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Spurring Economic Growth and Opportunities in Northwestern Nicaragua

Nicaragua was one of the first countries to be selected for a compact with the Millennium Challenge Corporation in 2004, based on its performance on MCC’s selection indicators. After extensive consultations with a diverse set of government and civil society stakeholders, Nicaragua identified a regional development strategy for MCC to support the government in addressing the challenges of insecure property rights, underdeveloped infrastructure and low-value agricultural production. During the public consultation process, the Council of Western Women was formed as a means to mainstream gender into the development and implementation of the compact. In July 2005, MCC signed a five-year, \$175 million compact with the Government of Nicaragua. The compact focused on creating an engine for economic growth in the northwestern part of the country, a poor region with significant growth potential due to its fertile land and connection to markets in Honduras and El Salvador. The compact entered into force in May 2006, beginning the five-year implementation period.

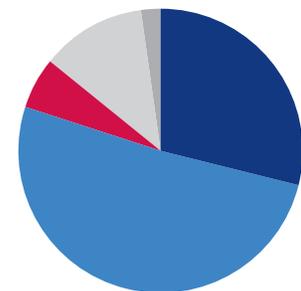
The compact between the Government of Nicaragua and MCC aimed to raise incomes by increasing investment through strengthening property rights in the Department of León; by reducing transportation costs between Nicaraguan production centers and national, regional and global markets; and by increasing profits and wages for farms and rural businesses in the departments of León and Chinandega through the provision of business development services, technical assistance and financial assistance to improve productivity, increase the value of products and link products to markets.

On July 3, 2009, MCC partially terminated funding under the compact in response to a pattern of actions by the Government of Nicaragua that were inconsistent with the criteria for democratic governance used by MCC to determine eligibility for assistance. Funding was terminated for all activities in the Property Regularization Project and for activities in the Transportation Project that were not already under contract. Due to that partial termination, MCC reduced the amount of compact funding available to Nicaragua from \$175 million to \$113.5 million.

MCC will be conducting independent impact evaluations to measure improvements attributable directly to these investments controlling for overall changes and improvements in the Nicaraguan economy and

Nicaragua Compact at a Glance

Signed July 14, 2005
Entry into Force..... May 26, 2006
Compact End Date.. May 26, 2011
Compact Total \$113,500,000



- Monitoring and Evaluation (2%)
- Program Administration (12%)
- Property Regularization Project (6%)
- Transportation Project (51%)
- Rural Development Project (29%)

changes that might have occurred regardless of MCC's interventions. The results of its impact evaluations will be made public, serving as an accountability function and facilitating learning about what works to increase incomes. But even before income gains are fully captured, MCC and the Nicaraguan people have important achievements and monitoring results to report. For example:

- ★ More than 6,400 producers were trained in improved production techniques (drip irrigation, agricultural practices, utilization of improved product varieties, farm management) and are harvesting more than 18,000 hectares in higher-value crops.
- ★ An additional 2,600 farmers trained through the forestry activity, allowing farmers to diversify their income in the medium to long term, with more than 7,100 hectares planted with firewood and trees cultivated for energy purposes.
- ★ MCC helped rehabilitate 74 kilometers of roads, including 21 kilometers of primary road on the Pan-American Highway has been rehabilitated to better link producers in northwestern Nicaragua to national commerce and international commerce with Honduras and El Salvador. Another 53 kilometers of secondary roads have been rehabilitated to improve rural community access to markets and social services.
- ★ In 2005, the Government of Nicaragua established a permanent source of funds for road maintenance as part of MCC's requirements. The government now maintains more than 3,000 kilometers annually, with more than \$31 million allocated to road maintenance.

MCC Principles into Practice: Country Ownership at Work

When MCC was established in 2004, enabling country-led development was one of its three core principles to enhance both results and sustainability. MCC's approach to country ownership means that country partners are in the lead in prioritizing investments, designing and implementing programs, and being accountable for results.

Ownership matters: For MCC, the principle of country ownership goes well beyond national governments to include local governments, civil society, the private sector, and potential beneficiaries of compact investments. During compact consultations, it was the first time in Nicaraguan history that the central government fully empowered the departmental development councils to identify the components of a major development program. Departmental development councils connect national-level policy to municipal consultative bodies, public institutions, private organizations, and interest groups. The support and participation of political and civic actors at the departmental level started during compact development and continued through implementation, helping ensure continuity of implementation during the five-year period. These local political actors regularly communicated their support to national political representatives, providing important institutional support during the five-year compact, helping anchor political support and implementation success during national political change and the partial termination.

In addition, Millennium Challenge Account-Nicaragua's Board of Directors included members of government, civil society and the private sector as a means to increase country ownership.

Gender integration: Gender integration has been paramount to the success of the Nicaragua Compact. MCC gender engagement began with the consultation of women's organizations during compact design and continued through program implementation, including setting specific gender-related targets in contracts (in areas such as road construction, rural business and property regularization) and was a

means to ensure ownership and sustainable development. MCA-Nicaragua hired a gender director to be a collaborative contributor to the design and implementation of compact activities. Thirty percent of the beneficiaries of the Rural Business Development Project were women, exceeding original projections.

During the compact development public consultation process, the Council of Western Women was formed as a means to mainstream gender into the development and implementation of the compact. In 2008, Women Thrive Worldwide recognized the successful partnership of MCC, MCA-Nicaragua and the Council of Western Women, which resulted in model programs making a powerful initial impact on the ground.

MCC's Core Principles

MCC's mandate is poverty reduction through economic growth by partnering with countries committed to good governance, economic freedom and investments in their citizens. MCC is a prime example of smart U.S. Government assistance in action, benefiting both developing countries and U.S. taxpayers through competitive selection, country-led solutions, country-led implementation, and rigorous accountability for results.



MCC's investments helped put more than 18,000 hectares under production for high-value crops.

Transportation Project

The Transportation Project aimed to reduce transportation costs between Nicaraguan production centers and national, regional and global markets. MCC invested \$58 million to rehabilitate 74 kilometers of one primary and two secondary road sections that will benefit more than 97,000 beneficiaries living within five kilometers of the three upgraded roads.

Villanueva-Guasaule Road Rehabilitation Activity	Secondary Road Rehabilitation Activity
<p>Rehabilitate the northern section of the Pan-American Highway, connecting Nicaragua to the rest of Central America and providing a key link to greater regional trade.</p> <ul style="list-style-type: none"> • Rehabilitated 21.1 kilometers of road out of a targeted 18 kilometers • Rehabilitated customs facility, including repaving roadways and parking areas within the border station, as well as complementary storm water drainage improvements • Savings in vehicle operating costs are estimated to be more than \$1.4 million annually • Annual average daily traffic volume increased from 1,413 to 1,962. 	<p>Rehabilitate two secondary routes.</p> <ul style="list-style-type: none"> • Rehabilitated 52.9 kilometers out of a targeted 49 kilometers • Savings in vehicle operating costs are estimated to be \$1.8 million annually • Annual average daily traffic volume increased from 234 to 561 on the Somotillo-Cinco Pinos road and from 1,103 to 1,462 on the León-Poneloya-Las Peñitas road.

More results to come

MCC applies a rigorous framework to monitor projects and measure the cost-effectiveness of our investments. This includes conducting rigorous, independent impact evaluations on more than half of our investments—more than any other donor. MCC is a learning institution and is committed to transparently sharing implementation challenges and lessons learned, both to inform MCC’s own future investments and to foster learning in development more broadly. To learn more about MCC’s impact evaluations, please visit www.mcc.gov.

In Nicaragua, the Transportation Project will compare road usage, transport costs and their income benefits before and after the project. Additionally, the impact evaluation will incorporate the change in price and accessibility on a standard basket of goods at markets in treatment and control communities before and after the road upgrade.



Rural Business Development Project

The Rural Business Development Project was designed to increase the value added and productivity of farms and rural businesses in the departments of León and Chinandega by providing technical and financial assistance to farmers and rural business owners working in agriculture, non-agriculture, livestock, and forestry. MCC invested \$32.9 million in this Project. This project will benefit approximately 43,000 beneficiaries.

Rural Business Development Services	Technical and Financial Assistance	Grants for Forestry
<p>Expand higher-profit agriculture and agribusiness by providing business development services and dissemination of market information.</p> <ul style="list-style-type: none"> • 6,476 farmers trained out of a targeted 5,774 • 18,037 hectares harvesting higher-value crops • \$23.6 million in beneficiaries' investment • \$29.7 million of new investment in León and Chinandega 	<p>Assist small- and medium-size farms and agribusinesses transition to higher-profit activities through the provision of technical and financial assistance to these enterprises. Technical assistance consisted of improved access to technologies and improved access to markets. Financial assistance consisted of the provision of inputs to directly offset certain costs.</p>	<p>Promote cluster and value chain development in forest production through the establishment of a critical mass of forest plantations.</p> <ul style="list-style-type: none"> • 2,628 farmers trained out of a targeted 3,588 • 7,163 hectares planted out of a targeted 7,000 hectares • 1,450 hectares reforested out of a targeted 5,250 • \$3.2 million in beneficiaries' investment

More results to come

The impact evaluation for the Rural Business Development Project will measure the impact of the activity on farm income and household consumption through an analysis of early and late treatments determined through a quasi-randomized selection process.



Property Regularization Project

The Property Regularization Project was designed to increase investment by strengthening property rights in León. Prior to termination, MCC invested \$7.2 million in this project out of a projected \$26.4 million. The below results reflect progress under this project prior to MCC termination.¹

Land Tenure Regularization Activity	Cadastral Mapping Activity	Institutional Capacity Building Activity	Protected Area Demarcation Activity
<p>Clarify land tenure, resolve disputes and improve formal documentation of property rights.</p> <ul style="list-style-type: none"> • 2,449 urban parcels with a registered title out of a targeted 22,000 • 396 rural parcels with a registered title out of a targeted 18,000 	<p>Conduct area-wide cadastral mapping to obtain current property descriptions to be recorded in a geographic information system.</p> <ul style="list-style-type: none"> • 309 square kilometers covered by cadastral mapping out of a targeted 5,138 square kilometers for the Department of León 	<p>Provide technical support to government institutions to implement and sustain tenure regularization reforms.</p> <ul style="list-style-type: none"> • Installed 0 automated registry databases out of a targeted 10 	<p>Demarcate and legally validate the boundaries of four environmentally-sensitive protected areas, regularize land rights within the perimeter of each and facilitate the adoption of land use management plans by occupants therein.</p> <ul style="list-style-type: none"> • 3 protected areas management plans were formulated, approved and demarcated out of a targeted 4



¹ Although the Property Regularization Project was terminated in June 2009, MCC and MCA-Nicaragua worked closely with the Government of Nicaragua and the World Bank to share lessons and leverage MCA-Nicaragua’s experience and program assets to continue property titling in León.

Insight into Implementation

MCC learns from and makes decisions based on results. Outcomes of our projects—even when they fall short of targets—are being evaluated as rigorously and transparently as possible to improve development practices and effectiveness and keep the U.S. Government at the forefront of development efforts. MCC and partner countries work together to identify and address implementation challenges, to keep current investments on track and to inform the design and implementation of future MCC investments. Insights on implementation in Nicaragua that have strengthened MCC's approach include:

- ★ **MCC is committed to holding governments accountable for actions that are inconsistent with its selection indicators.** In June 2009, in response to a pattern of actions taken by Nicaragua's government that were inconsistent with MCC's eligibility criteria for democratic governance, MCC terminated \$61.5 million from the compact. In terminating a portion of the compact, MCC sent a strong signal that it holds partner countries accountable for policy performance. From that point forward, MCC only disbursed funds for those activities for which contracts had been signed, and no funding for new contracts was approved. While maintaining MCC's own commitment to helping the people of Nicaragua reduce poverty through economic growth, this partial termination demonstrated that the policy actions of the Nicaraguan government directly affected MCC funding.
- ★ **Strong communication strategy pays off.** A communication strategy must be in place early on in the implementation of the compact. Clear and constant communication in crisis, for example, during the partial termination of the compact ensured that stakeholders were aware of the decisions being made and why. Given the strong ownership and buy-in on behalf of the community, their direct communication with the press helped maintain the credibility of the compact programs.

Sustainability of Impacts

MCC's investments address fundamental barriers to growth and poverty reduction and were designed to generate significant new income for beneficiaries long after MCC programs end. MCC and partner countries look closely at the surrounding conditions in which an investment will be made and plan reforms in areas that would strengthen its impact and sustainability. These can be changes to national policies, laws, regulations, or ways of doing business. **Below are examples of reforms that have accompanied MCC investments in Nicaragua.** These reforms help



The Rural Business Development Project sought to help dairy farmers boost their income.

unlock the full potential of MCC programs and help improve the broader conditions for continued growth and investment in Nicaragua.

- ★ **Road Maintenance:** In 2005, before the Compact, the Government of Nicaragua had an annual road maintenance budget of approximately \$2.4 million to maintain an average of 500 kilometers of roads. MCC worked with Government of Nicaragua to recognize the importance of improved road maintenance for the sustainability of MCC and other investments and insisted during negotiations for the compact that the Government of Nicaragua establish a permanent source of funds for road maintenance prior to entry into force of the compact. As a result of this change, Nicaragua is now maintaining more than 3,000 kilometers of roads annually, with more than \$31 million allocated to road maintenance. The Government of Nicaragua was able to finance this policy change through a fuel tax. This tremendous increase in funds and kilometers of roads maintained shows MCC's power to incentivize significant policy changes for long-term sustainable economic growth. More than 11,000 kilometers of roads have undergone routine maintenance since the signing of the compact.
- ★ MCA-Nicaragua prepared feasibility studies and designs for 376.5 kilometers for 16 road segments. The Government of Nicaragua used these documents and has built three additional road segments with government funds.
- ★ **Property Regularization:** As part of the Property Regularization Project, prior to its termination, MCC supported passage of the Public Registry General Law as a necessary legal framework to launch the operation of the Integrated Cadastre and Registry System, allowing for electronic registration of real estate, reducing processing time and cost.

Compact re-allocations, re-scopings and restructurings

During March and September 2009, there was a reallocation of funds within the Rural Business Development Project, increasing funds in the technical and financial assistance activity from original budget estimates of \$8.5 million to \$16.5 million. The reallocation of funds was necessary in order to cover the increased costs to achieve the compact targets from the original estimates. The increased costs resulted from an increase in the cost of agricultural inputs and from an increase in acreage to receive technical assistance and grants. Activities for watershed management were canceled because of high cost per beneficiary, low number of beneficiaries and implementation issues related to the partial termination of the compact; however the forestry component was implemented.

In spring 2008, the Transportation Project was revised by reallocating \$14 million of MCC funds from savings in successful procurements process in other compact projects to the construction of approximately 18 kilometers of primary roads from Villanueva to Guasaule. This additional work was prioritized due to the strategic importance of the Villanueva-Guasaule road for the country and region as part of the Pan-American Highway and the negative impact on transit due to the poor condition of the Villanueva-Guasaule road at the time. The completion of the Villanueva-Guasaule road was the final segment of the Pan-American Highway to be completed. Although an economic rate of return was not calculated at the time, the economic rational was strong due to the strategic location of the road at the international border with Honduras.