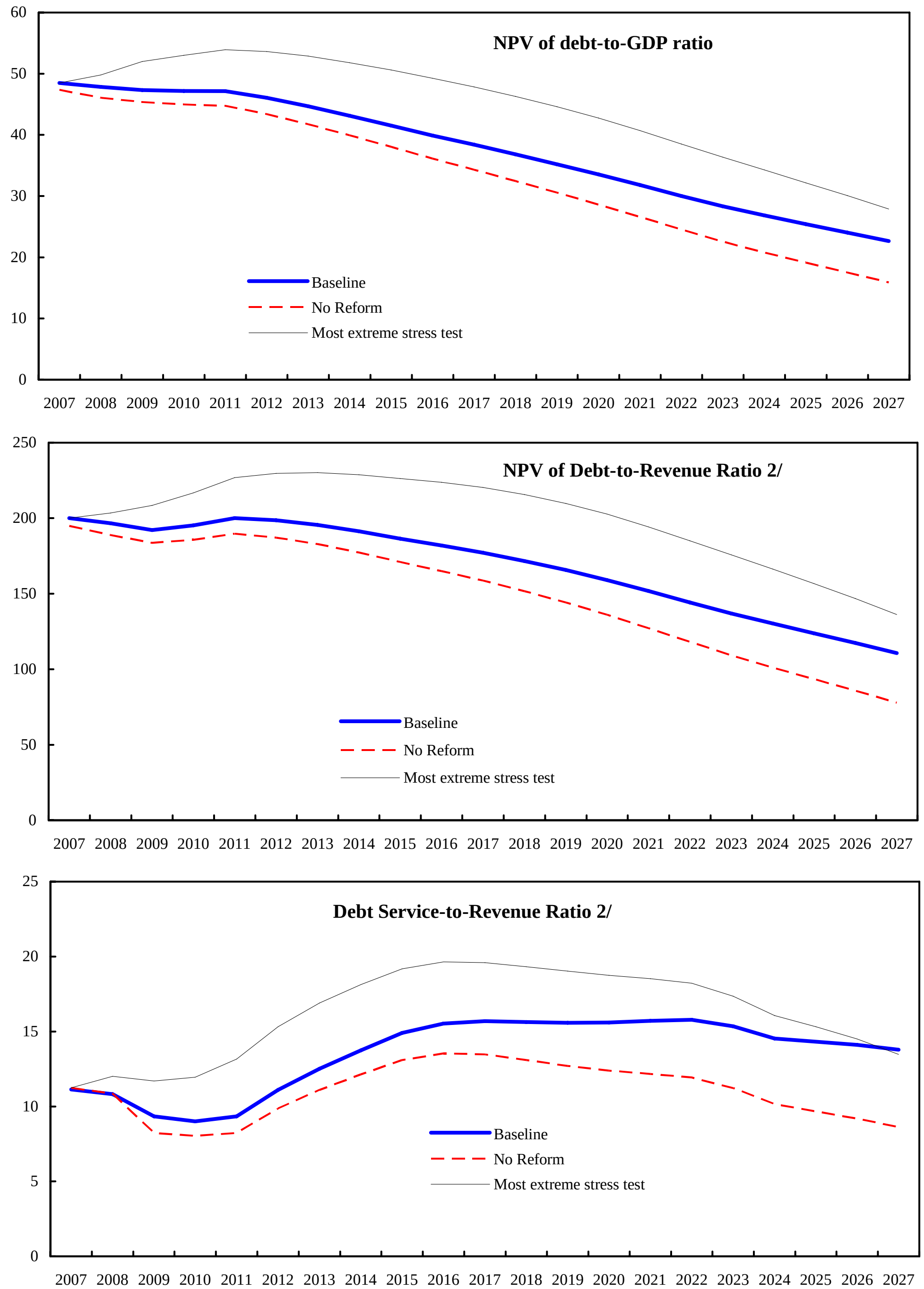
Sources: Country authorities; and Fund staff estimates and projections.
1/ Gross consolidated public sector debt (excluding deposit accumulation).
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).
2/ Revenues are defined inclusive of grants.

Annex Figure 1. Nicaragua: Indicators of Public and Publicly Guaranteed External Debt
Under Alternative Scenarios, 2007-2027



Source: Staff projections and simulations.

Figure 2. Nicaragua: Indicators of Public Debt Under Alternative Scenarios, 2007-2027 1/



Source: Staff projections and simulations.
1/ Most extreme stress test referers to that where real GDP growth is at historical average minus one standard deviations.
2/ Revenue including grants.

Annex H: Country Financing Parameters

Item	Parameter	Remarks / Explanation
Cost sharing. Limit on the proportion of individual project costs that the Bank may finance	Up to 100 percent	Specific arrangements would be determined for individual projects, based on project context, staff's judgment of Government commitment in the sector concerned, portfolio-wide limits given by IDA allocations and co-financing by other partners, including through SWAps. Low to moderate country contributions are expected to continue for most projects.
Recurrent cost financing. Any limits that would apply to the overall amount of recurrent expenditures that the Bank may finance?	No specific limit	Consistent with the Government's own prudent fiscal stance, Bank recurrent cost financing will remain subject to consideration of the overall medium-term fiscal sustainability and is expected to stay broadly within the ranges of recent years. Targets for the overall levels of public borrowing and for the overall composition of recurrent and capital public expenditures would be agreed to in our macroeconomic policy dialogue. Within this framework, projects at the sector level would be free to establish any ratio of current to capital financing in a way that best promises to meet project objectives in a sustained manner, and only after careful consideration of: (i) the likelihood of project sustainability, and (ii) necessary future budgetary outlays.
Local cost financing. Are the requirements for Bank financing of local expenditures met, namely that: (i) financing requirements for the country's development program would exceed the public sector's own resources (e.g., from taxation and other revenues) and expected domestic borrowing; and (ii) the financing of foreign expenditures alone would not enable the Bank to assist in the financing of individual projects?	Yes	The two requirements are met. The Bank may therefore finance local costs in the proportions needed in individual projects.
Taxes and duties. Are there any taxes and duties that the Bank would not finance?	None	The Bank may finance the costs of taxes and duties associated with project expenditures, as long as they are reasonable and non-discriminatory. As of December 2004, no taxes or duties are identified as unreasonable or discriminatory. In individual projects, the Bank will consider whether taxes and duties constitute an excessively high share of project cost.

Annex I: Summary of Development Priorities

Network area	*Country performance*[a]	*Major issue*[b]	*Country priority*[c]	*Bank priority*[c]	*Reconciliation of country and Bank priorities*[d]
Poverty Reduction & Economic Management					
Poverty reduction	Fair	Rural and Caribbean Coast Poverty	High	High	
Economic policy	Good	Fiscal	High	High	
Public sector	Fair	Governance/ Inst. Capacity	High	High	
Gender	Fair / Good	Access to equal economic opportunities and domestic violence	Moderate	Moderate	
Financial sector	Good	Supervision capacity, Information systems, limited credits to MIPYMES	Moderate	Moderate	
Private sector	Good	Reaping benefits of Free Trade Agreements	Moderate	Moderate	
Human Development Department					
Education	Fair / Good	Access and Quality	High	High	
Health, nutrition & population	Good	High chronic malnutrition, old infrastructure, and decline in access to reproductive health services	High	High	
Social protection	Poor	Strategies not implemented	High	High	
Sustainable Development					
Rural development	Good	Access to technology	High	Moderate	Other donors active
Environment	Fair	Deforestation and water quality	Moderate	Moderate	
Social development	Fair	Indigenous rights	High	High	
Energy & mining	Poor	Generation capacity	High	Moderate	IDB has the lead
Infrastructure	Good	Telecommunications and roads	High	High	

a. Use “excellent,” “good,” “fair,” or “poor.” b. Indicate principal country-specific problems (e.g., for poverty reduction, “rural poverty;” for education, “female secondary completion;” for environment, “urban air pollution”). c. To indicate priority, use “low,” “moderate,” or “high.”d. Give explanation, if priorities do not agree; for example, another MDB may have the lead on the issue, or there may be ongoing dialogue.

Annex J.1: External Partners in Nicaragua

Partner	Cross- sector	Communications and Transport	Energy	Water and Sanitation	Telecommunications	Agriculture & Rural Development	Natural Resources	Various Economical Infrastructure	Various Productive	Education	Health	Social Programs	Municipalities	Culture	Housing	Various Social	Financial	Governance	Various	Fish	Industry
Bilateral																					
Austria				X		X	X			X	X								X		
Canada				X						X	X							X	X		
Denmark		X				X	X			X		X	X			X		X	X		
Finland						X	X			X	X		X				X				
France											X										
Germany			X	X		X	X		X	X		X	X			X	X	X	X		X
Luxembourg								X	X	X	X										
Great Britain																		X	X		
Ireland									X							X		X	X		
Italy									X				X								
Japan										X	X						X				
Netherlands							X		X		X	X					X			X	
Norway											X	X				X	X	X	X	X	
ROC-Taiwan																				X	
Korea				X																	
Spain		X	X	X			X					X						X			
Sweden						X				X	X					X		X		X	
Switzerland			X	X		X			X								X	X		X	X
U.S.A									X									X			
Multilateral																					
BCIE		X	X			X		X	X			X			X			X			
European Union		X		X		X			X	X	X		X				X			X	
FIDA						X	X		X												
FGSTM											X										
GEF		X	X				X														
IDB		X	X	X		X	X	X	X	X	X	X	X		X	X	X	X	X		
NDF		X		X							X							X			
OIEA			X	X							X										
OAS									X	X											
OPEP fund		X		X								X	X								
OPS/WHO											X										
UNCDF													X								
UNDP			X	X			X		X	X		X	X		X	X		X		X	X
UNESCO												X		X							
UNFPA											X	X	X			X				X	
UNICEF				X						X		X									
WB		X	X		X	X			X	X	X	X				X	X	X	X		
WFP										X		X	X								

*As of January 2007. Source: SYSODA.

Yellow	0-$US 20 million
Pink	$US 20- $US 50 million
Blue	$US 50 million and above

Annex J.2: Education sector: Active donors.

Donor Agency	Project	Type of Lending (Soft/ Hard)[1]	Total Assistance (US$ Million)	Total to be Disbursed (FY08-FY12)[2]	Additional Information (level of education)
European Union	Programa de Apoyo al Sector Educación (PROASE)	Soft and Hard- funds are available to MINED in form of open sectoral support	-	US$ 57.41M	Basic education[3]
Embassy of Denmark	(PROASE)	Soft and Hard	US$ 30M	US$ 23M	Basic education
Canadian International Development Agency (CIDA)	(PROASE)	Soft and Hard	US$ 12.2 M	US$ 7.29M	Manages US$ 40M from the Netherlands (silent partnership) Basic education
World Food Program	Inversión en capital humano mediante la educación	Hard- School feeding program	-	US$ 15.3M	Preschool, primary, secondary
US Agency for International Development	Various[4]	Soft- curriculum, teacher professional development, institutional strengthening	-	To be disbursed approximately US$ 15M	See detailed information in footnote below. Primary
World Bank	PASEN	Soft- enrollment, quality, improve systems of governance and accountability, harmonize donor assistance	US$ 15M	US$ 8M	Manages Education For All (EFA), US$ 17M. Preschool, primary, secondary
Inter- American Development Bank	Educación Básica para Jóvenes y Adultos y Programa de Inversión Social Municipal	Soft and Hard- Programa de Inversion- remodeling and construction of schools	Basic Education - US$ 10M	US$ 164,017	Basic education
			Social Investment- US$ 8.12M (FY06-09)		
United Nations Population Fund (UNFP)	Educación de la Sexualidad y Promoción de la Salud	Soft	US$ 4.2M	US$ 4.2M	US$ 3.7 of the funds are from Luxemburg. Primary & secondary
Organization of Ibero-American States	Varios[5]	Soft- basic literacy classes, bachelor level classes, technical assistance to improve MINED coverage/quality	US$ 2.73M	US$ 2.3M	Basic education projects targeted adult population, bachelor level education and the work force
United Nations Children Fund	Educación de calidad para todos los niños y niñas	Soft- curriculum for teacher formation and training, curriculum for life, etc	Last year as a point of reference (US$ 1.25M)	Preschool, primary, secondary	
Japan International Cooperation Agency (JICA)	Proyecto de Mejoramiento de la Calidad de Enseñanza Matemática en la Educación Primaria	Soft- technical assistance (teacher guides, textbooks, teacher training)	US$ 1.7M	US$ 850,000	JICA Volunteer program (US$ 1.2M); Embassy of Japan conducting study for construction of schools. Primary
Spanish Agency for International Cooperation	Mejora de la Calidad Educativa	Soft- teacher training and additional classroom inputs	To be disbursed $439,306 no additional information available.		Primary and secondary

[1] Type of lending refers to hard and soft lending. **Soft lending** is defined as education lending for curriculum development, teacher training, administration of exams, policy development and technical assistance to MINED; **Hard lending** is defined as lending for the construction of schools and classrooms as well as in the case of the World Food Program, to the school feeding program.

[2] Where noted information was not available for FY08-FY12.

[3] **Basic education** refers to a range of educational activities in various settings (formal, non formal and informal), that aim to meet basic learning needs. It can comprise primary education (first stage of basic education) and lower secondary education (second stage) as well as pre-primary education and/or adult literacy programs.

[4] Projects include: Excelencia- curriculum development, teacher professional development and technical assistance (US$ 7,841,913), Alliances for Education and Health- teacher professional development and institutional strengthening (US$ 6,214,767), Proyecto Nicaragüense de Apoyo al Sector Social (PRONICASS)- institutional strengthening (US$ 684,598), CETT- writing and comprehension (US$ 250,000).

[5] Projects include; Proyecto de Nivelación de Bachillerato para Enfermeras, Proyecto de Apoyo al Diseño curricular del Bachillerato de Jóvenes y Adultos CAM, Proyecto Vulcano de Habilitación laboral MEC, Programa de Alfabetización y Educación Básica de Adultos Fase III, Programa de Alfabetización y Educación Básica de Adultos en León y Chinandega, Instituto de Desarrollo e Innovación Educativa IDIE/OEI.

1. **The above table shows active donor involvement in the education sector in Nicaragua,** with largest donors in the top rows descending to smaller donors**.** Detailed information is presented on projects, the type of lending[1], the total assistance, the amount to be disbursed during the CPS period (FY08-12) and additional information including that on education level (basic, preschool, primary, and secondary).

2. **As seen above, the Embassy of Denmark, the Canadian International Development Agency (CIDA) and the European Union support the *Programa de Apoyo al Sector Educación* (PROASE).** PROASE is the largest basic education project at this time, with a total of about US$ 90M. The funds are made available to the MINED and can be used for either soft or hard lending purposes. Also, Canada is a silent partner managing $US 40M funds from the Netherlands.

3. **As noted in the table, the IDB supports both hard and soft lending activities.** Only $164,017 remains of the original US$ 10M to be disbursed of the *Educacion Basica para Jovenes y Adultos* project (which began in August 2004) and no other plans have been made. However, the IDB supports remodeling and construction of schools through their *Programa de Inversion Social Municipal* with US$ 8.12M left to be disbursed.

4. **The Japanese Embassy is currently in the process of determining its involvement in hard lending.** Currently they are conducting a preliminary study to determine their role in the constructions of education centers (primary and secondary) prepared for natural disasters in the northern region (Matagalpa, Jinotega, Estelí, Madriz and Nueva Segovia).

5. **While many donors provided accurate current information, others are still in the process of identifying their involvement** in the sector including the Icelandic International Development Agency (AECI), the Spanish Agency for International Cooperation (AECI), the French Embassy and the Luxemburg Cooperation. However, in the case of support from the United Nations Population Fund (UNFP) most of the funds are from Luxemburg, while the Cooperation itself is still in the process of identifying its soft lending activities (teacher formation support in the normal schools).

6. **Total lending to be disbursed is approximately $US 150M (FY08-12, known to date).** Nearly all of the lending is for soft lending, with the exception of Inter-American Development Bank's support for the remodeling and construction of schools (US$ 8.12M), the World Food Program which self identified its provision of a school feeding program as hard lending (US$ 15.3M), and the anticipated hard lending from the Embassy of Japan for the construction of centers in the northern region of the country. Given this, hard lending proportionate to total lending to be disbursed is about 15%.

Annex K: Social Indicators

	Latest single year			Same region/income group	
	1980-85	**1990-95**	**1999-2005**	**Latin America & Carib.**	**Lower middle income**
POPULATION					
Total population, mid-year (millions)	3.5	4.5	5.1	550.8	2,474.6
Growth rate (% annual average for period)	2.8	2.5	1.0	1.4	1.0
Urban population (% of population)	51.7	54.5	59.0	77.2	49.5
Total fertility rate (births per woman)	5.5	4.2	3.1	2.4	2.1
POVERTY					
(% of population)					
National headcount index	..	50.3	..	..	..
Urban headcount index	..	31.9	..	..	..
Rural headcount index	..	76.1	..	..	..
INCOME					
GNI per capita (US$)	730	540	950	4,045	1,923
Consumer price index (2000=100)	0	58	139	137	131
Food price index (2000=100)	0	65	116	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	50.4	43.1	..	..
Lowest quintile (% of income or consumption)	..	4.2	5.6	..	..
Highest quintile (% of income or consumption)	..	55.2	49.3	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	..	3.9	3.7	2.6
Education (% of GDP)	..	3.4	3.1	4.3	4.3
Net primary school enrollment rate					
(% of age group)					
Total	..	73	87	95	93
Male	..	72	88	96	94
Female	..	74	86	94	93
Access to an improved water source					
(% of population)					
Total	..	70	79	91	82
Urban	..	91	90	96	94
Rural	..	46	63	73	71
Immunization rate					
(% of children ages 12-23 months)					
Measles	59	85	96	92	86
DPT	42	80	86	91	86
Child malnutrition (% under 5 years)	10	11	10	..	12
Life expectancy at birth					
(years)					
Total	61	67	70	72	71
Male	58	65	68	69	68
Female	64	70	73	76	73
Mortality					
Infant (per 1,000 live births)	64	41	30	26	31
Under 5 (per 1,000)	85	53	37	31	39
Adult (15-59)					
Male (per 1,000 population)	277	220	219	208	176
Female (per 1,000 population)	189	147	146	118	111
Maternal (modeled, per 100,000 live births)	..	..	230	194	163
Births attended by skilled health staff (%)	..	..	67	87	86

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age or at any time before the survey. World Development Indicators database, World Bank - 27 April 2007.

Annex L: Key Economic Indicators

Indicator	Actual				Preliminary	Projection		
	2001	2002	2003	2004	2005	2006	2007	2008
National accounts (as % of GDP)								
Gross domestic product [a]	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	17.5	17.1	16.3	16.5	17.2	17.1	16.9	16.7
Industry	24.1	24.2	23.0	24.3	23.6	23.6	24.0	23.5
Services	51.4	51.7	53.5	52.6	51.8	51.8	52.0	52.1
Total Consumption	97.4	100.2	101.0	99.5	100.3	99.2	98.8	98.5
Gross domestic investment	28.2	26.1	25.9	27.1	29.4	29.6	29.4	28.7
Exports (GNFS)[b]	22.6	22.4	24.6	27.2	28.0	40.8	42.7	45.4
Imports (GNFS)	48.3	48.7	51.5	53.8	57.6	69.6	70.9	72.6
Gross domestic savings	2.6	-0.2	-1.0	0.5	-0.3	0.8	1.2	1.5
Gross national savings [c]	8.5	8.0	9.4	11.2	12.6	14.0	14.3	14.1
Memorandum items								
Gross domestic product (US$ million)	4,103	4,026	4,102	4,498	4,911	5,369	5,689	5,964
GDP per capita (US$)	822	797	805	878	954	1,023	1,075	1,114
Real annual growth rates (%, calculated from 1994 prices)								
Gross Domestic Product (GDP)	3.0	0.8	2.5	5.1	4.0	3.7	4.2	4.6
Gross Domestic Income (GDI)	1.4	1.3	1.9	4.1	3.1	7.6	3.7	4.7
Real annual per capita growth rates (%, calculated from 1994 prices)								
Gross domestic product at market prices	1.5	-0.4	1.6	4.6	3.5	1.7	3.2	3.6
Total consumption	2.6	2.4	1.2	3.2	2.7	1.1	2.3	3.3
Private consumption	3.4	3.2	0.8	3.1	3.0	1.4	2.4	2.8
Balance of Payments (US$ millions)								
Exports (GNFS) [b]	1,118	1,143	1,307	1,651	1,861	2,189	2,433	2,705
Merchandise FOB	895	917	1,050	1,365	1,552	1,940	2,155	2,227
Imports (GNFS) [b]	2,157	2,171	2,385	2,827	3,292	3,735	4,043	4,329
Merchandise FOB	1,805	1,834	2,021	2,440	2,865	3,303	3,554	3,605
Resource balance	-1,039	-1,029	-1,078	-1,177	-1,431	-1,545	-1,611	-1,624
Net income and current transfers	242	262	328	481	651	780	835	822
Current account balance	-797	-767	-749	-696	-780	-765	-775	-802
Foreign direct investment [d]	150	204	201	186	230	285	300	350
Long-term loans (net)	106	-40	110	215	146	-1,042	-274	-377
Other capital (net, incl. errors & ommissions)	427	688	506	463	450	1,726	857	933
Change in reserves	114	-85	-69	-169	-46	-204	-108	-104
Memorandum items								
Current Account balance (% of GDP)	-19.4	-19.1	-18.3	-15.5	-15.9	-14.2	-13.6	-13.4
Int. reserves as months of imports of GNFS	2.1	2.5	2.2	2.8	2.7	2.9	2.9	2.9

(Continued)

Nicaragua - Key Economic Indicators
(Continued)

Indicator	Actual				Estimate	Projection		
	2001	2002	2003	2004	2005	2006	2007	2008
Central Governement Operations (as % of GDP at market prices)								
Total revenues	13.9	14.8	16.2	16.9	17.9	18.5	18.7	18.9
Tax revenue	12.6	13.4	15.1	15.6	16.5	17.0	17.2	17.4
Nontax revenue and transfers	1.3	1.4	1.1	1.3	1.4	1.5	1.5	1.5
Total expenditures	20.5	20.4	24.1	22.3	22.3	22.4	23.3	23.6
Current expenditure	13.1	13.8	15.5	12.7	12.9	15.2	15.3	15.4
Capital expenditure and net lending	7.4	6.6	8.6	9.6	9.4	7.2	8.0	8.2
Deficit (-) Surplus (+)	-6.6	-5.6	-7.9	-5.4	-4.4	-3.9	-4.6	-4.7
Net Foreign financing	5.3	5.7	9.4	8.5	7.1	7.2	7.0	6.9
Net Domestic financing	1.4	-0.1	-1.5	-3.2	-2.7	-3.2	-2.4	-2.2
Monetary indicators								
M2 / GDP (%)	36.8	40.1	41.8	42.4	40.6	38.3	39.0	39.5
Growth of M2 (%)	4.1	13.3	12.6	17.2	9.8	14.8	11.5	9.8
Private sector credit growth (%)	-17.3	14.7	26.1	27.7	31.9	32.1	28.0	26.0
Price indices(YR94 =100)								
Exports of GNFS price index	97	104	113	124	139	144	147	149
Imports of GNFS price index	104	109	120	134	155	160	166	167
Terms of trade index	94.0	95.5	94.1	92.6	89.9	89.9	88.7	89.5
Annual average exchange rate (C$/ US$)	13.4	14.3	15.1	15.9	16.7	17.6	18.4	19.4
Real exchange rate (% change, US$ / C$)e	0.9	-3.9	-5.9	-2.9	-1.0	0.6	0.0	-1.7
Consumer price index (% change, average)	6.0	3.8	5.3	8.4	9.6	9.2	7.0	6.8
GDP deflator (% change)	7.2	3.2	5.3	10.0	10.3	10.7	7.0	5.0

Source: Central Bank of Nicaragua, Ministry of Finance, IMF and Bank Estimates

a. GDP at current market prices (Includes indirect taxes).

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

c. Gross Domestic Savings plus net current transfers and net factor income.

d. Includes privatization proceeds, if any.

e. An increase in the index denotes appreciation.

Annex M: Key Exposure Indicators

Nicaragua - External Debt Exposure Indicators

	Actual				Preliminary	Projection		
	2001	2002	2003	2004	2005	2006	2007	2008
Total debt outstanding (TDO, US$m) [a]	6,408.4	6,485.2	6,915.0	5,830.0	5,710.3	5,137.0	5,085.0	4,988.0
of which, Public Sector	5,594.7	5,750.2	6,110.9	5,390.6	5,347.5	4,526.7	4,562.4	4,430.0
Private Sector	813.7	735.0	804.1	439.4	362.8	610.3	522.6	558.0
IDA TDO (US$m)	691.0	811.0	998.0	1,167.0	1,136.0	1,179.0	1,185.0	1,188.0
IDA TDS(US$m)	2.4	1.6	3.0	5.7	6.6	8.8	8.9	9.0
Net disbursements (US$m)[a]	45.1	191.7	230.7	328.5	172.4	7.7	-52.0	-97.0
Total debt service (TDS, US$m) [a]	336.6	151.4	186.6	125.9	172.0	269.1	269.3	273.3
of which, Public Sector	128.6	103.2	122.8	70.4	115.6	209.1	210.3	215.6
Private Sector	208.0	48.2	63.8	55.4	56.4	60.0	59.0	57.7
Total Debt and debt service indicators (%)								
TDO / GDP	156.2%	161.1%	168.6%	129.6%	116.3%	95.7%	89.4%	83.4%
TDO / Exports of GNFS [b]	573.0%	567.6%	529.0%	353.2%	306.9%	234.6%	209.0%	184.4%
TDS / Exports of GNFS	30.1%	13.3%	14.3%	27.9%	25.2%	21.2%	17.6%	15.5%
Public Debt and debt service indicators (%)								
Public TDO / GDP	136.4%	142.8%	149.0%	119.8%	108.9%	84.3%	80.2%	74.1%
Public TDO / Exports of GNFS [b]	500.2%	503.3%	467.5%	326.6%	287.4%	206.8%	187.5%	163.8%
Public TDS / Exports of GNFS	11.5%	9.0%	9.4%	4.3%	6.2%	9.6%	8.6%	8.0%
Preferred creditor debt / TDO [c]	36.8%	40.1%	42.2%	51.5%	42.0%	48.6%	50.3%	49.0%
Preferred creditor DS/ TDS (%) [c]	9.2%	10.8%	10.1%	18.6%	15.5%	17.9%	17.8%	17.3%
IDA exposure indicators								
IDA Debt / TDO	10.8%	12.5%	14.4%	20.0%	19.9%	23.0%	23.3%	23.8%
IDA DS/ TDS	0.7%	1.1%	1.6%	4.5%	3.9%	3.3%	3.3%	3.3%
Share of IBRD portfolio (%)	0.78%	0.81%	0.87%	0.93%	0.92%	0.89%	0.84%	0.85%
IFC (US$m, by Fiscal Year)				Actual				
Loans [d]	5.6	4.7	3.4	2.5	5.9	13.6	33.3	...
Equity and quasi-equity [e]	1.1	1.1	0.5	0.5	0.5	0.0	3.0	...

a. Includes public and publicly guaranteed debt (including use of IMF credits if any), private nonguaranteed and private short term debt.

b. "GNFS" denotes exports of goods and non factor services services.

c. Preferred creditors are defined as IBRD, IDA, IFC, the regional multilateral development banks, the IMF, and the BIS.

d. Includes (i) loans, (ii) guarantee and (iii) risk management exposure.

e. Includes (i) equity and (ii) quasi-equity of both loan and equity types.

Annex N: Operations Portfolio (IBRD/ IDA and Grants)

	As Of Date 07/10/2007
Closed Projects	**60**

IBRD/IDA *

Total Disbursed (Active)	80.09
of which has been repaid	0.00
Total Disbursed (Closed)	1,389.65
of which has been repaid	357.74
Total Disbursed (Active + Closed)	1,469.74
of which has been repaid	357.74
Total Undisbursed (Active)	144.39
Total Undisbursed (Closed)	0.41
Total Undisbursed (Active + Closed)	144.81

Active Projects

Project ID	Project Name	Last PSR Supervision Rating: Development Objectives	Last PSR Supervision Rating: Implementation Progress	Fiscal Year	Original Amount in US$ Millions: IBRD	IDA	GRANT	Cancel.	Undisb.	Difference Between Expected and Actual Disbursements [a/]: Orig.	Frm Rev'd
P083952	NI (CRL) Roads Rehab & Maintenance IV	S	S	2006		60			57.30925	5	
P078991	NI - (APL2)HEALTH SECTOR II	S	MS	2005		11			6.761316	2.0915858	
P078990	NI - EDUCATION	S	MS	2005		15			8.345599	3.5448715	
P087046	NI 2nd Agricultural Technology Project	S	S	2006		12			8.650852	-1.240075	
P077826	NI Broad-Based Access to Finan Services	S	S	2004		7			6.08807	3.6339467	0.211648
P092949	NI ENHANCED COMPETITIVENESS FOR INTERNAT	MS	MU	2007		17			17.53514	0.5877269	
P056018	NI LAND ADMINISTRATION PROJECT	MS	MU	2002		32.6			18.65913	7.4488127	
P064916	NI Natural Disaster Vulnerability Reduc	S	S	2001		13.5			2.642171	0.9013976	0.901398
P075194	NI Off-Grid Rural Electrification	MS	MS	2003			4.02		3.037262	2.6472624	0.942732
P073246	NI Offgrid Rural Electrification (PERZA)	MS	MS	2003		12			7.25128	5.5394688	2.267461
P078891	NI PUBLIC SECTOR TA	MS	MS	2004		23.5			4.030634	3.9903978	
P089989	NI Rural Telecom	S	S	2006		7			7.12148	1.7742857	
Overall Result						210.6	4.02		147.4322	35.919681	4.323238

Annex O: Summary of Non-Lending Services
(As of 8/8/07)

Product	*Completion FY*	*Audience*[a]	*Objective*[b]
	Analytical Work/Reports		
Recent completions			
Support for the Administration of Justice in Nicaragua	FY04	G, D, B	KG, PS
Joint-Staff Advisory Note of the PRSP Progress Report	FY04	G, D, B	KG, PS
Poverty Assessment Update	FY04	G, D, B, PD	KG, PD, PS
Land Sector Work	FY04	G, B, PD	KG, PS
Gender, time use, and models of the household	FY04	G, D, B, PD	KG, PD, PS
Financial Sector Assessment Program	FY05	G, B	KG, PS
Development Policy Review	FY05	G, D, B, PD	KG, PS
Decentralization Policy Note	FY05	G, D, B	KG, PS
Investment Climate Assessment	FY05	G, D, B, PD	KG, PD, PS
Regional			
Drivers of Sustainable Rural Growth	FY04	G, D, B, PD	KG, PS
Social Safety Net Assessments from CA	FY04	G, D, B, PD	KG, PS
Education Review	FY05	G, D, B, PD	KG, PD, PS
Shocks and social protection	FY05	G, D, B, PD	KG, PS
CAFTA	FY05	G, D, B, PD	KG, PD, PS
Key Issues in Central America Health Reforms	FY07		
Underway			
Programmatic Public Expenditure Review	FY07	G, D, B	KG, PD, PS
Poverty Assessment Update	FY07	G, D, B, PD	KG, PS
Institutional and Governance Review	FY07	G, D, B, PD	KG, PD, PS
Energy Strategy Study	FY07	G, D, B, PD	KG, PD, PS
SRM Impact Assessment Nicaragua	FY08		
Regional			
Central America Probabilistic Risk Analysis (CAPRA)	FY08	G, D, B	KG, PD, PS
Central America Energy Markets	FY10	G, D, B	KG, PD, PS
Planned			
Land Policy Regional Study	FY08	G, D, B, PD	KG, PD, PS
PEFA Update	FY08	G, D, B	KG, PD, PS
Social Services Accountability (Regional)	FY08	G, D, B, PD	KG, PD, PS
Country Environmental Assessment	FY09	G, D, B, PD	KG, PD, PS
Investment Climate Assessment	FY09	G, D, B, PD	KG, PS
ESW- Central America Land Administration	FY09	G, D, B, PD	KG, PD, PS
Public Expenditure Review (Social Sector)?	FY09	G, D, B	KG, PD, PS
Country Economic Memorandum	FY10	G, D, B	KG, PD, PS
Poverty Assessment	FY11	G, D, B, PD	KG, PD, PS

Annex P: Selected Indicators of Bank Portfolio Performance and Management

As Of Date
07/10/2007

Indicator	**2005**	**2006**	**2007**
Portfolio Assessment			
Number of Projects Under Implementation [a]	14	13	11
Average Implementation Period (years) [b]	3.4	3.0	3.2
Percent of Problem Projects by Number [a, c]	14.3	7.7	18.2
Percent of Problem Projects by Amount [a, c]	10.4	4.4	23.1
Percent of Projects at Risk by Number [a, d]	14.3	7.7	18.2
Percent of Projects at Risk by Amount [a, d]	10.4	4.4	23.1
Disbursement Ratio (%) [e]	41.7	37.8	19.0
Portfolio Management			
CPPR during the year (yes/no)		yes	

Memorandum Item	**Since FY 80**	**Last Five FYs**
Proj Eval by OED by Number	36	10
Proj Eval by OED by Amt (US$ millions)	1,022.6	203.7
% of OED Projects Rated U or HU by Number	8.6	10.0
% of OED Projects Rated U or HU by Amt	4.5	3.8

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

Annex Q: IBRD/ IDA Program Summary

As Of Date 08/08/2007

Proposed IBRD/IDA Base-CPS Lending Program [a]

Fiscal year	*Proj ID*	*US$(M)*	*Strategic Rewards b (H/M/L)*	*Implementation b Risks (H/M/L)*
2008	NI PRSC Series	20.0	H	L
	NI Rural Water Supply and Sanitation I	20.0	H	M
	Subtotal	40.0		
2009	NI-Urban Water Supply and Sanitation.	45.0	H	M
	NI PRSC Series	20.0	H	L
	Subtotal	65.0		
2010	NI-Rural Water Supply and Sanitation II	15.0	H	L
	NI-Public Sector Technical Assistance	10.0	H	M
	NI- Land Administration II	20.0	M	L
	NI PRSC Series	20.0	H	L
	Subtotal	65.0		
2011	NI PRSC Series	20.0	H	L
	Subtotal	20.0		
2012	Road and Maintenance V	30.0	H	L
	NI PRSC Series	20.0	H	L
	Subtotal	50.0		
Total		240.0		

Annex R: IFC and MIGA Program Summary

	2004	2005	2006	2007
IFC Commitments (US$m)	5.0	-	10.0	30.0
Sector (%)				
Agriculture and Forestry				83.3
Finance & Insurance	100.0			16.7
Wholesale and Retail Trade			100.0	
Total	100.0	-	100.0	100.0
Investment instrument(%)				
Loans	100.0	-	100.0	90.0
Equity				
Quasi-Equity				10.0
Other				
Total	100.0	-	100.0	100.0
MIGA guarantees (US$m)	114.4	107.3	105.4	105.4
Sector Distribution				
Finance	1.4	1.4	3.4	3.4
Infrastructure	112.9	105.9	102	102

Annex S: Statement of IFC's Held and Disbursed Portfolio

(In US Dollars Millions)

As of: June 30, 2007

Commitment Fiscal Year	Institution Short Name	LN Cmtd-IFC	ET Cmtd-IFC	QL+QE Cmtd-IFC	GT Cmtd-IFC	RM Cmtd-IFC	All Cmtd-IFC	All Cmtd-Part	LN Out-IFC	ET Out-IFC	QL+QE Out-IFC	GT Out-IFC	RM Out-IFC	All Out-IFC	All Out-Part
2004	Confia	2.50	0.00	0.00	0.00	0.00	2.50	0.00	2.50	0.00	0.00	0.00	0.00	2.50	0.00
2007	FINDESA	2.00	0.00	3.00	0.00	0.00	5.00	0.00	2.00	0.00	3.00	0.00	0.00	5.00	0.00
2006	International...	8.63	0.00	0.00	0.00	0.00	8.63	0.00	8.63	0.00	0.00	0.00	0.00	8.63	0.00
1990/ 2007	Nicaragua Sugar	25.00	0.00	0.00	0.00	0.00	25.00	11.50	20.16	0.00	0.00	0.00	0.00	20.16	9.26
Total Portfolio:		**38.13**	**0.00**	**3.00**	**0.00**	**0.00**	**41.13**	**11.50**	**33.29**	**0.00**	**3.00**	**0.00**	**0.00**	**36.29**	**9 33**

SEPTEMBER 2004

IBRD 33456

wb278870
L:\CPS 2007\Final CPS (Post-Board).doc
02/12/2008 7:16:00 PM