

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **NICARAGUA**

### **RURAL PRODUCTION REVITALIZATION PROGRAM**

**(NI-0159)**

### **LOAN PROPOSAL**

This document was prepared by the project team consisting of: Nancy Jesurun-Clements, Project Team Leader; George Alexandrou (RE2/EN2); Diego Buchara (LEG/OPR); Caroline Clarke (RE2/EN2); Jaime Cofré (COF/CNI); Anne-Marie Urban (SDS/WID); Hugo Villarroel (RE2/EN2); Eliana Smith (RE2/EN2); and Roger Pipe (Consultant).

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## ABBREVIATIONS

|          |   |
|----------|---|
| ADDR     | Agencia Departamental de Desarrollo Rural [Departmental Rural Development Agency]   |
| AOP      | Annual operating plan   |
| EMP      | Environmental management plan   |
| EMU      | Environmental management unit   |
| ERCERP   | Estrategia Reforzada de Crecimiento Económico y Reducción de la Pobreza [Enhanced Strategy for Economic Growth and Poverty Reduction] |
| FISE     | Fondo de Inversión Social de Emergencia [Emergency Social Investment Fund]  |
| GIS      | Geographic information system   |
| ICDF     | International Cooperation and Development Fund of Taipei China  |
| IDR      | Instituto de Desarrollo Rural [Institute of Rural Development]  |
| INIFOM   | Instituto de Fomento Municipal [Institute of Municipal Development]   |
| INTA     | Instituto Nicaragüense de Tecnología Agropecuaria [Nicaraguan Institute of Food and Agricultural Technology]                          |
| MAGFOR   | Ministerio Agropecuario y Forestal [Ministry of Agriculture and Forestry]   |
| MTI      | Ministerio de Transporte e Infraestructura [Ministry of Transportation and Infrastructure]  |
| NGO      | Nongovernmental organization  |
| PCU      | Project coordinating unit   |
| PNDR     | Programa Nacional de Desarrollo Rural [National Rural Development Program]  |
| PRPA     | Programa de Reactivación Productiva Agroalimentaria [Food and Agricultural Production Revitalization Program]                         |
| PTI      | Poverty-targeted investment   |
| RAAN     | Región Autónoma del Atlántico Norte [North Atlantic Autonomous Region]  |
| RAAS     | Región Autónoma del Atlántico Sur [South Atlantic Autonomous Region]  |
| SISPADRU | Sistema de Procedimientos Ambientales de Desarrollo Rural [System of Environmental Procedures for Rural Development]                  |



## NICARAGUA

### IDB LOANS

APPROVED AS OF JULY 31, 2002

|                                       | <i>US\$Thousand</i> | <i>Percent</i> |
|---------------------------------------|---------------------|----------------|
| <b>TOTAL APPROVED</b>                 | <b>1,864,868</b>    |                |
| DISBURSED                             | 1,414,501           | 75.8%          |
| UNDISBURSED BALANCE                   | 450,367             | 24.2%          |
| CANCELLATIONS                         | 40,615              | 2.2%           |
| PRINCIPAL COLLECTED                   | 333,752             | 17.9%          |
| <b>APPROVED BY FUND</b>               |                     |                |
| ORDINARY CAPITAL                      | 255,067             | 13.7%          |
| FUND FOR SPECIAL OPERATIONS           | 1,542,948           | 82.7%          |
| OTHER FUNDS                           | 66,853              | 3.6%           |
| <b>OUTSTANDING DEBT BALANCE</b>       | <b>1,080,749</b>    |                |
| ORDINARY CAPITAL                      | 131,017             | 12.1%          |
| FUND FOR SPECIAL OPERATIONS           | 943,347             | 87.3%          |
| OTHER FUNDS                           | 6,385               | 0.6%           |
| <b>APPROVED BY SECTOR</b>             |                     |                |
| AGRICULTURE AND FISHERY               | 302,075             | 16.2%          |
| INDUSTRY, TOURISM, SCIENCE TECHNOLOGY | 78,183              | 4.2%           |
| ENERGY                                | 202,407             | 10.9%          |
| TRANSPORTATION AND COMMUNICATIONS     | 265,603             | 14.2%          |
| EDUCATION                             | 22,240              | 1.2%           |
| HEALTH AND SANITATION                 | 175,140             | 9.4%           |
| ENVIRONMENT                           | 64,201              | 3.4%           |
| URBAN DEVELOPMENT                     | 34,514              | 1.9%           |
| SOCIAL INVESTMENT AND MICROENTERPRISE | 232,945             | 12.5%          |
| REFORM PUBLIC SECTOR MODERNIZATION    | 456,536             | 24.5%          |
| EXPORT FINANCING                      | 1,826               | 0.1%           |
| PREINVESTMENT AND OTHER               | 29,197              | 1.6%           |

\* Net of cancellations with monetary adjustments and export financing loan collections



# NICARAGUA

## STATUS OF LOANS IN EXECUTION AS OF JULY 31, 2002

(Amounts in US\$ thousands)

| APPROVAL PERIOD | NUMBER OF PROJECTS | AMOUNT APPROVED  | AMOUNT DISBURSED | % DISBURSED   |
|-----------------|--------------------|------------------|------------------|---------------|
| Before 1996     | 1                  | 9,000            | 8,570            | 95.22%        |
| 1996 - 1997     | 4                  | 120,300          | 102,543          | 85.24%        |
| 1998 - 1999     | 10                 | 253,940          | 120,603          | 47.49%        |
| 2000 - 2001     | 17                 | 307,617          | 16,712           | 5.43%         |
| 2002            | 1                  | 5,400            | 0                | 0.00%         |
| <b>TOTAL</b>    | <b>33</b>          | <b>\$696,257</b> | <b>\$248,427</b> | <b>35.68%</b> |

\* Net of Cancellations . Excluding export financing loans.



IDB

Inter-American Development Bank  
Regional Operations Support Office  
Operational Information Unit

## Nicaragua

### Tentative Lending Program

#### 2002

| Project Number          | Project Name                                     | IDB US\$ Millions | Status   |
|-------------------------|--|-------------------|----------|
| NI0160                  | Modernization Strengthening General Comptrollers | 5.4               | APPROVED |
| NI0161                  | Social Safety Net Stage II                       | 20.0              |          |
| NI0064                  | Low-Income Housing Program                       | 22.0              |          |
| NI0159                  | Rural Production Reactivation Program (PRPR)     | 60.0              |          |
| NI0169                  | Social Sectoral Project                          | 30.0              |          |
| NI0165                  | Commercial Negotiations Capacity Strengthening   | 5.0               |          |
| Total - A : 6 Projects  |  | 142.4             |          |
| TOTAL 2002 : 6 Projects |  | 142.4             |          |

#### 2003

| Project Number                    | Project Name  | IDB US\$ Millions | Status |
|-----------------------------------|---|-------------------|--------|
| NI0167                            | Multisectoral Global Program                          | 30.0              |        |
| NI0155                            | Slum upgrading program                                | 20.0              |        |
| NI0170                            | Road Integration Program PPP                          | 30.0              |        |
| NI0110                            | Education II  | 25.0              |        |
| NI0172                            | Fiscal Modernization & Competitiveness Sector Program | 30.0              |        |
| NI0173                            | Pre-Investment Program                                | 5.0               |        |
| Total - A : 6 Projects            |   | 140.0             |        |
| NI0168                            | Citizenship Security Prog.                            | 25.0              |        |
| NI0152                            | Masaya Basin and Municipality Env Prog                | 19.0              |        |
| Total - B : 2 Projects            |   | 44.0              |        |
| TOTAL - 2003 : 8 Projects         |   | 184.0             |        |
| Total Private Sector 2002 - 2003  |   | 0.0               |        |
| Total Regular Program 2002 - 2003 |   | 326.4             |        |

\* Private Sector Project



## RURAL PRODUCTION REVITALIZATION PROGRAM

(NI-0159)

### EXECUTIVE SUMMARY

|  |  |   |
|--|--|---|
| <b>Borrower:</b>                       | Republic of Nicaragua  |   |
| <b>Executing agency:</b>               | Instituto de Desarrollo Rural [Rural Development Institute] (IDR)  |   |
| <b>Amount and source:</b>              | IDB: (FSO)   | US\$60 million                              |
|  | Local:   | US\$ 8 million                              |
|  | Total:   | US\$68 million                              |
| <b>Financial terms and conditions:</b> | Amortization period:   | 40 years                                    |
|  | Grace period:  | 10 years                                    |
|  | Disbursement period:   | Minimum 3 years                             |
|  |  | Maximum 5 years                             |
|  | Inspection and supervision:  | 1%  |
|  | Credit fee:  | 0.5%  |
|  | Interest rate:   | 1% for the first 10 years and 2% thereafter |
| <b>Objectives:</b>                     | <p>The general objective of the program is to increase the incomes of low-income rural families in a sustainable manner. The specific objective of the project is to increase the productivity of agricultural activities, with a comprehensive vision of rural business, through the introduction of specialized technologies, technical and managerial training in product marketing, promotion of environmentally sustainable productive practices, investment in productive infrastructure, and reduction of the risk of damage from drought.</p>  |   |
| <b>Description:</b>                    | <p>The program has two components. <b>Component I: Rural productive investment</b> will provide nonreimbursable financing to support rural productive activity. This component is divided into three subcomponents: (i) projects to support competitiveness: comprehensive proposals of investment, technical assistance, and training required by an organized group of producers having sufficient productive potential to undertake a transformation in production, but lacking the basic support and minimum resources to realize that potential; (ii) productive infrastructure: Financing will be provided for projects that aim to restore production-related tertiary roads, training,</p> |   |

technical assistance, and the establishment of mechanisms to maintain the roads and works financed, the purpose of which is to improve the competitiveness of the rural economy; and (iii) promotion, support for participatory processes, and preinvestment: financing will be provided for promotion activities to ensure that potential beneficiaries have the information they need to access the program; municipal development committees will receive support in identifying and prioritizing projects, and for project feasibility studies. **Component II: Strengthening of the institutional framework for development of the rural economy.** This component supports the IDR through consulting and training activities to assist in its process of organizing and its financial accounting systems; the environmental management unit (EMU), expansion and modernization of the Sistema de Procedimientos Ambientales de Desarrollo Rural [System of Environmental Procedures for Rural Development] (SISPADRU), the environmental monitoring unit, and dissemination activities relating to environmental sustainability. The component also provides support for the Ministry of Agriculture and Forestry (MAGFOR) in (i) the preparation of a strategy and action plan for development of rural production; (ii) organizational study for agricultural development and the pricing system for forest products in the Región Autónoma del Atlántico Norte [North Atlantic Autonomous Region] (RAAN) and the Región Autónoma del Atlántico Sur [South Atlantic Autonomous Region] (RAAS); (iii) modernization of the price information system; (iv) management and reduction of the risk of drought-related damage; and (v) proposals for the development of mechanisms to supply rural financial services.

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

The program is consistent with the Bank's strategy for agrifood development (GN-2069-1) of January 2000, supporting the strengthening of human resources, rural infrastructure, and the management capacity of the public agricultural sector with a joint vision of the agrifood chain. The Bank's strategy for Nicaragua for 2000-2002 as contemplated in the programming memorandum (CP-1627-3) supports implementation of the Estrategia Reforzada de Crecimiento Económico y Reducción de la Pobreza [Enhanced Strategy for Economic Growth and Poverty Reduction] (ERCERP), which offers actions for rural areas and marketing and training programs. The program is also consistent with the objectives proposed in the new country strategy, which is now going through the approval process. Under that strategy, the Bank would support efforts to increase the competitiveness of Nicaragua's economy by promoting sustainable programs that boost investment and production, with high short-term economic returns (paragraph 1.24). The Bank has also proposed extending the coverage of projects to the autonomous coastal regions.

**Environmental and social review:**

The program will have a positive social impact as it is specifically intended to improve the quality of life and incomes of poor producers in rural areas. Indigenous producers and Latin American producers of African descent in the RAAN and the RAAS, where the greatest proportion of the country's poor live, will also benefit. The program will promote more active community participation in the entire project cycle, including women farmers, who generally did not benefit from the previous Bank-financed program. Likewise, the program will support strengthening of the processes of participation and decentralization at the municipal level.

The project's main environmental impacts could derive from the execution of Component 1: Rural productive investment. To ensure the adequate incorporation of environmental considerations in the financed projects, a strategy will be pursued to ensure environmental feasibility, based on the following elements: (i) adoption of an environmental analysis and monitoring procedure as part of the project cycle and the Operating Regulations, which ensures that each project is environmentally sustainable and takes the agroclimatic and geographic specifics of each region into consideration, including those in the RAAN and the RAAS; (ii) inclusion of environmental protection costs required according to the feasibility studies and environmental analysis of the projects as part of the project costs to be financed; and (iii) monitoring of environmental impacts based on clearly defined indicators with respect to a baseline. The EMU will receive technical support, and financing will be provided for the expansion and modernization of SISPADRU.

**Benefits:**

The program's direct beneficiaries will be poor producers with productive potential that will allow them to convert their productive patterns toward higher-value crops, but who lack the basic support and minimum resources to realize that potential. The poor rural population, which lacks minimum production resources. The program's direct beneficiaries will be poor producers with productive potential that will allow them to convert their productive patterns toward higher-value crops, but who lack the basic support and minimum resources to realize that potential., can benefit from the program as agricultural job opportunities open up as a result of support for productive activities. The economic benefits, in terms of increased productive activity, will be reflected in higher incomes, an improvement in the standards of living, and higher added value in production and commercial activity in the affected areas. Conditions will be introduced to stimulate a competitive market for providers of goods and services.

**Risks:**

The following risks are expected: (i) the resistance to change inherent in the traditional agricultural sector may hinder or delay the conversions on which the program's success depends. Promotion of elements with the potential for a high rate of return will be intensified in the initial stages, as a demonstration to producers who lack confidence in new concepts; (ii) the scant capacity of beneficiaries to maintain the investment places its long-term sustainability at risk. Financing requirements include the establishment of mechanisms for maintenance and assessments for services; (iii) the weak fiscal situation that Nicaragua is facing may limit the IDR's capacity to maintain its central structure. The organizational study will use efficiency criteria in designing the organization, to ensure that only the minimum necessary personnel is hired; and (iv) Nicaragua has been vulnerable to natural disasters such as droughts, which negatively impact agricultural productivity and project execution in rural areas. The program will focus less attention on highly vulnerable areas, and will address areas affected by cyclical droughts, with comprehensive prevention projects that strengthen resistance to drought. At the same time, the program supports MAGFOR's drought management strategy by strengthening its capacity to provide early warnings of such events.

**Special contractual clauses:**

- (a) The first disbursement of the Bank's financing is conditional upon the borrower's fulfillment of the following prerequisites: (i) that the program coordinating unit has been legally constituted (paragraph 3.4); (ii) that the project coordinator has been hired in accordance with terms of reference previously agreed upon by the borrower and the Bank (paragraph 3.4); and (iii) that evidence has been presented that the project's Operating Regulations, prepared in accordance with the terms agreed upon with the Bank, have entered into effect (paragraph 3.26);
- (b) In addition to the provisions of paragraph (a), the first disbursement for the financing for the subcomponent of Component 2, support for the rural economy development strategy, is conditional upon the submission of an agreement between the IDR and MAGFOR for execution of the subcomponent (paragraph 3.25);

**Special disbursement to initiate program activities:** Once the loan agreement is in effect and the borrower has fulfilled the general conditions precedent to the first disbursement specified in the general conditions of the loan agreement, the Bank may disburse up to the equivalent of US\$250,000 of the Bank's financing resources so that the borrower may initiate preparatory activities for the program (paragraph 3.34).

|  |   |
|--|---|
| <b>Poverty-targeting and social sector classification:</b> | 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). This operation also qualifies as a poverty-targeted investment (PTI) because it supports agricultural revitalization that benefits poor producers in rural areas (see paragraphs 1.4 and 2.6).   |
| <b>Exceptions to Bank policy:</b>                          | None.   |
| <b>Procurement:</b>  | Construction contracting, the procurement of goods and related services, and contracting for the consulting services required under the program will be handled in accordance with the Bank's procurement procedures and policies. International competitive bidding will be compulsory for construction works valued at the equivalent of US\$1 million or more, and for goods valued at the equivalent of US\$250,000 or more. Contracts below these thresholds will be governed in principle by local legislation. In the case of consulting services with contracts valued at more than US\$200,000. International competitive bidding will be used when the cost of hiring consulting firms is more than the equivalent of US\$200,000. Contracts below these thresholds for construction works, good and services, and consulting services, will be governed by local legislation provided that it is not contrary to Bank policy (paragraph 3.36). |

## **I. FRAME OF REFERENCE**

### **A. Socioeconomic and sector framework**

- 1.1 Traditionally, the agricultural and forestry sector in Nicaragua has been the basis for the country's economic growth. It generates over 30% of Nicaragua's GDP, accounts for 70% of exports, and is the main source of employment for the population in rural areas. Nicaragua's growth between 1994 and 2000 was supported mainly by revitalization of the agricultural sector, which grew at an annual average rate of 8.1% despite the adverse natural phenomena that affected the country during that period. These phenomena included the effects of El Niño and Hurricane Mitch, the state of devastation of the sector at the end of the war, and low international coffee prices in the past two years. Growth in this sector has also been a vital element in the effective fight against poverty. From 1994 to 1998, rural poverty decreased by 7.4 percentage points, and extreme rural poverty by nearly 10 points. Since early 2000, however, international agricultural commodity prices have been falling, particularly for coffee, Nicaragua's main agricultural export product. Consequently exports are down, and social and economic difficulties have resulted.
- 1.2 The sector's performance, however, has very significant implications for economic growth, the balance of trade, and the population's living conditions. Nonetheless, the factors that served as the basis for the sector's performance in the 1990s, such as the expansion of area under cultivation, favorable international prices, and a relatively inexpensive work force, are not sustainable in the long term. The sector's pattern of growth within the context of the rural economy as a whole has been analyzed extensively by the Bank, the government, and other multilateral and bilateral institutions, and consensus has been reached on the main areas that require support so as to guarantee competitive and sustainable growth: improvements in agricultural and forest productivity; a stable framework of incentive policies to strengthen the sector and mobilize private resources; development of fluid markets for goods and infrastructure that reduce transaction costs; development of a technology system in keeping with the agricultural and forest reality in Nicaragua; improvements in the farmland market and in property management; increase in access to financial resources for rural economic activity; improvements in work productivity; and organization and consistency in public spending in the sector.
- 1.3 With respect to the problems that affect this sector, the program focuses on aspects that limit agricultural and forest productivity. To make improvements in productivity, the main production-related problems must be solved: (i) the low level of technology; (ii) lack of information about productive alternatives; (iii) unsustainable use of land and natural resources; (iv) poor managerial and marketing capacity on the part of producers; (v) limited value added to primary products; (vi) productive infrastructure limited or in poor repair; and (vii) lack of an effective link to the markets.

- 1.4 Deficient productivity levels detract from the competitiveness of local production, worsening the poverty and stagnation of rural populations. Poverty in Nicaragua continues to be particularly severe in rural areas. In 1998, rural poverty was estimated at 70% and extreme rural poverty at 29%, while urban poverty stood at approximately 30%. Rural poverty also exhibits gender biases. In 2000, it was estimated that 28% of rural households and 33% of rural households in extreme poverty were headed by single women, a significant increase since 1995 when the figures were 20% and 18.5%, respectively. The indigenous and Afro-Latino groups that live mainly in the rural areas of the Atlantic Coast are among the poorest and most underserved in Nicaragua.
- 1.5 Historically Nicaragua has been very vulnerable to natural disasters such as droughts, hurricanes, and floods, and to international market conditions as is now the case with coffee, the country's main export item. These have had negative impacts on the rural economy. Land is used primarily for basic grain crops, without irrigation. Approximately 80% of the land under cultivation is used to produce corn, beans, and sorghum for on-farm consumption or the local market. Only 20% of the land under cultivation is used for exports. However, basic grains account for only about 30% of agricultural GDP, while export items represent approximately 50% of agricultural GDP. This limited diversification increases the sector's economic vulnerability.

## **B. Institutional framework of the sector**

- 1.6 The government's capacity to resolve the problems affecting the rural sector is limited by shortcomings in the institutional framework that serves the sector. With the support of the Bank and other organizations, over the past two years the Ministry of Agriculture and Forestry (MAGFOR) has been conducting a series of studies and participatory discussion workshops with a view to achieving a consensus among the government, the private sector, and financing organizations with regard to a general policy framework and the foundations of a plan to orient investment for rural development in Nicaragua which would make it possible to articulate and coordinate their actions with those of the Instituto de Desarrollo Rural [Institute of Rural Development] (IDR) and other governmental and nongovernmental organizations in the field. The sector needs a single strategic orientation and a stable flow of financial resources for public investment and for implementation of specific policies to boost the rural economy. The government intends to create this policy and to translate it into a plan oriented toward strategic action in rural economic development. The Bank will continue to support Nicaragua in this process under the new program, helping to establish adequate incentives to stimulate food and agricultural production.
- 1.7 Under the guidelines of MAGFOR's sector policy, the IDR is the public entity responsible for the execution, administration, and coordination of the financing of productive investments in rural areas. Its mission is to support the productive

development of small- and medium-scale producers in the rural sector. The institutional analysis undertaken at the IDR during program preparation acknowledges the agency's solid capacity to execute productive investment projects with producers, but identifies strategic shortcomings given the lack of a sectoral orientation set by the government and reflected in a specific action plan. This limitation is reflected in the minimal coordination of objectives among the different projects that it executes using various sources of financing. There is also a high rate of staff turnover owing to changes in political cycles, which results in technical instability and a short institutional memory.

### **C. Evaluation and lessons learned from previous stages**

- 1.8 The Bank has directly support the revitalization of agricultural production through two operations: (i) the Programa Nacional de Desarrollo Rural [National Rural Development Program] (PNDR) (927/SF-NI) in the amount of US\$33.4 million executed from 1995 to 1999; and (ii) the Programa de Reactivación Productiva Agroalimentaria [Food and Agricultural Production Revitalization Program] (PRPA) (1001/SF-NI) in the amount of US\$44.6 million, in execution since 1998, which will conclude in February 2003.
- 1.9 Under the PNDR, production support investments were carried out among small- and medium-scale producers in rural areas of four departments in central Nicaragua. The objective of the PNDR was to improve the quality of agricultural products, increase production and productivity and to generate institutional capacity to manage rural development. A midterm evaluation, the project completion report, and the ex post evaluation of 12 road rehabilitation projects and three technology projects will be available to study the outcomes of the PNDR. Upon completion of the PNDR nonreimbursable funding will have been provided for 278 productive projects benefiting approximately 125,000 families of small-scale producers in 39 municipios in Nicaragua. The heaviest demand was for production-related roads, accounting for 62% of investments, following by institutional development at 15%, and technology and natural resources at 14%.
- 1.10 Under the PNDR, an executing agency of the same name was put into operation, with a central headquarters and five regional offices. The agency began managing rural public investment by grouping together the various projects and programs that were in execution in an isolated manner under different public-sector agencies. In the program intervention areas, considerable increases were noted in the production of basic grains, corn (17%) and beans (340%), from 1995 to 1998, and of other products such as dairy products, vegetables and fruits. Work was generated for 87 private executing companies. Although specific data on changes in the standards of living of program beneficiaries is unavailable, the official measurement of poverty shows that the program intervention area experienced a decrease in rural poverty from 83% in 1993 to 70% in 1998.



- 1.11 The objective of the second program, the Programa de Reactivación Productiva Agroalimentaria [Food and Agricultural Production Revitalization Program] (PRPA), is to deepen and expand the achievements of the PNDR, contributing to the sustainable increase in competitiveness of the agrifood sector and an increase in rural incomes and jobs. The PRPA, funded in the amount of US\$44.6 million, has been in execution since 1998 and is expected to conclude in February 2003. It began execution under the aegis of the PNDR, which became the Institute for Rural Development (IDR) in 1998. The PRPA finances production-related investments that benefit low-income rural communities with productive potential in 11 departments in Nicaragua, covering approximately 90 rural municipios. It also offers institutional support to the IDR and MAGFOR. The PRPA benefits 145,000 families, through an investment of US\$36 million. As of this writing, 83% of the PRPA has been executed, and 280 production support projects have been contracted, 114 of which have been finalized. Approximately 50% of the funding was allocated for the rehabilitation of production-related roads, 30% for farm technology, 6% for reforestation and agroforestry, and the rest for soil conservation, marketing and agribusiness, small-scale irrigation systems, and strengthening business capacity.
- 1.12 The following are available to analyze the outcomes of the PRPA: (i) a midterm evaluation performed in 2001, the purpose of which was to examine the mechanisms, quality, and levels of execution of the program, so as to identify and recommend possible corrective measures for the remainder of the execution period; (ii) an ex post evaluation of a sample of 29 production-related road projects and eight technology projects; (iii) an evaluation of 10 completed projects deemed successful, and of 4 unsuccessful projects, to derive lessons in project design to be used to promote the new program; (iv) individual project completion reports, prepared by the Agencias Departamentales de Desarrollo Rural [Departmental Rural Development Agencies] (ADDRs); and (v) administrative reports and project inspection visit reports prepared by the Bank during execution.
- 1.13 The evaluations and inspections note that the interventions of the PRPA have contributed to achieving its objectives of revitalizing and modernizing the food and agriculture sector and increasing rural competitiveness, incomes, and jobs. In all cases, the investments were the only opportunity to improve beneficiaries' production-related conditions. Implementation of the PRPA contributed to building rural development management capacity in the communities, by promoting the creation and operation of municipal development committees and district committees, to identify and prioritize community needs. The PRPA has supported the institutional evolution of the IDR, creating its capacity to direct sector expenditure through the satisfactory execution of productive projects.
- 1.14 The evaluations of road rehabilitation projects indicate that the investments were of high quality and had a positive impact in terms of the profitability of productive activity and economic benefits. The total area under cultivation increased by 1% to

20% in 70% of the projects and the percentage of production allocated for marketing increased between 10% and 35%. However, in more than 50% of the projects, the tendency is to maintain or increase the areas under cultivation with traditional products that provide a limited return. The main activity of approximately 23% of the projects was the cultivation of nontraditional crops, and 39% incorporated new crops, mainly on a small scale. Vegetable farming products are marketed, but the activity has not been adopted widely.

- 1.15 Although the roads have provided improved access to inputs, with greater volume in the markets and better prices, the effect on incomes is limited in most cases owing to the producer's dependence on growing low-yield basic grains, used mainly for on-farm consumption. The economic effects of the roads have varied, with economic internal rates of return ranging from 17% to 97%, which includes social benefits not related to production. The best economic results from road rehabilitation are obtained in units that diversify in favor of higher-value crops, ensuring the placement of the product at favorable prices in the market to which the project has provided access. Support for roads has favored traditional crops of lesser value which, although profitable, could have produced greater benefits if, at the same time, technical assistance had been provided for conversion toward higher-value crops, changes in production systems, and product ties to the market.
- 1.16 Despite these benefits and the good quality of the physical works seen, evaluations of and visits to road rehabilitation projects reflect shortcomings in the medium- and long-term maintenance systems, which seriously compromise the sustainability of the investment.
- 1.17 Productive technology support, the second most frequently requested item, is a determining factor for improving beneficiaries' incomes. Evaluation of the sample of technology project shows that changes in productive practices have resulted in significant increases in yields (ranging from 40% to 80%) owing to diversification in favor of higher-value crops, the adequate use of inputs, training in soil management, and improvement in patio gardening. Incomes in most small-holder livestock projects experienced a positive impact as a result of the project, in some cases increasing by more than 100%. For beneficiaries working with double purpose cattle, with improved roads and technical assistance relating to feed and insemination, yields and the volumes of marketed milk have increased by between 15% and 45%, and incomes are up from between 25% and 40% despite significant increases in production costs.
- 1.18 Project evaluations and visits have shown that despite significant contributions by women throughout the rural production chain, the benefit to them from the projects continues to be limited. Many women express interest in more profitable productive activities, but the technical assistance they receive tends to be restricted to production for household consumption.

- 1.19 The evaluations undertaken have yielded additional recommendations, including the need to:
- a. Emphasize technical assistance and infrastructure intended to create marketing links in the food and agriculture chain in the areas supported.
  - b. Include explicit program promotion activities and support for participatory processes, including efforts directed toward the participation of women and other groups that have not benefited greatly, so that project requests arise more clearly from beneficiary producer communities.
  - c. Examine the participatory planning systems so that beneficiaries play a more active role in the project cycle.
  - d. Review the cofinancing formula on the part of the beneficiaries, basing the formula on their ability to pay, so as to give the poorest producers a greater opportunity to take part in the productive transformation process.
  - e. Review the methodology for guiding investments in areas with greater productive potential, introducing factors such as the area's endowment in natural resources and infrastructure, using geodesic information produced by MAGFOR.
  - f. Train administering agencies in the need for an information methodology and homogeneous data on the characteristics of the beneficiaries and the projects, which IDR needs in order to form a baseline that allows for effective program evaluation and monitoring.
  - g. Improve the quality of the information used for the ex ante project analysis, to allow for an ex post analysis of project outcomes.

**D. Nicaragua's strategy in the sector**

- 1.20 The broad economic growth pillar of the Estrategia Reforzada de Crecimiento Económico y Reducción de la Pobreza [Enhanced Strategy for Economic Growth and Poverty Reduction] (ERCERP), adopted by the Government of Nicaragua in August 2001, includes the modernization and integration of the country's rural economy and the development of the Atlantic Coast, given its high potential and wealth of factors, to ensure expansion where the incidence of poverty is greatest. As a principle underpinning all its pillars, the strategy also emphasizes the importance of promoting equity, with special attention to rural communities, women, indigenous groups, and the inhabitants of the Atlantic Coast.
- 1.21 Within the context of the ERCERP, and in order to take full advantage of the experience gained in promoting productive activities in the two previous programs, the government has requested that the Bank continue to finance rural productive

investment which makes it possible to continue the effort to expand the productive base in agriculture and forestry with a focus on competitiveness, increasing the rural areas served and helping to consolidate the institutional structure of the rural economy.

- 1.22 The Government of Nicaragua, through the Secretariat of Coordination and Strategy, is preparing its new development strategy, in which it is adopting a business cluster approach. The secretariat is in the process of identifying the areas of the country that are best suited for economic development, to focus investment territorially toward areas with greater potential, which would evolve toward groups of activities in cluster-type economic conglomerations. Once these areas have been prioritized, public investment would be directed strategically toward them.
- 1.23 Under its drought management strategy, MAGFOR is responsible for providing early warnings and for promoting or implementing strategic projects and programs that help manage risk and reduce the impact of drought on the country's rural sector.

**E. The Bank's strategy in the sector**

- 1.24 The program is consistent with the Bank's strategy for food and agricultural development (GN-2069-1) of January 2000. Pursuant to the guidelines of this strategy, the program supports the strengthening of human resources, rural infrastructure, and basic services, and of the management capacity of the public agricultural sector, by pursuing greater integration and articulation between instruments and action modalities and the overall view of the food and agricultural chain.
- 1.25 The Bank's strategy for 2000-2002 set forth in the programming memorandum (CP-1627-3) is directed toward rationalizing social spending, continuing to strengthen infrastructure, and generally to support implementation of the ERCERP with the participation of civil society and the support of the international community. The ERCERP rests on four pillars: (i) broad economic growth, with an emphasis on agricultural expansion; (ii) improvement of human capital; (iii) protection of the most vulnerable groups; and (iv) good governance and institutional development. To stimulate the expansion of the rural economy, the ERCERP proposes actions regarding: rural infrastructure, agricultural technology for the poorest producers, electricity, telecommunications, and water for rural areas that are insufficiently attractive to the private sector, and marketing and training programs. Additionally, the aim is to extend project coverage to the extent possible, to benefit the Atlantic Coast of Nicaragua.
- 1.26 The program directly supports the objectives of the ERCERP and is consistent with the objectives proposed in the new country strategy, which is now in the process of being approved. In the new strategy, the Bank would support efforts to increase the

economy's competitiveness, by supporting sustainable projects that increase investment and the production of goods with high short-term economic returns. These projects could stimulate the production and productivity of the rural economy, the work force, and small and medium-scale producers through the effective use of technology, work training, implementation of effective management systems, and the promotion of sustainable lending programs.

## **F. Program conceptualization**

- 1.27 Given limited resources and the broad range of needs in rural Nicaragua, the program focuses its activity on financing productive investments that promote the productivity and competitiveness of the sector through productive diversification in favor of economic activities with high potential. The investments will be coordinated with a view to improving resource allocation efficiency, to help revitalize the rural economy of Nicaragua and reduce poverty. Nonreimbursable financing of the investments will be provided to groups of beneficiaries organized formally or informally, who will contribute resources in cash or kind to cofinance the projects.
- 1.28 Based on the experience gained through the two preceding programs, significant changes will be introduced to improve the impact of the investments on the productivity and competitiveness of rural economic activity. The lessons drawn from the previous programs have been taken into full account in the design of this program. The main changes will be made in the following areas:
  - a. A comprehensive view of rural business is introduced, incorporating necessary elements with regard to technology, infrastructure, transformation, marketing, and management in the projects financed. This focus will have a significant effect on the project's impact on productive activity and the typical scale of the projects to be financed, with the average project cost expected to be US\$170,000, bringing together between 80 and 100 beneficiaries.
  - b. The criteria for prioritizing projects emphasize the potential impact on competitiveness and on rural economic development. Diversification and conversion toward crops with a higher commercial value, with identified market potential, will be promoted.
  - c. The formula for project cofinancing by beneficiaries would be changed, based on the proportion of low-income beneficiaries participating in the project and their ability to pay, in an effort to encourage the participation of the poorest producers. However, minority participation by producers with greater potential would be allowed, if they could serve as a focus for mobilization and development for the rest of the group.

- d. An effort is introduced to promote and support the participatory planning and coordination processes, with a focus on production.
  - e. Project administrating agencies do not participate in project promotion. They will be selected through the competitive process for awarding each program.
  - f. Feasibility studies are conducted by third parties selected competitively, increasing the quality and credibility of the results.
  - g. Project execution periods are extended to allow for continuous monitoring of technical assistance and the link with the market during various production cycles.
  - h. The IDR is responsible for supervising road rehabilitation and maintenance funds are established as a prerequisite for accessing the financing for such projects.
  - i. The criteria for specific allocation by municipio are based on rural poverty levels, access to public services and production support, productive potential, environmental risk and vulnerability and the existence of financing from other sources. When the new development strategy that the government is preparing through the Secretariat of Coordination and Strategy becomes the official strategy for the area, the mechanism for the specific geographical allocation of resources will be reviewed for consistency with that strategy.
  - j. Support is provided to the IDR for its institutional organization as the arm of rural investment, under a single orientation set by the government's policy on rural economic development.
  - k. Geographic coverage is expanded to begin serving the North Atlantic and South Atlantic Autonomous Regions (RAAN and RAAS). In acknowledgment of the geographic, agroclimatic, social, and institutional differences in these regions with respect to the rest of the country, the program will begin operations with a pilot stage at the end of which the outcomes will be evaluation, and a decision made about continuing to expand the program to the entire region, treated in a manner similar to the rest of Nicaragua.
  - l. Support is provided to MAGFOR for implementation of prevention measures as part of its drought management strategy, and the IDR's capacity to respond to imminent drought with prevention and mitigation investments is strengthened.
- 1.29 The program can support the government's strategy in response to the coffee crisis by financing infrastructure, technology services, and training in the productive chain, to increase and maintain the quality of the coffee produced in areas with competitive potential (mainly high-altitude areas). At the same time, producers of lower-quality coffee, who have a hard time competing in international markets,

would receive support to diversify their productive activity in favor of crops with greater potential.

## **II. THE PROGRAM**

### **A. Objectives and description**

- 2.1 The general objective of the program is to increase the incomes of poor rural families in a sustainable manner. The specific objective of the project is to increase the productivity of agricultural and forestry activities, with a comprehensive vision of rural business, through the introduction of specialized technologies, technical and managerial training in product marketing, promotion of environmentally sustainable productive practices, investment in productive infrastructure, and reduction of the risk of drought damage.
- 2.2 The program will benefit basically low-income families located in rural areas of the country that have potentially productive conditions, but lack the basic support and minimum resources necessary to realize that potential. Producers are classified as small- or medium-scale if they meet the following conditions: (i) at least 80% of the family income is derived from rural productive activities; (ii) at least 50% of the human resources used on the farm is non-contract family labor; and (iii) the annual net income of the rural family unit is less than US\$5,000. At least 80% of the direct beneficiaries of each project must meet these requirements.
- 2.3 The geographic coverage of the program will be expanded during the stage to cover certain rural areas in the departments of León and Chinandega, which are not currently receiving support for productive activity, and to begin activities in certain areas of the RAAN and the RAAS. The program is expected to be larger in scope given its increased geographic coverage, a broader menu of projects, and a longer execution period. The scope of the program is based on coverage of approximately 120 municipios to be executed in five years, one year more than in the previous stages, aiming to benefit 35,000 low-income families directly, and some 180,000 families indirectly. Given the comprehensive focus introduced in this program, involving key elements in the production chain, including infrastructure, the average size per project is expected to be US\$170,000. The maximum value of each project will not exceed US\$400,000, except in cases where the beneficiaries' counterpart is higher than the required minimum, or for projects involving multiple municipios. In these cases, the approval procedures will apply and the permissible ceilings will be calculated in accordance with the formulas set forth in the Operating Regulations.

### **B. Components**

- 2.4 The program has two components. Component I: rural productive investment, provides nonreimbursable financing for projects to support rural productive activities and activities to support participatory processes, as well as promotion of the program itself. This component is divided into three subcomponents: (i) projects



to support competitiveness; (ii) productive infrastructure; and (iii) promotion, support for participatory processes, and preinvestment. Component II: strengthening the institutional framework for rural development, finances activities to support the IDR's institutional capacity and the implementation of the rural economic development strategy for which MAGFOR is responsible.

### **1. Rural productive investment (US\$51.9 million)**

- 2.5 This component provides nonreimbursable financing for production support projects that make it possible to achieve a significant change in the beneficiary's productive development, through crop diversification or changes in productive and commercial practices. This component implements a comprehensive productive development strategy under which the investments and technology transfers financed are complemented by training and technical assistance on key issues such as business and organizational management, primary transformation processes, and marketing. The average cost per family is expected to be equivalent to US\$1,500. Producers must be organized by production category or groups of production categories, so as to achieve greater investment efficiency and to facilitate the delivery of specialized technical assistance, the procurement of inputs, and support for marketing of the production. This approach will make it possible to create specialized producer groups organized in clusters or related food and agricultural production chains.
- 2.6 Beneficiaries will be required to provide minimum cofinancing for the project in the amount of 10% of the project cost. Up to half that amount may be in kind. The cofinancing formula will be used as an equity instrument in the distribution of resources by means of two elements relating to the beneficiary's ability to pay. The total amount of cofinancing required for each project will be determined in accordance with the proportion of poor producers who are part of the group. The aim of this criterion is to encourage the creation of groups of producers with the largest possible number of poor individuals, but with the possible participation, in a smaller percentage, of producers with greater potential that can serve as a focus for the mobilization and development of the group. At the same time, the amount of the cofinancing per beneficiary will be determined in accordance with the individual's ability to pay, based on the beneficiary classification criteria set forth in paragraph 2.2, and in accordance with the scale established in the Operating Regulations.
- 2.7 To be eligible for financing, project must fulfill the technical, social, financial, economic, and environmental criteria set in the Operating Regulations. Project beneficiaries must be involved throughout the project cycle, from project preparation through execution, supervision, and operation. Projects must specify how women are involved in the project, and how they will benefit from it, as well as the participation of women in the project's various decision-making bodies. Project budgets must identify resources for execution of environmental activities, and projects must comply with the procedures and technical environmental

specifications set forth in the IDR's Sistema de Procedimientos Ambientales de Desarrollo Rural [System of Environmental Procedures for Rural Development] (SISPADRU).

- 2.8 Program resources will be allocated specifically at the municipal level for investments in projects, in accordance with a formula that incorporates criteria relating to poverty, agricultural and forest productive potential, and environmental risk and vulnerability. The formula includes the following indices and relative weighting: rural poverty in the municipio (20%), socioeconomic development (20%), including the extent of coverage of basic services in support of production and service to the population), relative number of small farms (20%), agricultural/agroforestry productive potential (30%), irrigation potential (5%), and municipal soil degradation (5%). The values of the indicators used are based on geodesic information produced by MAGFOR and the poverty map of Nicaragua. The program coordinating unit (PCU) may review this allocation periodically to reflect new sources of financing in the areas of the program's influence, and special needs, to make adjustments based on project performance in each region or to take into account the government's rural development strategy, which it is preparing through the Secretariat of Coordination and Strategy and in which it will adopt a geographically prioritized business cluster approach. The method for calculating the relevant figures is presented in the Operating Regulations. The IDR and MAGFOR will enter into a cooperative agreement so that the PCU can keep the indicator calculations up to date.
- 2.9 The activity of the program in the RAAN and the RAAS will begin as a pilot stage, with the selection of a small number of projects. The RAAN and the RAAS projects in the pilot stage will focus on crops familiar in the region and of known profitability, that have a high commercial value (e.g.: agroforestry projects, small-scale fishing in the RAAN, cocoa and African palm in the RAAS). Investments may include support for intermodal transport solutions. Projects will be identified through the region's own participatory planning processes, supported by IDR's experience in this area. The amount of resources targeted for the RAAN and the RAAS for the pilot stage is US\$1 million per region. The pilot projects will be evaluated at the end of the second year of execution or once 50% of these resources have been committed. Depending on the results of this evaluation, the IDR and the Bank will decide whether to recommend continuing with a limited number of new projects, or whether the RAAN and the RAAS would become part of the program in which resources are allocated specifically using the same methodology that applies to the rest of the country.
- 2.10 The component is divided into three subcomponents: (i) projects to support competitiveness; (ii) productive infrastructure; and (iii) promotion, support for participatory processes, and preinvestment.

**a. Projects to support competitiveness (US\$26 million)**

- 2.11 Projects to support competitiveness are comprehensive proposals of the investment, technical assistance, and training required by an organized group of producers having sufficient productive potential to undertake a transformation in production, but that lack the basic support and minimum resources to realize that potential, at the rural production unit level, by introducing more productive diversified systems. The investments of projects to support competitiveness would be made in farms and patios, with clearly identifiable and quantifiable benefits for members of the requesting community. The following activities may be financed within the projects to support competitiveness: (i) technological improvement for agricultural, small-scale fishing, forest-related, and small-scale production; (ii) small-scale irrigation works; (iii) small-scale production-related rural electrification works at the level of the productive unit; (iv) transformation, storage, and marketing infrastructure; (v) management training in business, environment, occupational health, administration, finance, and marketing; (vi) small-scale works to protect against natural disasters (erosion, flood, and slope control); and (vii) soil management techniques, small-scale supply systems, reservoirs, and ponds, animal care, and the production and storage of animal fodder. The program may finance one or more elements of the submitted project to support competitiveness, ensuring the technical, social, economic, financial, and legal viability of the project, the complementarity of the activities included, and the financial limits per beneficiary as set forth in the Operating Regulations.
- 2.12 In projects to support competitiveness, investments are coordinated with a view to increasing efficiency in resource allocation to help revitalize the rural economy of Nicaragua and reduce poverty. To ensure that the producers have fully assimilated the new practices, the program will accompany the process during the establishment of the new productive alternatives and will gradually reduce its support as the producers become more secure in their new practices and are capable of maintaining their business profitably. This process may take up to three years, at the end of which it is expected that the beneficiaries will have consolidated their producers organization, developed the necessary managerial capacity to continue their productive process independently, finance their inputs and technical assistance, and operate and maintain the investments in the new systems that will yield higher incomes for them. The length of the program's technical and financial accompaniment period for project development will depend on the type of project, evaluated using the criteria set forth in the Operating Regulations. Projects that require three years of technological accompaniment will not be approved starting in the third year of execution. The amount allocated for projects to support competitiveness may not exceed the sum of the caps by investment category per beneficiary family in the project, as set forth in the Operating Regulations.
- 2.13 The eligibility criteria for financing projects to support competitiveness that include productive agricultural technology transfers are: (i) technical feasibility of project

development under the agroecological and climatic conditions where implementation is planned; (ii) field verification of the technological package, and successful adoption of the package by small- and medium-scale producers; (iii) ability of the direct beneficiaries to cofinance the project in accordance with the guidelines set forth in paragraph 2.6; (iv) feasibility and environmental and financial sustainability of the productive systems to be introduced; (v) consistency between the proposed activity and land use; (vi) existence of a proven market and identified marketing channels for the products to be support through projects to support competitiveness; (vii) direct beneficiaries belong to a formal or informal production association or organization; (viii) direct beneficiaries have access to land (an immediate family member is the uncontested owner of the land, or has a lease agreement for more than five years, or has occupied and worked the land continuously for at least 10 years); (ix) direct beneficiaries have a minimum of one manzana<sup>1</sup> per producer for productive conversion. For projects to support competitiveness that involve only postharvest activities or nonagricultural activities, access to land or the availability of a plot for conversion is not required as an eligibility criterion. However, they must fulfill conditions (i) through (vi) above. Direct beneficiaries must belong to a legally constituted member association, and the infrastructure used by members of the association must be operating legally in the name of the association or cooperative.

- 2.14 Operation and maintenance of the completed projects will be the responsibility of the project's direct beneficiaries. For projects with investments requiring periodic maintenance, the establishment of a collective system of payment into a maintenance fund to be administered by the beneficiaries themselves, or that may be delegated to an administrating agency, will be required as a condition for project approval. The rules and procedures that apply to the creation and management of this fund will be set forth in the Operating Regulations.
- 2.15 During the program preparation process, many productive alternatives were analyzed using technical, economic, social, and environmental sustainability criteria to identify a group of productive activities with a high profit potential that could be used as models to be disseminated by the program, in its effort to convert and diversify production in favor of crops with a high commercial value. A group of 10 projects to support competitiveness was selected as a model of crops with proven high productive potential, technically, financially, and environmentally evaluated, which could be replicated in Nicaragua. These models set forth the investment elements qualified for program financing that are required so that the model will be successful—inputs, classified as tradable or nontradable, manpower contributions, use of machine or animal power, technical assistance costs and other support services, and any other component required for production.

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<sup>1</sup> 1 manzana (mz.) = 0.7 hectares (ha.)

**b. Productive infrastructure (US\$21.5 million)**

- 2.16 This subcomponent will provide nonreimbursable financing for productive infrastructure works in which the main purpose is to improve the competitiveness of the rural economy, with direct benefits to producers and potential positive externalities for other segments of the population. Financing may be provided for projects to rehabilitate tertiary productive roads and projects that have the public good characteristics and criteria set in the Operating Regulations. Training, technical assistance, the establishment of mechanisms for the maintenance of roads and works financed, and preparation of the action plan for long-term road maintenance will be included.
- 2.17 The purpose of productive road rehabilitation is to improve access to cultivated and/or cultivable areas, reduce transportation costs, decrease product deterioration and postharvest losses, increase the frequency of contacts with markets and sources of information, and enhance the supply of transportation services in rural areas. To be eligible for financing, the road must be linked to a profitable productive development project in the area influenced by the road—either a project to support competitiveness financed under the program, or a project financed by other sources—and be a channel of communication from these area to the centers of production, consumption, distribution, and marketing of products and inputs. Projects may include rehabilitation works for tertiary road and related bridges, small-scale civil engineering works, restoration of the paved surface, straightening of up to 30% of the route, improvement in the technical conditions of the road, and the construction of drainage works, defensive works to ensure transportation at all times, and any environmental measures that may be necessary. The cost of road rehabilitation is capped at US\$24,000 per kilometer. The program will not finance the construction of new roads.
- 2.18 The municipalities will play an active role in the process of prioritizing and managing these projects with the communities involved, through the municipal development committees (paragraph 3.13). Projects will be identified and prioritized at the level of the producer organization, and will be coordinated with the municipios so that they are included in and consistent with municipal investment and maintenance plans. This coordination will be formalized in an agreement to be signed between the organization of beneficiary producers and the municipio.
- 2.19 The roads to be rehabilitated will be prioritized based on factors such as the productive potential of the productive units and the producers' commitment to assume responsibility for their maintenance, and their willingness to contribute to the cofinancing required for the investment. The guidelines for selecting roads are defined in the Operating Regulations. Specialized supervision will be provided for the execution of these works, for which the PCU, in agreement with the municipality, will hire an outside supervisor responsible for the project.

- 2.20 An essential eligibility criterion for investments in the rehabilitation of road infrastructure is a formal commitment by the beneficiary community contractually to guarantee its commitment to maintenance of the works, directly or with the technical support, and if possible the financial support, of the municipio. To ensure maintenance of the roads improved through program financing, the establishment of a maintenance commitment and a maintenance fund will be required for each project. The maintenance commitment is an agreement between the IDR and the project's group of beneficiaries, indicating the producers' agreement to perform periodic light maintenance of the road. The maintenance fund is set up to finance maintenance activities that the community is unable to carry out solely through its contribution of human resources.
- 2.21 The creation of the fund is a requirement for accessing financing for projects that require maintenance. The fund is established through an agreement between the respective municipio, the direct beneficiaries, and the IDR and is administered by the municipality, which will be responsible for carrying out the maintenance work. The resources will come from payments that the beneficiaries will make for this purpose, and from seed capital that the municipios will receive from the program, chargeable against the local counterpart, when the respective project is approved. Disbursements of the fund's resources will require the joint approval of the three parties.
- 2.22 In order to proceed with the feasibility study for a road rehabilitation project, the project presentation must be accompanied by evidence that the maintenance fund has been established and that the beneficiaries have deposited the first installments. So that the IDR may disburse resources intended for maintenance, the respective municipality will present evidence to the IDR that: (i) it has opened a special bank account to utilize the resources; (ii) that it has prepared, and the IDR and the Bank have approved, the corresponding maintenance plan, which must include the schedule of activities to be carried out and the mechanism used to supervise those activities; and (iii) the rural road rehabilitation works have been carried out in accordance with the guidelines established in the program's Operating Regulations and are satisfactory to the IDR and the Bank. The regulations for management of the fund and the models for the agreement required between the community, the municipio and the ADDR are part of the Operating Regulations.
- 2.23 Strict criteria will be applied in the RAAN and the RAAS to determine the eligibility of projects that include productive infrastructure, particularly roads. Eligibility for improvement or rehabilitation is limited to existing roads or paths that enable historically established communities to transport their products to markets more efficiently. Financing will not be provided for roads that connect new settlements in the central region to the coast, to minimize the sociocultural impact of opening up traffic through well-established, traditional communities.

**c. Promotion, support for participatory processes, and preinvestment (US\$4.4 million)**

- 2.24 This subcomponent will finance promotion and participation activities, and project preparation, to ensure that the potential beneficiaries have the information they need and are able to fulfill the administrative requirements to access program resources.

**(i) Promotion and support for participatory processes (US\$2.5 million)**

- 2.25 This component will finance the ADDR promoters, who will engage in promoting the program throughout Nicaragua, including the RAAN and the RAAS, during the five years of execution, their equipment, vehicles, and work materials, as well as program dissemination campaigns. Promotion will cover three areas of activity:
- a. Strategy of dissemination and communication concerning the program's objectives, criteria, and procedures, periodic reports on the beneficiaries and the scale and results of their interventions, targeting local and regional producer organizations, women farm workers' organizations, and other civil society organizations and NGOs that support rural productivity, municipal authorities, and other government agencies present in the program target areas;
  - b. Promotion targeted toward potential beneficiaries in priority microregions, to facilitate their organization and the articulation of their needs, and to support the preparation of requests and profiles of specific projects.
  - c. Periodic outside technical reviews of projects in preparation, oriented toward identifying greater technical potential and improving the commercial scope of the proposals presented.
- 2.26 Annual promotion plans will be based on national agricultural and forestry sector policies, analysis of productive potential, criteria of poverty and vulnerability to natural disasters, and consultation with local governments their municipal development plans. Social equity criteria will also be incorporated, promoting the bringing together of communities that are eligible but underserved by public programs in the productive sector. From the start, promotion will emphasize the importance of participation by women producers in the projects, and formalization of the producer organization.
- 2.27 In the indigenous and Afro-Latin communities in the RAAN and the RAAS, promotion will be more narrowly focused on communities identified as a priority by the regional government and that have greater productive potential. Owing to the weaknesses of local organizations in this region, the component will offer greater support to producers in identifying and preparing their projects, and strengthening community organizations. For the RAAN and the RAAS, the portfolio of pilot projects will be identified based on studies conducted during the analysis, including

the study on opportunities for economic development of the Afro-Latino and indigenous communities on the Atlantic Coast (ATN-CT-7634-NI); the studies and consultations in which the IDR is presently engaged; and participatory consultation on development priorities in the RAAN and the RAAS carried out under the Atlantic Coast Local Development Program (NI-0107). These efforts involve regional governments and public agencies, universities, representatives of civil society, and leaders of ethnic groups.

- 2.28 Upon completion of the pilot phase, which is expected in two years, the PCU will perform an evaluation of the outcomes of the work done on the coast, including the promotion and participation processes. That experience will be used to form the patterns of projects to be financed, and the processes that are considered most effective for ensuring financing for projects with the greatest impact on the beneficiary communities.
- 2.29 This subcomponent will support strengthening of local participatory processes, expanding the support that the PRPA provided for strengthening the organizational capacity of the municipal development committees (CDMs). Harmonization and coordination of investment planning will be sought insofar as possible, with programs of the Fondo de Inversión Social de Emergencia [Emergency Social Investment Fund] (FISE), the Instituto de Fomento Municipal [Institute of Municipal Development] (INIFOM) and programs directed toward the target population itself. The CDMs are municipal planning and cooperation entities formed in accordance with INIFOM's guidelines for municipal strategic planning. CDMs have already been established in some municipios, and will be promoted in others using program resources, in coordination with INIFOM and FISE. Their role in the program will be to participate in the process of identifying and prioritizing projects that include rehabilitation or improvement of productive roads or elements deemed public goods, and in ratifying the priorities proposed by the producers for projects to support competitiveness. The component will finance the establishment of municipal productive panels and the improvement of channels of communication between the CDMs and the regional committees, and increased representation of producers in these local participatory entities.

**(ii) Preinvestment (US\$1.9 million)**

- 2.30 Financing will be provided for the preparation of feasibility studies, and orientation and training will be provided for entities participating in project preparation, administration, and execution, so as to achieve (i) an adequate evaluation of all aspects of the projects, in accordance with the Operating Regulations; (ii) solid management of environmental aspects; (iii) the use of participatory and culturally appropriate techniques with regard to training and technical assistance; and (iv) the inclusion of a gender focus in the projects. Training will also be provided in the methodology and reports that the IDR requires for adequate program monitoring and tracking.



## **2. Strengthening the institutional framework for rural economic development (US\$2 million)**

- 2.31 This component will support the institutional framework of rural development, including MAGFOR as the regulatory and policy-making entity in the sector, and the IDR as the executing agency for rural productive investment. The component has two subcomponents: strengthening the institutional capacity of the IDR, and providing support to MAGFOR for its rural economic development policy.

### **a. Strengthening the institutional capacity of the IDR (US\$1 million)**

- 2.32 This subcomponent will support the IDR's institutional organization process, directed toward examining its institutional vision, its role in rural development and the ERCERP, and strengthening the institution as an instrument for investment in rural areas. A study will be conducted of the institution's organization, along with consulting and training in planning and strategy to ensure that the central structure of the IDR operates adequately and assumes its role in accordance with the institution's mission, with the capacity to maintain direction in its plans and strategy in keeping with MAGFOR's policies and the plans of the other institutions that operate in the sector, such as INTA and FISE. In this way, the institution will be better positioned to program and manage the various projects financed by different sources of funding in the areas of greatest need, in keeping with the country's policies and under a general framework regulation governing the various projects with their subordinate regulations. During the study, consulting and coordination will be carried out with agencies that finance projects executed by the IDR.
- 2.33 In this component, the recommendations derived from this organizational analysis will be implemented, and adjustments will be made to the organization as required to better fulfill its mission. To that end, specialized consultants will be hired to make recommendations and provide training for the IDR personnel on a variety of topics, including project preparation, coordination, and administrations, modernization of computer systems and hardware and integrated management systems, participatory processes and gender focus, management of agricultural and forest technologies, and agribusiness management.
- 2.34 The administrative, financial accounting, and managerial system will be integrated, and the computer system will be integrated and upgraded. The IDR's information system will be modernized and expanded to give it the capacity to produce analytical information and information on the outcomes of its operations in terms of impact, beneficiaries, and coverage in a rapid and timely manner. This will be the monitoring and tracking tool for making comparisons with the baseline established at the start of program execution, in terms of the program's objectives, the characterization of the beneficiaries, their income level, and socioeconomic position. The development of a consistent and homogeneous database will be

completed, to be used for the evaluation and monitoring of the new projects, with benchmarks and impact indicators that allow the program's impact to be measured.

- 2.35 The EMU will be strengthened through training activities for the unit and for IDR staff members, expansion and modernization of SISPADRU, implementation of the environmental monitoring system and the necessary equipment and public dissemination activities concerning environmental sustainability in rural economic activities.
- 2.36 Financing will be provided for an ex post evaluation of the PRPA (1001/SF-NI) at the end of the second year following the completion of execution. The evaluation will measure the impact of the investments in the program's area of influence from the perspective of the accomplishment of the general and specific objective originally proposed.

**b. Support for the rural economic development strategy  
(US\$1 million)**

- 2.37 In this subcomponent, the program will support MAGFOR in the following areas, which aim to strengthen its capacity to act as the policy maker in the sector and as the moderator of rural economic development:

**(i) Strategy and action plan for rural production development  
(US\$350,000)**

- 2.38 This component will provide financing for specialized consulting and consultation events for formulating the strategy and action plan, and coordination and dissemination of those events so that the various players working in rural development gain ownership of the strategy, which can be implemented efficiently in a more adequate institutional framework. The PRPA financed the preparation of the conceptual framework for the rural development policy, complementing the orientation set by the ERCERP, which this program supports. These general guidelines and the government's regional development strategy which is being prepared through the Secretariat of Coordination and Strategy, must be articulated into a strategy and action plan for rural productive development, with a regional focus that is compatible with the promotion of competitiveness and poverty reduction, offering an operational framework for public investment in the rural sector. The formulation of rural development plans at the regional level includes setting eligibility criteria for development programs and projects, and baselines and benchmarks that make it possible to formulate operational programs for the executing agencies. The strategy and action plan will be subject to a consultation process with private-sector actors, for subsequent government approval as official policy. To promote the timely availability of strategic sector policy orientation for rural investment, this component will support MAGFOR in this consultation

process and in the development of the legal instruments necessary for its implementation.

**(ii) Studies for the regional rural development strategy in the RAAN and the RAAS (US\$150,000)**

- 2.39 To complete the geophysical regionalization studies for the entire country, which MAGFOR has been carrying out with the support of the Bank and the European Union, this component will finance the organizational study for agricultural and forestry development in the RAAN and the RAAS. The use of the advanced techniques of a geographic information system (GIS) to manage and analyze information has helped create a highly detailed database of the national territory, which has allowed MAGFOR to design one of Nicaragua's most complete GISs, given the information, equipment, and technical staff that it has for providing timely and detailed information to support the development of the agricultural and forestry sector, so far for the Pacific Coast and center of the country.

**(iii) Modernization of the price information system (US\$200,000)**

- 2.40 Financing will be provided for consulting and the equipment needed to support the review, adjustment, and modernization of the price information system. The system for the capture, collection, and surveying of price data for agricultural products will be modernized, to serve as a source for market intelligence services and timely dissemination to producers, producer associations, and businessmen.

**(iv) Management and reduction of drought risk (US\$200,000)**

- 2.41 To facilitate the government's capacity to respond to a crisis caused by drought, the program will support MAGFOR in implementing its drought management strategy, strengthening its ability to provide early warnings for the agricultural cycle, and arranging to reduce the impact of the threat of drought. The component will finance the following activities: (i) equipment, materials, logistical support, and training for MAGFOR technical staff to strengthen the data gathering system for early warnings for the agricultural cycle; and (ii) procurement of radar images, equipment, and training for MAGFOR's specialized personnel to carry out a pilot experiment in a critical area to be identified.

**(v) Mechanisms for the supply of rural financial services (US\$100,000)**

- 2.42 To facilitate the sustainability of the program's benefits, producers who have been successful in implementing a productive transformation may be considered eligible to access private rural microcredits. Given the weakness of financial systems to support rural productive activities in Nicaragua, in this subcomponent MAGFOR will conduct an analysis and make specific proposals for viable mechanisms to

provide financial services to small- and medium-scale producers in rural Nicaragua, which may be promoted with the support of private financing sources.

### C. Cost and financing

- 2.43 The total cost of the proposed program is US\$68 million, of which the Bank will finance US\$60 million using resources from the Fund for Special Operations. The local counterpart resources will be US\$8 million, US\$5 of which may be financed by the ICDF. The administration costs include the operation of the PCU and the ADDRs and the operation of the pilot projects in the RAAN and the RAAS, office equipment, vehicles, and work materials. Some operating costs of the IDR's central group are also included. These costs will be covered by the local counterpart. The share of the local counterpart is higher than the required minimum in order to cover these costs. Table II-1 presents a summary of project costs classified by investment category and source of financing.

**Table II-1**  
**Cost and Financing**  
**NI-0159 – Rural Production Revitalization Program**  
**(US\$ thousand)**

| Categories   | FSO           | *Local       | Total         | % Total     |
|--|---------------|--------------|---------------|-------------|
| <b>I. Administration and Supervision</b>                             | <b>5,500</b>  | <b>4,400</b> | <b>9,900</b>  | <b>14.6</b> |
| a. Operational administration  | 5,184         | 3,410        | 8,594         | 12.6        |
| b. Outside auditing and evaluations                                  | 316           | 54           | 370           | 0.5         |
| c. Central administration of the IDR                                 |               | 936          | 936           | 1.4         |
| <b>II. Direct Costs</b>  | <b>50,900</b> | <b>3,000</b> | <b>53,900</b> | <b>79.3</b> |
| <b>2.1 Component 1: Rural Productive investment</b>                  | <b>48,900</b> | <b>3,000</b> | <b>51,900</b> | <b>76.3</b> |
| a. Projects to support competitiveness                               | 25,050        | 950          | 26,000        | 38.2        |
| b. Productive infrastructure projects                                | 19,450        | 2,050        | 21,500        | 31.6        |
| c. Promotion, support for participatory processes, and preinvestment | 4,400         |              | 4,400         | 6.5         |
| <b>2.2 Component 2: Strengthening the Institutional Framework</b>    | <b>2,000</b>  |              | <b>2,000</b>  | <b>2.9</b>  |
| a. Support for the rural economic development strategy               | 1,000         |              | 1,000         | 1.5         |
| b. Institutional capacity strengthening for the IDR                  | 1,000         |              | 1,000         | 1.5         |
| <b>III. Contingencies and Cost Scaling</b>                           | <b>1,000</b>  |              | <b>1,000</b>  | <b>1.5</b>  |
| <b>Subtotal</b>  | <b>57,400</b> | <b>7,400</b> | <b>64,800</b> | <b>95.3</b> |
| <b>IV. Financial Costs</b>   | <b>2,600</b>  | <b>600</b>   | <b>3,200</b>  | <b>4.7</b>  |
| a. Interest  | 1,570         |              | 1,570         | 2.3         |
| b. Credit fee  |               | 600          | 600           | 0.9         |
| c. Inspection and supervision  | 1,030         |              | 1,030         | 1.5         |
| <b>Total</b>   | <b>60,000</b> | <b>8,000</b> | <b>68,000</b> | <b>100</b>  |
| % Project  | 88.2          | 11.8         | 100           |             |
| * US\$5 million of the counterpart may come from the ICDF.           |               |              |               |             |

### **III. PROGRAM EXECUTION**

#### **A. Borrower and executing agency**

- 3.1 The borrower will be the Republic of Nicaragua, and the program's executing agency will be the Instituto de Desarrollo Rural [Institute of Rural Development] (IDR), through the program coordinating unit (PCU). Civil society organizations (NGOs), private entities (associations, cooperatives), and providers of consulting services, goods and related services, and construction works will participate in program execution.
- 3.2 The IDR was established pursuant to Law 290 of 3 June 1998 as a decentralized government agency, with its own corporate identity and capital, and with functional, technical, and operational autonomy within the scope of its authority. One of its functions is to contribute to the country's economic revitalization through the execution, administration, and coordination of rural development programs and projects that involve the participation of civil society and strengthen the capacity of local governments. The organizational structure of the IDR consists of: (i) a board of directors composed of nine representatives of the public and private sectors; (ii) an executive board represented by the executive director who is the legal representative of the organization, and is authorized to sign agreements with public and private entities, to approve the selection of personnel, and to sign the relevant employment contracts; and (iii) line and support offices, consisting of the Office of Coordination and Monitoring and the Office of Financial Administration. From its founding, the IDR has taken on the execution of some 18 projects and programs financed by various sources, including the PRPA, in a total amount of US\$224 million, benefiting approximately 1.7 million rural inhabitants located in 129 of the country's 151 municipios. These programs have allowed the IDR to have a presence in the country's rural areas, and an annual execution amount ranging from US\$36 million to US\$40 million is projected for the next four years.
- 3.3 Execution of the PRPA has been the responsibility of the IDR's central staff, supported by five departmental rural development agencies (ADDRs) created exclusively for the decentralized execution of the PRPA. In all, approximately 100 individuals are assigned to the program, 50 of whom work in the ADDRs. The ADDRs are composed of a director, a technical assistance specialist, an infrastructure specialist, a project economist, an environmental specialist, a promoter of participation, an administrator, and administrative support staff. The cost of this staff has been financed with resources from the PRPA, and during its execution, these costs have been progressively and gradually assumed by the IDR, using local counterpart resources, so that when execution is complete, the government will be contributing the total of these costs. Taking into account that the functions that the ADDRs perform are essential for conducting the program's activities, their staff and operational costs will be considered program costs,

charged against the local counterpart resources. The ADDRs will have the following responsibilities, among others; (i) promoting the program in the regions where they are located; (ii) assisting producer organizations and municipal and regional committees in the preparation of project profiles; (iii) performing the monitoring and tracking related to execution of the projects to be financed; and (iv) other responsibilities as set forth in the program's Operating Regulations.

## **B. Project execution and administration**

### **1. Program coordinating unit (PCU)**

- 3.4 Considering the institutional organization process that the IDR will undergo with the support of this program, a program coordinating unit (PCU) will be established to ensure the stability of program execution. The PCU will have administrative and financial autonomy, under the IDR's executive board. The positioning or integration of the PCU within the new organization will be adjusted, with the Bank's approval, according to the results and recommendations of this process.
- 3.5 The PCU will be responsible for the general management and administrative and operational coordination of the program, and will be supported by the ADDRs. The PCU will be composed of a small group of high-level, highly experienced Nicaraguan professionals, to fulfill these tasks: a coordinator, three planning and evaluation specialists, a computer specialist, three specialists in administration and finance, one specialist in environmental issues, and three administrative support positions. The PCU's responsibilities will include carrying out service contracting procedures for the program's agencies and monitoring execution in accordance with the program's Operating Regulations; submitting reports and financial statements to the Bank; requesting and substantiating disbursements; setting up and maintaining an administrative, accounting, financial, and internal control system; document program expenditures; update the database for program monitoring; contract for services and procure goods related to the program, including reviewing offers for the feasibility studies and the evaluation of companies prior to awarding those studies; administrative and operational supervision of the ADDRs, providing advisory services for monitoring crosscutting issues in the program, such as gender, environment, and participatory processes, and serving as a link between the IDR and the Bank. The director of the PCU will be the individual authorized to sign contracts made using program resources. **The establishment of the PCU and the hiring of its coordination, in accordance with the terms previously agreed upon by the executing agency and the Bank will be a special condition precedent to the first disbursement.**
- 3.6 The PCU will be supported by seven ADDRs: the five existing ones (in Matagalpa, Jinotega, Somoto, Boaco, and Chontales), and two new ones to be established to support the rural areas of the south, Rivas, Carazo, and possibly Masaya, and in the western region to serve localities in the departments of León and Chinandega. Each

ADDR will have the following staff: an agency director; a promotion and participation unit composed of a coordinator and two promoters; an infrastructure specialist; a project economist; a technical assistance specialist; an environmental specialist; an administrator; and support staff including a secretary, a custodian, and a security guard. The promotion and participation unit will be created under the program to direct project promotion efforts in the initial phase of execution, help producer organizations to prepare profiles, and provide support in supervising business and organizational training. The basic responsibilities of the ADDRs, set forth in the program's Operating Regulations, are: to promote the program, assist in strengthening producer organizations and municipal and regional committees, perform or contract out preinvestment for priority projects, and to provide execution monitoring and tracking of projects in execution. In addition to the seven ADDRs, a local specialist will be hired in the RAAN and another in the RAAS to coordinate and monitor pilot projects in the autonomous regions.

- 3.7 Under this program, the staff of the PCU and the ADDRs will be assigned exclusive to program execution. Therefore, financing for the staff will be considered part of the program, as these are incremental costs for operation of the IDR. Some costs for the central administrative structure of the IDR that are assigned in part to the program will also be included in the local counterpart.

## **2. Administering agencies and providers of works and services**

- 3.8 For purposes of financing the projects included in Component I: rural productive investment, the administering agencies and providers of works and services will participate in their implementation.
- 3.9 The administering agencies are legally constituted public or private entities with their own corporate identity and capital, and an administrative capacity that includes an adequate accounting and financial system. To participate in the program, administering agencies must fulfill these requirements and undergo a qualification process conducted by the PCU, based on the eligibility criteria set forth in the program's Operating Regulations. To that end, the administering agencies are selected and contracted by the IDR, in accordance with the Bank's selection and contracting procedures, with the exception of the municipalities for the rehabilitation of rural roads, in which case the IDR will reach an agreement with the respective municipality for administration of the resources intended for the rehabilitation and maintenance of rural roads. Only qualified administering agencies may compete for contracts to administer the resources of the projects that will be financed. The function of the administering agencies is to administer the resources intended for financing the project, contract the providers of works and services, and supervise their performance and work.
- 3.10 Providers of works and services are private, legally constituted entities with their own corporate identity and capital, and proven technical capacity. These providers

may be NGOs or private companies, selected and contracted by the administering agencies for execution of the project or projects financed with program resources, in accordance with the Banks procedures and policies in this regard, and following the technical criteria for selection and eligibility set forth in the program's Operating Regulations.

- 3.11 This arrangement for program administration and execution has proved very effective and efficient in delivering resources to achieve the objectives of the PRPA, and will be strengthened and expanded in this program through operational improvements such as clearer eligibility and selection criteria, improved regulations, promotion and adequate training in the project cycle, and more direct supervision by the ADDRs.

### **3. Participatory and coordination mechanisms**

- 3.12 To apply a participatory method for identifying projects that is consistent with the method used at the local level by other institutions in Nicaragua, a comparative analysis was undertaken of the participatory method used by FISE and INIFOM, as well as the method that the IDR used during execution of the PRPA. FISE and INIFOM coordinated their participatory method, which centers on the municipal development committees (CDMs), which are standing coordination entities established in accordance with INIFOM's guidelines for municipal strategic planning, and composed of representatives of the public and private sectors, civil society, and the communities, and led by the respective mayor.
- 3.13 For program purposes, the CDMs must have representation from the productive sectors in their areas of influence, through production coordination panels. Their role in the program will be to participate in the process of identifying and prioritizing projects that include rehabilitation or improvement of productive roads. To avoid duplicate efforts and improve spending efficiency, in addition to the CDM, localities in León and Chinandega will be required to implement a systematic mechanism to verify the coverage of investments under the rural municipal development project that the World Bank is executing to strengthen municipal institutional and financial capacity in those departments. Additionally, the PCU will communicate periodically with the Ministry of Transportation and Infrastructure (MTI) to ensure that the program's annual operating plans (AOPs) are consistent with the road development plan for the country as a whole.
- 3.14 With respect to projects to support competitiveness, the program will implement a participatory method to identify, prioritize, prepare, execute, and operate projects, in which beneficiaries play a more prominent role. These projects will be strongly supported by the ADDRs' promoters of participation, in accordance with the guidelines of the program's Operating Regulations. Although the CDMs are not responsible for identifying projects of this kind, they will validate the priorities



proposed by the producers for projects to support competitiveness, so that execution of the activity takes the municipal rural development context into account.

#### **4. Component 1: The project cycle for rural productive investment projects**

- 3.15 Execution of projects to support competitiveness and productive infrastructure projects will fulfill the following steps, which are described in detail in the program's Operating Regulations:
- 3.16 **Promotion and identification.** The project cycle begins with an intense effort to promote and disseminate the program, with the initial objective of identifying eligible projects. The ADDRs' promotion specialists, with the support of local promoters, will be responsible for promoting the program, carrying out activities to strengthen producer organizations, the CDMs, and regional committees so that they may participate more actively in the planning of projects and activities, and assisting the producers in preparing requests for projects that may be financed through the program.
- 3.17 **Eligibility of requests.** The project requests prepared by producer organizations are submitted to the ADDRs, where an initial evaluation is made based on the criteria and parameters set forth in the program's Operating Regulations. Requests for road rehabilitation projects must be submitted to the consideration of the municipal council for clearance before they are presented to the respective ADDR, to ensure that the project is part of the municipal investment plan and that its financing has been coordinated with other sources and programs.
- 3.18 **Profile preparation and programming.** The ADDRs' promoter of participation supports beneficiaries of eligible requests in preparing the project profile. The project profiles are submitted to the IDR's planning unit for review and programming by the PCU, taking into consideration the profiles received from all regions. Based on the specific allocation of resources by municipio, projects are selected in the order in which they were prioritized, until all available resources have been exhausted. If amounts remain available in certain regions at the end of the year, the PCU may reallocate the resources to other regions where demand is greater than expected, based on the relevant criteria set forth in the program's Operating Regulations.
- 3.19 **Evaluation.** All eligible projects exceeding the equivalent of US\$100,000, which are selected as priorities based on the project profile, will be subject to a technical, financial, and environmental feasibility study. To that end, the PCU will invite bids for the services of consultants and specialized entities. To maintain their eligibility, projects must yield a financial internal rate of return equal to or greater than 12%. The amount for the feasibility study may not be greater than 10% of the estimated cost of the project, and is included in the project costs. Projects for less than the equivalent of US\$100,000 will be subject to a feasibility study if the technical

opinion issued by the respective ADDR, based on the profile, finds this necessary in light of the project's complexity. Otherwise the project will be evaluated based on the project profile, using the cost-effectiveness methods set forth in the Operating Regulations.

- 3.20 **Approval.** Technically, financially, legally, socially, and environmentally viable projects will be subject to approval by the various levels of authority in keeping with the amounts set in the program's Operating Regulations. The ADDRs will draw up annual operating plans (AOPs) when the projects have been evaluated and approved. The AOPs of each ADDR will be consolidated by the IDR's planning unit, forming the annual operating plan for the program. The AOP will be approved by the IDR's board of directors, receive the nonobjection of the Bank, and will form the indicative investment plan for the corresponding period, at the end of which the results achieved will be evaluated.
- 3.21 In case of imminent severe drought, the PCU may approve projects to mitigate the impact of the event, and may authorize their immediate execution, with priority over the AOP, even though the project is not included in the AOP for that year. In these cases, the same eligibility and selection criteria will apply for program beneficiaries, and activities eligible for financing will be limited to those on the program's menu that are directly related to the prevention of drought-related losses, such as small-scale microirrigation works, small-scale supply systems, reservoirs and ponds, animal care, the production and storage of animal fodder; and soil management techniques. MAGFOR must have identified the project's location as an imminent emergency area. Up to US\$2 million of the first component may be used per instance of drought. The identification and preparation procedures for these projects are set forth in the Operating Regulations.
- 3.22 **Contracting.** Once the project is approved, the IDR, through the PCU, will conduct the process of selecting and contracting the administering agency, for administration of project resources. The IDR will sign a contract with the corresponding administering agency and the representative of the project's beneficiary community, in which are defined the terms of the administering agency's commitment to administer the project resources, the existence of a financial accounting system to identify the utilization and end use of the resources, and the community's commitment to collaborate in project execution. The administering agency will be responsible for bidding, contracting, and the procurement of goods and services, stipulated in the project profile and in the feasibility study, to be provided by the providers of goods and services in accordance with the procedures of the Bank and the provisions of the national contract law.
- 3.23 **Monitoring and evaluation.** The ADDRs are responsible for monitoring the physical and financial execution of projects to support competitiveness and for overseeing the quality of goods and services, ensuring that they fulfill the

conditions set in the contract with the administering agency. For road rehabilitation projects, the IDR will contract for the services of an outside supervisor. For each project to support competitiveness, a quality evaluation will be performed of the services, and the relevance and usefulness of the training and technical assistance activities. Based on the outcomes of the evaluations, recommendations will be made regarding changes in aspects of the project or the design of new projects with similar activities or goals.

## **5. Execution in the RAAN and the RAAS**

- 3.24 Programming of projects in these regions will take into consideration the institutional and sociopolitical aspects specific to the region. Initially one specialist will be hired for each region, based in Puerto Cabezas and Bluefields, who will coordinate and monitor the pilot projects. Work will be coordinated with the other projects that the Bank is executing in the regions, particularly in the system of organization, approval, and execution of projects from the participatory perspective. Preference will be given to hiring staff and organizations that are local to the region or that demonstrate an in-depth understanding of the social, cultural, and institutional reality of the region. The pilot projects identified by the PCU will be submitted to the respective regional councils, through their regional planning commissions. These commissions will verify project priority, and will issue their nonobjection. The PCU will proceed with the project cycle described in section 2. All projects will be subject to a feasibility study. If the amount allocated for these pilot projects has been fully committed and the evaluation of the projects finds that they have been successful, the program may increase the availability of resources to these regions in accordance with the procedures for specific reallocation of resources based on the method set forth in the program's Operating Regulations.

## **6. Component 2: Strengthening the institutional framework**

- 3.25 The PCU will carry out the activities in this component. The PCU, in cooperation with MAGFOR, will execute subcomponent 2, support for the rural economic development strategy. The PCU will be responsible for the contracting of consulting services, the procurement of goods and related services, and the contracting of works, in accordance with the Bank's relevant policies and procedures.

## **7. Operating Regulations**

- 3.26 The program's Operating Regulations contain the administrative, operational, technical, and financial procedures for program administration and execution, as well as the eligibility criteria for the use of the resources of each component, and the methodology for project evaluation and auditing. The program's Operating Regulations also describe the organizational structure, the technical and support staff of the PCU, including their professional profile, and the specific functions and

responsibilities of the ADDRs with respect to project execution. The method that will be used to calculate the specific allocation figures and to reallocate resources by municipio is established, along with the project's physical and technical goals, the environmental management plan, and the rules and regulations that govern project execution. The Operating Regulations will also include the following documents: (i) a model of the contract that will be used for hiring the administering agencies and the providers of goods and services; (ii) the terms of reference for contracting studies for carrying out the strategy to promote the program for the first year of execution; and (iii) the terms of reference for contracting the studies included in Component II. During program preparation, draft Operating Regulations were prepared that contain the basic outlines of the Operating Regulations, which were discussed by the IDR and the Bank. **The entry into force of the program's Operating Regulations in accordance with the terms previously agreed upon by the executing agency and the Bank will be a special condition precedent to the first disbursement of the Bank's resources.**

### C. Execution and disbursement periods

- 3.27 The project is planned to be executed and disbursed over a five-year period starting with the entry into force of the loan contract. The annual disbursement schedule of project resources is presented below, by source of financing:

**Table III-1**  
**Disbursements by source of financing (US\$ million)**

| Source                   | YEARS |        |        |        |        | Total  |
|--------------------------|-------|--------|--------|--------|--------|--------|
|                          | 1     | 2      | 3      | 4      | 5      |        |
|                          | 8,341 | 14,664 | 16,700 | 11,434 | 8,860  | 60,000 |
| FSO                      | 1,092 | 1,669  | 1,887  | 1,680  | 1,672  | 8,000  |
| Government of Nicaragua* | 9,433 | 16,333 | 18,587 | 13,115 | 10,531 | 68,000 |
| Total                    | 14%   | 24%    | 27%    | 19%    | 15%    | 100%   |

Up to US\$5 million of the local counterpart may come from the ICDF

### D. Coordination of ICDF financing

- 3.28 The Government of Nicaragua is arranging for ICDF financing to cover part of its counterpart commitments. If this financing is approved, the Bank may administer the resources, in accordance with a coordination agreement that establishes the procedures for disbursements and the ICDF's participation in program evaluations.

### E. Accounting, financial and operational audits

- 3.29 The IDR, as the program's executing agency, will keep an accounting record of transactions using financial resources for the program's various components and subcomponents. To this end, the accounting system will be used in accordance with

the provisions of Bank policy, generating financial statements annually during the project execution period. These financial statements will be subject to an annual audit within 120 days following the close of the respective fiscal year, performed by an independent public accounting firm acceptable to the Bank. The allocations needed to cover the costs of these audits will be financed with resources from the Bank's financing. Likewise, the contracts to be signed between the IDR and the administering agencies must include pertinent contractual provisions to ensure the existence of a financial accounting system for the use and supervision of the program's Bank financing resources and local counterpart.

- 3.30 In addition to the financial audits of the program, annual operational audits will be performed so as to examine: (i) fulfillment of the provisions contained in the program's Operating Regulations; (ii) the operational capacity of the system for project identification, approval, and evaluation; (iii) the project bidding and award process; (iv) the contribution of the counterpart agreed upon with the producers; and (v) other operational reports requested by the Bank, including an independent environmental audit. The PCU will be responsible for submitting to the Bank the report on the annual operational audit of the program within 120 days after the close of each fiscal year.
- 3.31 Additionally, an ex post verification will be performed regarding documentation associated with expenditures charged to program resources and the corresponding requests for disbursements submitted to the Bank. The PCU will be responsible for duly filing this documentation and making it available for periodic inspection by the Bank and for outside audits of the program.

#### **F. Monitoring and evaluation**

- 3.32 For project monitoring and evaluation, the IDR, through the PCU, undertakes to submit the following reports to the satisfaction of the Bank: (i) an initial report with the execution plan for the entire program, detailing the operating plan for the first year of project execution; (ii) the annual operating plan (AOP) within no more than 30 days following the start of each calendar year of program execution; and (iii) semiannual progress reports. To measure and verify fulfillment of program objectives, the IDR also undertakes to submit the following evaluation reports, to the satisfaction of the Bank: (i) a report on the midterm evaluation which will be performed 30 days after the date on which the program enters into effect, or once at least 50% of the financing resources have been disbursed, whichever is first; and (ii) a report on the final evaluation which will be performed once 90% of the financing has been disbursed, and will be based on the goals and benchmarks for monitoring and outcomes agreed upon with the Bank. An independent consulting firm will be hired for the purpose of this evaluation, using financing resources. This evaluation will be based on a measurement of performance and impact benchmarks with regard to the technical, environmental, financial, and social aspects set forth in the program's logical framework. The IDR will keep the statistical database

updated during execution, to allow program achievements to be measured upon its conclusion.

- 3.33 The PCU is responsible for keeping basic data and performance information updated during project execution. The program's logical framework (Annex I) includes the benchmarks for performance measurement and program monitoring in its different components and variables during each of the five years of execution, as agreed upon by the Bank and the IDR. Using program resources, the PCU will be trained to keep records of the technical, environmental, and socioeconomic benchmarks and in the design of the monitoring system, and to make comparisons with the baseline set at the beginning of execution with respect to program objectives, the characterization of the beneficiaries, the impact on their income levels, etc., which will allow the program's impact to be measured. The PCU will use the information on beneficiaries, location, scope of financing, and impact, to be disseminated in program promotion campaigns. The baseline for the performance benchmarks will be included in the PCU's initial report to the Bank.

#### **G. Special disbursement to initiate program activities**

- 3.34 Once the loan agreement is in effect and the general conditions precedent to the first disbursement specified in the general conditions of the loan agreement have been fulfilled, the Bank may disburse up to the equivalent of US\$250,000 of the Bank's financing resources so that the borrower may initiate preparatory activities for the program.

#### **H. Revolving fund**

- 3.35 The program resources will be transferred to the executing agency through the replenishment of a revolving fund. The size of the revolving fund for disbursements of financing resources will be 5% of the total loan.

#### **I. Procurement of goods and services**

- 3.36 Contracting for works, the procurement of goods and related services, and contracting for the consulting services needed for the program will have handled in accordance with the relevant Bank policies and procedures. International competitive bidding will be required when the estimated cost of the works is equal to or greater than the equivalent of US\$1 million, and the estimated cost of goods is equal to or greater than the equivalent of US\$250,000. International competitive bidding will be used when the cost of contracting consulting firms is greater than the equivalent of US\$200,000. Contracting for works, goods and related services, and consulting services for lesser amounts will be handled in accordance with the provisions of Nicaraguan law to the extent consistent with bank policy.

**J. Ex post evaluation**

- 3.37 The government has expressed interest in conducting and financing an ex post evaluation of the program's impact. This evaluation will be conducted after the end of the second year following the completion of program execution. The evaluation should provide evidence concerning the attainment of program performance and impact targets in terms of: (i) effectiveness with regard to productivity and competitiveness of rural productive activities; (ii) impact in terms of employment and increases in family incomes, particularly for low-income farmers and women; (iii) development of the business management capacity of the rural producer communities, including links from their businesses to the markets; and (iv) the financial, environmental, and physical sustainability of the investments. The IDR will have much of the required information available as a result of the development of the information system for program monitoring and tracking.

## **IV. VIABILITY AND RISKS**

### **A. Technical viability**

- 4.1 The activities included in projects to support competitiveness, focusing on productive conversion in favor of high-value crops, consider the introduction of agricultural technologies that are sufficiently well known and adapted to the agroclimatic conditions of Nicaragua or will be subject to technical feasibility studies to verify that the crops are viable in the requested zone, that the proposed technology is appropriate, and that the crops are high-yield. The project must comply with current laws and regulations relating to health and food safety, and technology transfers. Technical execution is not expected to encounter any difficulties, since private and public institutions exist in the country that have the necessary capacity and experience. The road rehabilitation works contemplated in the program do not present any technical difficulties with respect to implementation, since these are routine operations, and the IDR and the municipalities are familiar with executing them. A further determination has been made that there are contractors in Nicaragua with adequate installed capacity to execute the projects.

### **B. Institutional viability**

- 4.2 Institutional viability is based on the institutional structuring of the IDR that is proposed so as to strengthen its organization. Through this effort, emphasis is being placed on training the institution to coordinate the various rural investment programs effectively, with consistent and complementary rules and priorities, and direction in their plans and strategies in keeping with MAGFOR's policies and the actions of other institutions operating in the sector, such as INIFOM and FISE. This coordination will facilitate programming by the municipalities and will reduce duplications and conflicts between programs being executed in the same regions. The mechanism used for project execution in the RAAN and the RAAS includes the direct participation of regional governments in prioritizing the projects, and the participation of local entities for direct project execution. While the organization process is underway, program execution will be the responsibility of the PCU, reporting to the IDR's executive board and operating with administrative autonomy. This arrangement ensures the stability of execution while the final location of responsibility for program execution within the new organization is worked out.
- 4.3 During program preparation, an analysis was performed of the ADDRs' execution capacity, taking the agencies' historic level of execution into consideration, relative to the human resources employed, the goals set in the AOPs in terms of amounts and numbers of projects, and relative to the project level of execution for this new stage. The conclusion was that with the adjustments in promotion and participation



staff that are being introduced and the opening of the two new offices, the agencies have adequate capacity to execute the program.

- 4.4 The support for consultation and official enactment of the rural development sector policy will facilitate the timely availability of a strategic rural investment orientation for implementation of a rural economic development strategy, with an emphasis on a plan of specific actions to establish an adequate framework of growth incentives, including the direction that the IDR will take as an arm of rural public investment. The expansion of the geodesic information system to the RAAN and the RAAS will provide the program with uniform information for the entire country, to calculate the indices used for specific municipal allocations. Support for the drought management strategy will enable MAGFOR to provide early warning and take preventive measures against threats of drought-related damage.

## **C. Social and environmental viability**

### **1. Social viability and impact**

- 4.5 The program will have a positive social impact as it is specifically intended to improve the quality of life and incomes of poor producers in rural areas, in accordance with a formula for project cofinancing that encourages participation by poor producers and that charges in keeping with the ability to pay. The program will expand the scope and coverage of its projects and technical assistance, ensuring specific benefits for rural producers in all departments, and begins actions in the RAAN and the RAAS, where the majority of Nicaragua's poor live. The program's direct beneficiaries will be low-income producers with productive potential and minimal resources who will be able to convert their productive patterns toward higher-value crops. The poor rural population, which lacks minimum production resources, can benefit indirectly from the program as rural employment opportunities open up as a result of the productive activity supported by the program.
- 4.6 More active community participation throughout the project cycle will be promoted. Activities to support social participation will include: (i) participatory planning among localities and producer organizations, facilitated by local promoters; (ii) support for organizational forms oriented toward strengthening the sense of ownership and defining project responsibilities; and (iii) an extensive accompaniment phase for technical and socio-organizational aspects. It is expected that many of the groups will continue to be organized, having perceived and evaluated the significance of solidarity in increasing their productivity and incomes. The inclusion of complementary activities will be promoted in the projects, such as transformation, marketing, and crafts, to increase the productivity and incomes of all members of the rural productive units. The program will include technical assistance to the IDR, administrative and executive bodies, and certain mayoralties and local organizations for the development of methodologies oriented toward

expanding participation. Support will be provided for greater representation of women in the various organizational entities and in training for managing agribusiness, production, transformation, and marketing. The active participation of women and men from the beneficiary communities will lead to greater economic, social, and environmental sustainability, and will ensure equitable access to program benefits.

- 4.7 Strict criteria will be applied in the RAAN and the RAAS to determine the eligibility of projects that include productive infrastructure, particularly roads. Financing will not be provided for roads that connect new settlements in the central region to the coast, to minimize the sociocultural impact of opening up traffic through well-established, traditional communities on the Atlantic Coast. Some of the unmet needs expressed by the population in terms of production and organizational strengthening are slated to be addressed. Work will begin on a small scale and will be expanded gradually, with the active participation of leaders and producers in the indigenous communities. The program will work with local promoters who have knowledge of the indigenous languages and customs of the communities, and with organizations in the region, from identification to ex post evaluation of the projects, with an emphasis on processes for coordination, participation, and preservation of cultural heritage.

## **2. Environmental viability and management**

- 4.8 The program is expected to have a positive environmental impact on rural populations owing to improvements in technology and information transfer and the use of water and soil resources, the environmental benefits of which are due mainly to changes from current agricultural and forestry practices to practices and technologies that promote the sustainable and rational use of natural resources. This will bring about an improvement in the quality of agricultural products, with a positive impact on the health of producers and consumers. The potential negative impacts have been identified and the appropriate mitigation measures are being recommended. The effects of these negative impacts will be limited and manageable through the application of current law, the programs environmental procedures that are already in effect, and the proposed improvements.
- 4.9 The project's main environmental impacts could derive from the execution of Component I: Rural productive investment. To ensure the adequate incorporation of environmental considerations in the financed projects, a strategy will be pursued to ensure environmental feasibility, based on the following elements:
- a. Adoption of eligibility criteria, an analysis procedure, and environmental supervision, as contemplated in the procedures already in place within SISPADRU and incorporated in the project cycle and the Operating Regulations. The project environmental eligibility criteria ensure that each project in the program is environmentally sustainable, and therefore: (i) includes the necessary

measures to mitigate, eliminate, correct, or offset adverse environmental impacts, (ii) complies with national environmental rules and regulations, and (iii) avoid bias in favor of environmentally undesirable activities.

- b. Inclusion of environmental protection costs required according to the feasibility studies and environmental analyses of the projects, as part of the project costs to be financed. Resources budgeted for a project's environmental measures will not be permitted to be transferred to other project expenditure categories.
  - c. Monitoring of environmental impacts based on clearly defined benchmarks, with respect to a baseline, producing period reports that identify the necessary corrective measures to improve the project's environmental outcomes. This monitoring and response plan is part of the Operating Regulations. The program's logical framework includes the monitoring and tracking measures.
- 4.10 No negative environmental impacts are expected from promotion, support for participatory processes, and preinvestment activities. The subcomponent will be used as a dissemination tool to motivate actions and promote environmentally sustainable projects. Negative impacts are not expected in program activities designed to strengthen the IDR's organization and systems. Positive environmental impacts are expected in consequence of strengthening the IDR's environmental management unit (EMU) and the modernization of SISPADRU. Activities to support MAGFOR will help create an appropriate setting for the conservation of natural resources and the environment by facilitating the implementation of environmentally friendly policies and strategies. Actions aimed at reducing and managing drought-related risk will help provide early warnings to producers in vulnerable areas, and will make it possible to take preventive measures against drought-related damage.
- 4.11 Under the program, operations will begin in the RAAN and the RAAS with a group of pilot projects for which an environmental impact evaluation will be performed to avoid the occurrence of negative impacts to the ecosystem, such as pollution, sedimentation, and deforestation. The program will take into account especially those areas where endemic animal and/or plant species prevail; care will be taken regarding the introduction of exotic species that may disrupt the natural equilibrium of the area. The procedures to be followed in the region will be an integral part of the program's Operating Regulations, which will be the object of consultation with regional authorities.
- 4.12 The costs expected for operation of the EMU are integrated into the program costs, and include salaries, equipment, training, consulting support services, and outside environmental audits. The EMU will perform the environmental monitoring and tracking of projects in execution, to verify that all projects fulfill the environmental eligibility conditions, execute the environmental management measures recommended or required by the feasibility studies, and introduce corrective

measures for negative environmental impacts encountered during execution that were not foreseen during project preparation. Environmental monitoring will be carried out by the ADDRs' environmental units, supported by the central EMU or by consultants. Additionally, an annual outside environmental audit will be performed as part of the program's operational audit.

#### **D. Economic and financial viability**

- 4.13 The program will finance projects similar to those financed under previous programs, but requiring the incorporation of the elements needed to carry out the process of productive conversion to high-value crops, as evaluations have shown that growing basic grains such as corn, sorghum, and beans as the productive unit's sole source of income is not financially viable and should not be supported under this program. Therefore, the financial and economic analysis of Component I, rural productive investment, is based on: (i) the ex post evaluation of projects executed under 927/SF-NI and 1001/SF-NI, the results of which are summarized in paragraphs 1.12 through 1.19; and (ii) the analysis of models of high-yield productive activity prepared for the program (paragraph 2.14).
- 4.14 The financial analysis of the proposed models shows the profitability of the investments, with IRRs in excess of 48%. It is expected that the average net income per converted plot will increase by an average of US\$570 per year, without the project, and by an average of US\$2,300 per year with the project. This is not surprising considering the initial situation, without the project, in which the productive activity scarcely covers the on-farm consumption of basic grains.

**Table IV-I Summary of Productive Systems (projects to support competitiveness) (US\$) –**

| <b>System</b>                             | <b>System Cost*</b> | <b>Program Financing</b> | <b>Net Inflows</b> | <b>B/C Ratio</b> |
|---|---------------------|--------------------------|--------------------|------------------|
| 1.1 Dry highland area                     | 40,176.00           | 2,535.00                 | 23,241.00          | 1.6              |
| 1.2 Dry highland area                     | 35,088.00           | 2,216.00                 | 11,274.00          | 1.4              |
| 2.1 Dry lowland area with clay soil       | 47,512.00           | 2,527.00                 | 98,488.00          | 3.2              |
| 2.2 Dry lowland area with loam soil       | 9,912.00            | 1,995.00                 | 51,493.00          | 1.8              |
| 3.1 Lowland area transitioning to wetland | 49,020.00           | 2,236.00                 | 16,605.00          | 1.3              |
| 3.2 Lowland area transitioning to wetland | 44,625.00           | 2,343.00                 | 24,972.00          | 1.6              |
| 4.1 Wet lowland area                      | 40,994.00           | 1,485.00                 | 52,481.00          | 2.3              |
| 5.1 Wet highland area                     | 32,184.00           | 2,521.00                 | 20,687.00          | 1.7              |
| 5.2 Wet highland area                     | 40,101.00           | 2,483.00                 | 118,754.00         | 4.1              |

\* Program contribution plus producer contribution, assuming a 10% beneficiary counterpart. The value of the counterpart will be based on the targeting formula established in the Operating Regulations. The cost of the system does not include investment in public infrastructure such as road rehabilitation, which was evaluated separately.

- 4.15 The expected return per unit of area are based on the program's principle that projects to support competitiveness should incorporate the technical assistance necessary to improve productive practices significantly. The production of all the new products has been tested, and quality has been excellent. The products selected are now being marketed in the domestic market, some of which have been produced in Nicaragua while others have been imported. The markets for each crop were studied, and significant potential was identified for placing new volumes. Some of the products have the potential of being processed so as to place them in the market with greater added value.
- 4.16 To calculate the economic impact, economic prices are introduced for tradable goods, nontradable goods, and unskilled labor. The crops analyzed prove to be highly profitable, as shown in Table IV-1, which present the results of the main systems recommended for a production unit. To test the strength of the results of this model analysis, a sensitivity analysis is performed with regard to the financial and economic calculations, emphasizing the vulnerability of the results to the product prices in the market.
- 4.17 Prioritization and competitive selection of the projects are based on the strict technical and economic evaluation criteria set forth in the Operating Regulations. The products proposed in a project to support competitiveness will be subject to an analysis of financial, technical, and commercial feasibility, and will require verification that the project complies with current Nicaraguan laws and regulations relating to technology. The feasibility studies will be contracted out to third parties through a competitive process, increasing the reliability of the results. The financial and economic analysis will be based on rigorous analytical methodologies, and better information will be required for evaluation of the proposals submitted. The criteria for the geographic distribution of the investments and for the selection of projects ensure that the investments have a high probability of producing direct positive economic benefits and benefits to the population in general, while contributing to technological innovation in rural communities.
- 4.18 The strict application of guidelines for selecting roads with a focus on the return derived from a related project to support competitiveness, financed under the program or from another source, and the requirement that a maintenance fund be established with a partial contribution from the program, will help significantly improve the outlook for financing profitable investments sustainably. The economic benefits in terms of greater productive activity in rural areas will be reflected in higher incomes, improved standards of living, a higher product added and greater commercial activity in the affected areas.

## **E. Risks**


- 4.19 The resistance to change inherent among traditional farmers in Nicaragua and the perception of associated risks may impede or delay the productive conversion upon

which the success of Component I, rural productive investment, depends. The promotion of crops with high yield potential will be intensified in the initial stages, so that they may serve as a demonstration for producers with a greater lack of confidence in new crops.

- 4.20 One of the greatest challenges facing the component relates to the beneficiaries' ability to maintain the investment made under the program, so as to sustain their benefits in the long term. The program includes the creation of mechanisms for maintenance and for charging for services, under the responsibility of the municipios and the beneficiaries themselves.
- 4.21 The weak fiscal situation facing the country may limit the IDR's ability to maintain its central structure. The organizational study of the IDR will use efficiency criteria in designing the organization, to ensure that only the minimum necessary personnel is hired. The execution scheme introduced with the establishment of the PCU ensures that only the personnel needed to fulfill the functions required under the program will be hired, and that the personnel will be less vulnerable to changes in the political cycle. Some of the administrative costs of the IDR's central structure are being included in the local counterpart, with local participation in the financing being above the minimum required.
- 4.22 Nicaragua has been vulnerable to natural disasters which negatively impact agricultural productivity and project execution in rural areas. The program will focus less attention on highly vulnerable areas, which may be considered unsuited for development and productive investment, by including this information in the indices used for specific resource allocation. Agroclimatic information and data on the level of potential with irrigation are included in calculating this index, which favors irrigated areas affected by cyclical droughts. The program supports MAGFOR's action plan for drought management and reduction of drought-related risks by strengthening early warning systems and the IDR's rapid response capacity to serve areas under imminent threat.

**NICARAGUA**  
**RURAL PRODUCTION REVITALIZATION PROGRAM (NI-0159)**  
**LOGICAL FRAMEWORK**

| <b>Narrative Summary</b>  | <b>Indicators</b>   | <b>Means of Verification</b>                                      | <b>Assumptions</b>   |
|---|---|---|--|
| <b>GOAL</b>   |   |   | <b>SUSTAINABILITY</b>  |
| To increase the net incomes of low-income rural families  | 35,000 rural families increase their annual net incomes obtained from productive activities by 50% at the end of the program  | Annual evaluation of results<br>Ex post evaluation of the program | A stable political and macroeconomic framework favorable to investment is maintained   |
| <b>Purpose</b>  |   |   | <b>Purpose to Goal</b>   |
| Increased agricultural and productive competitiveness of the beneficiary rural productive units | <ul style="list-style-type: none"> <li>35,000 rural families served increase yield per manzana or per animal unit by at least 25% by the end of the program</li> <li>1,000 km of roads rehabilitated and satisfactorily maintained</li> </ul> | IDR information system<br><br>IDR annual reports                  | No natural disasters occur that prevent the development of agricultural business and slow growth in the sector<br><br>The beneficiaries maintain the investments made<br><br>The training provided and the works constructed promote additional investment in the program's area of influence, improve the producers' management capacity, and have a synergistic effect on the productive process |

| Narrative Summary  | Indicators  | Means of Verification  | Assumptions |
|--|---|--|-------------|
| <b>COMPONENT 1: Rural Productive Investment</b>                          |   |  |             |
| <b>Subcomponent 1</b><br>Projects to support productive competitiveness. | <ul style="list-style-type: none"> <li>• 200 projects to support competitiveness executed in 5 years: 20 in year 1; 50 in year 2; 60 in year 3; 40 in year 4; 30 in year 5.</li> <li>• 100% of projects prioritized according to the criteria set forth in the Operating Regulations</li> <li>• 100% of approved projects fulfill eligibility criteria</li> <li>• Yields of existing products increase by 25% per cultivated manzana or animal unit</li> <li>• The diversification index for agricultural activities is increased by 10% on average on each beneficiary's farm.</li> <li>• The average value of sales of the beneficiary productive units increases by 15% per year.</li> <li>• Activities in support of product marketing increases the percentage of sales to new destinations by an average of 25%.</li> <li>• An average of 30% of participants in technical assistance and training activities are women</li> <li>• 250 producer groups legally established in 5 years</li> <li>• 100% of projects to support competitiveness executed in accordance with national regulations and the PRPR for the use and management of agrochemicals, waste, and refuse</li> <li>• The design of 100% of the projects to support competitiveness take the environmental situation of direct beneficiaries' farms into account, and include environmental conservation activities when feasible</li> </ul> | <p>Baseline study, annual evaluations, ex post evaluation</p> <p>Reports of the prioritization committees</p> <p>Feasibility studies</p> <p>  Baseline study, annual evaluations, midterm evaluation </p> <p>Legal documents, semiannual and annual reports of the IDR</p> <p>Works supervision reports; annual environmental audit</p> <p>Feasibility studies; farm plan of agricultural production beneficiaries; midterm evaluations</p> |             |



| Narrative Summary   | Indicators  | Means of Verification  | Assumptions  |
|---|---|--|--|
| <b>Subcomponent 2</b><br>Public productive infrastructure projects executed                       | <ul style="list-style-type: none"> <li>• 100 tertiary road rehabilitation projects executed in 5 years in productive areas, for a total of 1,000 km, including: 10 projects in year 1; 25 in year 2; 30 in year 3; 20 in year 4; and 15 in year 5</li> <li>• 100% of road projects built in accordance with the established quality standards</li> <li>• Maintenance funds established and operating sustainably for 100% of road projects</li> <li>• 100% of negative environmental impact measures recommended in the feasibility studies are implemented</li> </ul>  | Supervision reports, annual reports of the IDR, annual evaluations<br>Semiannual, annual, and midterm evaluations of the project<br><br>Field visit reports<br><br>Annual operational audits <sup>1</sup><br>Works supervision reports | No global recession that reduces demand for agricultural products with a consequent drop in international prices<br><br>Macroeconomic stabilization programs continue and trade policies are introduced without an anti-export<br><br>The potential population responds to the promotion campaigns |
| <b>Subcomponent 3</b><br>Program promotion and support for the participatory processes undertaken | <ul style="list-style-type: none"> <li>• Program of promotional campaigns carried out with the participation of the various groups involved: (town governments, NGOs, producer organizations, women's organizations, leaders of indigenous and Afro-Latino communities, cooperation agencies, other governmental agencies, etc.).</li> <li>• Information and training events for participating entities completed.</li> <li>• 60 CDMs and their production coordination panels established and strengthened in the first three years.</li> <li>• 40 community and producer organizations strengthened in the RAAN/RAAS</li> </ul> | Semiannual and annual reports of the IDR<br><br>Annual operational audits  |  |

<sup>1</sup> Includes annual outside environmental audits.

| Narrative Summary  | Indicators   | Means of Verification  | Assumptions  |
|--|--|--|--|
| <b>COMPONENT 2: Strengthening the Institutional and Legal Framework for Rural Development</b>  |  |  |  |
| <b>Subcomponent 1:</b><br>Strengthening of the IDR   | <ul style="list-style-type: none"> <li>• Institutional organization completed</li> <li>• Information systems integrated</li> <li>• Social and gender data compiled and integrated into the information system</li> <li>• Baseline evaluation study completed</li> <li>• Annual evaluations of results completed, and results incorporated into the annual planning</li> <li>• Capacity of the PCU's planning unit strengthened</li> <li>• Training on crosscutting issues (environment, social participation, gender) for the PCU and the ADDRs fulfilled in the first 2.5 years</li> <li>• 10 studies of new market opportunities completed and results incorporated into the annual promotion plan</li> <li>• 2 new ADDRs established in the west and south regions</li> <li>• EMU strengthened and SISPADRU improved and used in the ADDRs and the central headquarters in a timely and updated manner</li> <li>• Environmental monitoring and follow-up system set up and operating</li> </ul> | Consultants' reports,<br>Semiannual and annual reports of the IDR<br>Midterm evaluation<br><br>IDR information system<br><br>Annual operational audits<br><br>SISPADRU reports<br><br>Midterm evaluation | IDR staff motivated to adopt the new structure and training within the IDR<br>Agencies financing IDR programs are disposed to accept the new coordinated structure of the IDR                      |
| <b>Subcomponent 2:</b><br>Support for MAGFOR <ul style="list-style-type: none"> <li>• Support for the rural economic development strategy</li> </ul> | <ul style="list-style-type: none"> <li>• 5 regional baseline reports and one national baseline report prepared</li> <li>• 5 technical studies performed</li> <li>• 5 regional workshops and one national workshop held</li> <li>• Rural economic development strategy completed</li> </ul>   | Consultants' reports<br>Annual reports of the IDR<br>Semiannual and annual evaluations<br>Midterm evaluation<br>Annual operational audits  | Coordination takes place between the IDR, MAGFOR, financing entities, and local governments that provides an adequate institutional framework for implementation of the rural development strategy |
| <ul style="list-style-type: none"> <li>• Support for the geodesic information system</li> </ul>  | <ul style="list-style-type: none"> <li>• Geodesic studies of the RAAS and the RAAN completed, and geodesic information available with indicators</li> </ul>  | MAGFOR geodesic information system   |  |

| Narrative Summary   | Indicators  | Means of Verification   | Assumptions  |
|---|---|---|--|
| <ul style="list-style-type: none"> <li>Plan to manage and reduce drought-related risks</li> </ul> | <ul style="list-style-type: none"> <li>Information collection system for early warning operational</li> <li>Pilot project for the use of remote sensors executed</li> <li>3 strategic projects implemented</li> <li>Dissemination campaigns executed</li> </ul> | Annual operational audits<br>Consultants' reports<br>Annual reports of the IDR<br>Semiannual and annual evaluations<br>Midterm evaluation | Producers accept the information supplied by MAGFOR and use it as a basis for their productive decisions |

**RURAL PRODUCTION REVITALIZATION PROGRAM**  
**PROCUREMENT TABLE (US\$ THOUSAND)**

| Category/Activity/Procurement |   | Amount        | Bidding | Years        |              |              |              |              | Description   |
|-------------------------------|---|---------------|---------|--------------|--------------|--------------|--------------|--------------|---|
|                               |   |               |         | 2003         | 2004         | 2005         | 2006         | 2007         |   |
| <b>I</b>                      | <b>LOCAL CONSULTANTS</b>  | <b>14,069</b> |         | <b>1,998</b> | <b>3,406</b> | <b>3,832</b> | <b>2,681</b> | <b>2,152</b> |   |
| a)                            | <b>Projects to Support Competitiveness</b>                              |               |         |              |              |              |              |              |   |
|                               | Training and Technical Assistance Services                              | 7,680         | LCB     | 768          | 1,920        | 2,304        | 1,536        | 1,152        | Approximately 200 projects                                    |
| b)                            | <b>Public Productive Infrastructure</b>                                 | 1,540         | LCB     | 154          | 385          | 462          | 308          | 231          | Up to 7% of the investment cost of the work                   |
| c)                            | <b>Promotion, Participatory Processes and Preinvestment</b>             | 3,907         |         | 602          | 884          | 979          | 762          | 680          |   |
| 1                             | Promoters of the ADDRs  | 1,481         | LCB     | 294          | 294          | 298          | 298          | 298          | 14 promoters, up to US\$19,600 per year per promoter          |
| 2                             | Local promoters   | 400           | LSB     | 100          | 100          | 100          | 67           | 33           | 28 promoters, up to US\$600 per month with travel expenses    |
| 3                             | Specialists in organizational strengthening                             | 127           | LSB     | 18           | 18           | 9            | 9            | 72           | Approx. 3 months/person up to US\$4,000 per month/consultant  |
| 4                             | Specialists in feasibility studies (preinvestment)                      | 1,800         | LCB     | 176          | 442          | 543          | 367          | 271          | Up to 4% of the direct costs of the investments               |
| 5                             | Specialists in management strengthening (of the administering agencies) | 100           | LSB     | 14           | 30           | 29           | 21           | 6            | Approx. 20 months/person up to US\$4,000 per month/consultant |
| d)                            | <b>Strengthening of the Institutional Framework</b>                     | 731           | LSB     | 457          | 182          | 52           | 40           |              |   |
| e)                            | <b>Administration and Supervision</b>                                   | 211           | LSB     | 17           | 35           | 35           | 35           | 89           |   |
| <b>II</b>                     | <b>INTERNATIONAL CONSULTANTS</b>  | <b>357</b>    |         | <b>207</b>   | <b>133</b>   | <b>17</b>    |              |              |   |
| a)                            | <b>Support for the Rural Economic Development Strategy</b>              | 19            | LSB     | 19           |              |              |              |              | Approx. 1 months/person up to US\$8,000 per month/consultant  |
| b)                            | <b>Strengthening of the IDR</b>   | 319           | LSB     | 169          | 133          | 17           |              |              |   |
| c)                            | <b>Administration and Supervision</b>                                   |               |         |              |              |              |              |              |   |
| <b>III</b>                    | <b>SERVICES</b>   | <b>366</b>    |         | <b>112</b>   | <b>101</b>   | <b>91</b>    | <b>41</b>    | <b>22</b>    |   |
| a)                            | <b>Promotion, Participatory Processes and Preinvestment</b>             | 244           |         | 65           | 65           | 55           | 39           | 21           |   |
| 1                             | Workshops to promote and support participatory processes                | 84            | NDS     | 25           | 25           | 15           | 14           | 6            | 24 events at US\$3,500 on average                             |

| Category/Activity/Procurement   |   | Amount        | Bidding | Years        |               |               |               |              | Description  |
|---|---|---------------|---------|--------------|---------------|---------------|---------------|--------------|--|
|   |   |               |         | 2003         | 2004          | 2005          | 2006          | 2007         |  |
| 2   | Dissemination via communications media  | 160           | NDS     | 40           | 40            | 40            | 25            | 15           |  |
| b)  | <b>Support for the Rural Economic Development Strategy</b>                        | 111           |         | 37           | 37            | 36            | 2             | 1            | 3 persons  |
|   | Subscriptions to international price databases                                    | 7             | IDS     | 2            | 2             | 2             | 2             | 1            |  |
|   | Publication and dissemination for drought management                              | 104           | LDS     | 35           | 35            | 34            |               |              |  |
| c)  | <b>Strengthening of the IDR</b>   | 11            | IDS     | 11           |               |               |               |              |  |
| <b>IV</b>   | <b>WORKS, GOODS AND EQUIPMENT</b>   | <b>39,327</b> |         | <b>4,469</b> | <b>9,780</b>  | <b>11,617</b> | <b>7,688</b>  | <b>5,773</b> |  |
| a)  | <b>Projects to Support Competitiveness</b><br>Equipment, materials, and inputs    | 17,920        | LCB     | 1,792        | 4,480         | 5,376         | 3,584         | 2,688        | Approx. 70% of the total cost of projects to support competitiveness |
| b)  | <b>Public Productive Infrastructure</b><br>Road works and infrastructure projects | 20,460        | LCB     | 2,046        | 5,115         | 6,138         | 4,092         | 3,069        | Approx. 102 road projects and other public infrastructure            |
| c)  | <b>Vehicles, motorboats</b>   | 526           | ICB     | 451          | 75            |               |               |              | US\$2,000 per agency   |
| d)  | <b>Computer hardware, printers, and software</b>                                  | 274           | ICB     | 94           | 96            | 84            |               |              |  |
| e)  | <b>Other equipment</b>  | 125           | LSB     | 64           | 14            | 19            | 12            | 16           |  |
| f)  | <b>Office renovation</b>  | 22            |         | 22           |               |               |               |              |  |
|   | Existing ADDRs  | 10            | LSB     | 10           |               |               |               |              |  |
|   | New ADDRs and offices in the RAAS and the RAAN                                    | 12            | LSB     | 12           |               |               |               |              |  |
|   | <b>TOTAL</b>  | <b>54,119</b> |         | <b>6,787</b> | <b>13,420</b> | <b>15,556</b> | <b>10,409</b> | <b>7,947</b> |  |
| LCB = Local competitive bidding    ICB = International competitive bidding    LSB = Local selective bidding (minimum of 3 offers)    IDS = International direct shopping    LDS = Local direct shopping |   |               |         |              |               |               |               |              |  |