DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

NICARAGUA

PROGRAM OF SUPPORT FOR THE IMPLEMENTATION OF THE NATIONAL DEVELOPMENT PLAN

(NI-L1005)

LOAN PROPOSAL

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Technical files	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=539543

ABBREVIATIONS

AWP	Annual work plan
CAFTA-DR	Central America-Dominican Republic Free Trade Agreement
CESI	Committee on Environment and Social Impact
CPC	Presidential Competitiveness Committee
EAAI	International Airports Administration Agency
EEGPRS	Enhanced Economic Growth and Poverty Reduction Strategy
EIA	Environmental Impact Assessment
ESMP	Environmental and Social Management Plan
ESS	Environmental and Social Strategy
FDT	Tourism Development Fund
FOMAV	Road Maintenance Fund
FSO	Fund for Special Operations
FUNIDES	Fundación Nicaragüense para el Desarrollo Económico y Social [Nicaraguan Economic and Social Development Fund]
GDP	Gross Domestic Product
GNI	Government of Nicaragua
HDM-4	Highway Development and Management System
ICAS	Institutional Capacity Assessment System
ICB	International Competitive Bidding
IDB	Inter-American Development Bank
IDR	Rural Development Institute
IMF	International Monetary Fund
INTUR	Nicaraguan Tourism Institute
IRI	International Roughness Index
IRR	Internal rate of return
Km	Kilometer
MARENA	Ministry of Natural Resources and the Environment
MHCP	Ministry of Finance
MIF	Multilateral Investment Fund
MIFIC	Ministry of Development, Industry, and Trade
MSMEs	Micro, small, and medium-sized enterprises
MTI	Ministry of Transport and Infrastructure
NCB	National Competitive Bidding
PND	National Development Plan
NicaExport	Nicaraguan Exports Promotion Agency
NPV	Net Present Value
PBLs	Policy Based Loans
PCU	Program Coordinating Unit
POR	Project Operating Regulations
PPP	Plan Puebla Panama
PRGF	Poverty Reduction and Growth Facility
ProNicaragua	Nicaraguan Imports Promotion Agency

SEA	Strategic Environmental Assessment
SECEP	Coordination and Strategy Secretariat of the Presidency
SNIP	National Public Investment System
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development

PROJECT SUMMARY

NICARAGUA
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Financial Terms and Conditions[1]				
Borrower: Republic of Nicaragua Executing agency: Ministry of Finance (MHCP)			Amortization period:	40 years
			Grace period:	10 years
			Disbursement period:	5 years
Source	**Amount (US$)**	**%**	Interest rate:	1% first 10 years, 2% thereafter
IDB (FSO)	40,100,000	98.4	Inspection and supervision fee:	1%
Local	600,000	0.5	Credit fee:	0.5%
Total	40,700,000	100.0	Currency:	US dollars

Project at a glance

Project objective:
The program objective is to increase the competitiveness of the country's primary conglomerates, by improving their production support activities and infrastructure so as to increase productivity, quality, exports, and foreign exchange earnings. To achieve this objective, the program will help develop, finance, and execute projects in the current National Development Plan (PND), and improve institutional mechanisms for their implementation.

Special contractual conditions:
See Table III-2. Special Conditions, page 25. Evidence that the executing agency has: (i) created the program coordinating unit (PCU) and hired the essential staff (see paragraph 3.4); (ii) selected a consulting firm to establish the program indicator baselines (see paragraph 3.33); (iii) put into effect the Program Operating Regulations (POR) agreed upon in advance with the Bank (see paragraph 3.4); and (iv) established the Program Advisory Committee (see paragraph 3.2).

Component-specific conditions:

1. **Support for the meat and dairy conglomerate**
   Evidence that the executing agency has signed a participation and funds transfer agreement with the Rural Development Institute (IDR), on terms agreed upon in advance with the Bank.
2. **Support for the tourism conglomerate**
   i. Evidence that the executing agency has signed a participation and funds transfer agreement with the Nicaraguan Tourism Institute (INTUR), on terms agreed upon in advance with the Bank.
   ii. Evidence that INTUR has entered into execution agreements with participating municipalities, the Ministry of the Interior, and the International Airports Administration Agency (EAAI), providing for the transfer of completed works, and the beneficiaries' commitment to guarantee the sustainability and maintenance of such works.
   iii. Evidence that INTUR has established an executing unit and hired a basic complement staff.
   iv. Evidence that INTUR has selected a private operator for the Tourism Development Fund (FDT).
3. **Support for the coffee conglomerate**
   i. Evidence that the transfer and participation agreement signed with the IDR is still in force.
   ii. Evidence that the executing agency has signed a participation and funds transfer agreement with the Ministry of Transport and Infrastructure (MTI), on terms and conditions agreed upon in advance with the Bank.
   iii. As a condition precedent to startup of works on the Sébaco-Matagalpa highway, submit evidence to the Bank that the financial system of the Road Maintenance Fund (FOMAV) guarantees the effective, appropriate, permanent, and independent allocation of resources to fulfill the obligation of providing routine, periodic maintenance of the country's maintainable network.

Exceptions to Bank policies: None.

Project consistent with country strategy: Yes [X] No [ ]
Project qualifies as: SEQ [X] PTI [ ] Sector [ ] Geographic [ ] Headcount [ ]
Procurement: See paragraphs 3.25 to 3.30.
Verified by CESI on: 22 April 2005

[1] The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount.*

* With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. FRAME OF REFERENCE

A. The Nicaraguan productive sector environment

1.1 Economic management and stabilization. The evolution of Nicaragua's macroeconomic indicators remained favorable in the first six months of 2005, (except for inflation, which will be higher than anticipated mainly because of higher fuel prices). However, there has been no progress in the structural reforms essential for sustaining recorded gains. The agenda of reforms pending is consistent with the commitments built into the Poverty Reduction and Growth Facility (PRGF) agreement signed with the International Monetary Fund (IMF) that expires in December 2005 and is presently on hold, jeopardizing budget support disbursements from multilateral lenders and bilateral donors. The business climate in the country has deteriorated noticeably since the second quarter due to political tension and the breakdown in governance. These circumstances, together with a less promising external sector, will translate into slower GDP growth by year-end 2005. However, approval of the CAFTA-DR trade agreement and of the Framework Law in October generated a more propitious climate for national economic development in the short and medium term.

1.2 Production has not grown strong enough to attain the Poverty Reduction Program goals. The country's competitiveness, the engine of growth, measured in terms of the World Economic Forum indices, remains modest and one of the lowest in the region. Nicaragua fell to 95th place on the Growth Competitiveness Index for 2004, out of 104 countries measured. For these reasons, support for Nicaragua's efforts to increase growth and competitiveness as outlined in the National Development Plan (PND) cannot be delayed any further, especially in light of the thorny political and institutional climate. Without a doubt, market mechanisms driven by a stable microeconomic framework are necessary but fall short of promoting greater and faster growth. This is particularly clear as political and economic conditions now stand in the country. Nicaragua faces serious impediments to its development, such as: (a) inadequate basic economic infrastructure, which limits private investment and production growth; (b) insufficient production support mechanisms to provide technical support for companies to increase productivity and quality in order to compete on international markets; (c) insufficient availability of pre-investment resources, so that few projects are ready to be financed; and (d) limited institutional capacity in the public sector, hampering the efficiency and effectiveness of actions to support the private sector.

B. Country strategy to generate economic growth and business competitiveness: the National Development Plan

1.3 Nicaragua has presented its National Development Plan (PND) to the international community. The plan is a medium and long term roadmap with specific projects, strongly supported by national consensus, whose objective is to improve the competitiveness of the primary productive sectors through public investment

actions and projects, involving active participation by the private sector and by communities. Conceptually, the PND proposes specifically to: (i) ensure that public investment is used to remove the principal infrastructure roadblocks to the production and flow of goods and services; and (ii) promote the establishment of business conglomerates in different regions of the country as part of the strategy to promote, strengthen, and develop competitive enterprises. In addition to providing a development vision and strategy, the PND describes, in the form of a matrix, the key projects and actions to put the Plan into effect. Amid the critical conditions afflicting the country, the PND is an effective beacon, to guide the way through the current political and economic shoals.

1.4 It took more than two years of strategic planning with four distinct phases to develop the PND, with the participation of communities, productive sectors, civil society, local governments, and national authorities from each sector of life in Nicaragua. The Coordination and Strategy Secretariat of the Office of the President (SECEP), and the Executive Secretariat of the Presidential Competitiveness Committee (CPC), coordinated efforts to design and identify priority investment projects for each conglomerate proposed by line institutions and agencies. These activities were approved by the Ministry of Finance (MHCP)—ultimately responsible for directing implementation of the PND—, the Production Cabinet, headed by the Ministry of Industry, Development, and Trade (MIFIC), and the National Public Investment System (SNIP).

1.5 The PND has three major goals: (i) to generate jobs and sustainable economic growth; (ii) to increase exports and investments; and (iii) to increase income to reduce poverty. To attain these goals, a number of actions in ten work areas were prioritized, notably: infrastructure, exports promotion, entrepreneurship development for micro, small, and medium-sized enterprises (MSMEs), rural development, adoption of technology, and sustainable environmental development. The total cost of the PND for the next five years has been estimated at approximately US$4 billion.

1.6 Since the competitiveness of primary productive conglomerates is the conceptual basis of the PND, the government has proposed that the CPC, through its Executive Secretariat, coordinate the cross-sectional and sector actions. The CPC was established as a public-private body to coordinate actions to promote entrepreneurial competitiveness.

1.7 As coordinator of the National Competitiveness Program, the CPC and its Executive Secretariat have supported the development of the country’s main conglomerates, three of which stand out as they account for one third of the national GDP: meat and dairy products, tourism, and coffee, as described below.

1.8 **Meat and dairy conglomerate** Nicaragua has the most dynamic animal husbandry in Central America. The country is today the region's leading exporter of meat[1], with the best industrial processing infrastructure, and certification to export to the United States. Consequently, meat exports have increased 8.2% on average in the past four years, generating approximately 12% of the GDP. Meanwhile, the private sector has made incursions in the cheese export market. The country's exports increased by over 50% in 2003 over the previous year, principally to El Salvador. Production of farmhouse cheeses is particularly important as it takes up 70% of the milk production.

1.9 **Rio San Juan tourism conglomerate** Tourism in Nicaragua has grown at a faster annual pace than elsewhere in Central America, hosting over 600,000 international visitors in 2004 (i.e., a 16.9% growth from the previous year).

1.10 The Nicaraguan Tourism Institute (INTUR), the state entity regulating tourism, estimates that sector income for 2004 amounted to US$166.7 million (almost 20% of total exports), with economic activity equivalent to 12% of GDP, a significant increase from previous years.

1.11 The Río San Juan Department is one of the areas with greatest tourism potential. It belongs to the typical border region, characterized by an active agricultural front that is exceptional in both natural diversity and sociocultural heritage.

1.12 In the context of the Puebla-Panama Plan (PPP) (Ruta del Agua–Ruta del Caribe project, and in conjunction with the National Tourism Land-use Management Plan, INTUR designated the Río San Juan area as a center for tourism development par excellence, under the logo "La Ruta del Agua". The region has been classified as: Special Zone for Tourism Planning and Development (ZEPDT), Zone of National Strategic Interest for Tourism because of its historical and cultural heritage, and Special Natural Ecological Zone because of its rich biodiversity. Río San Juan presents great potential as a tourism destination, although its proper positioning—from the point of view of demand—will be dependent on providing new infrastructure and improving the quality of the existing supply, in a context of sustainability and respect for the environment.

1.13 **Coffee conglomerate.** Coffee represents almost 30% of Nicaragua's agricultural GDP, and 6% of its global GDP, on average. Despite the problems caused by falling prices on international markets, coffee is still the country's primary export, with overseas sales amounting to US$130 million, or approximately 15% of exports. Nicaraguan production is moving towards the gourmet coffee segment where prices are 10 times higher than international prices for the non-differentiated product.

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[1] In 2004, meat and dairy exports exceeded US$130 million, or close to 15% of Nicaragua's total exports.

1.14 This activity is the basic engine of rural development, especially in the central region of the country. Coffee is a major contributor to rural employment, generating more than 150,000 direct jobs. There are some 22,700 coffee growers, of which approximately 90% are small producers. More than 70% of the coffee comes from Matagalpa and Jinotega, accounting for 22.5% and 49% of national production, respectively.

C. Principal barriers to the growth and development of conglomerates

1.15 The development of the conglomerates is hampered by a number of microeconomic barriers, the most important being electricity[2] and transportation infrastructure, in addition to difficulties in increasing productivity and improving marketing processes.

1.16 **Weaknesses in the road infrastructure.** Recent studies[3] point to the serious limitations of Nicaragua's infrastructure, that seriously compromise the country's ability to host private investment with the potential to compete on international markets. Because of the constraints imposed by this sector, the country is unable to capitalize on improved productivity, or the benefits of new market openings under regional integration processes such as the CAFTA, the Central American Common Market, and the PPP.

1.17 Nicaragua's road network comprises 18,712 km of highway and rural roads. Only 2,020 km, or 10.8% of the total, are paved. Moreover, some roads have exceeded their total useful design life. There are 13,780 km of dirt roads (73.6%), built to minimum specifications, with limited use in winter. The remaining 2,912 km are gravel and concrete.

1.18 The international community, and multilateral and regional organizations have been supporting the Government of Nicaragua in its efforts to improve the road infrastructure. The Bank has approved three major road programs in the past five years: Rehabilitation of the San Lorenzo-Muhán road, and two roadway projects to support competitiveness under the PPP, in Zone II (pacific north) and Zone III (Central north). However, there still remains considerable need for road rehabilitation and improvement works.

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[2] Despite the serious limitations to developing the rural electrification network, the institutional crisis in the sector has made it impossible for this program to include US$15 million initially planned during the design process to finance several actions to encourage some 19,000 families living in the meat and dairy conglomerate areas to come together. These may receive future financing, once the principal institutional restrictions are resolved.

[3] Reinventing Nicaragua, Economic Competitiveness Group, September 2003; and Nicaragua, Investment Climate Assessment, The World Bank, April 2, 2004. The Oxford Analytica points to the lack of infrastructure as one of the major barriers to attracting direct foreign investment in the country (July 2004).

1.19 **Other production support needs.** The quality of the primary conglomerate products and services (dairy-meat, tourism, and coffee) is not of a standard to compete on global markets, and there are insufficient external promotion actions to help capitalize on the new opportunities offered by the above-mentioned integration processes. Dairy products suffer from problems relating to productivity, food safety, quality, and costs to reach international markets. Tourism has not identified a differentiated product, unique in the region in which it competes, so as to profit from the flow of tourists to Costa Rica. To realize this development, major restrictions need to be resolved. These include: (i) nonexistence of basic infrastructure and connections to develop tourism destinations; (ii) lack of training, professionalization, and access to credit to develop tourism entrepreneurship, combined with a lack of promotion and marketing efforts to develop integrated tourist routes; (iii) lack of resources for preinvestment; and (iv) INTUR's institutional weakness. Development of the coffee sector will not be sustainable unless access roads to the production areas are improved, and the industry concentrates on value added coffee products, improved quality, and its entry into differentiated markets. To support the competitive and efficient development of this conglomerate, enabling it to successfully penetrate international markets, it will be necessary to improve the road infrastructure; promote partnerships among producers, roasters, and exporters; work towards certification; promote agroindustrial development (processing); implement clean technologies; and ensure the availability of preinvestment resources to develop productive projects.

D. The Bank's strategy with the country: Poverty reduction through support for growth and competitiveness

1.20 The proposed program fits in effectively with the Bank's strategy with the country. In February 2003, the Board of Executive Directors approved the strategy with the country (document GN-2230-1), last updated in May 2005. Its objective is to help the Government of Nicaragua establish and execute actions to attain goals of the Enhanced Economic Growth and Poverty Reduction Strategy (EEGPRS).[4] The strategy points to the need to improve the country's competitiveness and promote increased production in order to attain high and sustainable growth rates so as to permanently reduce poverty.

1.21 This program supports the PND rationale of promoting economic growth and increasing productivity through the delivery of essential economic infrastructure services and improved connectivity with international markets. The project operating strategy is therefore to select activities that complement other actions to create conditions enabling the private sector to increase production of goods and services in the country.

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[4] The PND was based on the EEGPRS.

1.22 Moreover, Nicaragua signed an Aide-Memoire with the Bank in May 2004, implementing the Business Climate Initiative, which opens the way to performing a diagnostic assessment and implementing an action plan of crosscutting activities that have a substantial impact on the investment climate. Several actions proposed in the present program specifically address the principal barriers to private investment in Nicaragua, in particular those relating to the limited connectivity between production and markets.

1.23 The Bank's experience with support for entrepreneurial competitiveness. The Bank has been encouraging its three Regional Departments to look at programs to support competitiveness. Regional Operations Department 2, in particular, has approved operations in Panama (1108/OC-PN and 1410-OC/PN), Honduras (1125/SF-HO), Dominican Republic (1397/OC-DR and 1474/OC-DR), and El Salvador (1492/OC-ES). Various instruments were used, including innovation loans, policy-based lending (PBLs), and investment loans. The objective was to support the public-private dialogue, design domestic strategies and conglomerates, eliminate the principal barriers to competitiveness, and finance infrastructure to support production.

1.24 The Bank's loan portfolio with Nicaragua supports competitiveness through ten operations amounting to US$338.3 million: four road infrastructure projects; a program to strengthen commercial negotiations; a fiscal reform program; the hybrid program to reform the electricity sector; the rural production revitalization program; improvement of animal health services; multisector credit program. In addition, the MIF is financing six operations amounting to US$7.9 million to help improve competitiveness and the business climate. These are: (i) quality management and food safety standards (ATN/MH-7081-NI); (ii) improving the quality of tourism SMEs (ATN/ME-7594-NI); (iii) adopting cleaner production methods (ATN/ME-8427-NI); (iv) simplified business registration system (ATN/MT-8457-NI); (v) improving the competitiveness of small forestry companies (ATN/ME-7953-RG); and (vi) supporting the competitive position of coffee growers (ATN/ME-8292-RG). The latter two are regional operations of great importance for the Central American region.

1.25 Lessons learned. Some preliminary lessons can be drawn from these recent experiences: (i) the need to use mixed mechanisms (public and private) to coordinate actions to enhance competitiveness, giving the private sector a leadership role; (ii) the importance of integrating physical investments with soft support such as technical assistance, entrepreneurial development services, and access to financing; (iii) activities must be demand-oriented and based directly on the requirements of the production sector, in accordance with sector investment plans; (iv) the execution mechanisms for programs supporting competitiveness must be sufficiently flexible for actions to adjust to the changing needs of the conglomerates.

E. Program strategy

1.26 The program seeks to remove some of the major constraints on the production conglomerates' ability to compete globally, especially in their connectivity with the markets. Public agencies selected the program activities based on private sector, community, and civil society requirements, and those set out in the current PND. Such cross-cutting initiatives cover infrastructure, production support, and preinvestment funds to prepare projects for the three conglomerates, and one specific initiative of institutional support for INTUR to strengthen its sector leadership role. The activities are a clear response to the most pressing problems in each sector, seeking to develop clusters.

Interventions	Dairy and Meat	Tourism	Coffee
Road infrastructure and minor civil works			
Production support			
Preinvestment			
Institutional support			

1.27 Although the planned activities are prioritized according to the competitive potential of conglomerates,[5] the projects to be financed under the program will have an impact on the general population, especially by increasing the transportation network which will benefit producers and consumers alike. The economic activity generated by the development of the conglomerates is expected to increase the activities of small and medium-sized enterprises in the beneficiary areas.

F. Coordination with other donors

1.28 The government stressed the importance of better coordination to execute the PND so that programs and projects will have a greater impact. Accordingly, with the backing of the International Donor Community (IDC), the government entrusted coordination of the efforts to increase competitiveness and support production conglomerates to the Executive Secretariat of the Presidential Competitiveness Committee (CPC). As a result, the Secretariat began executing the World Bank competitiveness learning and innovation loan project (US$5 million) in 2001, a program to promote information technology-based business development services, improve the business environment, and promote competition policies and legislation. In addition, the CPC Executive Secretariat is associated with a group of programs supporting private sector competitiveness and development, such as UNIDO (US$1.9, the United Nations), FUNIDES (US$122 million, USAID), NicaExport (US$3 million), ProNicaragua (US$2.5 million), and Nicaragua Trade and Competitiveness (US$22 million, USAID).

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5 See the benefits of embracing specific sectors initiatives in Andres Rodriguez Clare, "Microeconomic Interventions After the Washington Consensus", RES, Inter-American Development Bank, August, 2004.

II. PROGRAM

A. Objectives

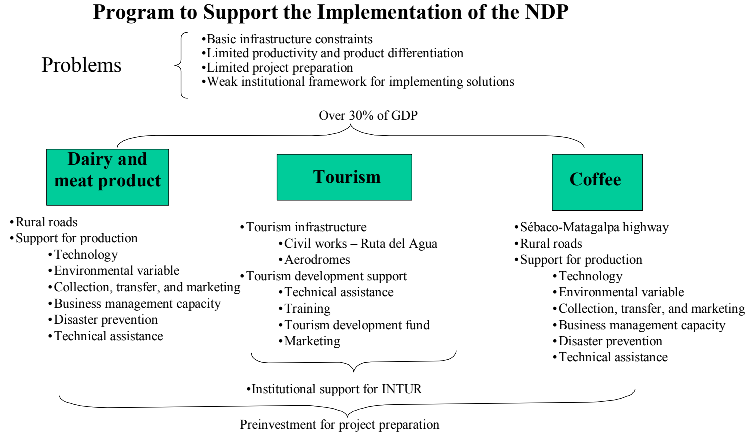
2.1 The program objective is to increase the competitiveness of the country's principal conglomerates by improving their production support activities and infrastructure so as to increase productivity, quality, exports, and foreign-exchange earnings. To achieve this objective, the program will help develop, finance, and execute PND projects, and improve institutional mechanisms for their implementation. Upon completion of the program, exports of meat and dairy products are expected to have risen by 15% from the baseline in the project areas, and the number of visitors to the Ruta del Agua to have increased by 10% and coffee exports from the project area by 5%. The specific outputs are indicated in the program logical framework.

B. Description

2.2 Program actions will target the three conglomerates with the greatest potential to compete globally, and that contribute the most to the GDP, exports, and employment: meat and dairy, tourism, and coffee.[6] The program will finance in particular infrastructure, production support, preinvestment, and institutional support activities, seeking to provide comprehensive solutions to the principal needs of these conglomerates.

2.3 The program is built around the production conglomerates since they are the beneficiaries of the proposed activities. Accordingly, the program-funded components are classified by conglomerate.

Program to Support the Implementation of the NDP



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6 The National Competitiveness Committee supports a total of seven conglomerates: meat, dairy, coffee, tourism, forestry/furniture, aquaculture, and light assembly. The three conglomerates selected account for one third of GDP and are the country's principal source of foreign exchange.

1. Support for the meat and dairy conglomerate (US$6.65 million)

2.4 The objective of this component is to raise production levels, improving productivity and marketing in the principal cattle breeding areas of the country, with the consequent impact on the population living in the program area. The strategy adopted calls for complementary activities to extend the road infrastructure and improve all aspects of the entrepreneurial activity: productivity at the farm level, bulking and industrial processing, transportation of inputs and products, and marketing of products and subproducts. The preselected beneficiary areas were identified as having high potential for livestock farming because the land use-land potential ratio, the addition of the environmental dimension, and coordination of the specific activities of this initiative would ensure that the project is sustainable.

a. Road infrastructure works

2.5 The program will finance rehabilitation and improvement[7] of the roads on the productive route in the beneficiary districts. With the assistance of the Rural Development Institute (IDR), and factoring in producer demands, the program identified in advance some 128 km of road requiring rehabilitation and improvement. The works will be carried out in various communities of Department of Nueva Segovia, and the South Atlantic Autonomous Region (RAAS) and Matagalpa, which account for a significant portion of the territory occupied by the meat and dairy conglomerates. These are feeder roads, connecting production centers to the principal trunk roads, and are an essential component of the basic infrastructure needed to ensure the viability of the conglomerate.

2.6 The intervention includes training, technical assistance, and establishment of mechanisms to assure regular road maintenance. The purpose of this activity is to improve access to the production centers, reduce transportation costs, decrease product spoilage and post-harvest losses, increase the frequency of contact with markets and sources of information, and benefit the supply of transportation services in rural areas. To be eligible for financing, the road must be associated with a profitable production development project in the area served by the road, and provide a means of communications between the area and the production, consumer, distribution, and marketing centers for products and inputs. Projects may include: rehabilitation works on tertiary roads and bridges, minor civil works, resurfacing of the wearing course, the rerouting of as much as 30% of the network, improvements in technical conditions, construction of drainage and road stabilization systems to guarantee transport in all weather conditions, and the appropriate environmental measures. The program will not finance construction of new roads, and in no case may the investment under this item exceedUS$30,000

[7] Rehabilitation and improvement are defined as construction activities to improve the physical and operating conditions of an existing road that is in good, fair, or bad condition, to expand its capacity, or simply to provide better service for users.

per km. One key investment eligibility criterion for road rehabilitation, is the beneficiary community's formal and contractual commitment to maintain the works, either directly or with technical and financial support from the *municipio.* A Maintenance Commitment and a Maintenance Fund will be required in order to ensure the maintenance of upgraded roads. The Maintenance Commitment is an agreement between the IDR and the project beneficiary group, whereby the producers agree to provide for regular light maintenance work on the road. The Maintenance Fund is established to finance activities the community is unable to perform with only the labor it contributes. The Fund will be set up under a contract between the municipality, the direct beneficiaries, and the IDR and administered by the municipality, which will be responsible for performing the maintenance works.

b. Production support activities

2.7 The IDR will finance a range of investments through producer organizations, cooperatives, or similar associations, to improve farm productivity, and provide technical assistance and training to achieve a production transformation with quantifiable and identifiable results. Specific activities to be financed include: (i) technological improvement of production; (ii) activities that incorporate of the environmental variable as an element of competitiveness, including financing of the certification process; (iii) processing, storage, and marketing infrastructure and equipment; (iv) business management training (administration, finance, marketing, environmental management, occupational health and hygiene); (v) small civil works to protect against natural disasters (erosion, flood, and landslide control); and (vi) technical assistance for land management, water supply systems, reservoirs and small lakes, production and conservation of cattle fodder.

2.8 Interventions for this conglomerate were identified in the Matiguás and Río Blanco municipalities in Department of Matagalpa, and the Paiwas and Nueva Guinea municipalities (milk quadrangle) in the RAAS of Nicaragua. The program will benefit some 600 experienced cattle farmers in Matagalpa and Paiwas with good production potential, 236 members of the COPROLECHE dairy producers cooperative, and 200 producers in several communities of Nueva Guinea. The planned civil works to optimize the quantity and quality of farm production processes tentatively include milking rooms, silvopastoral systems, troughs, and water catchment works, among others. At the conglomerate level, support will be provided to build bulking centers, processing plants, and telecommunications centers, among others. In all cases, beneficiaries will contribute 50% of the investment costs.

c. Preinvestment

2.9 The activities described in paragraphs 2.5, 2.6, and 2.7, must comply with the technical, social, financial, economic, and environmental criteria set forth in the Project Operating Regulations (POR). To help stakeholders comply with these

requirements, the component will finance the pre-investment costs of the specific projects, as well as guidance and training activities for participating organizations in areas having to do with project preparation, administration, and execution. This will result in: (a) a proper evaluation of all aspects of the activities, in accordance with the POR; (b) proper management of environmental issues; and (c) use of culturally appropriate participatory techniques for training and technical assistance. Stakeholders will also be trained in preparing the reports required by the IDR for program monitoring and oversight.

2. Support for the tourism conglomerate–Ruta del Agua, Rio San Juan Department (US$14.72 million)

2.10 The chief objective in supporting this conglomerate is to draw attention to the tourism resources along the Ruta del Caribe (Nicaraguan portion of the PPP)[8]. The program aims to improve the overall supply of basic infrastructure along the San Juan river, so as to develop a tourist route that will assure the economic, sociocultural, and environmental sustainability of the destination. Some of specific objectives are: (a) to encourage the orderly and sustainable development of the tourism, preserving and promoting natural-landscape, historic-monuments, and cultural, gastronomic, artistic, and/or ethnographic resources; (b) to enhance and make use of these resources by ensuring access to same, and develop guidelines to market the new route in a manner consistent with the new technological tools used on global markets; (c) to strengthen and integrate the business fabric by fostering partnerships, guidance and support for enterprises, especially micro and small tourism enterprises; (d) to improve the skills of the human capital employed in tourism, increasing the quality of service (supply), and move towards decentralized management of tourism destinations, resources, and products by both public and private agents; and (e) to promote and raise public awareness about tourism and its importance for the future. The following subcomponents and related activities will be implemented to attain these objectives:

a. Infrastructure works

2.11 This subcomponent will address the deficiencies of the region as a tourism destination, especially in the matter of accessibility and coordination of tourism resources. Financing will be provided for a number of smaller civil works and investment in two airfields.

2.12 During program preparation, the final list of works to be financed was drawn up and agreed with the government (i.e. INTUR, MARENA, EAAI, MTI, SECEP,

[8] The Ruta del Agua (Nicaragua section), was developed as part of the PPP Ruta del Caribe project. This project, now an integral part of the program, is currently in preparation with non-reimbursable technical-cooperation funding support. The itemized investment plan will serve as basis for the integration and execution of the tourism conglomerate (Ruta del Agua–Río San Juan) (see Technical Appendix).

CPC, and MHCP), municipalities in the department, tourism entrepreneurs, tourist offices, and other civil society nongovernmental organizations, all highly visible in the area. Technical, financial, and environmental prefeasibility studies were carried out for each work, providing engineering predesigns, plans, and unit cost estimates for each. It should be noted that special design parameters were fashioned for these works so as to give them an easily recognizable “Ruta del Agua” image. It is also important to point out that INTUR signed an agreement with each of the entities tasked with a project in order to transfer the resulting works once completed, thus guaranteeing the sustainability and proper maintenance of such works. In addition, the beneficiary Tourist Offices and Associations signed a letter of intent confirming their interest in the project, and their willingness to ensure its sustainability. Details relating to the above may be found in the project technical files, under the tourism technical appendix.

2.13 Minor civil works: improvement of eleven floating jetties, four tourist offices, and eight immigration posts along the San Juan river. Provision has also been made to finance small works such as repairing damaged waterfronts, improving historical facades in areas of greater tourism potential, interpretation trails, improved basic services in some strategic points, etc.

2.14 Improve the San Carlos airfield, and build the San Juan del Norte airfield in order to provide access to the Ruta del Agua from both ends of the San Juan River as described below.

2.15 San Carlos airfield improvements: Once refurbished, this airport will handle 16,785 passengers/year, carried on at least 1,120 flights (operating at full capacity). Interventions include improving the existing 900 meter runway and the passenger terminal. Technical specifications for the works are based on the 15-seat “Caravan” aircraft. The airfield will retain its domestic flights status.

2.16 Construction of the San Juan del Norte regional airport. This airport is needed to service the Ruta del Agua destination, allowing passengers to fly in and out in different directions. The program will finance construction of a landing and take off strip 1,300-m long by 35-m wide. Other facilities include a 30-m taxi strip, a 100-m x 60-m aircraft parking apron, construction of a small terminal for tourists, and a perimeter security fence. The airport will handle 42-seat *ATR-42* aircraft, with little noise and vibration impact. The project design meets international standards set by the International Civil Aviation Organization (ICAO), Document 14, and the Federal Aviation Agency (FAA). The airport feasibility studies, including the technical, financial, and socioenvironmental studies, have been completed, and the national environmental agency—the Ministry for Natural Resources and the Environment (MARENA)—has issued the required resolution. The airport will handle both domestic and international flights.

b. Support to develop the Rio San Juan tourist destination.

2.17 This subcomponent will support INTUR's efforts to address the technical and economic limitations of the Río San Juan tourism entrepreneurial fabric. Four specific activities will be financed: *(i) tourism training; (ii) technical assistance; (iii) Entrepreneurial Enhancement Fund; and (iv) promotion and marketing plan.*

2.18 *Tourism training* essentially aims to achieve a qualitative improvement and a quantitative increase in tourism agents through the transfer of knowledge,[9] to ensure sustainability of the tourist destination. This activity will cover the planning of training activities, development and editing of teaching material, promotion and offering of courses and workshops, monitoring and evaluation of courses, etc. The course and workshop content will focus on marketing, financial management, customer care, hospitality management, interpretation of the natural and historical heritage, the putting together of tour packages, among others. The program will offer more than 3,000 course hours. Details on the above may be found in the project technical files, under the tourism technical appendix.

2.19 *Technical assistance* will give conglomerate members a practical and individualized tool to promote development, realizing that businesses must be able to access capital and know-how in order to raise the quality of Ruta del Agua as a tourist destination. This program will cover issues such as: (a) developing a "Guide of Best Practices for Small Tourism Concerns" providing parameters to measure the quality of services offered by tourism companies. The guide will be based on the Nicaragua National Tourism Quality System prepared by INTUR; (b) publicizing the initiative; (c) performing a business performance diagnostic assessment to identify the needs for improvement in each selected enterprise; (d) preparing technical assistance plans and implementing a tutoring process. Recommendations produced by the preceding phase will then be used to implement a support and tutoring program to help all participating companies implement the improvements. A Tourism Development Fund was created to help implement the program and pursue all planned improvements.

2.20 The *Tourism Development Fund* (FDT) will use a matching grant arrangement to assist micro, small and medium-sized enterprises (MSMEs) in the tourism sector in implementing the Entrepreneurial Improvement Plan or new projects. It is anticipated that the FDT will process some 100 operations capped at US$8,000 each. A simple operating mechanism was designed during project preparation: first, promote and publicize the Fund among all potential beneficiaries, then provide instructions on the applicable procedures and requirements, distribute the application forms, review technical, environmental, and social considerations, qualify eligible projects, and finally select projects based on predetermined criteria

[9] Program primarily targeting tourism entrepreneurs and workers in Río San Juan, and institutions associated with tourism activities, such as INTUR, Immigration, Customs, Tourism Police, the Army, and MARENA.

and variables. Lastly, monitor the program to ensure resources are put to good use, and support business performance as much as possible. A private operator will manage the FDT, assuming responsibility for promoting and administering the matched funds. The private operator will also provide technical assistance and implement the training program described in activities (i) and (ii) above, resulting in economies of scale in the management of these three elements. The FDT will be governed by its own Operating Regulations, which are part of the Program Operating Regulations.

2.21 The *Promotion and Marketing Plan* as part of the Río San Juan Integrated Tourism Development Program, is based on creating a product-circuit: INTUR's Ruta del Agua. The plan comprises two specific activities: *(a) promotion program; and (b) design of an online tourism information system.* The plan calls for marketing actions to bring the Ruta del Agua route to the attention of originating markets, intermediary agents, and potential end users, as a well-defined product-circuit, integrated into and complementing a tourism destination, and as a logo of the Caribbean thematic routes (PPP).

2.22 *Promotion program.* The program includes creating, disseminating and implementing the Ruta del Agua tourism name; preparing brochures for each thematic segment of the destination in general, and of Ruta del Agua, in particular; developing multimedia and audiovisual material on the destination; providing technical assistance to create the "Nicaragua Film Commission"; designing the certification and accreditation system for the specific thematic segments of the Ruta del Agua; organizing workshops for tour operators and intermediaries (i.e., familiarization tours and press trips).

2.23 *Design of an Online Tourism Information System.* This activity explicitly seeks to launch a virtual display window highlighting the most representative and attractive tourism sights to draw as many visitors as possible, generating business and developing the potential of the tourism sector. Specific actions include: creating an Electronic Tourism Information Center, implementing an Internal Administration Area providing tools to measure and analyze outcomes, and developing an online marketing system.

c. Preinvestment

2.24 The program will finance preinvestment through INTUR to conduct the technical and economic studies for the infrastructure works planned for this component.[10]

[10] Predesign studies were completed for minor works, and complete technical and economic studies for the San Juan del Norte airport.

d. Institutional support for INTUR

2.25 The program will finance a number of activities to support INTUR's institutional strengthening. In particular, it will improve all administrative processes, prepare manuals, and modernize the data processing and oversight mechanisms. An institutional evaluation using the Bank's Institutional Capacity Assessment System (ICAS) will help identify additional specific actions.

3. Support for the coffee conglomerate (US$14.73 million)

2.26 The objective of this component is to improve connectivity between production centers and markets, strengthen existing local capacities to increase productivity, income level, and the management capacity of small and medium-sized coffee growers in the primary production areas of Nicaragua. This strengthening is designed to develop initiatives to: deepen value chains, prevent disasters, develop collective business plans, increase plantation productivity, control quality, certify products for differentiated markets, and improve marketing. The component will finance: (a) a series of basic economic infrastructure works to make the coffee industry's competitiveness viable, directly benefiting associated producers, and providing positive externalities to large segments of the population; (b) activities to support production for organized groups within the conglomerate so as to bring about a production and marketing transformation; and (c) preparation of specific projects financed with preinvestment resources.

2.27 Support will be provided specifically to improve the road network linking production centers with processing, distribution, and market centers; build local capacities among promoters and technical assistance service providers; to plan production activity at the farm and subregional levels to transform production; to establish systems to generate and transfer technology; to systematize learning and methodological lessons; and to complement business efforts.

a. Infrastructure works

2.28 This subcomponent will finance: (i) the improvement and rehabilitation of the Sébaco-Matagalpa road, a trunk road serving the coffee growing area; and (ii) the rehabilitation and improvement of tertiary roads. The objective is to help boost the coffee conglomerate competitiveness in the Matagalpa and Jinotega departments by providing better road transportation conditions, thus reducing vehicle operating costs and travel time, and ensuring year-round access to the production areas.

2.29 Rehabilitation and improvement of the Sébaco-Matagalpa road[11] by the Ministry of Transport and Infrastructure (MTI): Financing will be provided to rehabilitate approximately 25 km of road. A typical section will consist of a 3.5-meter lane in each direction, a 0.7-m shoulder, 1-m sidewalks, a 2-m cycling lane, and a third 3-meter travel lane. The pavement for all construction work will consist of a 25-cm cement treated recycled subbase; 21.5-cm crushed base on the Sébaco-Quebrada Honda section and a 22.1-cm crushed based on the Quebrada Honda-Matagalpa section, and a 6.5-cm asphalt wearing course.

2.30 The road is 25-km long, with average daily traffic ranging from 3,200 to 3,700 vehicles, of which 22% is truck traffic and close to 9% public bus services. The road was paved in 1956 and rehabilitated after the 1973 earthquake. At present, it is in critical condition over most of its length. There are surface cracks on more than 90% of the pavement, and the road roughness on some stretches measures 5.7 on the International Roughness Index (IRI).

2.31 Rehabilitation will open the road to year-round traffic and provide good travel conditions, while reducing costs and times to transfer materials and inputs to established industries and, more importantly, to transport commercial cargo. A first class road link to northwest Nicaragua has long been the aspiration of populations in the center of the country, allowing them to access the country's main Pacific port (Corinto), and the Central American corridor via the León–Chinandega–Guasaule road. In addition, the link will help decongest the movement of goods produced in northern Nicaragua as they are transported on the Wiwilí (Coco river mountain port) and Cua-Bocay axis, the main road and only economically profitable option to transport cargo to the country's western markets and to overseas markets through the port of Corinto. The road connects to the Managua–Estelí road in the southeast, permitting travel to Managua in one direction, and the large cities of the west (León and Chinandega) and the port of Corinto, in the other direction. The road begins in the Sébaco valley on level terrain, passes through the city of Sébaco, reaching Chaguitillo at the other end of the valley, with road gradients of less than 2%. It then runs through the central mountains with constantly changing gradients as the road traverses rolling topography until it reaches the city of Matagalpa.

2.32 Road rehabilitation and improvements by the Rural Development Institute (IDR). The works financed under this component are similar to those mentioned in paragraph 2.5 for component 1 (meat-dairy conglomerate), and will be carried out along the same lines. In coordination with the IDR, and based on producer demand,

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[11] The Sébaco-Matagalpa road is the only trunk route serving the populations in the north of the country, linking them to the domestic markets in western Nicaragua (León and Chinandega), and providing access to international markets through the Corinto sea port. More importantly, this road is a major artery for the coffee conglomerate, receiving the traffic flow from secondary and tertiary collector roads that provide access to plantations and farms, and agroindustrial facilities such as bean sorting plants, processing plants, etc.

a total of 98 km needing rehabilitation and improvement were identified in the Dipilto, Macuelizo, Wiwilí, Kilambé, San Juan de Río Coco, and Telpaneca communities, in the northern coffee growing area. Maintenance will be carried out in the same manner as for rural roads in component 1, through agreements with the beneficiaries and the establishment of a special fund.

b. Production support activities

2.33 The IDR will implement a mechanism with organizations of producers, cooperatives, or similar forms of association, to finance a range of investments to improve farm productivity, and provide technical assistance and training to transform production, with quantifiable and identifiable benefits for members of the requesting group. Financing will specifically be provided for: (a) technological improvement of production; (b) improvement, quality control, and best use of subproducts; (c) activities with a built-in environmental variable as an element of competitiveness, including certification processes, technical assistance for integrated pest management plantations, soil and water conservation, and reduction of pollution for beneficiaries; (d) processing, storage, and marketing infrastructure and equipment; and (e) business management training (administration, finance, marketing, environmental management, occupational health and hygiene).

2.34 For information purposes, the coffee conglomerate activities are centered in northern Nicaragua, where there is a high concentration of quality coffee production. The beneficiaries include some 1,750 small and medium-sized coffee growers in three coffee growing regions or centers in the San Juan de Río Coco and Telpaneca *municipios* in Madriz, Dipilto, and Macuelizo in Nueva Segovia, and Wiwilí in Jinotega. Some activities were singled out because they will enhance the product processing infrastructure, such as facilities for dry and wet processing, roasting, tasting laboratories, and a range of management training and quality control activities, among others. Beneficiaries will contribute 50% of the project value.

c. Preinvestment

2.35 The guidelines provided for component 1 (paragraphs 2.6 and 2.7) apply to the activities financed through the IDR under this subcomponent. The coffee conglomerate activities are supported by socioeconomic, biophysical, and production studies based on maps and georeferencing content, in addition to soil, water, quality, fauna, and flora studies.

C. Cost and financing

2.36 The program will cost US$40.739,500, broken down as shown in the table below.

Cost and Financing
NI-L1005 Support for the National Development Plan
(US$ thousands)

Description	FSO	Local	Total	%
I. Administration and Supervision	**1,560.0**	**439.0**	**1,999.0**	**4,9**
a. Administration (INTUR)	500.0	439.0	939.0	
b. Technical audits, monitoring, and evaluation	450.0		450.0	
c. Central coordination PCU	610.0		610.0	
II. Components	**36,099.0**	**0.0**	**36,099.0**	**88.6**
Component 1: Support for the meat and dairy conglomerate	**6,650.0**	**0.0**	**6.650.0**	**16.3**
a. Production infrastructure				
- Rehabilitation of rural roads	2,970.0		2,970.0	
b. Other actions	3,290.0		3,290.0	
c. Preinvestment	225.0		225.0	
d. Environmental and social mitigation	165.0		165.0	
Component 2: Support for the tourism conglomerate	**14.720.0**	**0.0**	**14,720.0**	**36.1**
a. Improve tourism infrastructure	9.350.0		9,350.0	
b. Program to support the Río San Juan tourism development	3.150.0		3,150.0	
c. Tourism promotion and marketing plan	1.400.0		1,400.0	
d. Preinvestment	150.0		150.0	
e. Institutional strengthening	370.0		370.0	
f. Environmental and social mitigation	300.0		300.0	
Component 3: Support for the coffee conglomerate	**14,729.0**	**0.0**	**14,729.0**	**36.2**
a. Production infrastructure				
- Roads	10,330.0		10,330.0	
- Rehabilitation of rural roads	2,235.0		2,235.0	
b. Other actions	1,325.0		1,325.0	
c. Preinvestment (includes roads)	114.0		114.0	
d. Environmental and social mitigation	725.0		725.0	
III. Contingencies	**1,090.0**		**1,090.0**	**2.7**
IV. Associated costs	**250.0**	**0.0**	**250.0**	**0.6**
a. Financial audit	250.0		250.0	
Subtotal	**38,999.0**	**439.0**	**39,438.0**	
V. Financial costs	**1,101.0**	**200.5**	**1,301.5**	**3.2**
a. Interest	700.0		700.0	
b. Credit fee		200.5	200.5	
c. Inspection and supervision	401.0		401.0	
Total	**40,100.0**	**639.5**	**40,739.5**	**100.0**
% Project	**98.4%**	**1.6%**	**100.0%**	

III. EXECUTION

A. Borrower and executing agency

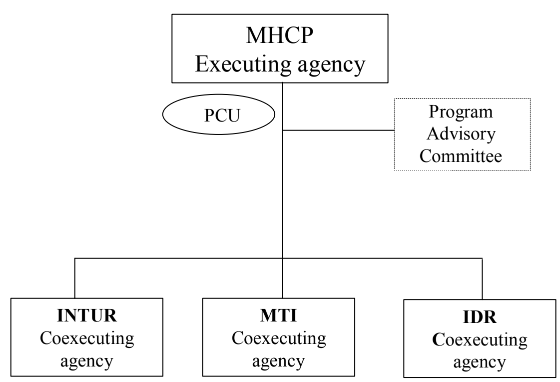
3.1 The Republic of Nicaragua is the borrower, and the MHCP the executing agency and program coordinator, with the help of the program coordinating unit (PCU), physically located in the CPC Executive Secretariat. Other participants include the MTI, INTUR, and the IDR as program coexecuting agencies. Participating entities will sign agreements with the MHCP determining how program funds will be transferred, the obligations and associated activities pursuant to program guidelines, how they will maintain the assets, the process for the transfer of works to municipalities or other entities responsible for their operation, maintenance, and conservation, among others. Signing this agreement will be a condition precedent to disbursement of funds to each coexecuting agency. In addition, the Program Advisory Committee will participate in program execution as described below.

B. Program execution and administration

3.2 **The MHCP will be solely liable to the Bank** for program execution, performing its duties through a PCU created for this purpose and working from the premises of the Executive Secretariat of the Presidential Competitiveness Committee. Accordingly, creation of the MHCP program coordinating unit (PCU) and definition of its duties will be a condition precedent to the first disbursement.

3.3 **The Program Advisory Committee** will support, manage, and recommend measures to be taken by the MHCP to ensure compliance with the program objectives and goals. The Committee will consist of senior officials—or their representatives—of the MHCP and coexecuting agencies, chaired by the Executive Secretary of the CPC. The technical coordinator of the PCU will be the Committee Secretary. The Committee's specific duties are described in the POR. Creation of the Program Advisory Committee will be a condition precedent to the first disbursement of program funds.

Execution Plan



3.4 **The PCU** will be responsible for: (i) ensuring compliance with the program contractual conditions, the agreements signed pursuant to the loan agreement, and the POR; (ii) identifying, selecting, hiring, and monitoring national and international consultants to assist in program coordination, monitoring, and

evaluation duties; (iii) coordinating compliance with the annual work plans (AWP) by the program beneficiary conglomerates; (iv) submitting the progress reports required under the loan agreement; (v) implementing an integrated project financial administration and accounting system (including the chart of accounts, accounting manual, software, equipment, human resources) within the PCU and for each coexecuting agency, and submitting disbursement requests to the Bank; (vi) selecting the independent audit firm in accordance with terms of reference acceptable to the Bank, and preparing the consolidated financial statements for the program; (vii) coordinating workshops, seminars, and other events; (viii) coordinating the contracts for the midterm and final program evaluations; (ix) coordinating actions with MARENA and government environmental agencies for the sectors where investments are planned, so as to ensure strict compliance with national environmental standards; and (x) other duties described in the POR.

3.5 The PCU will be supported by a technical coordinator, a certified public accountant, a procurement specialist, an administrator, in addition to secretarial and support staff, which may be financed with loan proceeds in accordance with Bank policies. Creation of the PCU in accordance with the above terms, and selection and contracting of the support staff are a condition precedent to the first disbursement. The POR will describe the functions and duties of PCU members. The entry into force of the POR on terms agreed upon in advance with the Bank will be a condition precedent to the first disbursement.

C. Execution of program components

3.6 The MIT and specialized line institutions will execute program components for each conglomerate as described below.

3.7 Each coexecuting agency will be responsible for: (i) procuring goods and services, and preparing the terms of reference to contract services; (ii) contracting and supervising contracted works and/or services; (iii) monitoring and supervising their respective works; (iv) implementing an internal control system, and a supervision and monitoring system for civil works and financial resources; (v) implementing a detailed accounting system for the activities carried out with loan proceeds, in accordance with an accounting system and using software selected by the PCU; (vi) reporting to the PCU; (vii) retaining the original supporting documentation for expenses incurred with program resources; (viii) facilitating and allowing external auditors to access all the information needed to perform their duties; (ix) submitting progress reports; (x) making payments using revolving fund resources; and (xi) submitting requests for disbursement and their justification to the PCU.

1. Support for the meat and dairy conglomerate. Coexecuting agency: IDR

3.8 The IDR will entrust program execution to the executing unit currently responsible for other Bank-financed projects. The project team evaluated this unit, and

considers it has the capacity to execute the project. A program manager will be appointed to administer the program and serve as liaison with the PCU, the other coexecuting agencies, and the Bank.

3.9 The IDR will be responsible for: (i) preparing the bidding and awarding contracts, contracting, and supervision of the civil works to improve and rehabilitate tertiary roads in the meat and dairy conglomerate, and ensuring that relevant municipios sign and fulfill the maintenance agreements; (ii) transferring resources to organizations of producers in the program area of influence, to finance projects contemplated under the production support activities subcomponent, as described in paragraphs 2.6 and 2.7, and in the POR; and (iii) commissioning preinvestment studies to prepare the project portfolio relating to: (a) road rehabilitation and improvement; and (b) proposals submitted by producer organizations for consideration under the production support activities, to be financed in accordance with the criteria in this document and in the POR.

2. Support for the tourism conglomerate. Coexecuting agency: INTUR, in coordination with other agencies (EAAI, Municipios, MARENA)

3.10 Given the type of activities planned under the tourism component, and the weaknesses identified in the institutional analysis, INTUR will have to create an executing unit to guarantee execution of the component. New global market trends in the tourism industry promote comprehensive investments, channeling funds towards the development of specific, organized tourist destinations, such as the "Ruta del Agua."

3.11 The INTUR program executing unit will report directly to the General Secretariat, giving it the necessary authority to seek support and cooperation from other INTUR agencies.

3.12 Execution of program components to support this conglomerate will be based on contracts for works and services grouped in the following bid packages.

a. Tourism infrastructure

3.13 An integral package offered through an international competitive bidding process, will be awarded as a turnkey contract for the construction and improvement of small floating wharves, tourist offices, and immigration posts, the repair of damaged waterfronts, and the improvement of historical facades. Before work commences, INTUR will sign agreements with the municipios and the Ministry of the Interior, providing the terms and conditions for the transfer of completed works, to guarantee their sustainability and proper maintenance.

3.14 Two specific bids for the construction of the San Juan del Norte airport, and improvement of the San Carlos municipal airfield. INTUR will sign a cooperation agreement with the International Airports Administration Agency (EAAI), giving

the latter the authority to supervise all technical aspects. The EAAI will be responsible for preparing the bidding documents and hiring the contractors for both airfields, in coordination with INTUR. INTUR will channel from this operation the financial resources earmarked for the two airports. Signature of the cooperation agreement, and its terms, will be a condition precedent to disbursement of the financing for airport construction and improvement works, in addition to the EAAI's assurance it will maintain the facilities.

3.15 Lastly, INTUR will monitor the proper use of resources with the help of a supervisory firm. This firm must be contracted in a proper and timely manner, enabling it to discharge its duty satisfactorily. The terms of reference may be found in the tourism technical appendix in the project technical files.

b. Support for the Río San Juan tourism development

3.16 An invitation will be issued to submit bids on the activities described in paragraphs 2.19, 2.20, and 2.21 as an integral package. The activities are described in section II of this project report. A private operator will be awarded the contract to execute these activities through an international competitive bidding process. The private operator will qualify and select projects eligible for training services, technical assistance, and cofinancing, pursuant to the criteria provided in the POR. Selected projects must obtain INTUR's no objection.

3.17 An invitation to submit bids will be issued for the activity in paragraph 2.22 as another bidding package: tourism promotion and marketing services. A contract will be awarded to develop brochures, multimedia and audiovisual material, certification and accreditation systems, workshops for tourism sector operators and agents, online tourism information system, among others.

3.18 INTUR may use program resources to contract the executing unit staff. This unit, established to execute the program, will report directly to the Executive Secretariat. The unit will consist of a project manager, an architect, a tourism expert, a certified public accountant (CPA), an administrator, and secretarial support staff. The unit will be responsible for monitoring the proposed activities. The terms of reference are in the tourism technical appendix in the project technical files. The establishment of the executing unit, and selection and hiring of the support staff will be a condition precedent to the first disbursement of financing for activities to be carried out by INTUR.

3.19 As indicated in paragraph 2.20, a complete institutional diagnostic assessment will be conducted in keeping with the Institutional Capacity Assessment System (ICAS), to accurately determine the consultant and staffing requirements for institutional strengthening.

3.20 Operating manuals, selection criteria, performance indicators, bidding and supervision documents with annual execution schedules were prepared for each subcomponent (i.e., tourism infrastructure works, training programs, promotion, etc.), and will become part of the technical appendix and reflected in the POR. The guide must necessarily be followed during execution, and may only be modified with the Bank's no objection.

3. Support for the coffee conglomerate. Coexecuting agencies: MTI and IDR

3.21 Execution of this component (in addition to what was previously specified for the IDR) in the case of the MTI will be the responsibility of one of the existing executing units currently assigned to Bank programs. An evaluation found it had the capacity to take on additional responsibilities. In this instance only, a program manager will be appointed to administer the program and serve as liaison with the PCU, the other coexecuting agencies, and the Bank. The responsibilities of MTI and IDR are described below.

3.22 **MTI:** The Ministry will be responsible for executing and providing the technical supervision for the Sébaco-Matagalpa road rehabilitation and improvement work, for which it will contract one or more construction and supervision firms. The MTI has prepared the terms of reference for the road bidding process. As a condition precedent to commencement of these works, evidence must be submitted to the Bank that the financial system of the Road Maintenance Fund (FOMAV) guarantees the effective, appropriate, permanent, and independent allocation of resources to fulfill the obligation of providing routine, periodic maintenance of the country’s road system.

3.23 **IDR:** The Institute will be responsible for: (i) preparing and awarding bids, contracting and supervising the civil works to improve and rehabilitate tertiary roads in the conglomerate’s area of influence, and ensuring that relevant municipios sign and fulfill the maintenance agreements; (ii) transferring resources to organizations of producers in the program area of influence, to finance projects in the production support activities subcomponent, as described in paragraphs 2.27 and 2.28, and in the POR; and (iii) contracting preinvestment studies to prepare the portfolio of projects relating to: (a) road rehabilitation and improvement; and (b) proposals submitted by producer organizations for consideration under the production support activities, to be financed in accordance with the criteria herein and the POR.

D. Special contractual conditions

3.24 The Bank will authorize an initial disbursement of up to US$450,000 of loan resources once the general conditions have been fulfilled, in order to help the executing agency comply with the conditions precedent and accelerate the

execution process. Table III-1 summarizes other conditions set forth in this document.

Table III-1
Conditions precedent to the first disbursement

General conditions
1. Creation of the PCU, and contracting of its staff.
2. Selection of a consulting firm to establish the program baseline.
3. Entry into effect of the POR on the terms agreed upon in advance with the Bank.
4. Creation of the Program Advisory Committee.
Component-specific conditions
1. Support for the meat and dairy conglomerate a. Signed participation and funds transfer agreement between the MHCP and the IDR, as previously agreed with the Bank.
2. Support for the tourism conglomerate a. Signed participation and funds transfer agreement between the MHCP and INTUR, as previously agreed with the Bank. b. Signed agreements between INTUR and the Municipios, the Ministry of the Interior, and the EAAI for the transfer of completed works, and the beneficiaries' commitment to guarantee the sustainability and maintenance of such works. c. Creation of the INTUR executing unit, and contracting of its staff. d. Selection of a private operator by INTUR to administer the Tourism Development Fund.
3. Support for the coffee conglomerate a. Signed participation and funds transfer agreement between the MHCP and the MTI, as previously agreed with the Bank, and evidence that the agreement between the MHCP and the IDR is in force. b. As a condition precedent to commencement of the Sébaco-Matagalpa road works, evidence must be submitted to the Bank that the financial system of the Road Maintenance Fund (FOMAV) guarantees the effective, appropriate, permanent, and independent allocation of resources to fulfill the obligation of providing routine, periodic maintenance of the country's maintainable network.

E. Procurement of works, goods, and services

3.25 Procurement of works and goods will be carried out in accordance with Bank policies contained in document GN-2349-4. (Policies for the procurement of works and goods financed by the IDB, January 2005).

3.26 **Works.** International competitive bidding (ICB) will be required for works costing more than US$1.5 million. Works costing between US$150,000 and US$1.5 million will be procured through National Competitive Bidding (NCB), and works of less than US$150,000 by price shopping (at least three estimates).

3.27 **Goods.** ICB will be required for goods costing more than US$250,000 financed in part or in full with loan proceeds. Goods costing more than US$20,000 but less than US$250,000 may be procured through NCB; and goods costing less than US$20,000 by shopping (based on at least three estimates).

3.28 **Consulting services.** Selection and contracting of consultants will be carried out in accordance with Bank policies contained in document GN-2350-4 of January 2005. Pursuant to paragraph 2.7 of the policies for consultants, the short list may consist entirely of national consultants when the estimated cost of each contract is less than US$200,000 equivalent.

F. Procurement Plan

3.29 In accordance with Bank policies for the procurement of goods and services, and the selection of consultants, the borrower agreed with the Bank on a Procurement Plan that describes: (i) specific contracts for goods and consulting services needed to execute the project during the first 18 months; (ii) the methods used to select consultants; (iii) the methods proposed for the procurement of goods; and (iv) the Bank procedures to review procurement. The Procurement Plan for the first 18 months is available in the project technical files. The borrower must update the Procurement Plan annually, as necessary, or when substantial changes are made, at all times covering the following 18 months of project execution. Proposals to review the Procurement Plan must be submitted to the Bank for approval. The effective version of the Procurement Plan must be made available at all times.

G. Review of procurement

3.30 The review of the procurement of goods and related services will be carried out by prior review, in accordance with the provisions of Appendix I of document GN-2349-4. The review of the consultant selection and contracting process will also be carried out by prior review, in accordance with Appendix I of document GN-2350-4.

H. Execution and disbursement schedule

3.31 The project will be executed in 60 months and disbursements will be made over 66 months, as shown in Table III-2.

Table III-2
Disbursement schedule

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	6.0	10.0	12.0	8.0	4.1	40.1
Local	0.128	0.128	0.128	0.128	0.128	0.64
Total	**6.128**	**10.128**	**12.128**	**8.128**	**4.128**	**40.74**
%	15	25	30	20	10	100

I. Program audit

3.32 There will be an external audit of financial operations. Participating entities will submit annual reports audited by a firm of auditors acceptable to the Bank, and in accordance with terms of reference approved in advance by the Bank. The firm of auditors will be selected and contracted in accordance with the procedures contained in document AF-200. Loan proceeds will be used to finance the project audit costs. Financial statements will be presented 120 days after the end of the fiscal year.

J. Monitoring and evaluation

3.33 The PCU will engage the services of a firm or institution to help with the technical audit, program monitoring and evaluation, including the environmental audits for each component. This firm or institution will be contracted in the first six months of program execution to analyze the baseline data that will later serve to measure progress towards program objectives.

3.34 To help the PCU discharge its monitoring and evaluation duties, and to verify the progress in executing each program component, the coexecuting agencies will submit annual progress reports within one month after the end of each year, in a format agreed upon in advance with the Bank.

3.35 The PCU will be responsible for collecting all the reports and preparing an annual report in the agreed format, to be submitted to the COF/CNI by the second month of the new calendar year.

3.36 The annual report will give an account of at least the past year's events, highlighting compliance with the annual work plan, achievements and problems in executing the components, measures to correct problems and ensure compliance with the original plan, and the execution forecasts for the next calendar year, including the monitoring of the program Environmental and Social Management Plans (ESMP).

3.37 The Bank will review the reports, and proposed corrective measures submitted for its no objection. These measures will be monitored during subsequent visits, and reflected in the following semiannual progress report.

3.38 In the event one or more components are not being executed as planned, or if the responsible coexecuting agency does not take appropriate corrective measures, the Bank may suspend loan disbursements for that component, without the other components being affected.

3.39 Operating manuals, selection criteria, performance indicators, bidding and supervision documents with annual execution schedules were prepared for each subcomponent (i.e., tourism infrastructure works, training programs, promotion, etc.), and will become part of the technical appendix and reflected in the POR. The guide must necessarily be followed during execution, and may only be modified with the Bank's no objection.

3.40 Two types of evaluations will be performed for each program component. The first is a midterm evaluation of the component's execution, to verify actual progress and recommend any necessary corrective measures for the remainder of the execution period in the event of a design or execution problem in one or more subcomponents. The second, a final evaluation, will be conducted three months after the end of the component disbursement period to assess the operation's achievements. This evaluation will include, at a minimum, a description of the operation and its outcomes, highlighting the project achievements in terms of objectives, targets and benefits. It will also comment on program execution events. Resources have been earmarked to contract a consulting firm for the monitoring and evaluation services, as shown in the program budget.

IV. VIABILITY AND RISKS

A. Institutional viability

4.1 Most of the institutions participating in the program depend on external financing to cover a high proportion of their operating expenses, as in the case of the CPC Executive Secretariat, and the IDR. Although INTUR and the MTI receive funds from the national budget, these are insufficient. It is therefore necessary to fully cover the cost of the executing units established to execute the program. With the exception of INTUR, the coexecuting agencies have executed Bank projects in the past, usually through executing units that operated efficiently. The IDR institutional strengthening is progressing well. Its existing structures are therefore able to perform most of the duties relating to procurement, financial and accounting management, and preparation of reports. The executing units will continue to carry out the technical duties. Because of the institutional weakness identified within the CPC Executive Secretariat and INTUR by the October 2005 ICAS, executing units operated by specialized personnel will be responsible for program execution until these entities develop sufficient capacities to assume such duties.

B. Socioeconomic viability and program preparedness

4.2 This program combines the characteristics of a **multiple works loan for Multiple Works Programs** with those of **an investment loan.** The economic viability of the program was determined based on a cost-benefit analysis of certain activities: (a) component 2 actions; (b) component 3 actions: the investment to improve and rehabilitate the Sébaco-Matagalpa road; (c) the remaining component 1 and 3 projects (meat-dairy and coffee conglomerates, respectively), require technical and economic studies as mentioned in paragraphs 2.8 and 2.29, to be financed with the preinvestment resources earmarked for each component.

a. Tourism infrastructure works

4.3 The economic viability of planned infrastructure works was assessed on the basis of factors such as the extension of the economic benefit deriving from projected potential demand for the destination, to the immediate area of impact of the investments. This study considers as strictly necessary any action needed for the planned touristic route to become fully operational. Although profitability is analyzed from an economic standpoint, it is worth recalling that the broader benefits cannot be quantified. Such benefits include: the social profitability deriving from public infrastructure investments; direct and indirect impact on employment in local municipalities; economic repercussions of tourist spending; the generation of wealth in the area; decrease in actual road and communications system costs (and travel time) due to nonexistent or deficient infrastructure; movement of exports and

imports over a more efficient road transportation system; existence of a road that can be traveled and is safe.

4.4 The following assumptions underlie the computations: 30-year useful life for the infrastructure (using estimated mean values for infrastructure projects) and a 10% discount rate. Although inflation has hovered around 6.96% in recent years, the series looking at broader historical behavior show rates above 9%, so this rate was used to calculate costs and generated income. Consideration was also given to the economic effects of a change in management (proposed as part of the project rationale) on the owners and managers of the planned facilities.

4.5 Calculations for the planned works resulted in the following values:

4.6 San Carlos Airport: Return period: 30 years. Internal rate of return (IRR): 12.5%. San Juan Norte Airport: Return period: 30 years. IRR: 12.21%.

4.7 Other planned infrastructures: these include rehabilitation of wharves, construction of tourist information bureaus, improvement of immigration posts, and other minor works to attain the objective of creating a tourism route that can be experienced and marketed. It should be noted that these minor works do not generate direct profitability, but are nonetheless indispensable to the layout of the Río San Juan circuit. Their use will directly impact tourism in the area, as these works will result in a gradual increase in incoming tourism. Income from these works, although not high, will increase in proportion to the number of tourists, and in most cases will cover maintenance expenses. The cost/benefit ratio was used for the economic viability analysis of the block of infrastructures works to be financed (excluding airport facilities). Overall, the ratio resulted in positive values greater than one (C/B>1). For example, a standard wharf computation results in ratios greater than five points, which suggests a rapid recovery of the investment.

b. Sébaco-Matagalpa road

4.8 The analysis took the social surplus approach, which provides that benefits are essentially based on user savings in operating costs and travel times. These parameters are evaluated using the HDM-4 model (Highway Development and Management System) to calculate economic profitability indicators. The evaluation results show an NPV of US$48.76 million, and an IRR greater than 50%.

4.9 The following technical and economic studies were prepared for the proposed investment projects: (a) complete studies of the Sébaco-Matagalpa road,US$10.3 million; and (b) technical (predesign level) and economic studies of the tourism infrastructure works,US$9.1 million.

V. SOCIAL AND ENVIRONMENTAL IMPACT AND PROPOSED ACTIONS

5.1 The program was reviewed by the Bank's Committee on Environment and Social Impact (CESI) on 22 April 2005, whose recommendations are reflected in this project report.

5.2 The program is in keeping with the PND, supporting needed investments in the meat and dairy, tourism, and coffee conglomerates, providing infrastructure works and activities to promote competitiveness. It is therefore considered a multisector operation with actions in a number of areas in the country, encompassing three distinct conglomerates (coffee, tourism, and meat-dairy). The projects to be financed are widely scattered, ranging from Río San Juan in the southern tip of Nicaragua, where specific works will strengthen the tourism conglomerate, to the border with Honduras, where linear works will be built to improve the road network serving the coffee conglomerate.

5.3 In general, environmental impact assessments (EIAs) will not be required under the country's environmental legislation since most program investments target minor activities, such as: rehabilitation of existing roads, rehabilitation of floating wharves, rehabilitation of tourism centers and immigration posts, etc. In the specific case of the San Juan del Norte airport, an EIA including a public consultation process was carried out in the year 2000. As part of the program Strategic Environmental Assessment (SEA), the EIA was reviewed, confirming that the ESMP conditions and recommendations remain valid. What is more, in May 2005 MARENA issued a new resolution confirming the study's validity.

5.4 However, given that this is a multisector operation, the CESI recommended that a SEA be performed, which was done and became an integral part of the program. The SEA considered both the direct and indirect / cumulative environmental effects of each project for each conglomerate. Results show that this operation poses no significant environmental or social risks.

5.5 Usually, direct and indirect impacts from civil works may be prevented, mitigated, or offset by implementing measures identified in the ESMPs. Accordingly, the project budget earmarked resources for their implementation. No works will be carried out for the meat, dairy, and coffee conglomerates in protected areas or indigenous territories. In the case of the tourism conglomerate, no works are planned in indigenous territories, although some will be carried out in protected areas. Not only are the works in keeping with management guidelines provided by the national environmental authority (MARENA) in the respective Land Management Plans, but the project and its components were developed in close cooperation with MARENA.

5.6 *Strategic Environmental Assessment.* The SEA considered each project differently, depending on whether it is an isolated or linear construction, a new project or one to

improve existing facilities, and the environment where it will be carried out: urban, agricultural, or territories classified as protected areas. A strategic assessment was therefore prepared for each conglomerate (included in the ESMP with its specific recommendations and budget), considering the specificities and spatial location. The results show that most projects are beneficial as they improve the conditions of the conglomerate support infrastructure, enhancing future competitiveness and therefore employment conditions and the quality of life of the communities.

5.7 There are no significant risks that would preclude implementing this operation, given that the works will be executed in areas previously impacted and currently in use for the same or similar purposes as those proposed in the project. For instance, the roads to be rehabilitated for the coffee conglomerate already exist, and the isolated works for the tourism conglomerate will be developed in areas that are presently in use for the same purposes. The direct impacts of linear construction projects in the coffee and the meat-dairy conglomerates are considered temporary, directly tied to the construction phase, and manageable applying customary environmental practices. No relevant indirect impacts are anticipated from the operation since the activities are essentially concentrated in rural areas and will not cause changes to that condition.

5.8 In the tourism conglomerate, the most significant direct impacts relate to the construction phase, in particular managing the rubble from demolishing old structures and building new ones. The operating phase considers indirect impacts resulting from project benefits: more job opportunities in the urban areas to meet the demands of a greater influx of tourists could reduce, stop, or reverse migratory trends. The supply of services would be stretched further to serve a growing local population, in addition to the transient tourist flow, aggravating the current deficit. The effect is presumed significant in the three urban centers—San Carlos, el Castillo, and San Juan del Norte—where basic services and land-use planning will have to be strengthened to avoid uncontrolled growth of population and services to the detriment of the existing environmental quality, and thus sustainability of the ecological tourism segment. The ESMP focuses on support for the services shortfall and land-use management that are presently not funded.

5.9 There is sufficient institutional capacity for the environmental monitoring of linear construction work because the IDR has monitored project-related environmental policies in the past. MARENA has an institutional presence in most areas where tourism conglomerate works are planned. However, the program provides for hiring a specialized independent environmental supervisory firm to monitor implementation of the program ESMPs, in addition to independent environmental auditors. The terms of reference governing these contracts are contained in the program Environmental and Social Strategy (ESS).

VI. BENEFITS AND BENEFICIARIES

6.1 This operation is expected to improve the necessary conditions for increasing production, productivity and competitiveness of the selected conglomerates, and their connectivity with markets. Nonetheless, the road infrastructure works will have an impact on the viability of the entire productive sector in the beneficiary areas. The indirect benefits are expected to have a positive impact on employment and poverty rates. Among the main benefits would be:

6.2 A significant reduction in transportation costs for the meat and dairy and coffee conglomerates in the project area, to the benefit of producers and marketing concerns in these chains.

6.3 Increased productivity for these conglomerates, and better quality of products marketed, benefiting local SMEs.

6.4 Increase in the number of tourists visiting the country to enjoy the Ruta del Agua circuit, considered a differentiated Nicaraguan tourism product, benefiting small and medium-sized tourism enterprises and generating jobs in the Río San Juan area, one of the most depressed in the country.

A. Risks

6.5 The principal risk associated with the program is the relative instability of Nicaragua's political and institutional environment. The overwhelming support of the international donor community for the PND, and the participation by the private sector and local communities as project generators, mitigate this risk to a large extent. In times of crisis such as the present one afflicting Nicaragua, financing for projects with broad national consensus and the firm support of the international community is most promising.

6.6 There is a coordination risk when project execution is entrusted to multiple coexecuting agencies, which could delay normal implementation of program activities. The CPC continues to strengthen its institutional capacity through donor support and experience gained from coordinating several programs. What is more, the coexecuting agencies have a good track record in executing Bank programs.

6.7 Some of the proposed activities for the coffee and meat and dairy conglomerates assume co-financing from beneficiaries through partnering arrangements. In past experiences implementing similar programs, the IDR identified organized groups willing to participate in such arrangements.

6.8 The allocation of resources for the Road Maintenance Fund (FOMAV), is a condition precedent to the disbursement of funds for the Sébaco-Matagalpa road, as

mentioned in paragraph 3.22. The government has made a budgetary allocation, and sent a bill to the National Assembly which would assure permanent financing.

PROGRAM TO SUPPORT IMPLEMENTATION OF THE NATIONAL DEVELOPMENT PLAN (NI-L1005)
PROGRAM LOGICAL FRAMEWORK

NARRATIVE SUMMARY	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Project goal Contribute to the economic and productive development of the regions targeted by the program			• No changes to the government priorities and approach regarding NDP objectives • Continuing political stability • Continuing macroeconomic stability
Purpose Increase the competitiveness and connectivity of Nicaragua's primary production conglomerates. This will be achieved through improvements to the road infrastructure, and a number of activities aimed at increasing productivity, earnings, and exports, in keeping with the NDP strategic guidelines and financing matrixes.	By the end of the program, the following improvements will be noted with respect to the baseline: • 15% increase in meat and dairy exports/production in the project area • 10% increase in the number of tourists visiting the project area • 5% increase in coffee exports/production in the project area	• Midterm program evaluation • Final program evaluation	• Stable macroeconomic environment, favorable for investment • Good governance conditions • Favorable international markets • No changes to the institutional coordination arrangement for program development
Components **1. Support for the meat and dairy conglomerate** • Improve the conglomerate's productivity at all levels of the chain (raw material production, storage, processing, and marketing) through matched funding arrangements. • Provide and publicize entrepreneurial development and technical assistance services for the conglomerates.	• 30% increase in productivity for the conglomerates targeted by the program • 50% of members of the beneficiary groups of producers (400+) trained and helped • 100% of loan facility funds disbursed • 2 eligible projects identified for program financing (including the rural road component	• Progress reports • Inspection visits • Midterm review • Periodic evaluations • Feasibility studies for the proposals to be financed	• There are sufficient financial resources to assure road maintenance. • The two projects selected from the indicative list are implemented • There is sufficient demand for feasible projects to invest all available funds. The market recognizes the

NARRATIVE SUMMARY	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
• Preinvestment activities • Rehabilitation of rural roads	for both) • 100 km of rural roads rehabilitated	• Productivity baselines established for each conglomerate	environmental value added.
2. Support for the tourism conglomerate • Award contracts for tourism infrastructure works; design and construct the works. • Award contracts for and implement the tourism training package and technical assistance; Tourism Development Fund (FDT) operational. • Promotion and marketing plan	• Eleven small floating wharves, four tourist information offices, and eight immigration posts refurbished; two airports operational. • 25 training workshops completed. • Technical assistance plan implemented. • At least 50 FDT activities implemented. • Ruta del Agua tourism promotion package implemented. • Río San Juan tourism on-line promotion site active.	• Inspection visits • Progress reports • Midterm review • Periodic evaluations	• Support for the comprehensive activity approach to develop tourism destinations. • Availability of financial resources to maintain the works. • “Ruta del Agua-Nicaragua” recognized as a differentiated international tourist destination.
3. Support for the coffee conglomerate • Rehabilitation of the Sébaco-Matagalpa road • Rehabilitation of rural roads • Improve the conglomerate’s productivity at all levels of the chain (raw material production, storage, processing, and marketing) through	• 25 km of road are rehabilitated • 100 km of rural roads are rehabilitated • 30% increase in productivity for the conglomerates targeted by the program	• Progress reports • Inspection visits • Midterm review • Periodic evaluations • Feasibility studies for the proposals to be financed • Productivity baselines established for the conglomerate	• There are sufficient financial resources to assure road maintenance • There are mechanisms in place for counterpart financing from beneficiaries • The two projects selected from the indicative list are implemented • There is sufficient demand for feasible projects to invest all available funds. • The market recognizes the environmental value added

NARRATIVE SUMMARY	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
matched funding arrangements. • Provide and publicize business development and technical assistance services for the conglomerate. • Preinvestment activities	• 25% of small producers trained and helped (1200+) in the targeted areas. • 100% of financing disbursed • 3 projects identified and eligible for program financing		

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/__

Nicaragua. Loan _____/SF-NI to the Republic of Nicaragua
Program of Support for Implementation of the National Development Plan

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Nicaragua, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a program of support for implementation of the National Development Plan. Such financing will be for the amount of up to US$40,100,000 or its equivalent in other currencies, except that of Nicaragua, which is part of the Bank´s Fund for Special Operations, and will be subject to the Financial Terms and Conditions and the Special Contractual Clauses of the Project Summary of the Project Report.

(Adopted on __ ______ 200_)