

PROGRAM TO SUPPORT IMPLEMENTATION OF THE POVERTY REDUCTION STRATEGY

(NI-0140)

EXECUTIVE SUMMARY

Borrower:	Government of Nicaragua	
Executing agency:	Secretaría Técnica de la Presidencia [Technical Secretariat of the Office of the President (SETEC)]	
Amount and source:	IDB: (FSO)	US\$10.0 million
	Local:	US\$ 1.1 million
	Total:	US\$11.1 million
Financial terms and conditions:	Amortization period:	40 years
	Grace period:	10 years
	Disbursement period:	36 months
	Interest rate:	1% the first 10 years 2% thereafter
	Inspection and supervision:	1%
	Credit fee:	0.5% of outstanding balance annually
Justification for an innovation loan:	<p>The aim of this pilot project is to gain new experience and knowledge in the complex field of poverty reduction. It has been observed that the use of coordination – horizontal and vertical – and targeting criteria is not common in the process of allocating resources and designing and executing projects. Nor is there coordination between institutions working in this field, which makes it difficult to ensure that programs are effectively carried out and benefit those who need them most.</p> <p>This operation would build on Nicaragua's initial efforts in developing the Estrategia Reforzada de Reducción de la Pobreza [Strengthened Poverty Reduction Program] (ERRP)¹, determining the institutional process for its implementation in the country.</p> <p>An alternative working and decision-making institutional framework is proposed under the program for the execution of ERRP programs</p>	

¹ This has been prepared as one of the conditions under the enhanced structural adjustment facility (ESAF) agreed to with the IMF for consideration in the context of the Heavily Indebted Poor Countries Initiative (HIPC).

and projects. The aim is to encourage a coordinated and targeted effort by institutions in reaching quantitative goals established in agreement with civil society and the international community.

Objective: The specific purpose is to establish an effective model for comprehensive implementation of the ERRP that is proven and suitable for sustainable replication in the country.

Description: The proposed operation includes financing, technical assistance, and investments designed to achieve the goals established by the ERRP. The resources for this operation can be used in the following components:

Institutional strengthening (US\$1.3 million). The purpose of this component is to provide technical assistance resources to central and local authorities to strengthen their institutional capacity for implementing the ERRP.

The general criterion is that the activities must form part of a strengthening program, at the central or local level, directly related to implementation of the ERRP.

Pilot projects (US\$5.7 million). This component is designed to finance implementation of the ERRP through investments in ERRP programs and projects.

Such projects must have the following characteristics: they must have been coordinated between sector institutions and form part of a comprehensive plan; they must target a specific geographic area; they must fall within the poverty reduction strategy; and their impact must be reflected in indicators chosen for the purpose of monitoring ERRP implementation.

Communication and public participation and evaluation (US\$1 million). The Consejo Nacional de Planificación Económica y Social [National Economic and Social Planning Council] (CONPES), representing civil society, is responsible for coordinating social evaluation of the ERRP implementation plans.

Program resources will be used to finance consultancies and equipment to structure and execute the activities required as part of the social audit.

System for monitoring and evaluating implementation of the ERRP (US\$600,000). The purpose of this activity is to improve the severely limited management information available for implementation of the ERRP and move ahead in formalizing a

monitoring and evaluation system for measuring progress in fulfilling commitments under the strategy.

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

This operation is fully consistent with the Bank's strategy set forth in the country paper (GN-1931-1), and is designed to help reduce poverty and promote the development of human capital. The operation builds on similar projects to strengthen integrated and targeted multisector efforts in the fight against poverty.

**Environmental
and social
review:**

Since the planned investments are for minor works, the program is not expected to have an adverse impact on the environment. As a rule, the country's current environmental regulations will in any case be followed. Institutions that have their own rules and standards approved by the Bank, such as the Emergency Social Investment Fund (FISE), the Rural Development Institute (IDR) and other participating institutions, can follow those as well.

Benefits:

The project will make it possible to determine whether the institutional modality proposed —based on integrated, coordinated, and targeted implementation— represents the most effective means of combating poverty. If it does, the Government of Nicaragua would then seek to replicate it systematically.

The program will develop an evaluation and monitoring system based on indicators and targets agreed on with civil society and the international community. Progress in carrying out the program can then be evaluated, which should promote a culture of good performance and facilitate the social evaluation.

Risks:

Since this operation will introduce a new execution mechanism, one risk is that the next administration may not continue to implement it on a priority basis. To mitigate this risk, it was necessary to gain the support of civil society for the program. Accordingly, CONPES has been consulted and informed on the components to be financed through this operation, and has given its support to the preparations. In addition, ERRP was developed in consultation with civil society and the international community to make the country eligible under the HIPC initiative. This represents a commitment undertaken not only by the current administration but by the country. It is therefore expected that the next administration will also give high-priority to this program, which is designed to implement the strategy.

The institutional capacity limitations are serious and the possibility for coordinated activities by the deconcentrated and decentralized units of the line ministries is unknown. The risk is mitigated, however, by the institutional design proposed for this program, which is based on a flexible implementation plan.

Special contractual clauses:

Prior to the first disbursement:

1. The UCE must have been set up. Its general manager (with no objection from the Bank), three professionals to perform the work indicated in paragraph 3.19, and a delegate from each of the ministries participating in the fund must have been designated .
2. The program Operating Regulations (paragraphs 3.9 and 3.10) must have been approved with no objection from the Bank and must have entered into force.

Establishment of the baseline and the evaluation method and framework will be a condition precedent to the disbursement of resources for the investment component.

Once the basic conditions precedent specified in Article 4.01 (a), (b), and (e) of the General Conditions of the contract have been fulfilled – even if conditions (1) and (2) above have not been fulfilled— the Bank may disburse up to US\$250,000 to initiate program activities.

An international firm will be hired to perform a concurrent audit of the program (paragraph 3.42).

Poverty-targeting and social sector classification:

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).

Furthermore, this operation qualifies as a poverty-targeted investment (PTI) based on the geographic criteria (see paragraph 4.3). The borrowing country will be using the 10 percentage points in additional financing (see paragraph 2.26).

Exceptions to Bank policy:

None.

Procurement:

Procedures for international competitive bidding will be followed for works valued at more than US\$1 million, goods valued at more than US\$250,000, and consulting services valued at more than US\$200,000. Procurement in amounts below these levels will be subject to the procedures indicated in paragraphs 3.38 to 3.40.

I. BACKGROUND

A. Justification for an innovation loan

- 1.1 The use of coordination – horizontal and vertical – and targeting criteria is not common in the process of preparing projects in Nicaragua. Demand generally accommodates itself to the availability of projects determined by supply. On an exceptional basis, geographic targeting is applied on the basis of a poverty map, or impact evaluation criteria are used on the basis of pre-established indicators. Moreover, there is no coordination or integration of work between government institutions and donors, which makes it difficult to ensure that programs are benefiting those in need of them to reduce poverty indices.
- 1.2 The aim of this pilot project is to gain new experience and knowledge in the complex field of poverty reduction. This operation would build on Nicaragua's initial efforts in developing the ERRP, determining the institutional process for its implementation in the country.
- 1.3 An alternative working and decision-making institutional framework is proposed under the program for the execution of ERRP programs and projects. The aim is to encourage a coordinated and targeted effort by institutions in reaching quantitative goals established in agreement with civil society and the international community.
- 1.4 Second, a flexible architecture is proposed for the program in terms of the menu of projects, which is necessary because of the diversity of conditions and needs in the communities concerned. From that standpoint, this operation does not enter into the micro-design of its components. Instead, it is designed to strengthen the planning processes, make effective use of the scarce human resources available, and ensure coordinated implementation throughout the country.
- 1.5 An innovative aspect of this operation is the approach taken in providing support for the ERRP through the integration of work by central and local government institutions and civil society, as proposed in the plan for execution. Using this approach, a consensus-based national strategy can be presented to the international community, encouraging coordinated participation by cooperating countries in financing the ERRP.

B. Poverty in Nicaragua

- 1.6 Nicaragua is one of the poorest countries in Latin America, with a per capita GDP that is only one-third of the regional average, ranking only ahead of Haiti. Based on the consumer index, nearly half (47.9%) of the Nicaraguan population is

considered poor. This percentage represents 2.3 million persons, 830,000 of whom are extremely poor.¹

- 1.7 Poverty has strong social repercussions in Nicaragua in terms of limited education, healthcare, and access to public services, particularly in rural areas. Fertility rates for the adolescent population and maternal mortality are the highest in Latin America, but are higher still among the poor, who have less access to family planning.
- 1.8 Although the incidence of poverty and extreme poverty remain high, modest improvements were recorded in 1998 relative to 1993. There is still a need, nonetheless, to identify systems that can increase the impact of efforts to address the needs of the country's poorest population segments.

C. Estrategia Reforzada de Reducción de la Pobreza [Strengthened Poverty Reduction Strategy] (ERRP)

- 1.9 The Government of Nicaragua has been preparing a conceptual framework to guide its efforts in combating poverty in the country. In doing so, it has organized and carried out a wide-ranging consultation process. In August 2000 this process culminated in the document "Strengthened Poverty Reduction Strategy".
- 1.10 The ERRP is designed to build on earlier economic reform programs, with programs placing greater emphasis on economic growth and the expansion of social services designed for the purpose of combating rural poverty.
- 1.11 The strategy rests on four pillars: the promotion of economic growth; the development of human capital; better protection for disadvantaged groups; and improved governance and institutional development. It is also designed to address three overarching issues: reducing environmental vulnerability; contributing to greater social and gender equality; and promoting decentralization.

D. Government commitment and related indicators

- 1.12 Pursuant to its commitment under the ERRP, the government has established indicators and targets consistent with international development objectives for poor countries. The commitment undertaken by the government, to be agreed upon with the international community and fulfilled by 2015, is as follows: (i) to reduce extreme poverty by 50%; (ii) to provide primary education with universal coverage; (iii) to reduce maternal mortality by 75%; (iv) to reduce infant mortality and mortality for children under 5 by two-thirds; (v) to provide access to reproductive health care for the entire population at appropriate ages; (vi) to reduce chronic malnutrition to 7%; (vii) to increase national water supply coverage to 100%;

¹ Using the basic unmet needs method, the incidence of poverty increases to 72.6%, and extreme poverty to 44.7%. Using the income distribution method, total poverty is estimated at 60%, and extreme poverty at 33.5%.

(viii) to increase access to sanitation services to 87%; and (ix) to reduce the illiteracy rate to 10%.

- 1.13 The programs and projects stipulated by the ERRP – which would contribute toward meeting the targets established in the ERRP – carry a total cost of US\$1.1 billion for the period 2001-2003. Approximately half of the portfolio is already financed. Additional financing for the ERRP would come from internal and external sources, including resources to be released from the HIPC Initiative, which represent approximately US\$100 million per year after 2001. Other sources of financing would include government revenues, donor countries, and multilateral institutions.

E. Institutional limitations

- 1.14 Implementing the ERRP programs and projects will be a great challenge, given the serious limitations that will constrain social sector agencies in performing the tasks of planning, management, monitoring, and impact evaluation: activities that are essential to implementation of the strategy.
- 1.15 Sector statistics, for instance, are not designed for the purposes of decision-making, monitoring results, measuring efficiency, or overseeing management. In the best of cases, public programs are monitored solely on the basis of disbursements, as opposed to results or, with very few exceptions, impact evaluation, which is virtually nonexistent.
- 1.16 The use of coordination – horizontal and vertical – and targeting criteria is not common in the process of allocating resources and designing and executing projects. Nor is there coordination between institutions working in this field, which makes it difficult to ensure that programs are effectively carried out and benefit those who need them most.
- 1.17 The only exceptions in this regard are connected with the Supplemental Social Fund (FSS), which represents a point of departure for this program. The FSS is the result of an initiative to reallocate public expenditures, and coordinate demand for project financing with the supply of internal and external resources within a single account.
- 1.18 In operational terms, the FSS finances projects designed for the poor, taking a cross-cutting approach with activities targeting rural preventive services in the fields of education, health, and nutrition. In terms of its organizational structure, the FSS consists of an interinstitutional rulemaking body, the Coordinating Council (CC), and a number of Technical Committees (TCs) composed of officials from the executing ministries that are members of the CC.
- 1.19 The FSS has developed an information system to track the origin and source of spending. Impact evaluation, however, must still be strengthened to permit a clear analysis of the use of incremental HIPC resources.

- 1.20 It should be noted that the government is considering expansion of the FSS (FSS-A) to administer programs formulated under the ERRP. This expansion will require a determination as to membership of the CC and the functions of the CC and TCs, as well as extension of the duration of the Fund, which expires in March 2001.
- 1.21 The Technical Secretariat of the Office of the President (SETEC) is responsible for coordinating the institutional activities necessary to implement ERRP, monitor it, and evaluate its impact. This will call for much closer and more permanent working relations with the executing institutions.
- 1.22 Finally, CONPES², representing civil society, has been assigned to coordinate the social audit and ERRP implementation plans, but does not have the technical capacity necessary to perform those functions.

F. Bank poverty reduction activities in Nicaragua

- 1.23 The Bank's strategy, set forth in the country paper (GN-1931-1), is to support poverty reduction and human capital development. The Bank has been leading efforts designed to accomplish these objectives through a coordinated approach.
- 1.24 Five recently approved operations, and another two in the design process (in addition to this one), are directly related to the efforts planned under this operation. The programs now being executed by the Bank are as follows: (i) development of the institutional framework for the Technical Secretariat of the Office of the President (SETEC), the lead institution in the formulation of the ERRP (Loan 1032/SF-NI); (ii) a social protection network (Loan 1055/SF-NI), promoting the development of human capital in extremely poor families; (iii) local development of the Atlantic Coast (Loan 1051/SF-NI), to strengthen regional, community, and municipal capacity; (iv) strengthening of the Ministry of Family Affairs for the protection of disadvantaged groups (Loan 1061/SF-NI), to create an institutional framework for meeting the needs of disadvantaged groups; and (v) NI-0108, to combat poverty and strengthen local capacity by financing basic infrastructure at the local level through participatory and delegated implementation.
- 1.25 The following programs are in the design stage: (i) NI-0155 to combat urban poverty by improving the quality of life in extremely poor urban neighborhoods; and (ii) NI-0153, to provide comprehensive care for disadvantaged Nicaraguan children, from birth to the start of primary education. The Bank has also financed an operation to design the legal framework of CONPES (ATN/SF-6732-NI) and is preparing a second institutional strengthening operation. Additional efforts in support of citizen participation are being financed by the United Kingdom and the UNDP.

² This agency, legally established by the Constitution, has 31 members representing a wide variety of institutions and groups both in and out of government, including leaders from nongovernmental organizations, labor organizations, political parties, academic groups, private-sector associations, regional governments, and community institutions.

II. DESCRIPTION OF THE PROGRAM

A. Objectives

- 2.1 The purpose of this operation is to establish an effective model for comprehensive implementation of the ERRP that is proven and suitable for sustainable replication in the country.
- 2.2 This objective addresses the country's lack of coordinated, focused multisector action and the need to formulate comprehensive plans to combat poverty.
- 2.3 The support provided through this operation will take the form of pilot projects in some eight *municipios* with high and severe levels of poverty. Financing will be provided for comprehensive plans with a multisector focus.

B. Program components

- 2.4 Financing will be provided for four components: (i) institutional strengthening; (ii) pilot projects; (iii) communication and public participation and evaluation; and (iv) system for monitoring and evaluating implementation of the ERRP.

1. Institutional strengthening (US\$1.3 million)

- 2.5 The purpose of this component is to provide technical assistance resources to central and local authorities, strengthening their institutional capacity to perform their mandated activities. The general criterion is that the activities must form part of a strengthening program, directly related to implementation of the ERRP in the selected *municipios*. Financing will be provided under this component for consultancies, training, studies, and equipment.
- 2.6 At the central level, ministries may request program resources for technical assistance projects or incentives (such as training) to support the development of good practices and contribute to implementation of the ERRP. The program will strengthen innovative initiatives or structures conducive to interinstitutional, focused work, and will encourage change in the existing structures.
- 2.7 At the local level, the program will finance consultancies required by the *municipios* to implement the annual work plans with multisector investments and other forms of technical assistance consistent with the strategy.

2. Pilot projects (US\$5.7 million)

- 2.8 There are 151 *municipios* in the country, 65 of which have been classified as having high or severe levels of poverty. A small number of these *municipios* (8) will be selected for pilot projects entailing a comprehensive plan of multisector investments.

- 2.9 Financing will be provided under this component for specific projects that have proven to be successful in one of the four target areas of the ERRP: economic growth, human capital, social protection, and governance. The aim is to support projects and programs that form part of a comprehensive plan but lack financial resources, or have not been implemented in extremely poor municipalities because of design or institutional rigidities.
- 2.10 Such projects must have the following characteristics: they must have been coordinated between sector institutions and form part of a comprehensive plan within a specific geographic area; they must be consistent with the poverty reduction strategy; their environmental impact must have been analyzed and preventive or mitigating measures taken; and their social impact must be reflected in indicators chosen for the purpose of monitoring each project within the overall plan.
- 2.11 Accordingly, the expanded FSS (FSS-A) will be used as a vehicle for channeling resources and financing activities in pursuit of the goals established in the ERRP.
- 2.12 Within this framework, the menu of possible programs, projects, and activities that could be financed by this operation is described below:
- 2.13 **Economic growth.** An important aspect of the first pillar of the ERRP is integration of the rural economy. Program resources could be used, for instance, to finance such infrastructure as small-scale irrigation systems, paved walking paths, local road rehabilitation, small supply and marketing facilities, the rehabilitation of production units; technical assistance and training to transfer production and environmental management technologies; and cottage industries, such as "patio production" and nonfarm activities.
- 2.14 **Investments in human capital for the poor.** These investments would be designed to improve access to, and the quality of, health care and education, with a view ultimately to improving the productivity, income, and well-being of the beneficiary population. Such investments would target, *inter alia*, activities to improve basic education and broaden its coverage, such as providing transportation, building and equipping classrooms, purchasing textbooks and materials, and hiring teachers.³
- 2.15 The resources could also be used for primary-level preventive health care, child nutrition, and greater access to reproductive services. Such financing could be applied, *inter alia*, to purchasing medicine, vaccines, and materials for immunization programs; building, equipping, rehabilitating, and expanding medical posts; installing septic tanks; training health care personnel and volunteers in

³ The use of program resources for the payment of salaries would be limited to incremental hiring, with a commitment from the government to assume the related recurring costs following completion of the program, as stipulated in paragraph 2.12 (c) of the Eighth Replenishment document (AB-1704).

epidemiological monitoring, and revising standards; hiring medical personnel; etc. Where necessary, these investments would be supplemented by the provision of water and sanitation services.

- 2.16 **Protection for vulnerable groups.** Among the poor, there are particularly vulnerable groups, such as children in extremely poor households who must work, women exposed to domestic violence, the elderly, and the disabled. Program resources can be used for the construction and rehabilitation of infrastructure, technical assistance, and materials for campaigns to prevent family violence, provide training, hire personnel for social assistance, purchase equipment for shelters, cover publicity costs, etc.
- 2.17 **Governance.** Financing will be provided to strengthen *municipios* through technical assistance to increase their capacity, *inter alia*, for accountability and more transparent hiring processes.

3. Communication and public participation and evaluation (US\$1 million)

- 2.18 Representing civil society, CONPES will participate in the ERRP implementation process with responsibilities for social evaluation both at the national level and the local level, where the pilot projects will take place. CONPES will also act as facilitator to identify opportunities for public participation and potential participants in that process at the local level.
- 2.19 To perform the social audit for this operation, CONPES will require a technical team—assigned to the Executive Secretariat—to structure and execute its activities. Program resources will be used to support the establishment of a unit and provide it with basic technical and support personnel, by way of consultancies, as well as equipment and vehicles for the field work.
- 2.20 The activities included in the social communication work are designed to support the preparation, consultation, and acceptance of the ERRP principles by the *municipios* and to address their needs in the processes of decision-making, implementation, and monitoring, within the framework of established institutions and processes. Information will be disseminated on the development of monitoring and evaluation mechanisms and processes with public participation, particularly from poor population segments or ERRP beneficiaries. Information will also be communicated on the results of these processes.
- 2.21 Financing will be provided under this component, *inter alia*, for consultancies, to design the methodology and organization of the consultation workshops with local governments; the production of support materials for these activities; equipment; and vehicles.

4. System for monitoring and evaluating implementation of the ERRP (SIG-ERRP, US\$600,000)

- 2.22 The purpose of this component is to mitigate the management information limitations within which the ERRP must be implemented, and to move forward in formalizing a monitoring and evaluation system to measure progress in fulfilling the commitments agreed to under the ERRP.
- 2.23 The SETEC, in cooperation with the appropriate agencies, will evaluate poverty trends and assess performance of the strategy implementation process based on the established objectives and indicators. SETEC will also supervise and evaluate ERRP programs selected for their potential impact on poverty indicators, and especially those of the Supplemental Social Fund in connection with HIPC.
- 2.24 On a routine basis, this system will record physical and financial progress and, at appropriate intervals, progress relative to the result indicators. The basis used for designing and operating the system will be the structures and procedures of the National Public Investment System (SNIP) and the Management Information System of the Supplemental Social Fund (SIG-FSS).
- 2.25 Routine operations under SIG-ERRP will be carried out by the relevant ministries and the Strategy Coordinating Unit (see Chapter III), which will administer the SIG-ERRP and will be responsible for producing the necessary reports. Financing will be provided under this component for institutional strengthening—including consultancies, equipment, workshops, seminars, materials, and publications—in order to develop the ERRP evaluation mechanism and disseminate information on the results. The logical framework annexed to this document provides the indicators that will be used in evaluating the ERRP implementation process.

C. Cost and financing

- 2.26 The cost of the program has been estimated at US\$11.1 million. The Bank financing, equivalent to US\$10 million, will be drawn from the Fund for Special Operations (FSO). Since this operation is designed to fight poverty, the Government of Nicaragua has requested financing for another 10%. This would bring the Bank's participation to 90% of the total cost of the program. The local counterpart funds, equivalent to US\$1.1 million, will be provided by the central government.

Cost Table (US\$ thousands)

Categories	IDB	Local	Total	%
1. Institutional strengthening	1,300		1,300	12.0
1.1 Consulting services	700		700	
1.2 Equipment and materials	225	0	225	
1.3 Training services	375	0	375	
2. Pilot projects	5,650	498	6,148	55.0
2.1 Preinvestment	600		600	
2.2 Works	3,600	250	3,850	
2.3 Goods and services	1,450	248	1,698	
3. Communication and public participation and evaluation	1,040	120	1,160	11.0
3.1 Consulting services	410		410	
3.2 Equipment and materials	220		220	
3.3 Training services	410	120	530	
4. System for monitoring and evaluating implementation of the ERRP	580		580	5.0
4.1 Consulting services	480		480	
4.2 Equipment and materials	100		100	
5. Program administration	550	445	995	9.0
5.1 External audit	150		150	
5.2 Operating expenses	400	445	845	
Subtotal	9,120	1,063	10,183	92.0
6. Contingencies	555	0	555	5.0
Subtotal for program	9,675	1,063	10,738	97.0
7. Financial costs	325	37	362	3.0
7.1 Interest	225		225	
7.2 Inspection and monitoring	100	0	100	
7.3 Commitment fee	0	37	37	
Total for program	10,000	1,100	11,100	100.0
Percentages	90.0	10.0	100.0	

2.27 The terms and conditions for the proposed operation are as follows:

Source of financing	FSO
	Foreign exchange
Terms	
Amortization period:	40 years
Grace period:	10 years
Commitment period:	30 months
Disbursement period:	36 months
Interest rate	1% the first 10 years 2% thereafter
Supervision	1%
Credit fee	0.5% of outstanding balance annually

III. PROGRAM EXECUTION

A. The borrower and executing agency

- 3.1 The borrower is the Republic of Nicaragua. The executing agency is the Technical Secretariat of the Office of the President (SETEC). The managing body for the program will be the Coordinating Council (CC), which will receive support from the Strategy Coordinating Unit (UCE), the executive body.
- 3.2 At the local level, there will also be a consultative body in each of the *municipios* selected for pilot projects: the Local Councils (CLs). The CLs will carry out the process of consultation on and acceptance of the comprehensive work plans for their respective *municipios*.

B. Execution framework

- 3.3 The line ministries have been implementing ERRP programs and projects on an independent basis. As an alternative to this arrangement, implementation of the strategy would be centered upon the integrated implementation mechanism proposed for this program. This mechanism takes advantage of the existing structures and creates incentives for vertical and horizontal coordination between institutions.
- 3.4 The project will be executed within the current organizational structure of SETEC, through the UCE, taking advantage of existing units whose administrative responsibilities are directly related to coordination of the ERRP.
- 3.5 In conducting the program activities, the UCE will receive support from the Ministries of Agriculture, Education, and Health, through the technical committees, established within the framework of the FSS-A. Overall responsibility for execution of this program will rest with the UCE. These ministries, FISE, and IDR can act as coexecuting agencies for the investment component. Other institutions may participate in the program as coexecuting agencies if a role for them in implementing the strategy can be identified and if they meet the requisites set forth in the execution agreements to be signed with SETEC.
- 3.6 SETEC and the coexecuting agencies must sign agreements specifying their responsibilities in maintaining a financial management and accounting system. There must also be an indication as to the internal controls to be exercised in respect of: (a) the management of program resources in specific bank accounts for Bank resources on the one hand and the counterpart resources on the other; (b) separate record-keeping for the program; (c) the UCE accounting system; and (d) the original documentation to be kept on file to justify eligible expenditures for the program on a separate basis.

- 3.7 The Bank financing resources will be deposited through the Central Bank in specific and separate SETEC bank accounts. SETEC will in turn transfer the resources to specific bank accounts maintained by the coexecuting agencies. The monetary counterpart resources must be deposited in specific and separate bank accounts to be maintained for the program.
- 3.8 Execution will be governed by the Program Operating Regulations (ROP), which will set forth the rules and procedures necessary to execute each of the components. The ROP will also specify the functions and obligations of the executing agency and other participating entities.
- 3.9 The ROP must have obtained the no objection of the Bank and establish: (i) specific eligibility criteria for the municipal pilot projects; (ii) the menu of eligible projects; (iii) criteria for the selection of projects and other activities eligible for program financing; and (iv) the criteria for technical analysis. The methodology for preparing and monitoring the comprehensive work plans for each pilot project will also be established.
- 3.10 The ROP will also specify the rules for use of program resources and will include: (i) the arrangements for transferring program resources to the coexecuting agencies; (ii) the requirement to open a specific bank account for the coexecuting agencies; (iii) criteria for the selection of consultants or consulting firms; (iv) the framework for financial management of the operation; (v) basic considerations in preparing the terms of reference for the consultancies to be obtained under contract; and (vi) as annexes to the ROP, draft interinstitutional agreements between SETEC and the institutions participating in the program, including the Ministries of Health, Education, and Agriculture, FISE, and the IDR.
- 3.11 **Presentation to the Bank of the final, approved ROP, with its annexes, will be a condition precedent to the first disbursement of the Bank financing.**

1. Central level

- 3.12 In implementing this project, maximum use will be made of the existing institutional structure. The necessary resources will be provided to institutions requiring institutional strengthening during the process of implementing the strategy.
- 3.13 The operation will use the FSS-A, which has been identified by the ERRP as the institutional and financial vehicle for conducting the integrated and targeted sector work required for this kind of strategy.
- 3.14 This operation will be conducted by two bodies within the current FSS structure—the Coordinating Council and the Technical Sector Committees. A third body will be established for the specific purposes of the program: the UCE.

(i) The Coordinating Council (CC)

- 3.15 The Coordinating Council of the FSS will be the central regulatory and coordinating agency. This Council – currently composed of the Ministers of Health, Education, and Finance; a representative of the donor community; and the Technical Secretary of the Office of the President, who coordinates the Council—will be expanded to include the Minister of Agriculture and Forestry and a representative of CONPES, which in turn represents civil society.
- 3.16 The Technical Committees (CTs) are the technical arm of the CC and are currently composed of technical teams from the ministries. In executing the program, the CTs would be expanded to include technical representatives from the entities that comprise the FSS-A. Their main function is to monitor the implementation of projects approved by the CC. The CTs have already been working closely with SETEC in implementing the ERRP and the programs that have been designed within the framework of the FSS.

(ii) The Strategy Coordinating Unit (UCE)

- 3.17 The UCE will be responsible for administering and coordinating Program execution. Its technical functions will be as follows: (i) preparation of the comprehensive annual work plans in each of the pilot *municipios*; (ii) the coordination of projects with their various sources of resources; (iii) the determination of activities that can be financed with program resources; and (iv) the coordination of monitoring and evaluation activities, communication, and institutional strengthening. The UCE will submit the comprehensive plans for the pilot *municipios* for final approval by the CC.
- 3.18 The UCE will also have the following administrative and financial functions:
- i. opening and maintaining specific and separate bank accounts for the Bank and local counterpart financing resources;
 - ii. designing an accounting system to be applied at the coexecuting agency level and consolidated at the UCE level, to identify sources and uses of project resources, as well as documentation justifying eligible expenditures on a separate basis from other activities executed by the institutions participating in the program. The system should permit orderly and detailed record-keeping and the use of resources by each participating coexecuting agency, allow for consolidated records to be kept at the UCE level, and permit the timely preparation of financial reports requested by the Bank (the semiannual report on the revolving fund and the audited annual financial statements) and justifications for the use of program resources, accompanied by supporting documentation.

- iii. coordinating program execution activities with the Bank and giving timely responses to pertinent Bank requests;
 - iv. managing and obtaining the counterpart resources and processing requests for disbursements of the financing in accordance with Bank procedures (including establishment and periodical replenishment of the revolving fund).
 - v. keeping proper records of supporting documentation for the disbursement requests submitted to the Bank;
 - vi. procuring the goods and services specified for program execution in accordance with procedures indicated by the Bank;
 - vii. submitting to the Bank, for its no objection, the three-candidate lists and/or proposed short lists of consulting firms or individual consultants, as well as the terms of reference, activity timetable, and estimated cost for each case;
 - viii. preparing the required financial statements on the program and selecting the audit firm that will conduct the concurrent audit, including the annual audit of program financial statements.
- 3.19 The UCE will be composed of: (i) the General Manager and at least three officials to be responsible for technical, administrative, and financial coordination and the evaluation and monitoring required under the program; and (ii) one delegate for each of the technical committee in the ministries of agriculture, education, and health.
- 3.20 The UCE may use resources from the loan to hire three long-term consultants. Financing will also be provided for two accountants and such consultants as may be necessary to support local monitoring. These latter consultants, approximately three persons, will likely be necessary to support the technical, administrative, and financial activities and supervise the work performed by the coexecuting agencies in executing the program.
- 3.21 **Prior to the first disbursement, the UCE must have been set up. Its General Manager (with no objection from the Bank), three professionals to perform the work indicated in paragraph 3.19, and a delegate from each of the ministries participating in the FSS-A must have been designated. Changes in the General Manager position will be subject to the no objection of the Bank.**

2. Local level

- 3.22 The CLs will be set up as consultative and monitoring bodies for the comprehensive municipal pilot projects and will be based on the existing local structures. The CLs will be composed of representatives from the municipal government, the ministries of education and health, the business sector, and civil

society. Efforts should be made to ensure that the composition of the CLs reflects an appropriate gender balance. Each *municipio* can define the structure of its CL so as to make maximum use of existing institutional capacity.

- 3.23 The CL's will be responsible for the process of gaining acceptance of the ERRP and related work plans through consultations and dialogue with civil society, with financing from program resources.

3. Other participating entities

- 3.24 The Social Protection Network, the Ministry of Family Affairs (MIFAM), and other executing agencies for programs financed from various sources can be gradually involved in the national ERRP implementation effort. The FISE and the IDR, among others, will support the infrastructure work included in the program, and the Nicaraguan Institute for Municipal Development (INIFOM) can assume responsibility for local institutional strengthening. Participation in program execution can be extended to qualified entities generally, including private- and public-sector entities as well as nonprofit organizations.

4. Eligibility

- 3.25 The ROP will establish eligibility criteria for the municipal pilot projects and for the specific projects included in the comprehensive plan for the pilot project *municipios*.
- 3.26 The eligibility criteria for the *municipios* include: (i) they must fall within the category of extreme and severe poverty according to the poverty map; (ii) they must demonstrate their desire to participate in a pilot project by, *inter alia*, setting up their CL and gaining acceptance for the comprehensive plan from the CL; and (iii) they must demonstrate the viability of executing the comprehensive plan.
- 3.27 The fundamental principles for the selection of projects are as follows: (i) the projects to be financed must be consistent with the ERRP and must be sustainable; (ii) the projects must form part of a comprehensive investment plan supported by counterparts from the central and municipal governments; and (iii) the execution must be consistent with Bank rules and procedures.
- 3.28 The comprehensive work plan must include: (i) the projects to be executed, their cost, and the plan for their execution; (ii) an annual disbursement timetable; (iii) indicators based on baseline data and annual targets; and (iv) an institutional strengthening plan.

5. The process for preparing the comprehensive work plans

- 3.29 The UCE will be responsible for coordinating formulation of the comprehensive work plan for each municipal pilot project. The first step will be to prepare the diagnostic assessment of poverty in the *municipio*, applying methodology

consistent with the Living Standards Measurement Study (LSMS) in order to ensure consistency with the ERRP diagnostic assessment.

- 3.30 Using loan resources, the UCE can hire short-term local and international consultants to provide support for the analysis in areas lacking the necessary technical capacity. On that basis, the UCE will prepare a comprehensive work plan to be validated by the CL. The final work plan for each *municipio*, agreed upon with the Bank, will be submitted to the CC for final approval.

C. Monitoring and evaluation

- 3.31 The monitoring and evaluation system will gauge program performance at various stages through a series of measurements to be organized as follows: (i) the baseline situation; (ii) mid-term evaluation, to be conducted, at the latest, after 15 months of program execution, reckoned from the effective date of the contract; and (iii) evaluation of program impact, to be conducted within three months after completion of the program. Assessment of the baseline situation and the subsequent evaluations will be carried out within the beneficiary *municipios* as well as in a control group (non-beneficiary *municipios* with similar degrees of poverty). Based on these evaluations, it will be determined whether the project's feasibility has been demonstrated and its expansion is therefore justified.
- 3.32 The first step in monitoring and evaluating the program is to establish the baseline for the main indicators for comparison with measurements taken of those indicators at the time of the mid-term evaluation (15 months after the start of the program) and the final evaluation (30 months after the start of the program). **Establishment, to the Bank's satisfaction, of the baseline and the method and framework for evaluation previously agreed upon with the Bank will be a condition precedent to disbursement of the resources for the pilot project component.**
- 3.33 The purpose of the mid-term evaluation is to determine whether the institutional mechanism established for implementation of the ERRP is functioning properly. Another purpose is to determine whether the programs assigned priority under the ERRP have undergone any early changes in terms of quality and coverage.
- 3.34 **Final evaluation.** The final evaluation will be designed to determine whether the specific purpose of the program has been accomplished and to establish an effective model for comprehensive implementation of the ERRP that has been tested and is ready for sustainable replication throughout the country.
- 3.35 To this end, an analysis will be conducted in which the *municipios* participating in the program will be compared with a group composed of *municipios* with identical characteristics in terms of level of poverty and institutional capacity.
- 3.36 The evaluation will be designed to determine whether the institutional structure proposed is more effective than the current structure for the purposes of reducing poverty, based on the indicators selected for monitoring. These indicators are

indicated in the Logical Framework for the program and explained in greater detail in the ROP.

D. Other aspects of execution

1. Disbursement timetable

- 3.37 The program disbursement timetable during the execution period, by source of financing, is as follows:

Source of financing	Year 1	Year 2	Year 3	Total	%
IDB	3.5	5.5	1.0	10.0	90.0
Local	0.1	0.9	0.1	1.1	10.0
Total	3.6	6.4	1.1	11.1	100.0

2. Procurement of works, goods, services, and consulting services

- 3.38 International bidding will be conducted for program construction works in amounts exceeding US\$1 million. Goods and consulting services will be procured in accordance with Bank policies and procedures, which will be incorporated as annexes to the loan contract. International competitive bidding will be required for the procurement of related goods and services in excess of US\$250,000, and consulting services in excess of US\$200,000. The bidding notices are to be published in *Development Business*.
- 3.39 The procurement of related goods and services in amounts below those indicated above will be subject to the following procedures: (i) local competitive bidding for amounts between US\$100,000 and US\$250,000; (ii) local restricted calls for proposals for procurements in amounts between US\$5,000 and US\$100,000; and (iii) direct contracting for procurements of less than US\$5,000.
- 3.40 The procurement of consulting services for amounts of less than US\$200,000 will be subject to the following procedures: (i) local competitive bidding for services between US\$50,000 and US\$200,000; and (ii) local restrictive calls for proposals for services of less than US\$50,000.

3. Local Contribution

- 3.41 Financing for activities included in the comprehensive work plan of a *municipio* using counterpart resources will be considered as part of the local contribution.

4. Audits

- 3.42 The program will hire an international auditing firm to conduct a concurrent audit in accordance with terms of reference approved by the Bank. This audit will consist of: (i) evaluation of the administrative, financial, and accounting system to

be adopted by the executing and coexecuting agencies; (ii) evaluation of internal controls; (iii) examination of the documentation related to the process for procuring goods and consulting services; (iv) inspection of works on the basis of statistical sampling agreed upon with the Bank; (v) certification of the semiannual reports on the use of the revolving fund and on the supporting documentation for disbursement requests; and (vi) an annual financial audit of the program. The cost of this audit will be covered with resources from the financing.

5. Revolving Fund

- 3.43 A revolving fund in an amount of up to 5% of the financing (equivalent to US\$500,000) will be established to provide the liquidity necessary for physical execution of the operation.

6. Supervision

- 3.44 Program execution will be supervised by the Country Office in Nicaragua. SO2 will provide support to COF/CNI on technical matters requiring its attention. Given the importance of continuous program monitoring, SO2 and COF/CNI will coordinate in jointly reviewing progress and accomplishments within the program. COF/CNI is expected to require a full-time professional to monitor the operation. SO2 is expected to require additional support in the form of eight professional-weeks per year during project execution.

IV. FEASIBILITY, BENEFITS, AND RISKS

A. Institutional and financial feasibility

- 4.1 The objective of the project is to test an effective model for full-scale implementation of the ERRP. The institutional structure for this model will be based on existing structures. This approach is expected to minimize the institutional risks entailed in program implementation.
- 4.2 One of the conditions for this program is that the financing will serve as a vehicle for intersector and integrated work. The program funds will be used to cofinance a comprehensive plan, for which resources are being provided by the central and local governments and other sources. This is an indication that the ministries are committed and that local governments will ensure the project's sustainability.

B. Poverty-targeting and social sector classification

- 4.3 Explicit indicators are specified for project performance to measure poverty reduction and improvement in social equity (see Annex I). The justification for PTI classification is geographic.

C. Environmental impact

- 4.4 The works to be financed by the program are expected to be small in scale and therefore without major environmental impact. Agencies such as the FISE and the IDR, however, execute programs financed by the Bank and therefore have protocols established to analyze environmental impact. Adherence to the protocols will be required in implementing the program.

D. Benefits

- 4.5 The project will make it possible to determine whether the institutional modality proposed – based on integrated, coordinated, and targeted implementation – represents the most effective means of combating poverty. If it does, the Government of Nicaragua would then seek to replicate it systematically.
- 4.6 As part of program implementation, an evaluation and monitoring mechanism will be established on the basis of indicators and targets, permitting progress in program implementation to be evaluated and promote a culture of good performance while facilitating the social audit.

E. Risks

- 4.7 Since this operation will introduce a new execution mechanism, one risk is that the next administration may not continue to implement it on a priority basis. To mitigate this risk, it was necessary to gain the support of civil society for the

program. Accordingly, CONPES has been consulted and informed on the components to be financed through this operation, and has given its support to the preparations. In addition, ERRP was developed in consultation with civil society and the international community to make the country eligible under the HIPC initiative. This represents a commitment undertaken not only by the current administration but by the country. It is therefore expected that the next administration will also give high-priority to this program, which is designed to implement the strategy.

- 4.8 The institutional capacity limitations are serious and the possibility for coordinated activities by the deconcentrated and decentralized units of the line ministries is unknown. This risk is mitigated, however, by the institutional design proposed for this program, which is based on a flexible implementation plan.

LOGICAL FRAMEWORK
PROGRAM TO SUPPORT IMPLEMENTATION OF THE POVERTY REDUCTION STRATEGY
(NI-0140)

BRIEF SUMMARY	INDICATORS	MEANS OF VERIFICATION	MEANS OF VERIFICATION
To fulfill the objectives and the ERRP	1.1 Impact indicators (maternal/infant mortality, etc.) in at least six extremely or severely poor <i>municipios</i> , three years after project startup. 1.2 Impact indicators in 2005 in x <i>municipios</i> .	1.1.1 Statistics from the ministries. 1.1.2 UNICEF. 1.1.3 UNESCO, UNDP, etc. 1.2.1 Idem.	Sustainability
Model for comprehensive implementation of the ERRP tested and replicated nationally on a pilot basis	Process indicators: 1.1 X% increase in social spending effectively targeted (geographically and by beneficiaries). 1.2 At least six comprehensive plans formulated, approved, and executed. 1.3 At least 10 <i>municipios</i> expressing the desire and having plans to replicate the model by the end of the program Impact indicators: 1.4 Annual increase of x.x% in net primary school enrollment in at least six <i>municipios</i> . 1.5 x.x% of children under one year of age covered by the vaccination plan by the end of the program. 1.6 x.x% annual increase in prenatal care and in at least six <i>municipios</i> . 1.7 institutional coverage for childbirth increased by x.x% by the end of the program in the project <i>municipios</i> . 1.8 x.x% annual increase in water and sanitation coverage in at least six <i>municipios</i> .	1.1.1 Monitoring and evaluation system. 1.2.1 Monitoring and evaluation system. 1.3.1 Monitoring and evaluation system. 1.4.1 MECJD system. 1.5.1 MINSA system. 1.6.1 Idem. 1.7.1 Idem. 1.8.1 Monitoring and evaluation system.	1. GoN committed to national replication of the model (moderate risk). 2. Resources will be available for national replication of the model (moderate risk). 3. The ERRP premise of sustained annual growth proves correct (high-risk). 4. A climate of democracy, transparency, and good governance prevails (moderate risk). 5. Timely approval of the model in the proper form (moderate risk).

BRIEF SUMMARY	INDICATORS	MEANS OF VERIFICATION	MEANS OF VERIFICATION
Community strengthening and executed.	1.1 Management information system based on ERRP implementation needs designed and operating by the end of the first year. 1.2 Program operational framework, including the interinstitutional coordination mechanisms, operating by the end of the first quarter of the program. 1.3 Local stakeholders (number to be determined) trained in areas relevant to design of the comprehensive plan, by the end of the first semester. 1.4 Additional training plans identified each year.	1.1.1 User satisfaction survey. 1.1.2 Documentation produced by the SIG. 1.2.1 Workshops in six municipios to launch the operating framework for implementation. 1.3.1 List of participants. 1.4.1 List of participants.	1. At least 70% of the training participants apply the program (moderate risk). 2. The next administrative cycle the program and give priority (high-risk). 3. Lessons learned are applied in the various program projects (moderate risk).
Project executed as part of comprehensive programs.	2.1 At least one project in the contagious disease program executed in the each participating municipios by the end of the program. 2.2 At least one project under the sexual and reproductive health program executed in each participating municipio by the end of the program. 2.3 At least one project to expand the coverage of basic education executed in each participating municipio by the end of the program. 2.4 At least one functional literacy and adult education project executed in each municipio by the end of the program. 2.5 At least one project under the hygiene, infrastructure, and environmental sanitation program executed in each participating municipio by the end of the program. 2.6 At least one project under the community nutritional health program executed in each participating municipio by the end of the program.	2.1.1 Visits in the field. 2.1.2 Monitoring and evaluation system. 2.2.1 Visits in the field. 2.2.2 Monitoring and evaluation system. 2.3.1 Visits in the field. 2.3.2 Monitoring and evaluation system. 2.3.3 Project delivery documentation. 2.4.1 Monitoring and evaluation system. 2.5.1 Idem. 2.6.1 Idem	
Planning of public participation, evaluation, and information designed and	3.1 In at least six municipios, priority ERRP stakeholders represented as participants in the project cycle by the end of the first year.	3.1.1 Interviews. 3.1.2 Focus groups.	

BRIEF SUMMARY	INDICATORS	MEANS OF VERIFICATION	MEANS OF VERIFICATION
	<p>3.2 At least x.x% of the population is aware of the ERRP, its objectives, and methods of action, and consider it a national priority by the end of the first year of the program.</p> <p>3.3 Process for validating the selection of beneficiaries by the community implemented in at least six communities by the sixth month of the program (designed in the first quarter and operating by the sixth month).</p> <p>3.4 Lessons learned in the monitoring and evaluation process disseminated annually.</p>	<p>3.2.1 Focus groups and/or surveys.</p> <p>3.3.1 Results of the workshops in six municipios.</p> <p>3.4.1 Annual workshop with the involvement of the municipios presented its.</p> <p>3.4.2 Brochures on lessons learned disseminated in the other municipios on a semiannual basis.</p>	
Monitoring and evaluation system designed and operating.	<p>4.1 Monitoring and evaluation system for the implementation support program (including all components), events, stakeholders, participants, and the products of each event, designed and operating by the sixth month of the program.</p> <p>4.2 System of indicators (results, processes, and structures) operating at all levels by the third month of the program.</p> <p>4.3 Baseline for the participating communities completed in the first quarter following the selection of municipios, and updated annually.</p> <p>4.4 Monitoring reports for the implementation support program produced and disseminated semiannually following the sixth month of the program.</p>	<p>4.1.1 Monitoring and evaluation documentation in six municipios.</p> <p>4.1.2 Participatory monitoring and evaluation workshops in each municipio.</p> <p>4.2.1 Progress reports produced by the system.</p> <p>4.3.1 Baseline documentation.</p> <p>4.4.1 Monitoring and evaluation report.</p>	
Allocation strategy designed and implemented.	<p>5.1 At least one awareness-heightening workshop held with municipal authorities during the first year in participating municipios.</p> <p>5.2 Existing portfolios reviewed as the basis for reallocating resources, in the first quarter.</p>	<p>5.1.1 List of participants.</p> <p>5.2.1 Document containing proposals for the reallocation of resources presented by the third month of the project and approved by authorities.</p>	

PROCUREMENT PLAN
NICARAGUA
PROGRAM TO SUPPORT IMPLEMENTATION OF THE POVERTY REDUCTION STRATEGY
(NI-0140)

Major Procurements	Financing	Procurement Method (in thousands)	Prequal.	SPN Expected publication date
1. Program execution				
Consulting services US\$1.6 million	100% IDB	ICB over US\$200 LCB from US\$50 to US\$200 RB under US\$50	No	
Goods and services US\$3.75 million	90% IDB 10% GoN	ICB over US\$250 LCB from US\$100 to US\$250 RB from US\$5 to US\$100 DC under US\$5	No	
Works US\$3.9 million	95% IDB 5% GoN	ICB over US\$1,000 LCB from US\$250 to US\$1,000 RB under US\$250	No	
2. Program administration				
Audit US\$150,000	100% IDB	ICB over US\$100 LCB under US\$100	No	
Consulting services US\$600,000	40% IDB 60% GoN	ICB over US\$200 LCB from US\$50 to US\$200 RB under US\$50	No	
Goods and services US\$245,000	100% IDB	ICB over US\$250 LCB from US\$100 to US\$250 RB from US\$5 to US\$100 DC under US\$5	No	N/A

ICB: International Competitive Bidding
LCB: Local Competitive Bidding
RB: Restricted Bidding
SPN: Specific Procurement Notice
DC: Direct Contracting

NICARAGUA. LOAN ____ /SF-NI TO THE REPUBLICA DE NICARAGUA
Program to Support the Implementation of the Poverty Reduction Strategy

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 program to support the implementation of the poverty reduction strategy. Such financing will be for the amount of up to US\$10,000,000, 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 the "Financial Terms and Conditions" of the Executive Summary of the Loan Proposal.