I. Project Context
   Country Context

Nicaragua is one of LAC’s least developed countries with a Gross National Income per capita US $1,650 in 2012. The country had an income growth rate in 2011 of 5.1 percent, the highest in a decade; which surpassed average regional performance for LAC and Central America (4.0 percent and 0.6 percent, respectively). The second half of the last decade brought a notable reduction in poverty and inequality, concentrated mostly in rural areas. In contrast to the 2001-2005 period in which poverty essentially stayed constant at 48 percent, the country saw a significant reduction in the poverty headcount of nearly 6 percentage points (equivalent to around 230,000 fewer poor people), reaching a national rate of 42.5 percent in 2009. Meanwhile, extreme poverty fell from 17.2 to 14.6 percent between 2005 and 2009. Poverty remains a largely rural problem. By 2009,
more than one in four Nicaraguans that reside in rural parts of the country was unable to meet their basic food needs compared to around 6 out of 100 in urban areas. Despite progress made, challenges remain on poverty reduction and the enhancement of shared prosperity given that most of the poor live in rural areas and many in remote communities where access to basic services is still constrained by very limited infrastructure, including accessibility of rural roads. The country is also considered vulnerable in terms of natural disasters, extreme climate and epidemics.

**Sectoral and institutional Context**

The major challenges for the Nicaraguan road transport sector are: (i) infrastructural deficiencies in the form of an under-developed road network, (ii) an increasing maintenance burden in the face of a static and inadequate cost recovery base; and (iii) increasingly frequent natural disasters that cause significant damage to road and bridge infrastructure. Nicaragua holds the lowest quality of infrastructure when compared to other countries in Central America. According to the Ministry of Transport and Infrastructure (MTI), the total road network is 23,897 km, of which only 14 percent is paved. The basic core road network (8,074 km) has around 44 percent of the roads in good or fair condition. However, when the total universe of roads is considered, this percentage falls to only 25 percent in good or fair condition. The insufficiency of other transport modes primarily water and air transport systems, makes the road network vital to the country’s overall economic development.

Nicaragua’s economic development is often negatively affected by devastating natural disasters which set back the country’s social and economic progress. Its geographic location in the Central American Isthmus makes it vulnerable to hurricanes, droughts and fires, volcanic eruptions, tsunamis, and earthquakes. Following Hurricane Mitch in 1998, national vulnerability to natural disasters was seen as fundamental to all sector development issues. Efforts to address this challenge are being tackled at the national level through the National System for Prevention, Mitigation and Attention to Disasters Executive Secretariat (SINAPRED), and are also being gradually ingratiated into policy and administrative actions at Ministry levels (ministries using SINAPRED data in their planning), and with increased coordination at regional levels.

The proposed Additional Financing (AF) as well as the parent project will help to overcome the above-mentioned challenges in line with the strategic areas identified in the Nicaragua Country Partnership Strategy (CPS). The most relevant CPS strategic areas addressed by the project relate to raising welfare by improving access to quality basic services and raising incomes through enhancement of competitiveness and the diversification of exports. The first element is addressed by the road infrastructure improvements (both paving and maintenance). The second element is supported by the improvements in management capacity (road asset management to ensure better condition routes, and improved resilience to natural disasters that improve reliability of journeys). The AF is aligned with the World Bank’s twin goals of ending extreme poverty by 2030 and promoting shared prosperity. The AF is expected to promote shared prosperity for the poorest 40 percent by improving accessibility conditions to markets, services and social and economic opportunities.

In addition to the critical role of reducing transport infrastructure bottlenecks in the productive and comparatively inaccessible zones of the country, the proposed AF aims to support road asset management and sustainability of the community development modules (MCA model) initiatives. This will be achieved by support to the Road Maintenance Fund (FOMAV) in creating micro-enterprises out of the formed MCA on pilot adoquines road sections to ease the road maintenance
agency burden. Gender mainstreaming has been part of the Government of Nicaragua (GoN) objectives for several years, and there is still room for improvement to ensure that men and women have the same rights and development opportunities. This proposed AF will contribute to these objectives by supporting gender-informed impact evaluations, as well as, qualitative gender analyses. Finally, the Immediate Response Mechanism (IRM) component has been introduced to deal in part with the issues relating to the more frequent natural disasters, by enabling a quicker and more effective response in the case of such occurrences. ) to improve Nicaragua’s capacity to respond promptly and effectively to an eligible emergency.

II. Proposed Development Objectives
A. Current Project Development Objectives – Parent
The Project Development Objectives are to: (a) improve the access of the rural population living in the Project areas to markets, and to social and administrative services through: (i) the carrying out of improvements in the Recipient's road infrastructure, and (ii) the strengthening of MTI's institutional capacity for asset and disaster risk management; and (b) support the generation of short-term employment opportunities for the rural population living in the Project areas.

B. Proposed Project Development Objectives – Additional Financing (AF)
The original project PDO is being revised to: (a) improve the access of the rural population living in the Project areas to markets, and to social and administrative services through: (i) the carrying out of improvements in the Recipient's road infrastructure, and (ii) the strengthening of MTI's and FOMAV’s institutional capacity for road asset and disaster risk management; (b) support the generation of short-term employment opportunities for the rural population living in the Project areas; and (c) to improve the country’s capacity to respond promptly and effectively to an eligible emergency.

III. Project Description
Component Name
Component 1. Rural Road Improvements and Maintenance
Comments (optional)
i. Sub-component 1.1. Rural Road Improvement
ii. Sub-component 1.2. Periodic Maintenance
iii. Sub-component 1.3 Results based routine maintenance

Component Name
Component 2: Institutional Development
Comments (optional)
i. Sub-component 2.1. Institutional Strengthening of MTI
ii. Sub-component 2.2. Institutional Strengthening of FOMAV
iii. Sub-component 2.3 Results based routine maintenance

Component Name
Component 3: Project Management
Comments (optional)

Component Name
Component 4: Immediate Response Mechanism (With an initial allocation of US$ 0 equivalent. In case this component is activated, it will be completely financed with IDA funds):
Comments (optional)
Given that Nicaragua is a country that is highly prone to natural disasters, this component is being proposed for incorporation into the project with zero allocation. This component allows for the p

IV. Financing (in USD Million)

<table>
<thead>
<tr>
<th>For Loans/Credits/Others</th>
<th>Amount</th>
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</thead>
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<td>BORROWER/RECIPIENT</td>
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<tr>
<td>International Development Association (IDA)</td>
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<td>IDA Grant</td>
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<tr>
<td>Total</td>
<td>66.47</td>
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V. Implementation
Implementation arrangements for the original project are still in place for the AF. MTI will continue to be the institution with overall responsibility in the implementation of the Project. MTI is in charge of signing a cooperation agreement with the maintenance agency FOMAV to detail the terms and use of funds marked for use by FOMAV under the Project. Under this agreement, FOMAV will implement the periodic maintenance and routine maintenance parts of the Project. MTI will continue to assign many of the day-to-day operations to the coordination unit Unidad Coordinadora de Recursos –Banco Mundial (UCR-BM) that serves as an interlocutor with IDA, and is the central point of contact for Project related queries and transactions processing, including: Project construction implementation, contracting, supervision, fiduciary and safeguards management and compliance, as well as all institutional development activities. Furthermore, the Financial Management arrangements for the AF will be identical with the same structure and staff as those under the original operation. Arrangements such as quality and frequency of financial reporting, multi annual audits contracting, internal controls, integrated financial system and overall cash flow will apply using the same policies and procedures designed for the original project. The Project Operational Manual has been updated to reflect the inclusion of: (i) a new sub-component; (ii) new road sections; (iii) new safeguard policies; and, (iv) beneficiaries identified to date.

VI. Safeguard Policies (including public consultation)

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
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<tbody>
<tr>
<td>Environmental Assessment OP/BP 4.01</td>
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<td>Natural Habitats OP/BP 4.04</td>
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<td>Forests OP/BP 4.36</td>
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<td>Projects on International Waterways OP/BP 7.50</td>
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<tr>
<td>Projects in Disputed Areas OP/BP 7.60</td>
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</tbody>
</table>
VII. Contact point

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