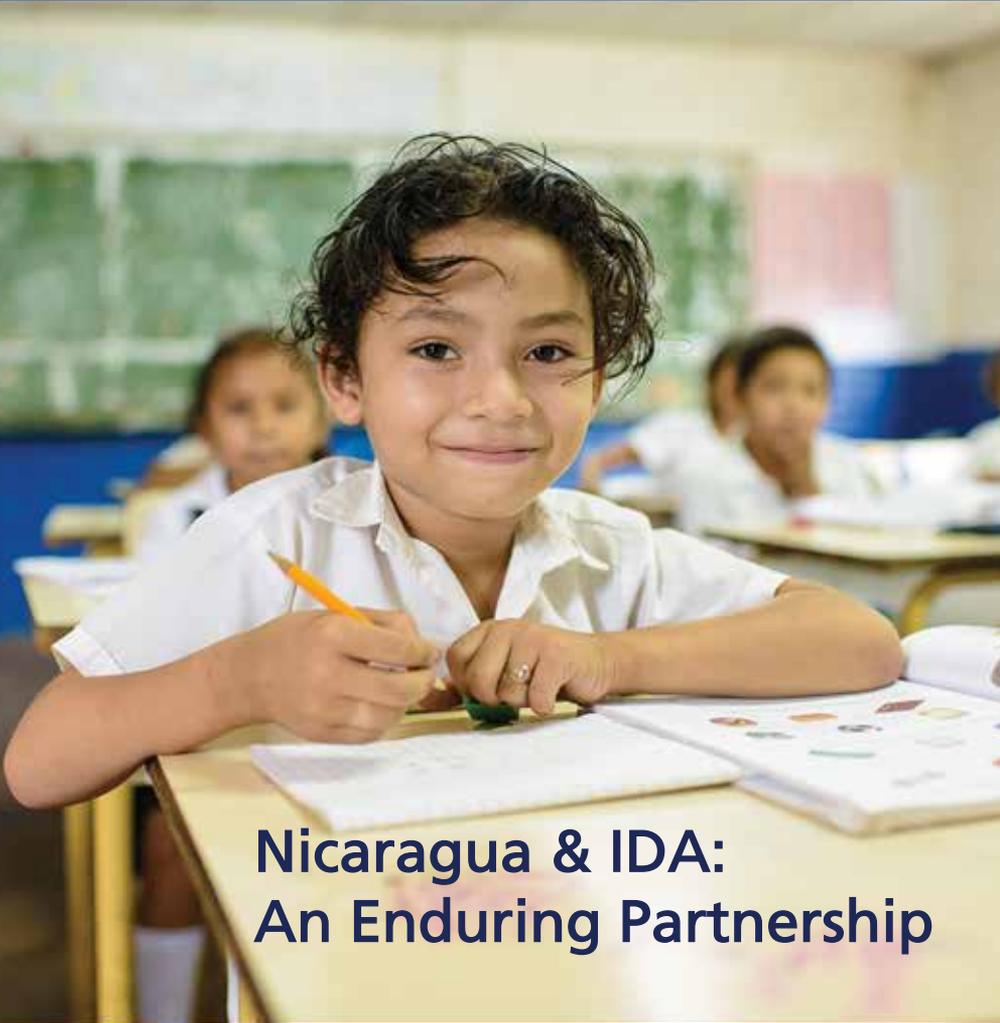


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Nicaragua & IDA: An Enduring Partnership

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opportunities for all

A HISTORIC PARTNERSHIP

September 1962	First IDA Credit to Nicaragua Managua Water Supply Project \$3 million
May 1973	Earthquake Reconstruction Project of \$20 million
1979-1980	IDA supports Nicaragua's new government with urban reconstruction and agriculture and industrial rehabilitation
1991	IDA resumes engagement with Nicaragua
1991- 1995	IDA supports macroeconomic stabilization efforts with a series of Economic Recovery Credits
1995-2002	IDA supports state reform and institution building for private sector development
December 1998	IDA responds to Hurricane Mitch with Emergency Project of \$50 million
2001	IDA supports privatization of ENITEL, public telephone company IDA approves one of the first Learning and Innovation Loans for Competitiveness and the first National Disaster and Vulnerability Reduction Projects for Nicaragua and Honduras
January 2004	Nicaragua achieves Enhanced HIPC Completion Point and qualifies for one of the largest debt relief programs under the initiative
2004	IDA supports Nicaragua's preparation for the Dominican Republic-Central America-United States Free Trade Agreement (DR CAFTA) signed in August
2006	IDA launches MDRI for Nicaragua
March 2008	IDA responds to Hurricane Felix with \$17 million Emergency Project
2011-2012	IDA portfolio achieves record disbursement of 37% and leverages IDA resources more than twofold
July 2013	2nd IDA17 Replenishment Meeting held in Managua



IDA IS SUPPORTING NICARAGUA'S EFFORTS TO SCALE-UP INNOVATIVE APPROACHES FOR TACKLING POVERTY

Nicaragua has made an impressive economic turnaround over the past 20 years, after suffering from decades of macroeconomic instability, violent conflicts, as well as major natural disasters. Nicaragua has also achieved some promising success in its innovative approach to delivering basic services to poor households.

IDA is focused on scaling-up the country's more successful innovations for reaching the rural poor. IDA's investment and knowledge portfolio cuts across many sectors and is anchored on long-term engagement for lasting results in terms of poverty reduction and shared prosperity.



MACROECONOMICS, POVERTY, SHARED PROSPERITY

Decades of political instability and a series of catastrophic natural disasters led Nicaragua to a difficult macroeconomic situation, including public debt amounting to 350 percent of gross domestic product (GDP) in 1991. Half of all Nicaraguans were living in poverty and one-fifth in extreme poverty by 1993. In the mid-1990s, significant gains were made in stabilizing the economy, improving basic infrastructure and raising private investment. Then in 1998, the devastating effects of Hurricane Mitch set the country back again.

Despite these challenges, Nicaragua has made strong progress in restoring and sustaining macroeconomic stability. Real GDP growth has averaged 3.7 percent since 1998, and real per capita growth, 2.3 percent. Inflation fell from 3-digit levels in 1991 to less than 8 percent in 2012. Alongside these improvements, private investment grew from 18 to 25 percent of GDP between 1998 and 2012.



The economy has demonstrated strong resilience to shocks, with a relatively modest contraction (1.5 percent) during the 2009 global crisis, followed by a quick recovery in 2010 to 3.6 percent growth. Since then, Nicaragua has sustained moderately high growth rates of 5.3 percent during 2011-12 and strong fiscal results that have helped to further reduce public debt to 54 percent of GDP. Exports have been growing steadily by 16 percent per year over the last decade.

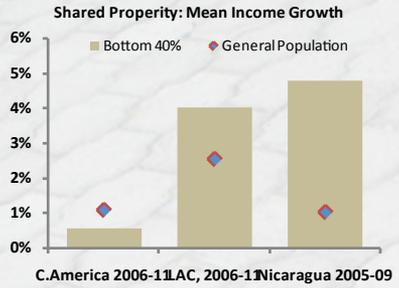
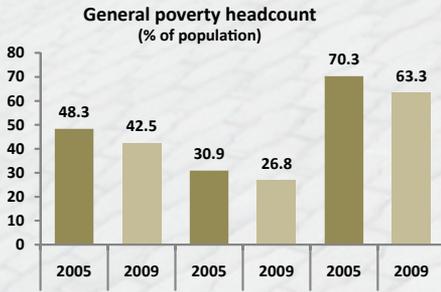
IDA Development Policy Lending	Approved	US\$m
Economic Recovery Credit	Sep 1991	\$110
Economic Recovery Credit II	Jun 1994	\$60
Programatic Structural Adjustment Credit	Mar 2003	\$15
Poverty Reduction Support Credit I	Jan 2004	\$70
Poverty Reduction Support Credit II	Nov 2006	\$25
Debt Reduction Facility – Debt Buy Back	July 2007	\$45
Development Policy Credit	Sep 2008	\$20



\$6.4 billion
in combined debt relief from international lenders.



13 percent
of GDP in poverty related public spending in 2011.



IDA has been a steady partner in Nicaragua since 1991, representing in recent years about one-fifth of the country's development aid. In 2002, IDA helped launch a debt relief effort that resulted in \$ 6.4 billion of debt relief (equivalent to Nicaragua's annual GDP). This created the fiscal space to allow Nicaragua to increase annual spending on poverty reduction programs to almost 13 percent of GDP in 2011.

Despite debt relief efforts, improved macroeconomic performance, and increased spending, by 2005 the poverty rate had only decreased by 2 percentage points and social indicators were showing only very gradual improvements. It appeared that poverty-related spending was not reaching the more remote rural communities where almost 80 percent of Nicaragua's poor households live.

Given the tumultuous history and persistence of poverty, there was a broad consensus that "business as usual" was not closing the gaps. Since then, Nicaragua has been a virtual innovation lab—across government administrations and within civil society—of programs to rapidly reach and improve the lives of its rural poor.



Today poverty is falling faster. Over the last decade, the Government's rural programs have made significant progress in improving service delivery to the poorest. Between 2005-09, poverty fell by nearly 6 percentage points (or around 230,000 fewer poor people) and by 7 percentage points in rural areas. Extreme poverty fell from 17.2 to 14.6 percent and, despite previous concerns, a significant number of MDGs are now back on track.

And Nicaragua is sharing the prosperity. Nicaragua stands out in the region in terms of progress towards shared growth. Mean per capita income grew by 1.0 percent and the growth rate of the bottom 40 was 4.8 percent, which surpasses both the Latin America and the Caribbean region and Central America (4.0 and 0.6 percent, respectively).



7
percentage
point decline in
rural poverty between
2005 and 2009.



4.8
percent
growth in per capita
income for the bottom
40 percent.

RURAL INFRASTRUCTURE

Scaling up in rural roads. In 1998, Hurricane Mitch reversed much of Nicaragua's earlier gains in road infrastructure. IDA has since invested over \$256 million in improving the country's secondary and rural roads. The Government has combined an old road-building technique using cobblestones with an expanded version of IDA's Community-Driven Development approach. This innovative mechanism helped rehabilitate and pave their road segments, up to 29 km long with lower unit costs. Community involvement in mobilizing and managing a local workforce, and "laying the roads by hand", has created a strong ownership for maintenance and local management of traffic speeds, vehicle loads, etc. This community model has attracted interest from other developing countries, such as Paraguay and Liberia. Additionally, the Government was able to blend the new \$35 million IDA grant with a \$50 million loan from Central American Bank for Economic Integration (CABEI) and provide more coverage in poor rural areas.



Creating time and space for rural women



Maria Baez Rios contemplates the days before her solar home system

Time to milk.... Marcia and her husband make a living through their 20 milk-producing cows in Nueva Guinea. In 2002, under IDA's Off-Grid Rural Electrification Project, they became owners of a 150Wp solar home system (SHS). Before, Marcia needed to wait until daylight to milk the cows. By the time she finished, it was too

late to sell to the hotels and restaurants nearby. With their SHS, Marcia now can start milking at 4 am, finish by 8 am and sell all the milk before 9 am. This gives her plenty of time for her other activities of the day.

... and space to sell. Inspired by the paving of the road, Jeannette de los Angeles and Yalila Can Medina now run a small ice cream stall in the Las Flores community of Masaya. *"Two things motivated us to start this business: first we did not have cold or frozen dairy products before. To sell these things you need hygienic conditions and the dust was very bad along the road. And the second, the paving of the road brought more traffic and more business".*

IDA Commitments

Telecommunication Reform
Off-Grid Rural Electrification
Rural Telecom
Rural Telecom AF

Approved

Nov 1999
May 2003
Apr 2006
Jun 2012

US\$m

\$16
\$12
\$7
\$5



460,000

more people with access to all-weather roads and

65,000

temporary jobs generated in community works.



40

microenterprises developed to maintain

2400km

of roads.



Connecting the poor. After providing financing and technical assistance for the telephone company privatization in 2001, IDA has focused on improving rural access to telecommunications. During 2005-06, IDA helped develop the Telecom Investment Fund, which provided telephone services to 500,000 people in 365 small towns. The ongoing Rural Telecom Project is helping to bring telephony and internet to remote communities. Today, all of Nicaragua's municipal heads boast an internet connection and more than 500 communities now have their first public telephone. The project is also financing 37 communications towers, which have already connected 60,000 more people and will complete the country's high-speed coverage.

Off-Grid Rural Electrification Project

- Three alternative energy supplier firms accredited and marketing household photo-voltaic systems nationwide.
- Seven microfinance institutions with active rural electrification portfolios.
- \$1million loans issued to 1,200 clients for household connections, PV systems and minigrids.
- 3MW of hydropower constructed in 6 community plants run by private concessions and regulatory framework developed.
- 110,000 tons of CO2 abated by the end of the project.



IDA Commitments

Road Rehabilitation and Maintenance
 Road Rehabilitation and Maintenance II
 Road Rehabilitation and Maintenance III
 Roads Rehabilitation and Maintenance IV
 Roads Rehabilitation and Maintenance IV AF
 Rural Roads Infrastructure Improvement

Approved

May 1996
 Jun 1998
 Feb 2001
 Jun 2006
 Jun 2010
 Dec 2011

US\$m

\$25
 \$47
 \$75
 \$60
 \$39
 \$35



7,900

solar home systems with 468kW installed in remote rural communities.



69 percent

increase in rural access to public telephones from 2006-2012.

HUMAN DEVELOPMENT

A broad social agenda. Nicaragua's approach to the social sectors stands out for its integrated delivery of public services. Nicaragua's National System of Social Welfare comprises of the Community and Family Health Care Services, the new Education Sector Plan with a special focus on early childhood education, and the flagship social protection *Programa Amor* for at-risk families. Each of these elements is supported by an IDA project.

The Second Education Sector Support Project aims to improve quality and completion rates in basic schools and has leveraged \$54 million in trust funds from the EU and the Global Program for Education which are focusing on early childhood and secondary education.

The Community and Family Health Care Services project is helping to introduce results-based financing so that community health networks can use more flexible approaches to lower maternal mortality.

The Social Sector Project supports the consolidation and scale up of the *Programa Amor* platform for collaboration on children at risk and early childhood development at the community level.



Casas maternas for better maternal health

Since 1998, IDA has supported the expansion of the innovative *casas maternas* in rural communities. From these *casas maternas*, networks of community volunteers identify pregnant women in remote areas and bring them an array of services, including pre-natal checkups, birth plans, and post-natal follow up. Around the time of delivery, the women stay

in the *casas maternas*, located near health units, and receive support with breast-feeding, early parenting skills and family planning. IDA has helped to expand the number of *casas maternas* from 12 in 2000 to over 80 in 2012, reaching over 20,000 women. Maternal mortality has fallen from 170 per 100,000 live births in 1990 to around 95 in 2010, and the share of women receiving post-partum care has risen by 4 percentage points.



1.2

million

textbooks produced for all primary grades and in indigenous languages during 2010-12.



10

percent

increase in 9th grade Spanish scores on standardized testing during 2009-10.

One Government.... Nicaragua is tackling a challenge which many developed country social systems continue to face – coordinating inter-sectoral service delivery at the local level – and is already seeing results. The Government has introduced many home-grown innovations: community volunteers that help to identify and draw in families at risk, joint home visits by health and social workers and community-run "escuelas de valores".



... so one IDA country program. In turn, the Bank is following the client's lead and adjusting our program to link activities across distinct projects. Each of the three projects is:

- supporting the development of the National Registry of Beneficiaries, digitalizing information in the Ministries of Health and Education and compiling beneficiary information in the Ministry of the Family.
- contributing to the design of a platform to monitor the Early Childhood Development program with health, education, and social welfare indicators
- providing technical inputs to the Sistema Nacional de Desarrollo de Infantil Temprano, e.g. for community handbooks, training materials for the volunteers.

IDA Social Sector Lending	Approved	US\$m
Health Sector Reform	Dec 1993	\$15
Health Sector Modernization Credit	Jun 1998	\$24
Health Services Extension and Modernization	Apr 2005	\$11
Response to Epidemiological Emergencies	Dec 2009	\$5
Improving Community and Family Health Care	Dec 2010	\$21
Basic Education	Mar 1995	\$34
Basic Education Supplemental Credit	Jan 1999	\$13
Basic Education II	Aug 1999	\$53
Support to the Education Sector	Sep 2004	\$15
Support to the Education Sector II	Jan 2012	\$25
Social Protection	Feb 2011	\$20



7 percent

increase in the share of births attended by health professionals in medical institutions during 2010-12.



45 percent

decline in maternal mortality from 1990-2010.

AGRICULTURE

During the 1990s, Nicaragua drastically reduced government intervention in agriculture to free up space for private sector involvement. However, this left many farming households with limited access to financial and technical services, and most agricultural producers without resources to invest in research or training in modern technologies.

Since 1993, IDA has invested \$80 million in the three agricultural technology projects and leveraged \$23 million in co-financing to provide rural small and medium-sized producers with better access to sustainable agricultural, forestry and natural resource management services and technological innovations, and to strengthen links between agricultural training and research. One-third of small and medium-size farmers were in direct contact with extension services, and 70-90 percent report being satisfied with the quality of services and having adopted recommended improved technologies. Over 240 new entities (NGOs, producer groups and others) became involved in agricultural research and services, and 193 new agricultural technologies were developed and disseminated.



IDA Commitments	Approved	US\$m
Agricultural and Industrial Rehabilitation	Dec 1979	\$10
Agricultural Technology & Land Management	Jul 1993	\$44
Sustainable Forestry Investment	Jan 1999	\$9
Agricultural Tech & Rural Technical Education	Jun 2000	\$24
Agricultural Technology II	Nov 2005/May 2010	\$22



38
percent

increase in yields of basic staples – rice, maize and beans – by 2012.



42,500

producers received technical assistance,

37

percent of them women.

WATER AND SANITATION



Social media, ICT and marketing for rural water and sanitation. IDA is helping Nicaragua to bring water and sanitation to urban slums and remote rural communities. So far, over 30,000 households have been reached with these new services. But the programs are not just financing civil works and training local teams to operate them. IDA is helping Nicaragua to pilot social programs to teach the benefits of hand washing, water conservation, and sewerage treatment using a range of social learning techniques, including community theater. It is also investing in mobile ICT to help monitor the operations of the rural systems. And with the Water and Sanitation Program, Nicaragua is undertaking a sanitation marketing pilot to find better ways of engaging the local private sector in providing new improved latrines to rural households. In a current example of South-South exchange, a recent delegation from Indonesia visited Nicaragua to learn how these innovations might be replicated in Indonesia's more remote islands and communities.

IDA Commitments

Managua Water Supply
Rural Water Supply and Sanitation
Greater Managua Water and Sanitation
Rural Water Supply and Sanitation AF

Approved

Sep 1962
Jun 2008
Dec 2008
Jan 2013

US\$m

\$3
\$20
\$40
\$6



40,000

more people with access to improved water sources in rural areas and

17,600 new piped connections in low income urban areas by 2013.



44,900

people with better sanitation services in rural areas and

17,400 new urban sewer connections by 2013.

LAND ADMINISTRATION

Empowering vulnerable communities.

Nicaragua's indigenous peoples and Afro-descendant ethnic communities represent roughly 12 percent of the population. IDA has invested around \$80 million in land administration in Nicaragua, and recently approved a new \$40 million project in March 2013. Under this program, 15 of Nicaragua's 21 indigenous territories in Atlantic Regions were titled and registered (roughly 17 percent of the national territory), benefitting over 104,000 people from 214 communities in five major ethnic groups. The process succeeded in resolving several historical disputes and has helped to improve relations between local groups and private investors.

"It finally satisfied the ancestral demands of these people, who are part of our multi-ethnic and pluri-cultural state..."

...the modernization of the entire public land registry system has been one of the greatest achievements of the first stage of the project."

-Hernán Estrada, Attorney General

IDA has helped to revamp the legal framework and registration system for land and property in Nicaragua. Thirteen thousand km² of property (10 percent of national territory) was registered in the first stage. The new project will add 9,000 km² to reach 25 percent of the national territory

registered. Close to 70,000 property titles have been delivered so far, 24,000 of which came from a cadastral sweep that helped register 224,000 plots. The new project aims to provide titles to a further 90,000 poor families in rural and urban areas. Half of these recipients are women. Meanwhile, the number of days to register property in the National Cadastre fell from 30 in 2006 to 10 in the targeted municipalities in 2012.



IDA Commitments

Agricultural Technology and Land Management	Approved	US\$m
Land Administration	Jul 1993	\$44
Land Administration AF	Jun 2002	\$33
Land Administration II	Feb 2010	\$10
	Mar 2013	\$40

Approved

US\$m



25 percent
of national territory
and

224,000
plots registered.



104,000

indigenous people in
214
communities with lands
titled and registered,
17
percent of national
territory.

FINANCE AND THE BUSINESS ENVIRONMENT

Expanding rural financial services.

IDA's support for Nicaragua's burgeoning microfinance sector has helped to expand rural financial services. Since 2005, the number of financial service points in rural areas has increased by 25 percent while the number of borrowers expanded by 45 percent.

In 2006, establishment of the country's first credit bureau covered microcredits and included over 1.85 million debtors. The microcredit portfolio has almost doubled over the last decade, despite the difficulties during and after the global financial crisis.

Today, the majority (65 percent) of microcredit clients are women. IDA has also supported the development of the new Microfinance Law 2011 and has helped several large lenders to transform into special regulated institutions.



ProNicaragua, developing a successful export promotion agency.

IDA supported the establishment of ProNicaragua in 2002 with a Competitiveness Learning and Innovation Loan. In collaboration with MIGA, over 300 staff members were trained in investment and export promotion, and the fledgling agency was able to attract just under \$140 million in investments and create 12,000 jobs during 2003-2005 (significantly beyond the targets of \$27 million in investments and 5,000 jobs).

From 2007 to 2012, over 20 microfinance institutions and 100 cooperatives received training and technical support in accounting, finance and risk management. Since then, the agency has been recognized several times by the Global Investment Promotion Benchmarking and in 2012 was the only agency to achieve the distinction of "best practice" in every dimension.

IDA Commitments	Approved	US\$m
Financial Sector Adjustment	Apr 1998	\$70
Pension and Financial Market Reform TA	May 2000	\$8
Competitiveness Learning & Innovation Loan	Jan 2001	\$5
Broad-Based Access to Financial Services	May 2004	\$7
Micro, Small and Medium Enterprise Development	Jun 2008	\$20



23,000
micro, small and medium-sized enterprises receiving business development services by 2012.



25
percent
increase in financial service points in rural areas.

DISASTER RISK MANAGEMENT (DRM)

Since the catastrophic earthquake that leveled Managua at the end of 1972, IDA has been supporting Nicaragua in disaster recovery and disaster risk management. The devastating impact of Hurricane Mitch in 1998 brought to light the very limited public awareness on prevention, the lack of local emergency preparedness and vulnerability assessments, and the absence of a system for financing disaster mitigation measures. This drew attention to the need for a national system for disaster risk management and a coordinating agency to plan for disaster prevention and emergency response.

In 2001, IDA approved the World Bank's first Natural Disaster and Vulnerability Reduction Project for Nicaragua. Today, the country boasts solid legal and institutional arrangements for disaster risk management and a well-performing National System for Disaster Prevention, Mitigation and Response (SINAPRED). Awareness programs run through the public education system, municipalities utilize preventative land use plans, annual financing is secured in the budget and disaster risk mitigation is featured in Nicaragua's national development strategy. Indeed, the experience from the later, albeit smaller, Hurricane Felix in 2008 demonstrated the power of the improved disaster risk management to save lives and reduce damages.



IDA Commitments	Approved	US\$
Earthquake Reconstruction	May 1973	\$20
Urban Construction	Dec 1979	\$22
Hurricane (Mitch) Emergency	Dec 1998	\$50
Natural Disaster Vulnerability Reduction	Apr 2001	\$14
Hurricane Felix Emergency Recovery	Mar 2008	\$17
Response to Epidemiological Emergencies	Dec 2009	\$5
Hurricane Felix Emergency Recovery AF	Nov 2012	\$5
Land Administration II: IRM component	Mar 2013	\$8



National

System for Disaster Preparedness, Mitigation and Response fully operational and performing well.



3,985

roofs rehabilitated and

71

communities trained in improved building techniques after Hurricane Felix between 2008-2012.

CLIMATE CHANGE

Adapting to climate change.

Nicaragua is using grant resources from the Special Climate Change Fund to help rural communities find ways to protect their water supplies, given expected increasing volatility in rainfall. This program is being piloted in 4 municipalities and includes modern impact evaluation techniques so that the lessons can be applied more broadly.



60

hurricane resistant bamboo houses designed and constructed.

Mitigating climate change. Nicaragua has paid its first BioCarbon Fund credits under the Precious Woods project, which is expected to reduce around 300,000 tons of CO2 emissions and has been approved for a Forest Carbon Partnership Facility REDD readiness grant.



Collaborating on renewable energy. The Government of Nicaragua is shifting to 74 percent generation of electricity from renewables by 2018, and 91 percent by 2027. To support these efforts, IFC and MIGA will take the lead through investments and guarantees in renewable generation projects -- wind, geothermal and hydropower, while

IDA provides technical assistance and analytical work to backstop these investments, in particular on sector financing, and strategies for accelerating geothermal investments.

INSTITUTIONAL DEVELOPMENT

IDA has supported the development of Nicaragua's public financial management system since 1995. Today, Nicaragua has a Medium Term Expenditure Framework in place in all central government and decentralized agencies, and is strengthening the links between planning and budgeting. Nicaragua improved its score in the Open Budget Index from 21 in 2006 to 37 in 2010, on par with the Central America average. An IDA project is working hand-in-hand with the European Union and InterAmerican Development Bank to modernize the current financial management information system, developed under an earlier IDA project.

IDA Commitments	Approved	US\$m
Institutional Development	Mar 1995	\$23
Economic Management Technical	Jan 2000	\$21
Public Sector Technical Assistance	Mar 2004	\$24
Public Financial Mgmt Mod	Dec 2010	\$10



All

government agencies included in the Medium Term Expenditure Framework and new information system being developed.

Partnering for measurement.....

IDA has provided statistical capacity building and technical support for all Nicaragua's Living Standards Measurement Surveys over the last decade, in 1993, 1998, 2001, 2005 and again in 2009, and in March 2012 approved financing for the 2014 survey as well. In recent years, IDA has also supported the 2012 Demographic and Health Survey and the 2011 Agricultural Census (together with Canadian trust fund).



....and evaluation

IDA has also supported the impact evaluation of a 2006 pilot program in Nicaragua to help rural households to diversify beyond small-scale farming. This long-term study has successfully measured the impact of the various types of assistance on key aspects of rural household welfare: children's cognitive development, climate resilience and income generation. Very powerful results continue to emerge from this pilot that are helping Nicaragua to refine its social interventions.

- Two years after the program, families who received investment grants or vocational training were better protected against weather “shocks” than those who only qualified for conditional cash transfers or didn't receive anything.
- Contrary to recent academic findings, the poorest households were the ones who saw the largest impact of investment grants on their income generation.
- Creates personal motivation from interacting with role models or simply being selected into the program had a greater impact on income than the cash transfers themselves.

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