Nicaragua is the second-poorest country in the Latin America and Caribbean Region, with a per capita income of US$430 (1999) per year. The Nicaragua Social Investment Fund (FISE) was created in the early 1990s to help rebuild the social and economic infrastructure after a decade of civil war, and quickly developed into the Government’s main poverty alleviation instrument. Today, FISE can point to an impressive record: it has financed more than 8,500 projects in 10 years with 60 percent of these projects benefiting the education sector. More recently, FISE has reinforced rural water and municipal infrastructure projects. FISE also strengthened its engagement in local capacity building at the municipal and community level. When Hurricane Mitch hit Central America in 1998, FISE was the principal institution mobilized to address the emergency, through opening roads and providing shelter and emergency equipment to satisfy the immediate needs of the affected population.

An impact evaluation carried out in 2000 showed FISE’s impressive results: projects were generally well targeted to the poor and education investments had a positive, measurable impact on school enrollment (raising enrollment rates by up to 10 percentage points), especially among the poor. Water investments resulted in improved access and health among the general population, and sanitation investments in improved access. However, beyond a rise in utilization rates among children with diarrhea, impacts from health facility investments were not detected, perhaps due to low levels of staffing and medicines found in both FISE-financed health posts and regular Ministry of Health posts.

<table>
<thead>
<tr>
<th>Box 1: FISE at a glance 1992-2001</th>
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<tbody>
<tr>
<td><strong>Number of projects:</strong> 8,500</td>
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<tr>
<td><strong>Investment volume:</strong> US$280 million</td>
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* No. of projects by sector:
  - education: 5,500
  - health: 1,800
  - social assistance: 180
  - water/sanitation: 210
  - municipal services: 780

* No. of projects by poverty category:
  - extreme: 2,700
  - high: 3,500
  - medium: 2,275

In the late 90s, it became clear that there were limits to the effectiveness of supply side interventions. On one hand, the country was approaching the limits of its absorption and operational capacity for social infrastructure. On the other hand, beneficiary assessments and the 2000 impact evaluation cited above provided evidence that part of the poorest population was still not benefiting from FISE-financed infrastructure investments simply because they were not using the investments. In particular, children living in extreme poverty often do not attend school regularly or visit health facilities because of high transaction and opportunity costs. After 10 years of providing solely supply side investments, FISE management and the Government of Nicaragua began thinking about strengthening the demand side through new ways of improving access to social services and creating an opportunity for inclusion for the most vulnerable, particularly young children living in precarious conditions in rural areas.
Conditional Cash Transfer (CCT) Programme

How do they work?

In 1999, with support from the Inter-American Development Bank, FISE created a new window to finance Conditional Cash Transfers along the lines of the successful PROGRESA (Programa de Educación, Salud y Alimentación) program of Mexico. The new “Social Safety Net” program (Red de Protección Social) provides cash to extremely poor families in selected rural areas. The program has two major objectives: to provide temporal poverty alleviation to the poorest families (short term); and prevent irreversible effects in human capital development of children (long term). The specific goals of the Social Safety Net program are to: (i) increase the rate of school enrollment and attendance for poor children grades 1-4, (ii) improve care for children age 0-4 (nutrition, hygiene, health, early childhood development), and (iii) supplement the income of families living in extreme poverty to improve nutrition. During the two-year pilot phase, the program benefited more than 60,000 people in 10,000 households. Among these households, 79.5 percent are poor and 44 percent are extremely poor.

Box 2: Social and Poverty Indicators in Nicaragua (1999)

- 47.9 percent of population is below the poverty line
- 17.3 percent of population is below the extreme poverty line (defined as: “consumption of calories below the minimum required to sustain a healthy life”)
- Number of families in extreme poverty: 100,000, 76 percent rural
- Average family size extreme poor: 7.7
- Average school years of extreme poor: 2 years
- Illiteracy among extreme poor: 40 percent
- Child malnutrition among the extreme poor: 39.5%

The Conditional Cash Transfer Program

- US$ 30 million (IDB credit), US$ 5 million IDA credit
- Number of families using the program
- Selection criteria: how do you determine “the extreme poor”?
- Number of NGOs/service providers contracted; who is eligible
- How families find out; how the program is advertised to eligible families

The average grant amount per family is US$27 per month for families receiving both education and health grants, regardless of family size. This “lump sum” approach was chosen to simplify procedures and to be a disincentive to having larger families. The grants are paid on a bimonthly basis exclusively to mothers or their substitutes—program results showed that 40 percent of the “children’s caretakers” are not actually their mothers.

Box 3: Conditions required for transfers

- No more than 5 days of absenteeism per school semester
- Monthly/bimonthly visits to health centers, depending on a child’s age
- A child’s progress in weight gain
- Mothers’ participation in bimonthly seminars on nutrition, hygiene, early childhood development and other subjects

Attendance is verified by teachers and health personnel.

While the education grant is conditioned only on regular school attendance, the health grants are conditioned on weight gain of the children aged 0-4, accompanied by intensive growth monitoring and hygiene and nutrition training for the mothers. And the program is strict in enforcing compliance with conditions: if just one child of a family fails to attend school as required, the education grant is suspended. If one child does not gain weight as would be
healthy during two payment cycles, the health grant is suspended unless the family presents a health certificate issued by a local health facility.

**Stunning Results on the Ground**

This demanding approach seems to work. The Nicaraguan Safety Net Program has remarkable compliance rates. About 95 percent of beneficiaries comply regularly with all conditions, which is much higher than the compliance rate of similar programs in Colombia or Mexico.

A recent impact evaluation of the Nicaraguan program carried out by the International Food Program Research Institute (IFPRI) shows further impressive results. During its two-year pilot phase, the Social Safety Net program achieved school enrollment rates for children in grades 1-4 of 94 percent as compared to 75 percent in the control group. In fact, 95 percent of the children remained in school throughout the year despite an emerging coffee crisis. The impact on babies' and small children's health is even more striking. While at the start of the program 43 percent of the children aged 0-2 were at risk in terms of weight and growth, one year later this figure went down to 28 percent. The number of malnourished children participating in the program (23 percent) was cut in half within less than a year. Also, 80 percent of the children aged 0-3 have completed immunization record as compared to 66 percent in the control group. Spending on food items amounted to 70 percent in program families while the control group families spent only 66 percent of their income on food.

**Remaining Questions: Affordability and Sustainability of CCTs**

These results are remarkable, particularly after only a two-year intervention. If these outcomes continue, might Conditional Cash Transfer Programs be the key to achieving an important part of the Millennium Development Goals of reducing child mortality and prevalence of underweight children, achieving universal primary education, and reducing the proportion of people who suffer from hunger?

One of the first questions is whether a poor country like Nicaragua can afford such a conditional cash transfer program. In order to reach all households in extreme poverty, approximately US$ 60 million would be necessary per year; this would be about a third of all social safety net spending in Nicaragua. The Bank supported the Government of Nicaragua in 2001 in carrying out a review of the major poverty reduction programs as identified in the Poverty Reduction Strategy Program (PRSP) of the Government. The review revealed that many of the programs analyzed lacked a clear target group or poverty focus, and most had no evidence of outcomes or impact. In a collaborative process, the Government of Nicaragua is now starting to prioritize programs and investments in the social sector to achieve greater impact. It is expected that at the end of this process, decisions will be taken as to the reallocation of funds.

A related, and perhaps the even more important question is whether a program is “cost-effective” and particularly more cost-effective than other programs in reaching the goals of diminishing child malnutrition, increasing school attendance, etc. This is of course difficult to assess and to date such a comparative analysis has not been done, but the Government of Nicaragua is considering this approach.

Another question that arises immediately with regard to the Social Safety Net program is that of sustainability. While Social Investment Funds create social and economic infrastructure that are expected to last for 15-20 years and are often accompanied by local development processes, what long-lasting effects can be expected from handing out cash? A few have already been mentioned, such as the fact that increasing the years of schooling of the children increases their human capital. Similarly, the long-term positive and cost-effective human development effects of a healthy and caring early childhood are well documented and internationally acknowledged. Another expected result concerns behavioral changes of the families with regard to nutrition, hygiene and early stimulation as well as regular school attendance. It is hoped that these changes in behavior will remain engrained and even be passed on over generations. At this point, we have no evidence that this occurs. However, it seems that the longer the program intervenes, the higher the chances are for profound behavioral change, especially if the conditions of a CCT program
emphasize training and capacity building for mothers
-an investment shown to be effective, if done well.

Is a Social Fund the Right Mechanism for Supporting Conditional Cash Transfers?

In Honduras, Nicaragua and Turkey, the Social Funds were the first institutions to initiate a CCT program. Their motivation was to strengthen the demand side of social services so that the poorest would benefit equally from schools and health services. The institutional set up of Social Funds clearly provides some benefits for managing CCT programs, namely their poverty focus, administrative independence, management capacity, operational expertise (procurement, financial management, etc.), and their experience with donors have definitely contributed to their success in setting up CCTs. However, in other countries different choices have been made. In Jamaica, for example, the Government analyzed its existing social safety net and found several transfer programs already in place. Instead of creating a new one, a decision was made to reform the existing transfer programs, consolidating three of them into one Unified Benefit Program and link all benefits (to children aged 0-17, people with disabilities, pregnant women, the elderly, and destitute people) to certain conditions. This shows that the institutional arrangements for CCTs depend entirely on the country’s context.

For more information on the Nicaragua Social Investment Fund, please contact Andrea Vermehren (avermeiren@worldbank.org) at the World Bank’s Headquarters office.

For task team leaders thinking of designing similar CCT components or programs, here are some lessons to consider:

1. Analyze whether the bottleneck in the social sectors of a particular country is a demand or a supply side problem. Is it the supply of infrastructure, the supply of social services, or the inability of the poorest/vulnerable to benefit from the social services and infrastructure?

2. Coordinate closely with health and education ministries and local representatives from the outset to ensure optimal links with the supply side. A CCT intervention cannot be an isolated program, but must build on local social services and capacity.

3. Poverty targeting is essential for the effectiveness of CCTs. Make sure that the implementing agency is on top of the latest thinking and knowledge on targeting.

4. Start with a pilot program that is big enough to measure outcomes yet small enough to be adjusted. Although the CCT concept is quite straightforward, the programs have proven to be rather complex in their design.

5. Design conditions and verification of conditions carefully. Each country has its own “break even point” of benefits and conditions. The design of conditions depends heavily on the quality and reliability of the supply provided by the health and education sectors.

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