

SOCIAL SAFETY NET

(NI-0075)

EXECUTIVE SUMMARY

Borrower:	Republic of Nicaragua.	
Executing agency:	Emergency Social Investment Fund [Fondo de Inversión Social de Emergencia] (FISE).	
Amount and source:	IDB (FSO):	US\$20.03 million
	Borrower:	US\$ 2.23 million
	Total:	US\$22.26 million
Financial terms and conditions:	Amortization period:	40 years
	Grace period:	10 years
	Disbursement period:	4.5 years
	Interest rate:	1% per annum for the first 10 years; 2% per annum thereafter
	Inspection and supervision:	1% of the loan amount
	Credit fee:	0.5% per annum on the undisbursed balance
Objectives:	<p>The purpose of the program is to enhance the well-being of Nicaraguans living in extreme poverty by helping to build human capital. The program has four objectives: (i) institutional strengthening to establish the initial operating framework for a social safety net; (ii) income supplementation (for up to three years) to allow families living in extreme poverty to increase their food expenditures; (iii) better care for children under five years of age and women of childbearing age in those same families; and (iv) reduction of the school dropout rate in the first four grades in the program area.</p>	
Description:	<p>The program creates an initial institutional framework intended to unify the principal social spending agents in order to develop an integrated, targeted, cost-effective safety net strategy. The program also seeks to demonstrate and evaluate different ways to build human capital among the poor through low-cost, integrated activities that include training, nourishment, school attendance, health advocacy and reduction of preventable diseases. All of these activities focus on the household. The flexible program design makes it possible to adapt the operating framework and the services offered to accommodate local</p>	

needs and capacity. The program will be launched on a pilot basis to allow for an opportunity to test the design and operating framework. If the pilot receives a positive evaluation, the program will gradually expand the safety net to the national level.

The program will finance: (i) **institutional strengthening** to establish the operating framework for the safety net; (ii) **health and food security** in the form of a food subsidy and support to increase the availability of nutritional and health training for families, as well as immunization coverage and development and growth monitoring for children under five years of age; (iii) **education**, through an education subsidy for families with children in grades 1-4, a school pack that will provide children with shoes, clothing and basic school supplies, and a subsidy for educational materials; and (iv) **targeting and evaluation**, for the purpose of establishing objective, transparent criteria for selecting beneficiaries, and impact indicators for measuring program performance.

**Bank's country
and sector
strategy:**

The program is consistent with the strategy of growth with equity. Its purpose is to build a social safety net, which is the component that Nicaragua's social protection system lacks. The safety net is a crucial element of the Bank's strategy in Nicaragua, inasmuch as it is based on the general principle of including extremely poor families in the process of investing in human capital.

**Environmental
and social
review:**

The program will establish the initial framework and model for a social safety net whose activities are aimed at families living in extreme poverty. It will foster women's development by supporting activities to consolidate the family unit and by empowering mothers and female heads of household. The program is expected to have a positive impact because it encourages a behavioral change in families that will be favorable to the environment.

Benefits:

The safety net offers an arrangement that stimulates cooperation among line ministries, local governments and the community. It will help to shape the government's policy-setting function and encourages families to adopt a responsible attitude, demonstrated in behaviors that reduce health risks and in greater value placed on education.

Risks:

Targeting of beneficiaries. The risk of including people who are not living in extreme poverty will be minimized by establishing strict targeting criteria and a formal supervision system, through periodic visits and the use of open community meetings.

Negative incentives in the labor market. The subsidies are intended to increase family well-being through food supplementation. If the

amounts are too large, however, they could increase the reservation wage and thus reduce the supply in the labor market. The income assistance provided for here is sufficiently small so as not to distort the market.

Interinstitutional coordination. Incorporating the FSS coordinating council into the execution plan and linking the council to the line ministries will strengthen coordination, which is important due to the multisector nature of the program.

**Special
contractual
clauses:**

1. Conditions precedent to the first disbursement:

Prior to the first disbursement, FISE will present, to the Bank's satisfaction: (i) evidence of the fund transfer agreement signed with the Finance Ministry, including the items described in paragraph 3.1; and (ii) the program's Operating Regulations drawn up in accordance with the terms agreed with the Bank and approved by the coordinating council (paragraph 3.3).

2. Other special conditions

As a condition precedent to disbursement of the health, food security and education components, FISE is to present the final list of pilot communities and the evaluation baseline for the pilot phase (paragraphs 3.16 and 3.44).

Twelve months after the loan effectiveness date or in the event funds are to be committed beyond the US\$4 million allocated to the pilot phase (whichever occurs first), FISE will present, to the Bank's satisfaction, a report on the pilot evaluation as provided in paragraphs 3.39 to 3.42. The pilot phase will be considered satisfactory if the analysis shows program indicator performance above 50% or, in the event performance is below that percentage, if a remedial action plan agreed by the borrower and the Bank has been implemented (paragraph 3.54).

Beginning March 31, 2001, disbursements will be subject to the borrower showing, to the Bank's satisfaction, that it has extended the life of the coordinating council of the Supplementary Social Fund or that it has created an agency with a structure and functions similar to those of the program's coordinating council.

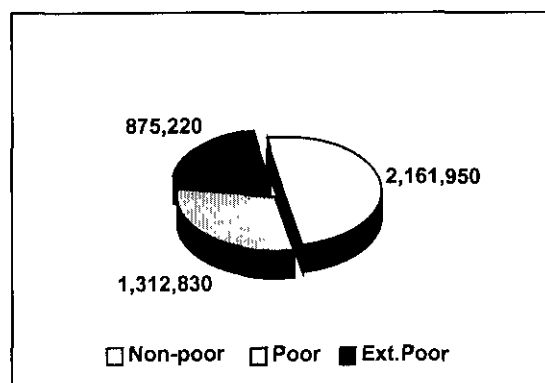
The loan agreement will state the conditions that were met by the executing agency prior to presentation of the program to the Board of Executive Directors (paragraph 3.55).

Poverty-targeting and social sector classification:	This operation qualifies as a poverty-targeted investment (see paragraphs 3.15 and 4.7). Furthermore, this operation qualifies as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). The borrower country will be using the 10 percentage points in additional financing (paragraph 2.25).
Exceptions to Bank policy:	None.
Retroactive financing and advance contracting:	As part of the financing, the Bank may recognize up to US\$500,000 in costs incurred by the borrower as of December 1, 1998, to carry out the activities specified in paragraph 3.50.
Procurement:	The program does not include any construction work. Bank procedures will be followed for procuring goods and consulting services.

I. FRAME OF REFERENCE

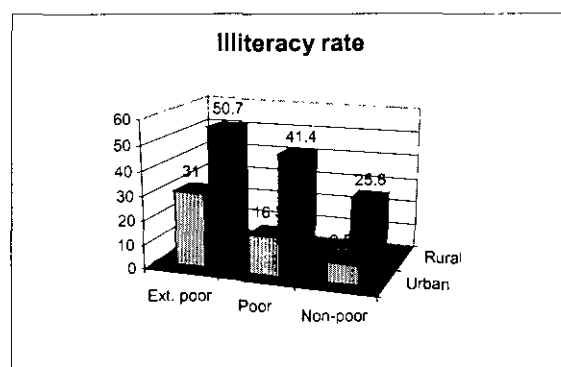
A. Poverty in Nicaragua and its effect on human capital formation

- 1.1 About 50% of Nicaraguans live in poverty, 20% of them in extreme poverty.¹ The



average expenditure level of the extremely poor is below the amount necessary to meet the minimum calorie requirement, which is US\$0.55 per person per day.² Investing in families in extreme poverty to prevent intergenerational poverty transmission is a challenge and constitutes the best safety net strategy for Nicaragua.

- 1.2 The program presented here is expected to remove obstacles that prevent families



from attaining sufficient levels of nutrition, health and education. The program seeks a balance between protection activities that bolster family income for immediate consumption and activities that represent an investment for encouraging the family's productive integration into society. It fosters a responsible attitude among families and stimulates

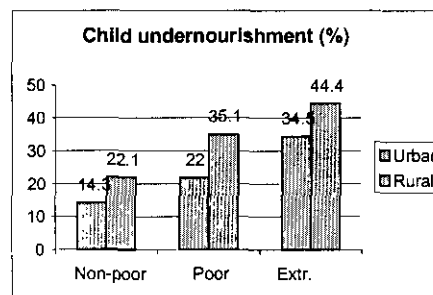
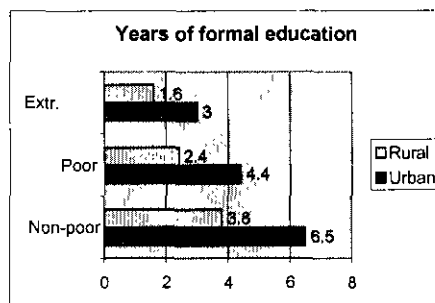
cooperation among the central government, local governments and civil society. This type of participatory arrangement creates synergies and helps shape the government's policy-making functions without loss of the decision-making freedom that a family should possess in a democracy. The challenge is greatest in rural areas due to the vulnerability of that population, which is not included in formal systems of human capital formation. The reasons can be found in a combination of factors associated with supply and demand for basic social services.

¹ Source: LSMS 1993. The poverty line is calculated at US\$428.94 per capita per year and is defined as the annual per capita spending level required for an individual to obtain a basic basket of food and non-food items. The extreme poverty line is calculated at US\$143.36 per capita per year and represents the per capita spending level on food required for an individual to obtain the minimum daily requirement of 2,226 calories per adult, as determined for Nicaragua.

² To cover the gap in minimum calorie requirements for families in extreme poverty, spending would have to increase by US\$0.16 per capita per day.

As an example, the rural illiteracy rate (45.8%) is higher than the national average (23%).

- 1.3 The rural population receives nearly three years less schooling than the national average of 4.5 years, owing to the high dropout rate during the early years of basic



education. Inadequate investment in human capital has also resulted in very high rates of undernourishment, morbidity and mortality among rural mothers and children. Nationally, 25% of children are undernourished, while the rate for the rural areas climbs to 32%. The national infant mortality rate is 41 per thousand, compared with 51 per thousand in rural areas; rural immunization coverage among children under five is only 68%, compared with 72% nationally. The predominance of communicable and infectious diseases in Nicaragua's epidemiological profile can be traced to lack of access to preventive health care and the scarcity of potable water, latrines and health education.

- 1.4 Social protection activities in Nicaragua thus far have been devoted to improving the supply of health and basic education services through expansion of the infrastructure and improvements in the quality of human resources. These efforts have had limited effect on the poorest families whose children, for economic reasons, are more likely to drop out of school and have higher undernourishment and morbidity rates. The fact that male and female heads of household place a low value on such services is a contributing factor in those rates. These families do not have the means to meet the cost of transportation, clothing, medicine and school supplies for their children. At the same time, the children perform tasks that contribute to the family's subsistence from a very early age.

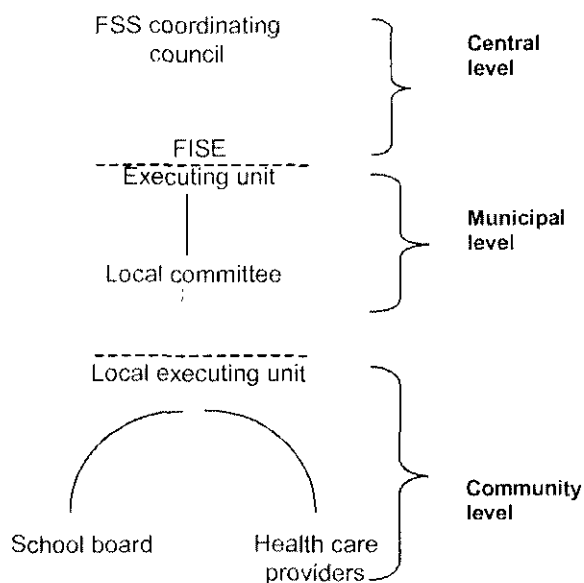
B. The government's social protection strategy and institutional framework

- 1.5 The aftermath of Hurricane Mitch has underscored the vulnerability of the poor to natural disasters and demonstrated the lack of an effective social protection system, thus validating the strategy being pursued by the government. That strategy is built around a plan of economic growth with equity, reforms, and the design and implementation of a social safety net for the vulnerable population.
- 1.6 The safety net will start with activities that protect families in extreme poverty, implemented through a plan of strategic actions in education, health and

nourishment. These actions were chosen to strike a balance between immediate protection of food consumption and investment in primary education and preventive health care in order to build human capital. The plan includes demand-side incentives, which are tied to changes in the value placed on human capital. The heart of this strategy lies in the families' shared responsibility in human capital formation, inasmuch as government efforts can be successful only when the beneficiaries actively participate.

- 1.7 In Stockholm³, the government pledged to deepen reforms aimed at efficient public spending, to strengthen investment in social infrastructure under a comprehensive approach to the poorest *municipios*, and lastly, to consolidate a strategy for safeguarding the health and education of the poorest citizens, thus filling a gap not covered by either of the current principal social protection programs – the Supplementary Social Fund [Fondo Social Suplementario] (FSS) and the Emergency Social Investment Fund [Fondo de Inversión Social de Emergencia] (FISE) – or by the structural reforms implemented by the Ministry of Education, Culture and Sports (MECD) and the Ministry of Health (MINSA).

- 1.8 The social safety net will be built around an integrated interinstitutional framework that utilizes existing institutions and structures. It will be supported at the central level by the already-established capabilities of the coordinating council of the FSS and FISE, at the municipal level by municipal governments' technical units, and at the community level by boards of education and health care providers.



- 1.9 For political decision-making and general procedures, the safety net will be supported by the FSS, which was legally established in 1998. The FSS was designed with technical support from the IDB, the World Bank and the International Monetary Fund, with the objective of supplementing recurring per capita expenditures on health and education during the transition period. This fund mobilizes resources in order to speed up health and education reforms and to support the preparation and implementation of programs that directly benefit the poor. The fund currently has US\$28.3 million in financing, of which 70% is

³ "Investing in our greatest resource, a revised strategy following Hurricane Mitch," May 25-28, 1999 and "Social Safety Net," May 25-28, 1999.

allocated to primary care. It is a fund that coordinates and finances projects rather than an executing agency, subject to external audit.

- 1.10 The FSS coordinating council consists of the Ministers of Health, Education, and Finance and is headed by the Technical Secretary of the Office of the President. A representative of the donors is a member of the council. The inclusion of these ministries makes it possible to coordinate supply and demand, improve the quality of services for the vulnerable population, and link the net with the reform programs described below.
- 1.11 The social safety net will be set up within FISE, which has a similar mission and will contribute its technical and administrative institutional operating capacity and recognized experience to the net's operating framework. FISE has financed 80% of Nicaragua's social infrastructure and has been the principal direct targeting endeavor since its creation in November 1990 with Bank support. Its core functions are to approve, commission and evaluate projects. The projects are requested by poor communities and executed by the private sector and NGOs. It is an institution financed by the government and various international donors and is subject to external audit.⁴ FISE currently has US\$145 million in financing, of which 90% is allocated to improving the social infrastructure for the very poor and extremely poor population, and the remainder to community development and support.
- 1.12 Inclusion of FISE within the institutional framework as the program executing agency will significantly reduce the administrative cost of starting up the safety net. In its short life span, FISE has evolved into a support mechanism for decentralization, transferring to the municipal technical units its capability for planning social investments and managing the project cycle. This capability will now be utilized by the safety net, which will incorporate those same units into its operating framework. Moreover, FISE has gained experience in organizing health and education boards, which is of crucial importance for the operation of the safety net. In order to avoid overloading FISE's capacity, it will be strengthened by building in new technical and operating levels to perform specific safety net functions.
- 1.13 The reforms have made progress on the national level and have created decentralized frameworks on which the safety net is established. The educational reform, supported by the World Bank and USAID, has focused on school autonomy through the school boards and on improving the supply of basic educational services by increasing the coverage and quality of the supply, with training and incentives for teachers.
- 1.14 The health reform, supported by the Bank-financed hospital network modernization program (US\$48.6 million) and by the World Bank's health sector modernization

⁴ This institution will be the executing agency for the safety net in order to facilitate program startup.

program, fosters hospital autonomy and expanded primary care coverage under a comprehensive mother-and-child care model, through contracts with private providers.

- 1.15 At the local level, the municipal technical units are responsible for project planning and evaluation. These units will coordinate their activities with local representatives from the health and education ministries and with civil society. And lastly, the school boards – a key vehicle of autonomy – have administrative responsibilities at the school level. Building the safety net around these frameworks stimulates community development and social accountability.

C. The Bank's strategy in the country and sector

- 1.16 This program is a vital component of the Bank's strategy in Nicaragua, inasmuch as it is based on the general principle of including extremely poor families in the process of investing in human capital, thus helping to mitigate the negative impact of adjustment on those who are most vulnerable. The proposed program is consistent with the strategy of growth with equity. Its goal is to build a safety net, which is the instrument missing in Nicaragua's social protection system.
- 1.17 The program creates an initial institutional framework intended to unify the principal social spending agents in order to develop an integrated, targeted, cost-effective safety net strategy. The program also seeks to demonstrate and evaluate different ways to build human capital among the poor through low-cost, integrated activities that include training, nourishment, school attendance, health advocacy and reduction of preventable diseases. All of these activities focus on the household. The flexible program design makes it possible to accommodate the operating framework and the services offered to local needs and capacity.
- 1.18 Recognizing the impossibility of closing the human capital gap without outside support in Nicaragua's current financial situation, the program seeks to mobilize other external resources from soft loans and grants to increase safety net coverage. The Bank's technical leadership in monitoring and evaluating the safety net as a whole will facilitate such mobilization, since it will boost confidence and credibility and reduce the administrative burden for other donors.

D. Lessons learned

- 1.19 The IDB has little experience in these types of programs. The second phase of the Bank's family assistance program in Honduras is currently being implemented. Generally speaking, the lessons learned in similar programs – such as the education, health and nutrition program (PROGRESA) in Mexico – with regard to the subject of transfers indicate that it is preferable to use a strategy combining cash subsidies and nutritional instruction for users. As a strategy for improving food distribution, many countries also target mothers as benefit recipients.

- 1.20 Cash subsidies have proven more efficient because they do not cause distortions in the relative price of products bought by the family. They also enable beneficiary families to choose their own basket, thus maximizing the advantage to the beneficiary. Cash subsidies, especially in the form of a voucher, are simpler than other alternatives and have a lower administrative cost (more efficient). Experience in Venezuela has shown that money transfer systems allow for less leakage.
- 1.21 In-kind subsidies (i.e., product vouchers) generally involve a level of organizational complexity that substantially increases administrative costs. As a further drawback, they tend to produce distortions in the relative prices of goods included in the basic basket. Monitoring this type of transfer is cumbersome and lends itself to fraudulent activity. Problems have been encountered with prices and with the amounts given to beneficiaries.
- 1.22 It is the government's responsibility to decide on the program's social objective in order to determine the ideal subsidy system. A flat subsidy for each household is the most effective format if the government's objective is to reduce the percentage of households in poverty. Flat transfers are much less effective, however, if the objective is to reduce the depth or severity of poverty.
- 1.23 The more accurate targeting methods⁵ are assumed to be the most costly. A higher investment in targeting leaves fewer resources for helping potential safety net beneficiaries.
- 1.24 Targeting in a specific geographic area entails a strong likelihood of excluding extremely poor households in municipios that were not selected. This is a defect of the program's operational guidelines rather than of the targeting method. It implies that the program's targeting method should be evaluated within the selected localities. PROGRESA's experience with the beneficiary selection process shows that community validation of the selection is important from the standpoint of program legitimacy, even if very few cases among those chosen (0.1%) are disputed.
- 1.25 The geographic method based on indices of unmet basic needs tends to cover more non-poor households rather than overlook those that are poor. These methods are very accurate in identifying extremely poor households and less accurate in distinguishing households that are closer to the poverty line.
- 1.26 The selection criteria that will be used in this program favor the inclusion of municipios with greater interest in developing their organizational capacity. This factor facilitates the implementation of the safety net, inasmuch as some of the principal program activities call for a high level of local participation but tend to

⁵ A recent PROGRESA evaluation compares geographic targeting methods with more accurate methods such as those based on building indices of consumption by household.

increase the error of excluding deserving families, in comparison with the selection method that solely uses the extreme poverty criterion.

II. PROGRAM, COST AND FINANCING

A. Program objectives

- 2.1 The purpose of the program is to foster human capital formation in extremely poor families by encouraging behavioral changes within those families. The program has the following objectives: (i) institutional strengthening to establish the initial operating framework for the social safety net; (ii) income supplementation (for up to three years) to allow families in extreme poverty to increase their food expenditures; (iii) better care for children under five years of age and women of childbearing age; and (iv) reduction of the school dropout rate in the first four grades in the program area.

B. General program description

- 2.2 Families that live in extreme poverty are the program's target population. The families will be identified through a rigorous process using objective criteria that allow for the use of a single basis of comparison nationally.⁶ The safety net's coverage will be extended in phases, during which the country's various geographic zones will be included gradually. In its initial stages, the safety net will focus on the impoverished rural areas of the country. The net will gradually expand its coverage of localities and families as resources are allocated.
- 2.3 The program will begin with a pilot phase to test the safety net's design and operating framework prior to any national expansion.⁷ The pilot phase will last 12 months; the full program including the pilot phase will last four years, as of the loan effectiveness date. The principal pilot activities will consist of refining the conceptual framework, starting up the executing unit and demonstrating the human capital investment model in six municipios.⁸ The executing agency may commit up to US\$4 million to fund pilot activities, once the conditions precedent to the first disbursement, as set forth in the loan agreement, have been met. Twelve months after the loan effectiveness date, the pilot phase will be evaluated on the basis of indicators previously agreed with the borrower, as described in paragraphs 3.38-3.41, to determine the degree to which the program has achieved the indicators and the feasibility of committing loan funds beyond US\$4 million.

⁶ The extreme poverty criterion – as set forth in the INEC's living standards measurement survey – will be applied.

⁷ The pilot phase cost table is in the program's technical files.

⁸ The pilot municipios were selected according to the agreed program criteria.

C. Program components

- 2.4 The program covers four principal areas: (i) institutional strengthening; (ii) health and food security; (iii) education; and (iv) targeting and evaluation.

1. Institutional strengthening (US\$3 million)

- 2.5 The objective of this component is to establish the operating and institutional framework of the social safety net. The component will finance: (i) the hiring of a core group of long-term consultants, professionals, specialists and support staff to establish the program execution unit (PEU);⁹ (ii) the hiring of the coordinators for the local execution units (LEUs); (iii) training for PEU and LEU staff, the community workers, and the line ministry staff, municipal representatives and civil society members that form the execution team; (iv) the hiring of a principal technical advisor who will provide general technical support for program startup and implementation and should be an international safety net expert; (v) the contracting of consulting services to design management information and mass communication systems and operating manuals; (vi) other operating expenditures (such as workshops, utilities, transportation and maintenance); and (vii) outfitting of the PEU and the LEUs.
- 2.6 Community workers in program localities will serve as a link between the beneficiaries and the LEUs. At the start of program operation in each region, the community worker will receive training and materials to support local operation.
- 2.7 Financing will be provided for equipping the PEU and LEUs to cover program requirements. Equipment for the safety net manager and directors will consist of computers, printers, office furniture and vehicles. The LEUs will be provided with office equipment, a computer, a printer and transportation.

2. Health and food security (US\$10.2 million)

- 2.8 The objective of this component is to improve family food intake, monitor and foster the growth and development of children under five, and care for women of childbearing age. The program will provide monetary assistance to the beneficiary families to help improve the quantity and diversity of their food consumption. To receive such support, families will have to undergo periodic checkups and attend training courses. The support is thus linked to preventive care, and the development of a culture of self-care and training is conducive to timely, continuing care. The

⁹ The design of the PEU is discussed in detail in the consulting reports available in the RE2-SO2 technical files, pertaining to the organization manual and to safety net functions and operating budget. The program's general director has already been appointed by the FISE. Prior to the first disbursement, the executing agency has the resources to hire three PEU consultants (including the director, the technical manager and the operations manager) to facilitate program startup. The resources come from a Bank-financed technical-cooperation facility (ATN/SF-4555-NI).

expected impact of this component in the short term is an increase in food consumption and a behavioral change that should reduce health risks for household members. The long-term objective is reduced rates of child morbidity and mortality in the areas served.

- 2.9 The instruments for achieving the objectives described above include demand-side intervention in the form of a food subsidy and supply-side intervention in the form of a supply subsidy. The food subsidy will be contingent upon the family's participation in a health care plan. The supply subsidy ensures that the demand for care induced by the food subsidy will be covered by the health care services.
- 2.10 **The food subsidy.** This subsidy of US\$224 per year per family will be uniform throughout the country. Beneficiary families will receive the same amount regardless of their location, size or composition. To receive the subsidy, beneficiary families will be required to comply with a predetermined health plan.
- 2.11 **The health plan.** The health plan, discussed in detail in the program's Operating Regulations, was designed with a focus on disease prevention and an eye to execution in regions where access to health posts is sometimes difficult. The plan includes a range of cost-effective preventive care activities, such as: (i) training in sexual and reproductive health, nutrition, child care and breastfeeding, environmental health and family hygiene; (ii) immunizations for children under five, according to the MINSA program (polio, pentavalent, MMR, DPT and BCG); and (iii) monitoring and promotion of growth and development for children under five.
- 2.12 The plan will be furnished under a decentralized, extramural arrangement. In order to afford families greater opportunity for preventive care, consideration has been given to arrangements that facilitate access, such as periodic visits to isolated or scattered communities and participation by community health agents, NGOs or private providers who will offer the various components of the health care plan, while applying MINSA rules and quality standards. MINSA will provide the vaccines for the child vaccination program and will determine which providers are qualified for the health plan, offering them initial training for transporting, handling and using the vaccines. In the event there are no service providers in a given locality, MINSA will assume direct responsibility for providing the service.
- 2.13 **The supply subsidy.** This subsidy is estimated at US\$54 per year per family and will be paid as targets are met for extending coverage to families under the program (see paragraph 3.37).

3. Education (US\$5.4 million)

- 2.14 The objective of this component is to help children in the first to the fourth grades to reap the benefits of attending and remaining in school. The program will reduce

obstacles to initial enrollment by defraying the cost of clothing and school supplies. It will also give periodic support to families to prevent early dropouts caused by the need to have their children work at an early age or care for the home. School attendance is mandatory in order to receive support. These efforts on the demand side will be complemented by supply-side strengthening of schools and by parental and teacher involvement in the child's overall education. The expected short-term impact of this component is increased enrollment and reduction of the school dropout rate. The long-term expectation is for an increase in the number of years of schooling among children in the areas of extreme poverty.

- 2.15 The purpose of focusing the subsidies on the first to fourth grades is to increase the number of years of school attendance among rural families living in extreme poverty, for whom dropout rates are high in the early primary school grades and average schooling is less than two years. Education will be provided at schools under the supervision of school boards.
- 2.16 Three instruments – two demand-side interventions and one supply-side intervention – will be used to achieve these objectives: (i) an education subsidy to partially offset the income that children bring into the home through their jobs; (ii) a school pack containing clothing and basic school supplies; and (iii) a supply subsidy for incentive payments to teachers and the purchase of teaching materials to serve children covered by the safety net.
- 2.17 **The education subsidy.** This subsidy of US\$112 per family per year will be given to families that have at least one child at the established school age. In order to qualify for the subsidy, all children of an appropriate age for the first to the fourth grades must attend school.
- 2.18 **The school pack.** This subsidy has a unit cost of US\$21¹⁰ and may be given in kind or in cash (see paragraph 3.35). It will be distributed to all children enrolled in the first to the fourth grades at the beginning of the school year.
- 2.19 **The supply subsidy.** This subsidy is US\$4.75 per student per year, equivalent to the amount that parents contribute to schools under the autonomous system. It is paid to the school board at the rate of one for each child enrolled and will be linked to teacher participation in the MECD's school-for-parents program and the school's application for admittance to the autonomous system.¹¹

¹⁰ It will contain: (i) basic items of clothing, such as pants, skirts, shirts and underwear, and (ii) school supplies, such as notebooks, pencils, erasers, etc.

¹¹ The school-for-parents program offers information on the educational process, encourages direct participation in planning and carrying out community activities, and seeks to teach parents about the features and opportunities of school autonomy.

4. Targeting and evaluation (US\$0.8 million)

- 2.20 **Targeting.** The purpose of this subcomponent is to establish objective, transparent criteria for choosing beneficiaries. Targeting is expected to minimize both the unintentional exclusion of deserving families and the inclusion of undeserving families in the program. The subcomponent finances technical assistance for setting up targeting systems and carrying out targeting activities according to the criteria specified in the project's technical files, as summarized in paragraphs 3.13-3.16.
- 2.21 **Evaluation.** The evaluation subcomponent will finance two evaluations: (i) the pilot phase evaluation, described in paragraphs 3.38-3.41, to be conducted 12 months after the loan effectiveness date; and (ii) the program impact evaluation, to be carried out prior to the final disbursement. The principal objective of the second evaluation is to determine whether the safety net model used in this program has a positive impact on family behavior in regard to human capital formation.¹²
- 2.22 The activities under these two subcomponents will be performed by outside consultants or consulting firms.
- 2.23 These two subcomponents will be financed with FSO resources in foreign exchange, although the government has indicated a preference for nonreimbursable funds. Consequently, an active effort is under way to locate other sources of grant financing through the FSS. The approval of the Board of Executive Directors is being requested so that the financing plan may be adjusted after program approval if grant funds come through.

D. Costs and financing

- 2.24 The following table breaks down the program costs and financing by source and investment category.

¹² The methodology is discussed in detail in the project's technical files, and the principal criteria are summarized in paragraphs 3.45-3.47.

Table III-31: Social Safety Net in Nicaragua
Cost and financing (US\$)

Category	IDB	Gov't.	Total	Percent- age
1. Institutional strengthening			2,969,938	13.34%
1.1 Long-term consultants	910,800	833,250	1,744,050	
1.2 Operating expenses	176,652	257,514	434,166	
1.3 Equipment	201,722	0	201,722	
1.4 Training	250,000	0	250,000	
1.5 Technical assistance+B34	260,000	80,000	340,000	
2. Health and food security			10,232,763	45.97%
2.1 Food subsidy	8,019,329	205,937	8,225,266	
2.2 Supply subsidy	1,568,574	438,923	2,007,497	
3. Education			5,384,667	24.19%
3.1 Education subsidy	4,009,664	102,696	4,112,633	
3.2 School pack	1,031,914	0	1,031,914	
3.3 Supply subsidy	24,120	0	24,120	
4. Targeting and evaluation			815,948	3.67%
4.1 Targeting	140,628	0	140,628	
4.1 Targeting	675,320	0	675,320	
5. Audits			140,000	0.63%
5.1 Outside audit	35,000	105,000	140,000	
6. Contingencies	1,949,047	0	1,949,047	8.76%
7. Financial costs			767,683	3.45%
7.1 Interest	360,931	0	360,931	
7.2 Inspection & supervision	200,300	0	200,300	
7.3 Credit fee	0	206,407	206,407	
Total	20,030,000	2,232,52	22,260,000	100%
Percentage	90%	10%		

- 2.25 The total cost is estimated at US\$22.26 million, to be financed as follows: (i) US\$20.03 million from the Bank, charged to the Fund for Special Operations in US dollars; and (ii) US\$2.23 million from the Government of Nicaragua. The terms of the loan are presented in detail below. In view of the fact that this operation qualifies as a poverty-targeted investment, the borrowing country will be using the 10 percentage points in additional financing.

Table II-2: Loan conditions	
Source of financing:	Fund for Special Operations (FSO)
Currency:	U.S. dollars
Conditions:	
Grace period	10 years
Amortization	40 years
Disbursement period	4.5 years
Interest rate:	1% per annum during the grace period and 2% thereafter
Inspection and supervision:	1% of the loan total
Credit fee:	0.5% per annum on the undisbursed balance from the date of approval by the Board of Executive Directors

III. THE BORROWER AND THE EXECUTING AGENCY

A. The borrower and the executing agency

- 3.1 The borrower will be the Republic of Nicaragua. The executing agency will be FISE. The borrower and FISE will sign a fund transfer agreement establishing the following provisions, among others: (i) the manner in which the Bank funds and the counterpart funds will be transferred; and (ii) FISE's commitment to assume its obligations under the program.

B. Execution and disbursement periods

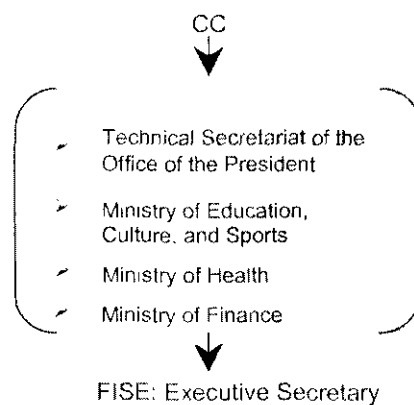
- 3.2 The program will have an execution period of 4 years and a disbursement period of 4.5 years, both periods starting from the effective date of the loan agreement.

C. Institutional framework

- 3.3 The basic framework of the program was designed so that the responsibilities for implementation will be shared among: (i) a coordinating council (CC) in charge of central coordination; (ii) the technical committees, which will serve as a link between the coordinating council and the executing agency; (iii) the PEU, which will be housed at FISE owing to the latter's status as the program executing agency and will be responsible for the administration of the safety net; (iv) the local committees, which will be located in each municipio where the program exists and will handle intersector coordination at the municipal level; (v) the local execution units, which will consist of a coordinator, the school boards and the health care providers and will be in charge of monitoring and delivery of services. The specific functions, hierarchical relationships, and rules and procedures for coordination among the various levels will be specified in the Operating Regulations, which the coordinating council will approve prior to the first loan disbursement.

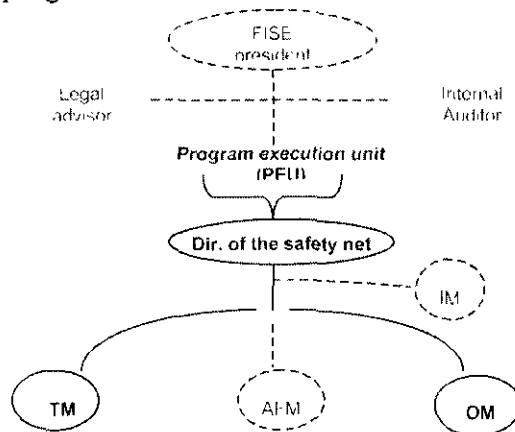
1. Central level

- 3.4 The FSS coordinating council (CC) described in paragraph 1.10 will act as the coordinating council for the safety net. The president of FISE will act as executive secretary of the CC at meetings in which the council discusses safety net matters. The CC will have the following functions for this program: definition of general rules and policies, coordination of the safety net with other intersector programs, approval of the operating regulations, requests to receive auditing reports and follow-on to program evaluation.



- 3.5 Beginning March 31, 2001, disbursements will be subject to the borrower showing, to the Bank's satisfaction, that it has extended the life of the coordinating council of the Supplementary Social Fund or that it has created an agency with a structure and functions similar to those of the program's coordinating council.
- 3.6 Each technical committee (TC) of the ministries included in the FSS framework will monitor safety net matters by appointing a delegate for each ministry to handle affairs pertaining to the safety net. The CC will send the executing agency official notification of the appointments. The PEU will have representation on the TCs through its general director – already appointed – or a delegate. The Bank's no objection will be required for the general director's changes.

- 3.7 The PEU will be created as a new directorate of FISE and will be responsible for program administration.¹³ As the executing agency, FISE will hire the core group to



perform the specific safety net functions. The core group will consist of the safety net's general director and two new management offices – technical management (TM) and operations management (OM). In addition to creating new management offices, the safety net will strengthen its administration and finance management (AFM) and information management (IM) units, both of which are under the current operations

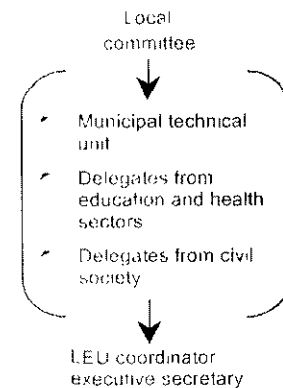
directorate of FISE. The PEU will also receive support from the internal auditing and legal advisory services already in existence at FISE.

- 3.8 The principal functions of the TM include targeting, registry of beneficiaries and coordination of evaluation and external auditing. The functions of the OM involve sector and municipal coordination, preparation of field services, control of shared responsibility among families, payment orders to suppliers, transfers to families and subcontracts to third parties. These two management offices will consist of a technical manager, an operations manager and a minimum number of professionals.

2. Local level

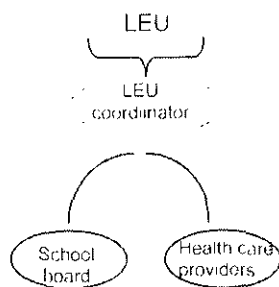
¹³ The new units created specifically for the safety net are shown in the figure with gray shading, and the existing FISE units that will support the safety net are shown with broken lines. Details of the organizational structure, positions, terms of reference and operating budget are given in the consulting reports entitled Organization Manual and Functions and Safety Net Operating Budget.

- 3.9 To be eligible to participate in the safety net, each municipio will be required to form a local committee (LC) that will oversee the fulfillment of the program objectives in its territory. Each LC will consist of five members: the coordinator of the municipal technical unit, a delegate from the health ministry, a delegate from the education ministry and two delegates from civil society elected by the other members of the LC. The civil society delegates will come from various segments of society (NGOs, churches, goods-producing sector or prominent members of the community) and will be citizens well known for their capabilities, honesty and social sensitivity. The coordinator of the local execution unit will act as (non voting) executive secretary of the LC. The principal functions of the LCs will be: (i) to verify the proper application of the targeting criteria; (ii) to identify project execution mechanisms in that locality that enable the education and health care plan to access the most remote areas; (iii) to hold community meetings; (iv) to design the location where the local execution unit will perform its functions; and (v) to supervise the transfer of the subsidies. Each LC will work with the local execution unit to coordinate the *safety net activities in its area of influence.*



3. Community level

- 3.10 A local execution unit (LEU) will be created and headed by a coordinator in order to handle the regional provision of services and incentives. FISE will hire the LEU



coordinators – one for approximately every 1,000 families. Each LEU will consist of a representative from the school board, a representative from the health service providers and the coordinator. The latter will be appointed by the general director of the PEU and will have the following responsibilities: (i) coordinate with the LC; (ii) manage the community workers; (iii) consolidate the attendance records; (iv) establish the amount of the incentives earned by families and send that information to the PEU; (v) verify

the timing and manner in which the subsidies are delivered; and (vi) monitor the program in general. The responsibilities of the other two members of the LEU are to: (i) register beneficiaries; (ii) monitor the performance of the family health plan; and (iii) submit periodically to the PEU coordinator the attendance records that show entitlement to the subsidies.

- 3.11 In the localities where the program will operate, there will be a community worker who will serve as the link between the beneficiaries and the LEU. The community worker will be a female beneficiary who volunteers to help with the program. The female heads of beneficiary families will designate the community worker as their representative. The election will be conducted through voting during the family

enrollment meeting. The responsibilities of the community worker will be: (i) to inform the families and encourage them to carry out the shared-responsibility activities; (ii) to resolve any community doubts about the program components; (iii) to act as a conduit for any questions or complaints on the operation and delivery of subsidies; and (iv) to encourage the use of the subsidies on goods and services that will improve nutrition, education and health conditions.

D. Implementation guidelines

1. Benefits and selection of beneficiaries

- 3.12 Benefits are provided in the form of cash subsidies and in-kind subsidies. In regard to cash subsidies, each family will be eligible for a standard food subsidy (FS) regardless of family size, plus an education subsidy (ES) if there is at least one child eligible to attend the first to the fourth grade. The subsidies to be given in kind – for school supplies, clothing, immunization, and monitoring and advancement of growth and development in children less than five years – will vary according to family size.
- 3.13 The PEU will be responsible for initially identifying the program beneficiary families. Through the use of open community discussions, the LC will locally verify the identification and may make the necessary adjustments to ensure proper application of the criteria in its territory.
- 3.14 The beneficiaries will be identified initially through a rigorous evaluation of their socioeconomic status, based on information from the Living Standards Measurement Studies and the census. The methodology – discussed in the project's technical files – identifies the municipios and ranks them according to their poverty gap. Within each municipio, families are evaluated individually using econometric methods that take into account proxy variables related to poverty conditions, and a rating for each family is thus obtained. This system makes it possible to identify program beneficiaries by using objective, uniform criteria for the entire country so as to ensure equal treatment of the population in extreme poverty, regardless of the family's municipal environment.

(i) Location eligibility criteria

- 3.15 Localities are selected on the basis of the poverty map, which identifies municipios having concentrated areas of greater marginality, in terms of population as well as poverty gap. According to the selection criteria, these areas should: (i) be located in municipios classified as poor; (ii) demonstrate capacity for local participation by submitting the LC's articles of incorporation to the executing agency; and (iii) have some form of education and health services provision. Initially, only those municipios ranked in extreme poverty will be selected.

(ii) Beneficiary eligibility criteria

- 3.16 The general selection criteria for beneficiaries require that: (i) the family be extremely poor; (ii) there be capacity for providing the safety net plan in that locality, demonstrated by the LC's submission of its plan of execution; and (iii) the female head of household give a formal commitment to participate in the safety net program, demonstrated by enrolling her children in school and registering the family with a health care provider.

(iii) Pilot phase eligibility criteria

- 3.17 The pilot phase will be implemented in six municipios¹⁴ that meet the established selection criteria. The municipal selection criteria to be applied in the pilot phase are: (i) the municipio's interest in developing its organizational capacity, demonstrated by entrance into the participatory microplanning program offered by FISE; (ii) the municipio should be below the extreme poverty line; and (iii) it should have some form of education and health services provision. Within these municipios, 43 regions with 10,000 families and 66,000 persons meet the extreme poverty criterion, demonstrating that there are enough pre-identified beneficiaries to launch the program quickly. The PEU will then select approximately 5,000 families by applying the criteria set forth in the preceding paragraph and the respective LCs will verify the selection, prior to the first disbursement for the health and food safety and education components.

2. Preparation of health and educational services

- 3.18 The purpose of this phase is to perform the activities needed to ensure sufficient coverage of health and educational services in the selected regions and provide the LEUs with the necessary materials and equipment to serve the beneficiary families, as well as train the health and education staff that will participate in the program.
- 3.19 During this phase, the local execution plan will be presented and health care providers will be hired. The LC, through the MINSA health delegate, will give the LEU coordinator a list of MINSA-authorized health care providers, the name of the health care institution and the names of the MINSA staff responsible for program monitoring. The PEU will choose the health care providers to be included in the LEUs.
- 3.20 The LC, through the MECD delegate, will identify the schools that will deliver the educational services and the names of the school board delegates to be included in the LEUs.

¹⁴ For details on selection of the municipios, see the annex on pilot phase targeting in the technical files.

3. Enrollment and registration of beneficiaries

- 3.21 In this stage, families will formally enroll in the program by: (i) attending a community meeting; and (ii) enrolling their children in school and registering the family with a health care provider. Female heads of household and the PEU are responsible for family enrollment.
- 3.22 In order to enroll the beneficiaries, the executing agency will call a community meeting with the help of the LC officers. This meeting constitutes the first formal contact between the safety net and the female heads of household of beneficiary families, who will hear explanations of safety net operation and receive their beneficiary identification cards, registration forms for health and educational services, and printed informational materials. In addition, they will elect their community worker.
- 3.23 The executing agency will prepare a record of beneficiary families for its own use in running the program. The record will be used to calculate each family's subsidy, prepare program cash flows, arrange payments and set up monitoring and evaluation activities. This simple, low-cost record should be updated continually to avoid inaccuracies and should contain only a small number of variables that are essential for proper program operation (e.g., full name of each member, geographic location, date of birth, relationship to head of household, and employment at the start of the program).

4. Monitoring of family shared responsibility

- 3.24 In order to receive the subsidies, the female head of household will be required to prove that the family has fully complied with the health and education plan described in the Operating Regulations. Separate investment in each plan activity provides personal and social benefits that, when combined, have a multiplier effect. After a reasonable testing and learning period for adapting the plan to the specific community context, the executing agency will require compliance with each part of the plan as a necessary condition for family eligibility to receive the subsidies.
- 3.25 The school boards and health care providers will send the LEU coordinators a copy of the records of attendance and plan compliance, with a list of beneficiaries who have failed to meet the established attendance requirements¹⁵. The LEUs will send this information to the PEU.

¹⁵ The daily attendance information will be exhibited prominently in each classroom, and this information may be checked without prior notice by the school board or safety net representatives. In the event of repeated irregularities, the center may lose its supply subsidy benefits.

(i) Safety net care plan

- 3.26 The care plan includes the following activities: (i) school attendance by children from the first to the fourth grade; (ii) coverage by the MINSA-approved immunization program for children under five years of age; (iii) monitoring and advancement of growth and development for children under five years of age; and (iv) confirmed attendance at training courses provided for household members (e.g., nutrition, breastfeeding and child care, environmental health and family hygiene, and sexual and reproductive health).
- 3.27 During the pilot phase, the executing agency may: (i) adjust the care plan for health or educational services; and/or (ii) separate the education subsidy from the food subsidy if necessary. Either of these modifications may be justified by the executing agency by demonstrating that they are necessary for plan provision in the specific locality.
- 3.28 The executing agency may also add new pilot phase activities to be financed with funds from other cooperating agencies, if it can be demonstrated that the safety net's operating framework is sufficiently developed to absorb such activities and the original purpose of the program is retained.

(ii) Requirements for maintaining eligibility

- 3.29 In order to remain eligible, families will be required to demonstrate 85% compliance with each plan activity. Three consecutive months of noncompliance will disqualify a family from the program.

5. Delivery of cash and in-kind subsidies

- 3.30 Cash and in-kind subsidies will be given to families that have complied with the care plan as described below.

(i) Cash subsidies

- 3.31 The program subsidies will be channeled through the female head of household, who is the mother or other person responsible for buying decisions, food preparation, child health care and monitoring of children's school attendance. This system recognizes the importance, responsibility and commitment of women as agents of family development.
- 3.32 The cash subsidies will be given bimonthly to the female heads of household in beneficiary families, at locations that should meet minimum security requirements. The PEU is responsible for the payments, for which it may hire specialized firms to transfer the cash subsidies to the recipients. During the pilot phase, the executing agency will test different payment methods. For budget purposes, it has been estimated that the cost of transferring the FS and the ES will be no greater than 3%

of the subsidy amount. To receive the cash subsidy, the recipient will present her ID card issued by the executing agency.

- 3.33 Delivery of cash subsidies will be verified through payment sheets signed by the payer, the executing agency, the community worker and a LC delegate.
- 3.34 A family may receive a maximum of US\$336 per year in assistance in the form of a FS + ES, regardless of family size.¹⁶ The purpose of these subsidies is to supplement family income and improve consumption. The focus of the program enables the family to decide how best to exercise its additional purchasing power without hindering its own efforts to overcome poverty. Such an effect is consistent with the program's design, as the beneficiaries assume an active role in deciding how to use the subsidy. Moreover, the use of a subsidy independent of family size avoids encouraging large families.
- 3.35 The amounts of the FS and the ES are initial figures that the executing agency will test and adjust as it gains experience during the pilot phase. At the end of the pilot phase, the executing agency will set the appropriate levels for the expansion phase, requiring justification to ensure that the income subsidy does not distort work incentives.

(ii) School pack

- 3.36 The pilot phase will allow for experimentation with various plans for delivering the school pack. The first plan is the current system used by the MECD, under which resources equivalent to the amount of the school pack will be transferred to that ministry, which will then be responsible for purchasing and administration. According to a second plan, the autonomous schools will receive the cash value of the packs, and the school board will then be responsible for purchasing and distributing them. Under a third plan, the female head of household will be responsible for purchasing the pack, in which case the appropriate amount will be transferred to her directly.

(iii) Supply subsidy/payment to providers

- 3.37 In the education component, the school subsidy is a payment to participating schools in recognition of their effort to serve more students with the safety net. The amount equals the contribution that parents make to autonomous schools. These funds may be used by the school boards according to MECD rules for the autonomy system (e.g., teacher incentives and teaching materials). The executing agency may experiment with various supply-subsidy transfer plans during the pilot

¹⁶ The amount was calculated based on the difference between the extreme poverty line and the average consumption of the population in extreme poverty. This amount may be updated periodically to adjust for: (i) inflation; (ii) changes in the extreme poverty line; or (iii) average expenditure by the population in extreme poverty.

phase. The supply subsidy for education may be transferred directly to the autonomous schools by the Ministry of Finance, the amount being determined according to the enrollment of safety net beneficiaries. Alternatively, the supply subsidy may be a cash payment to the female head of household, who in turn will be responsible for transferring the resources to the school board as a monthly payment.

- 3.38 The supply subsidy in the health component consists of a payment to providers for services provided to health care plan beneficiaries, according to a rate schedule by service, or per family. Both options may be used during the pilot phase. The first option requires a fixed schedule of services and corresponding rates. The second option establishes a fixed amount per family to cover the entire plan. Families in a particular geographic area enroll with a provider, or several providers may be allowed to compete for the families in that area. In the first option, the PEU will pay the providers directly against a bill for services rendered. Under the other option, the provider is paid according to the number of families enrolled.

E. Monitoring and evaluation

1. Pilot evaluation

- 3.39 The program will begin with a pilot phase that will establish and evaluate the general strategy and the operating framework, thus preparing the foundation for the program's expansion to the national level, as mentioned above. The evaluation will measure program performance and will be submitted 12 months into project execution, calculated from the loan effectiveness date, or once proceeds have been disbursed in the equivalent of US\$4 million, whichever occurs first. The evaluation will be used to decide on expanding the safety net nationally and the appropriate conditions that would apply. The pilot phase is designed to establish and develop institutional capacity so that the safety net can provide direct services to the beneficiaries. The purpose of the evaluation is to determine whether or not the institutional apparatus has been sufficiently tested and is ready to undertake more expanded activities at the end of the year. The evaluation should also establish whether or not the services provided under the safety net (demand-side incentives via direct subsidy and payments to providers) show any early outcome or effect on the ultimate objectives (improved health of children, better nutrition, a lower dropout rate).
- 3.40 The pilot evaluation report will be based on compliance with the indicators and targets agreed by the Bank and the borrower. It will contain the recommendations on whether or not to expand the pilot phase, as well as the necessary institutional and care model adjustments for such an expansion. The report will also include updates on the scope, the disbursement schedule and the financing plan for the remainder of the program. The Operating Regulations, amended for any changes agreed with the Bank, will also be annexed to the report. Any changes will be

appropriately justified on the basis of the pilot experience. In view of the fact that this is an innovative program, a special note will be presented to the Loan Committee to cite the principal outcomes of the pilot operation evaluation and make recommendations for continuation of the program.

(i) Conditions for program expansion

- 3.41 Authorization to commit funds beyond US\$4 million or as of the first year of program execution, whichever occurs first and makes program expansion viable, will be contingent upon delivery of the evaluation report and positive evaluation results. The evaluation will be conducted in accordance with the provisions of paragraph 3.39, above, by an outside consulting firm or individual consultants working independently on the basis of the 14 indicators agreed by the borrower and the Bank, as shown in Table 3.1.

(ii) Indicators and targets

- 3.42 For purposes of the above-mentioned evaluation, indicators will be chosen to cover operation, targeting and family behavior in regard to nutrition, health and education – areas in which some effects of the safety net should be apparent even in the short one-year period. The indicators, arranged by project objective/component, are given in detail in Annex III and summarized in the table below.
- 3.43 If these indicators do not meet the established targets, consideration will be given either to extending the pilot phase (if the operating indicators do not meet expectations) or redesigning the safety net and its operating framework (if the underperforming indicators are in the areas of targeting, health, food safety or education).

Table III-3
Indicators and targets for determining program expansion

Indicator	Final pilot target (1 year)
<ul style="list-style-type: none"> • % disbursement safety net resources, pilot • time from beneficiary identification to payment <p><i>Key systems in operation:</i></p> <ul style="list-style-type: none"> • Accounting/Budget • Targeting • Beneficiary record updated • Baseline study • Final pilot study 	<p>> 70%</p> <p>< 3 months</p> <p>Systems up to date and in operation. Studies completed at beginning and end of pilot phase.</p>
<ul style="list-style-type: none"> • % children < 3 years in program for monitoring and advancement of growth and development • % children 12-23 months fully immunized • % families with increased food consumption 	<p>> 10% increase over control group (with and without program)</p>
<ul style="list-style-type: none"> • % retention children in grades 1-4 during school year • % increase in enrollment in grades 1-4 during school year 	<p>> 10% over control group (with and without)</p>
<ul style="list-style-type: none"> • % extremely poor families in selected area included in program • % families not extremely poor included in program 	<p>> 70%</p> <p>< 30%</p>

(iii) Baseline

- 3.44 In order to evaluate the safety net pilot program, there will be a baseline study of the principal indicators mentioned above, and another study of the same beneficiary and non-beneficiary families one year after the pilot is begun, to determine whether there have been significant changes in the indicators. The baseline and the subsequent study will include beneficiaries and non-beneficiaries in a similar socioeconomic position in order to determine the net effect of the safety net program. Initial estimates indicate that the sample could include approximately 500 households. Presentation of the baseline to the Bank is a condition precedent to the first disbursement of the health and food safety and education components.

2. Evaluation of program impact

- 3.45 Prior to the first loan disbursement, the executing agency will submit a final program evaluation to the Bank. This report will include the results of the program execution and a measurement of its impact, based on the methodology and indicators described below.
- 3.46 Indicators will be used in the program impact evaluation to determine: (i) whether the quantity and/or quality of the food consumed by the beneficiary families is significantly greater than in the non-beneficiary families, and whether this increase was produced by the transfers distributed by the safety net in the form of food

subsidies and education subsidies and by the training courses in nutrition, breastfeeding and child care; (ii) whether school attendance by children in beneficiary families is significantly greater than in non-beneficiary families, and whether this increase is owed to the education subsidy and the school pack; (iii) whether the school dropout rate among beneficiary families is lower than among non-beneficiaries and whether this decrease is owed to the education subsidy and the school pack; and (iv) whether the preventive health and immunization practices and the monitoring and advancement of growth and development for children under five are more prevalent among beneficiary families than among non-beneficiaries and whether this increase in prevalence is owed to participation in the safety net.

- 3.47 The impact evaluation will combine a comparison of the above-mentioned indicators on two levels: comparison of the differences in the indicators between the group of beneficiary families and the control group before and after the program, and a comparison of the same indicators within both groups before and after the program. The results will be analyzed using the multiple regression method to control for the impact of other independent variables and to make statistically correct inferences on the impact of the safety net. The preceding comparisons will be done with data generated by four standard of living studies, which will be carried out before the end of the first quarter of the years 2000, 2001, 2002 and 2004. The first study will gather the baseline data and will have to be ready prior to the first transfer of safety net incentives. The sample size will need to be approximately 500 households, divided into beneficiaries and non-beneficiaries. The baseline will include information on consumption, education and health, derived through application of the consumption, education and health modules of the 1998 Living Standards Study.

F. Other aspects of execution

1. Disbursement schedule

- 3.48 The following table shows the program disbursement schedule by source of financing during the execution period of the social safety net program.

Disbursement schedule (US\$ 000)						
Source of financing	Year 1	Year 2	Year 3	Year 4	Total	%
IDB	3,669	5,449	5,414	5,498	20,030	90%
Local	422	595	602	611	2,230	10%
TOTAL	4,091	6,044	6,016	6,109	22,260	100%
%	18%	27%	27%	28%	100%	

2. Retroactive financing and advance contracting

- 3.49 As part of the financing, the Bank may recognize up to the equivalent of US\$500,000 in expenditures or contract obligations by the borrower starting on December 1, 1998 to: (i) hire the principal technical advisor to prepare the work plan for the first year, guide and support the execution of the key pilot tasks; (ii) carry out the final selection of the pilot regions; (iii) gather the baseline data for the evaluation; (iv) design the information system including the beneficiary records, selection of the technical and communications platform, and development of local and central data base application; (v) advance-hire the consultants required to create the technical and operations management offices and to strengthen FISE's existing information management and administration and finance offices, thereby initiating the program; and (vi) train the staff involved in safety net implementation. Such expenditures or commitments will stem from procurement procedures that have met requirements substantially similar to those set forth in the financing agreement.

3. Procurement of goods and services

- 3.50 The program does not provide for public works construction. Procurement of goods and services will be conducted in accordance with Bank policies and procedures, which will be included as annexes to the loan agreement. A call for international competitive bids will be mandatory for procurement of related goods and services worth in amounts exceeding US\$250,000. For selection and contracting of consulting services in excess of US\$200,000 for consulting firms and over US\$100,000 for individual consultants, international competitive bidding will be used and the appropriate notices published in *Development Business*.
- 3.51 Procurement of related goods and services and contracting of consulting services below the aforementioned limits will be governed in principle by FISE regulations (as set forth in its procurement manual), which stipulate local competitive bidding for amounts above US\$50,000 and shopping for lower amounts.

4. Audits

- 3.52 The executing agency will establish and maintain proper accounts and records in accordance with standard accounting practices. The financial and accounting statements will be audited at the end of each fiscal year by an independent auditing firm acceptable to the Bank. The statements will be submitted beginning in the first year and throughout the program execution period. The annual audits will be charged to the program and included in the budget.

5. Conditions precedent to the first disbursement

- 3.53 The conditions precedent to the first disbursement of financing resources, shown in the following table, are for the purpose of facilitating timely performance of the

activities planned for program execution. The conditions have been discussed with the executing agency during program preparation.

Conditions precedent to the first disbursement

Condition	Responsible entity	Compliance period (estimated)	Verification instrument
Funds transfer agreement	FISE	One month	Funds transfer agreement signed with the finance ministry
Program Operating Regulations	FISE	One month	Operating Regulations approved by Coordinating Council

6. Other special conditions

- 3.54 (i) As a condition precedent to disbursement of the health, food security and education components, FISE is to present the final list of pilot communities and the evaluation baseline for the pilot phase; (ii) twelve months after the loan effectiveness date or in the event funds are to be committed beyond the US\$4 million allocated to the pilot phase (whichever occurs first), FISE will present, to the Bank's satisfaction, a report on the pilot evaluation as provided in paragraphs 3.39 to 3.42. The pilot phase will be considered satisfactory if the analysis shows program indicator performance above 50% or, in the event performance is below that percentage, if a remedial action plan agreed by the borrower and the Bank has been implemented.
- 3.55 The loan agreement will state the conditions that were met by the executing agency prior to presentation of the program to the Board of Executive Directors. The conditions include the formation of the PEU, with the general director, the technical manager and the operations manager, and hiring of the principal technical advisor for program execution and, with regard to the FSS coordinating council, that: (i) the program executing unit has been set up with the necessary functions to carry out the program, and evidence is provided that the general manager and three consultants for the technical and operations management units have been appointed and are performing their functions; (ii) the principal technical advisor has been hired pursuant to the terms agreed with the Bank; and (iii) the operating regulations of the Supplementary Social Fund as amended on October 20, 1999, are presented.

7. Revolving fund

- 3.56 It is recommended that a revolving fund be established with the equivalent of 5% of the financing during program execution. If the costs of cash subsidies are reimbursed, the revolving fund will be replenished against presentation of a list showing the subsidy amounts. The list will be signed by the payer, the executing agency, the community worker and a member of the local committee. The

remaining costs will be charged to the revolving fund as they are incurred by FISE for programs with the Bank.

8. Modifications to the implementation guidelines

- 3.57 The implementation guidelines may be modified by agreement among the executing agency, the coordinating council and the Bank. Modifications will be justified on the basis of the pilot experience and will be shown in the Operating Regulations.

IV. FEASIBILITY AND RISKS

A. Feasibility

1. Institutional feasibility

- 4.1 The creation of an institutional framework that involves the principal social agents is conducive to achieving the safety net objectives and establishes the foundations for growth and incorporation of new elements in the future. The program is founded on existing institutions and structures, thus allowing it to gather and utilize their capabilities. The safety net will operate at the household level to ensure that greater value and relevance is placed on social services, while FISE ensures access to the social infrastructure, and the education and health ministries and the FSS provide support in supplying services. The fact that the local execution plan involves municipal governments and civil society presents an opportunity to coordinate other activities in support of the safety net beneficiaries, such as production-oriented projects, housing or health infrastructure, that will give continuity to the strengthening of family capabilities.
- 4.2 The institutional analysis shows that the executing agency (FISE) has the experience and capacity to absorb the operating load of this program. FISE has consistently demonstrated the ability to manage a significant volume of resources by applying rigorous procedures. Consequently, it has experience in targeting through application of the poverty map, in project monitoring and evaluation, and in contracting. Through these functions, it is familiar with Bank requirements and procedures and other donors, which makes it easier to attract additional resources for program sustainability. The institutional capacity and operating experience widely demonstrated by FISE will facilitate the execution of the program.
- 4.3 *The accommodation of the safety net within FISE will require a few adjustments to that institution's organizational structure. Deeper targeting and evaluation systems are needed because the safety net is a family-focused human capital investment program. These adjustments will be achieved through the creation of the PEU, which will make it possible to utilize FISE's capacity without overloading it. Institutional feasibility is thus achieved cost-effectively while facilitating the inauguration of the safety net.*

2. Technical feasibility

- 4.4 The safety net plan is simple and requires no great capacity in terms of human resources in order to deliver the services. In the education component, the school structure is suitable for performing the services in an institutionalized manner, as there are sufficient numbers of primary and multi-level schools, even in Nicaragua's rural areas. Moreover, the fact that the local execution plan

incorporates the school boards will make it easier to carry out the supervisory functions and meet the family investment commitments. In the health component, the plan encourages preventive care and training that do not require physicians or health care institutions. With the supply-side incentives, new markets can be developed for community, NGO and private health care providers. The monetary assistance will be given to families in cash, which on the basis of experience to date, is the most effective strategy (see paragraphs 1.19-1.22) when transfers are combined with health and nutritional instruction for users and when assigning responsibility for resource administration to the mother.

3. Socioeconomic feasibility

- 4.5 Given the fact that the program will be testing a new social protection modality in Nicaragua, there is insufficient solid information to perform an ex ante analysis. Nevertheless, the impact evaluation that is included as a program component – for which the methodology is described in paragraphs 3.45-3.47 – will make it possible to measure the effect of the educational, health and nutritional assistance on human capital formation among the beneficiaries. It is reasonable to anticipate positive outcomes because the health care plan provides for low-cost preventive activities that have highly positive externalities, and because investment in primary education yields high economic returns.

4. Financial sustainability

- 4.6 The strategy for achieving sustainability is based on the fact that the model is capable of attracting additional grants. This objective can be met by ensuring that the resources utilized in the safety net will be invested transparently and efficiently, which will be achieved if the systems and instruments envisioned in the design are properly applied. The medium-term strategy calls for attracting resources through a donors' meeting for presentation of new projects to be included in the FSS framework, one of which will be the safety net. Given that the program supports the establishment of Nicaragua's first social safety net program for extreme poverty, it is possible that internal and external resources currently designated for scattered protection activities involving high administrative costs will be reallocated to the safety net.

B. Benefits

- 4.7 The program will be a major contribution to the efforts of the Government of Nicaragua to reduce extreme poverty and will establish the initial framework and the model for a social safety net focused on families in extreme poverty. The program will utilize instruments to strengthen the supply and demand for services and will help local development by encouraging participation. The safety net has the potential of producing a significant social impact insofar as it assigns regulatory functions to the government and operating functions to the ex officio executing

agencies, through a plan that involves the line ministries, local governments and the community. The program will also encourage women's development by supporting activities designed to consolidate the family unit and by empowering mothers or female heads of household, who will be the recipients and administrators of the family subsidies.

- 4.8 The beneficiary families will be encouraged to adopt behaviors that reduce health risks, recognize dangerous signs or symptoms, and properly follow primary health care procedures such as treatment of potable water, breastfeeding, proper nutritional practices and household cleanliness. It is expected that, in the long term, education will be more highly valued among Nicaragua's poorest families. The program will increase coverage and school attendance in the poorest areas of the country by preventing school dropouts and facilitating the return to school for children who have already left. These outcomes will yield a high economic return for the family and society.
- 4.9 The program could have no adverse effect on the environment, since it only provides for family assistance. On the contrary, a positive environmental impact is expected from the encouragement of behavioral changes in families. In particular, the training courses in environmental health and hygiene are designed to make families responsible for protecting and caring for the environment in their homes and neighborhoods.

C. Risks

- 4.10 The risks associated with this program are related to the intrinsic features of social safety net programs. Nevertheless, the program design includes special risk-reduction measures, as indicated below.
- 4.11 **Targeting of beneficiaries.** There are two risks involved in targeting. The first risk occurs when the targeting system excludes deserving families from the transfer. The second arises when the benefit reaches families who are not poor or do not merit the benefit. To minimize both risks, strict targeting criteria will be established, as well as a formal supervision system using periodic field inspections and an informal system involving open community discussions.
- 4.12 **Negative incentives in the labor market.** One of the most worrisome problems for the safety net is the ability to assist poor families while maintaining incentives to work. The transfers should increase family well-being so that it can buy more food. If the transfers are too large, however, they may increase the reservation wage and thus reduce the supply in the labor market. Nevertheless, the income assistance provided for here is sufficiently small so as not to distort the market but enough to cover the food expenditure gap among families in extreme poverty.

- 4.13 **Interinstitutional coordination.** The nature of the program calls for close coordination with the education and health ministries to ensure that the demand subsidy is tied to an adequate supply of services in terms of quantity and quality. Incorporating the FSS coordinating council into the execution plan and linking the council to the line ministries will strengthen the interministerial coordination effort.

LOGICAL FRAMEWORK

Narrative summary	Verifiable indicators	Means of verification	Assumptions
ing of families in extreme poverty.	<ul style="list-style-type: none"> Per capita spending on food by families increases at least 10% within a year of participation.ⁱ 	Home survey	Families use the subsidy to reduce their food expenditure.
in capital in families below the line.	<ul style="list-style-type: none"> 50% increase in average years of schooling among children 7-15 years of age in regions served after 4 years of project execution. At least 75% of children under 5 years in areas served receive the full schedule of vaccines provided by MINSA annually during the program.ⁱⁱ 	MECD statistics and the survey's education module. Survey health module	Beneficiaries ready to participate and take on program commitments.
y net created and operating child care in beneficiary families op-out rate for beneficiary children 1-4 monitoring and evaluation systems created and strengthened.	<ul style="list-style-type: none"> At least 90% of resources disbursed 4 years into program. Project cycle is 3 months or less.ⁱⁱⁱ Beginning with the second year of the program, overhead does not exceed 12%. Pilot phase evaluation conducted 12 months into execution. Additional resources attracted to the safety net equal at least US\$1 for each US\$1 financed by the Bank after the fourth year of the program. Average annual # of visits in program for monitoring and advancement of growth and development^{iv} per child under 1 year is 6. Average # per child 1-5 is 3 per year. Reduction in average drop-out rate in grades 1-4 is less than 10% per year during the program.^v % poor families in regions served that are included in the program is at least 75% per year during the expansion phase. % non-poor families in regions served that are included in the program is less than 25% per year during the expansion phase. 	Project files and program execution unit (PEU). PEU. PEU. Project files. PEU. Survey health module and operating data of health component. MECD statistics. Home survey Home survey	There is sufficient health coverage in program areas. The MECD offers a sufficient level of academic services in the execution areas.

Narrative summary	Verifiable indicators	Means of verification	Assumption
<p>program Operating Regulations.</p> <p>f local committees (LCs) for pilot</p> <p>f program execution unit (PEU).</p> <p>tation of final list of pilot regions.</p> <p>of families identified as</p> <p>s.</p> <p>tation of evaluation baseline.</p> <p>terms of reference for pilot</p> <p>tation of first-year work plan.</p>	<ul style="list-style-type: none"> Operating Regulations approved by Coordinating Council (CC) prior to first program disbursement.^{vi} LCs formed before final selection of pilot municipios. PEU formed prior to first program disbursement, consisting of the director, the TM, the OM and the PTA. Regions selected for pilot prior to first disbursement of health and education components.^{vii} At least 2,500 families identified and registered before pilot startup. Evaluation baseline presented prior to first disbursement of health and education components.^{viii} Terms of reference revised prior to first program disbursement. Work plan presented prior to first program disbursement.^{ix} 	<p>Project files.</p> <p>Project files.</p> <p>Project files.</p> <p>Project files</p> <p>Operating data</p> <p>Project files</p> <p>Project files</p> <p>Project files</p>	
<p>sentation of the rules for each</p> <p>e health care plan</p> <p>beneficiary mothers in nutrition,</p> <p>reastfeeding and sexual and</p> <p>e health</p>	<ul style="list-style-type: none"> Rules presented before reaching the Board of Executive Directors.^x Training rules designed and approved before the Board of Executive Directors. At least 80% of mothers have participated in the training courses. 	<p>Project files</p> <p>Project files</p> <p>Operating data</p>	
<p>school pack to beneficiary children.</p> <p>supply subsidy to school boards.</p>	<ul style="list-style-type: none"> At least 80% of eligible children receive a school pack during years 2, 3 and 4 of the program. At least 50% of rural schools included in the pilot apply for entry into autonomy system. At least 80% of teachers have meetings with parents at least once per month. At least 80% of parents attend meetings with teachers once per month. 	<p>Operating data</p> <p>Operating data</p> <p>Operating data</p> <p>Operating data</p>	

spending includes the cost of food produced for self-consumption, as stipulated in the methodology for the living standards study conducted by the Statistics and Census [Instituto Nicaragüense de Estadística y Censos] (INEC).

sed by the international vaccination programs is generally 85%, since obtaining all doses of all the vaccines is a great logistical challenge.

le refers to the period that begins with identification of the beneficiary and ends with the first delivery of monetary assistance.

controls recommended by the Ministry of Health (MINSA).

O defines the drop-out rate as the percentage of enrolled children who leave school before the end of the year, even when the child returns to school following year. The real drop-out rate, however, should be the percentage of children who leave school and do not enroll the following year. Owing to this, the real drop-out rate can be ascertained only through home surveys. The average drop-out rate for grades 1-4 reported by the MECD for Madriz and

contractual condition prior to the first disbursement.

contractual condition.

contractual condition.

contractual condition prior to the first disbursement.

contractual condition.

**PRELIMINARY PROCUREMENT PLAN
(000 US\$)**

Principal procurements	Total amounts (*)	Financing		Modality (**)	Prequalif.	Scheduled publication date
		% IDB	% Local			
Consulting services						
Consultants						
- Targeting and evaluation	818	100%	0%	S	NO	I/2000 and I/2004
- Institution-strengthening	2,080	54%	44%	S	NO	I/2000
- Education	170	100%	0%	S	NO	I/2000
Training						
- Institution-strengthening	480	50%	50%	LCB	NO	I/2000
- Health	439	100%	0%	LCB	NO	I/2000 and II/2000
Equipment and materials						
Furniture						
- Institution-strengthening	20	100%	0%	LCB	NO	I/2000 and I/2001
Motorcycles						
- Institution-strengthening	24	100%	0%	LCB	NO	I/2000 and I/2001
4 x 4 vehicles						
- Institution-strengthening	60	100%	0%	LCB	NO	I/2000 and I/2001
Hardware						
Computers and printers						
- Institution-strengthening	47	100%	0%	LCB	NO	I/2000 and I/2001
Distribution services						
- Health and food security	248	0%	100%	LCB	NO	I/2000 – IV/2003
- Education	113	0%	100%	LCB	NO	I/2000 – IV/2003
Other						
School pack						
- Education	1,066	100%	0%	ICB/LCB	NO	I/2000 – I/2003
Totals	3,824					

* Total amounts of principal procurements during the four years of the project.

** The general limits that will be applied for goods and services procurement and hiring consulting firms are as follows:

	<u>Goods and services</u>	<u>Consulting services</u>
International competitive bidding (ICB)	US\$250,000 and higher	US\$200,000 and higher (firms) US\$100,000 and higher (indiv.)
Local competitive bidding (LCB)	US\$50,000-US\$249,999	US\$50,000-US\$199,999 (firms) US\$50,000-US\$99,999 (indiv.)
Shopping (S)	up to US\$49,999	up to US\$49,999

INDICATORS AND TARGETS FOR DETERMINING PROGRAM EXPANSION

Objective/ Component	Indicator	Formula	Source of information	Schedule	Final pilot target (1 year)
Establish institutional framework	<ul style="list-style-type: none"> % disbursement resources, safety net, pilot Duration project cycle 	<ul style="list-style-type: none"> (Disbursements/budget safety net, pilot) X 100 Time lapsed between identification of beneficiary and first payment 	PEU	Annual	70%
	<ul style="list-style-type: none"> Key systems functioning: <ul style="list-style-type: none"> Accounting/budget Targeting Registration of beneficiaries Baseline study Final pilot study 	Not applicable	PEU	Last regions chosen	<ul style="list-style-type: none"> < 3 months Systems updated and in operation
			Audit of budget and information systems	Annual	The two studies completed at beginning and end of pilot
Improve health of children < 5 years and family food security	<ul style="list-style-type: none"> % children < 3 years in program for monitoring & advancement of growth & devel. % children 12-23 months fully vaccinated % families with increased food consumption partic. 	<ul style="list-style-type: none"> (Benef. children 0-3 years in program for monitoring & advancement of growth & devel. / Total children same age) X 100 (Children 12-23 months completely vaccinated / Total children group) X 100 (Total families with increased food partic. / Total families) X 100 	Baseline and final pilot studies	Annual (initial and final measurement)	Increase > 10% over control group (with and without program)
Keep children grades 1-4 in school	<ul style="list-style-type: none"> % retention children grades 1-4 in school year % increase in enrollment grades 1-4 during school year 	<ul style="list-style-type: none"> (No. children stopped / No. children started) X 100 (No. children pre-registered end of pilot / Registered beginning of pilot) X 100 	Information schools with and without program (school committee)	Annual	Increase > 10% over control group (with and without)
Strengthen development of key systems safety net implementation (targeting, monitoring & evaluation)	<ul style="list-style-type: none"> % extremely poor families in chosen area included in program % families not extremely poor included in program 	<ul style="list-style-type: none"> (No. poor families in program / No. families in chosen region) X 100 	Study	Annual	> 70%
		<ul style="list-style-type: none"> (No. non-poor families included / Total families included) X 100 	Study	Annual	< 30%

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PROPOSED RESOLUTION

NICARAGUA. LOAN No. ____/ SF-NI TO THE REPUBLICA DE NICARAGUA.

(Social Protection Net Program)

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 República de Nicaragua, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Social Protection Net Program. Such financing will be for the amount of up to US\$20.030.000, or its equivalent in other currencies, except that of Nicaragua, which are part of the resources of the Bank's Fund for Special Operations, and will be subject to the "Special Contractual Conditions" and to the "Financial Terms and Conditions" of the Executive Summary of the Loan Proposal.