

IDA AT WORK

Nicaragua: Innovative Approaches Reach the Poor in Remote Rural Areas

IDA is helping Nicaragua to scale-up its model interventions for tackling rural poverty

Following decades of instability and several natural disasters, Nicaragua has achieved a remarkable economic turnaround, and is now focused on innovative ways of reducing poverty, particularly in remote rural communities. Through a large debt relief effort, the International Development Association (IDA) helped Nicaragua free resources for greater spending on poverty reduction, and is focusing on scaling-up the country's more successful innovations for reaching the rural poor.

Catching up after a history of adversity

By the early 1990s, Nicaragua was among the most highly indebted and unstable economies in the world. Following decades of political instability and several catastrophic natural disasters, public debt had soared to 350 percent of gross domestic product (GDP) in 1991. In 1993, half of all Nicaraguans were living in poverty and one-fifth in extreme poverty. In the mid 1990s, significant gains were made in stabilizing the economy, improving basic infrastructure and raising private investment. Then in 1998, the country was again set back by the devastating effects of a catastrophic hurricane. Since then, Nicaragua has made strong progress in restoring and sustaining macroeconomic stability. Real GDP growth has averaged 3.2 percent since 1998, inflation was brought under control and private investment grew from 15 to 29 percent of GDP during 1998-2008. A rather modest contraction of 1.5 percent during the 2009 global crisis and an early improvement of macroeconomic indicators in 2010 are signs that the economy has acquired greater resilience to shocks.

However, by 2005, the poverty rate had only decreased to 46 percent and social indicators were showing only very gradual improvements. Poverty in Nicaragua remains a predominantly rural phenomenon—more than two-thirds of the rural population is poor—and although there had been a significant increase in poverty-related spending, much of it did not have the desired impact in remote rural communities where almost 80 percent of Nicaragua’s poor and extremely poor households live. It was projected that Nicaragua would not be able to achieve a significant number of the Millennium Development Goals (MDGs) by 2015.

Creating the fiscal and creative space to accelerate poverty reduction

The impact of Nicaragua’s turbulent history on social welfare has been daunting, but this same history has forged a national consensus that “business as usual” will not work to close the gaps, improve the conditions in which Nicaraguan families live and work, and help the country realize the economic potential of its strategic location and natural resources. Indeed, Nicaragua has been a virtual cauldron of experimentation—across government administrations and within civil society—of programs to rapidly reach and improve lives of its rural poor.

After the armed conflict of the 1980s, IDA resumed operations in Nicaragua in 1991 and has continued as steady partner representing, in recent years, about one-fifth of development aid to the country. Following Hurricane Mitch in 1998, IDA in 2002 launched a major debt relief effort in three phases. Nicaragua qualified for US\$6.5 billion of debt relief (equivalent its annual GDP), and in turn

raised its annual spending on poverty reduction programs to 12.4 percent in 2009 of GDP from 10 percent in 2002.

In addition, IDA projects have concentrated upon identifying and expanding Nicaragua’s innovative programs that show promise in delivering rapid, but also sustainable improvements for the rural poor. These programs range from the unique *casas maternas* for improving maternal health, to a program using community labor and *adoquine* blocks to build cheaper rural roads faster, to a project that works with the private sector to deliver solar power to remote communities, and finally, to another that is securing property rights for marginalized, indigenous communities.

Nicaragua’s innovative programs achieve results in rural communities

- ***Casas maternas for better maternal health.*** Since 1998, IDA has supported the expansion of the innovative *casas maternas* in rural communities with around US\$14 million. From these *casa maternas*, networks of community volunteers identify pregnant women in remote areas and bring them an array of services, including pre-natal checkups, birthing plans, and post-natal follow up. Around the time of delivery, the women stay in the *casas maternas*, usually located near health units, and receive additional support, such as with breast feeding, early parenting skills and family planning. IDA support, targeted to the poorest 80 of Nicaragua’s 153 municipalities, has helped to expand the number of *casas maternas* to over 80 in 2010 from 12 in 2000, and the number of women served to 17,200 in 2009 from around 2,300 in 2000. The reduction

in maternal mortality has been significant; from 148 per 100,000 live births (measured by survey) in 1998 to around 61 in 2009, as measured by administrative data.

- **Improving rural roads with local labor and materials.** Hurricane Mitch reversed much of Nicaragua's earlier gains in road infrastructure. Since then, however, IDA has invested over US\$175 million in improving 3,000 km of the country's secondary and rural roads, most of this using local labor to deepen the impact on rural communities. IDA is now supporting the introduction of cheaper, locally-made *adoquine* blocks that allow faster, more labor-intensive, and more sustainable road works. Under current operations, over 200 of the planned 320 kilometers have been constructed in this way, generating over 24,000 direct jobs and 95 community-owned enterprises. IDA also supported the creation of the Road Maintenance Fund, which develops microenterprises to carry out routine road maintenance. To date, 35 microenterprises employing around 400 persons have been established (four more are planned) and are routinely maintaining 2,400 km or 88 percent of the maintainable core road network.
- **A public private partnership for rural solar power.** Under an IDA project that is piloting public-private partnerships for rural electrification, almost 7,000 remote rural households (or 42,000 beneficiaries) have been equipped with solar home systems, marketed and installed by local enterprises with participation of local micro-finance institutions. Another 370 rural households are being serviced by seven pilot cooperative solar charging cen-

tres where they charge batteries for their low voltage lights and appliances.

- **Securing indigenous land rights.** IDA has supported the development of a land rights program under which 15 of Nicaragua's 21 indigenous territories in the historically marginalized Caribbean Coast autonomous regions have already been titled and registered since 2005 (representing roughly 17 percent of the national territory). These territories have the highest incidence of poverty in Nicaragua but also contain much of the country's forest, fishing, and mineral resources. Over 104,000 people from 214 communities in five major ethnic groups have benefited. This decentralized and participatory process has also already succeeded in resolving several long-standing disputes and has spurred an engagement between local indigenous groups and private investors. Meanwhile, IDA has also supported the demarcation of twelve protected areas and preparation of ten management plans for ensuring the sustainable development of the natural resources.
- **Expanding rural financial services.** IDA support for Nicaragua's burgeoning micro-finance sector has helped to expand the delivery of rural financial services from the country's 18 microcredit institutions, through technical assistance to these institutions, a second tier bank and the supervisory authority. Since 2005, the number of financial service points in rural areas has increased by 25 percent to 253, and the microcredit portfolio rose to US\$212 million in 2009 from US\$150 million in 2005, notwithstanding the difficulties experienced during the global financial crisis.

- **Connecting the poor through rural telecommunications.** Following support in the 1990's for liberalizing Nicaragua's telecom sector, IDA has focused on expanding rural access to telecommunications services, first through the development of a Telecom Investment Fund, which provided telephone services to around 500,000 citizens in 365 small towns during 2005-06. Since 2007, IDA has supported the establishment of tele-centers providing internet access to all of Nicaragua's 104 rural municipalities. IDA is now working to complete public telephone access for another 397 rural towns.

IDA has contributed to expanding these locally grown programs...

As of July 31, 2009, IDA had committed US\$1.5 billion in credits and grants to Nicaragua. The current portfolio consists of 15 active projects with total IDA commitments of US\$316 million (half of which are credits and half grants) and US\$40 million of trusts funds in various sectors ranging from health and education, to rural infrastructure (roads, electrification, telecom, water and sanitation). In support of the results listed above, IDA has contributed since 1998:

- US\$35 million for two operations under the Health Sector Modernization Program. A third operation is currently under preparation for US\$20 million.
- US\$175 million for two operations under the Road Rehabilitation and Maintenance Program. A third operation is under preparation for FY12.
- US\$12 million for the Off-Grid Rural Electrification Program, combined with US\$4 million from the Global Environment Fund, and US\$10 million from Switzerland, Spain and UN Development Programme (UNDP).

This project has served as a pilot for a national multi-donor rural electrification program.

- US\$43 million for the Land Administration Project with parallel financing of €6 million from the Nordic Development Fund and US\$5 million from the US Millennium Challenge Account.
- US\$7.5 million for the Broad-based Access to Financial Services Project and US\$20 million for the Micro, Small and Medium Enterprise Development Project
- US\$23 million in total for the ongoing Rural Telecom Project and the earlier Telecommunications Reform project.

... together with Nicaragua's other partners

Because Nicaragua remains dependent on donor support, coordination and alignment are critical to improving results. Nicaragua is a pilot country for the One UN program, European Union (EU) donor coordination and the OECD Multilateral Financial Institutions donor harmonization and alignment initiative. In this context, IDA has worked steadily to ensure that all of the projects in Nicaragua are designed and implemented in collaboration with other partners, particularly the Inter-American Development Bank, Central American Integration Bank, the US Millennium Challenge Corporation and the country's major bilateral partners. Efforts to scale up Nicaragua's more successful development initiatives, such as the *adoquine* roads or the indigenous land titling, have concentrated in building partnerships across the development community to co-finance larger, more harmonized programs.

Following the debt relief effort which mobilized support across Nicaragua's develop-

ment partners, IDA was also instrumental in convening and sustaining a joint multi-donor effort providing budget support for Nicaragua's policy and institutional reform program between 2004 and 2010.

IDA is also partnering extensively with non-governmental entities and has supported several groundbreaking public-private partnerships. These include the project that has developed private sector capacity for supplying solar power to remote rural households, a joint commission with the private sector on updating Nicaragua's 100-year old Commercial Code, and an NGO-indigenous peoples partnership to support basic infrastructure development in the Atlantic regions.

The next steps: finding new programs and partners

Over the last decade, the IDA's investment program in Nicaragua has focused heavily on developing basic infrastructure and improving social services for the poor in rural and often very isolated areas. IDA will continue to support these activities—especially in health, education, rural roads, telecom, water and sanitation, and electricity—and to scale-up the successful pilots in coordination with other donors.

However, Nicaragua still needs to develop and implement robust strategies and programs in

education, and on water and sanitation, if it is to complete the array of basic services for its rural poor. IDA has been supporting these areas together with other partners, albeit with much less success, in part due to capacity constraints in government and the need for a national consensus on the way forward. IDA is working together with the authorities on formulating a new long-term education strategy, and with the multi-donor Water and Sanitation Program, on ways to increase the effectiveness of ongoing programs in this sector.

Meanwhile, Nicaragua has launched a promising new initiative in family-based social protection, which has already achieved certain successes in terms of its efficiency and effectiveness in reaching and supporting vulnerable groups, such as street children. IDA is preparing an initial program to support the expansion of this new initiative.

In addition, IDA is already working with the government to engage and support the private sector in its fight against poverty both directly through support for farmers and small enterprises, and indirectly through building a better climate for private investment and job creation.

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