PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: AB7027

Project Name	Nicaragua Rural Telecommunications Project AF
Region	Latin America and the Caribbean
Country	Nicaragua
Sector	Telecommunications (95%) and Sub-national government administration (5%)
Lending Instrument	Specific Investment Loan
Project ID	P129264
Parent Project ID	P089989
Borrower(s)	Nicaragua
Implementing Agency	TELCOR
Environmental Screening Category	{ }A {X}B { }C { }FI
Date PID Prepared	May 3, 2012
Estimated Date of Appraisal Completion	May 8, 2012
Estimated Date of Board Approval	June 14, 2012
Concept Review Decision	*Following the review of the Concept, the decision was taken to proceed with the preparation of the operation.*

I.   Introduction and Context

A. Country Context

Nicaragua, with a per capita income of US$1,080 remains the second poorest country in Latin America and the Caribbean, ahead of only Haiti. Nicaragua's population is 5.8 million (2010) of which nearly half of the population lives below the poverty line. After experiencing GDP growth rates of 3.2 percent in 2007 and 3 percent in 2008, a succession of external shocks, including the aftermaths of Hurricane Felix (2007), high food prices, and the global financial crisis, negatively impacted Nicaragua's growth, leading to GDP contraction of 1.5 percent in 2009. However, recent indicators suggest that economic activity is starting to turn around in Nicaragua with growth rates reaching 4.5 percent and 3.5 percent in 2010 and 2011. This is largely due to increased exports[1], improved macroeconomic and fiscal management, and targeted policies for improving public expenditures to build human capital and accelerate growth.

The regions along the Caribbean Coast, which include the autonomous regions of North Atlantic Autonomous Region (RAAN), South Atlantic Autonomous Region (RAAS), and

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[1] 30% of Nicaraguan exports are directed to the United States (the main export market) and workers' remittances (mainly from the United States and Costa Rica) represent more than 13% of GDP.

the Department of Rio San Juan, have experienced levels of growth below the national average. Due to long standing economic stagnation, poverty levels are close to 55 percent in Nicaragua's Caribbean costal region. Poverty is especially prevalent among the indigenous and afro-descent population that live mainly in small and remote communities. These include the Rama, Sumu-Mayagna, Rama and the Garifuna. Despite their deep ethnic and cultural richness most of these communities have been historically marginalized and isolated from the rest of the country, both geographically and economically. Nonetheless, the region comprises over half of the national territory and the economic potential of the region is evident; accounting for about 23 percent of the total agricultural area, over 80 percent of forest area, 60 percent of mineral resources and over 700 km of coastline in one of the most renowned tourist areas of the world[2].

Within this context, the Government of Nicaragua defined its plan for economic development and poverty reduction in its National Plan for Human Development (*Plan Nacional de Desarrollo Humano*) in 2007. As part of this plan, the government set a pro-poor strategy and agenda that emphasizes the delivery of both infrastructure and social services with special emphasis on rural Nicaragua where poverty is highly concentrated. Recent presidential elections resulted in party continuity so economic and social policies are expected to remain the same for at least another four years.

B.   **Sectoral and Institutional Context:**

The Telecom and Postal sectors are currently regulated by TELCOR (*Instituto Nicaraguense de Telecomunicaciones y Correos*) according to the General Law of Telecommunications and Postal Services and the Operation of Public Service Telecommunications Laws. Despite important advances in recent years, including double digit growth since 2006 in the percentage of mobile subscribers (86 percent in 2011), access to telecommunication services in Nicaragua remains low, particularly in rural areas of the country. Fixed broadband internet penetration is at only 1.1 percent significantly lower than the Latin American regional average of about 7 percent[3].

In October 2011 the Government of Nicaragua requested Bank's support to improve telecommunications services in the Caribbean Coastal Region. In this context, an Additional Financing (AF) credit of US$5 million (associated with the *IDA Credit 4168 Nicaragua Rural Telecommunications)* was suggested and is expected to be approved by the Board on June 14, 2012. This AF will target interventions to bring telecom services to parts of rural Nicaragua where there is currently no access to telephones or internet. Specifically, the Project would focus on communities in the two Atlantic Autonomous Regions and Rio San Juan.

The Rural Telecommunications Project's (Cr. 4168) was approved by the Board of Directors on April 27, 2006, signed on June 1, 2006, and became effective on January 5, 2007 with an original closing date of June 30, 2011. The Credit was extended once by 12 months, and its current closing date is June 30, 2012. The total cost of the Project was US$10.2

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[2] TELCOR, "Proyecto de Desarrollo de la Sociedad de Información y Conocimiento de la Costa Caribe y Rio San Juan" October 22, 2010   .
[3] www.wirelessfederation.com

million, of which US$7 million was provided by IDA and US$3.2 million by the Government of Nicaragua. The Project's objective is to: "increase access to and reduce costs of telecommunications services in rural areas of Nicaragua". The Project is progressing well overall, and is currently rated Satisfactory towards achievement of PDO and Moderately Satisfactory in its Overall Implementation Progress (IP). The MS rating in IP is mainly due to the extension of the closing date. Results from the most recent Implementation Status and Results Report (ISR) for the project show that its impact so far has been consistent with the expectations set out in the PAD as seen below:

Component 1: Rural Access – under this component, new broadband internet points of presence have been installed in 101 (out of 153) municipalities throughout the country. With the exception of the majority of municipalities in the Caribbean coastal region and Rio San Juan regions (target of the AF), most of Nicaragua's rural municipalities now have access to broadband services at the same prices as in Managua. Thirty-six radio base stations and 104 telecenters have been installed for access to mobile and internet in rural communities at affordable rates. Two additional base stations will be installed before the end of the original project for a total of 38. Furthermore, an independent impact evaluation (December 2011[4]) found telecommunications infrastructure as well as the telecenters financially and operationally sustainable, and closely monitored by local stakeholders, including TELCOR. In this context, overall management of the telecenters will be handed-over to FITEL (telecom investment fund) to guarantee its long-term sustainability. Additionally, close to 600 public phones have been installed in rural areas that did not have a public access point before. Of these public phones, 100 were installed in communities without access to electrical power by using renewable source of energy (e.g. solar and wind).

Component 2: Regulatory Capacity Strengthening and Technical Assistance to Communities – under this component, a new regulatory framework on microtelcos (small scale telecom operators) was approved in August 2011 to foster local entrepreneurship. Additionally, a new Telecommunications Law has been drafted and is being reviewed by the executive branch of Government (including TELCOR) before presentation to Congress. Furthermore, the Project has been supporting various training activities for TELCOR staff, and following cooperation agreements with the Government of Finland, the Project and TELCOR has been supporting the installation of e-government applications in over 50 municipalities (registry of cattle branding, citizen registry, internal accounting and tax collection).

Component 3 Project Management and Audit - Project management has been rated satisfactory, and the Government (principally through TELCOR) has provided strong support for its implementation. All procurement components have been completed satisfactorily and financial management is currently rated Satisfactory.

C. Relationship to Country Partnership Strategy (CPS):

The proposed AF is fully aligned with the World Bank's current Country Partnership Strategy (CPS) 2008-12, Report No. 51616, presented to the Board of Executive Directors on December

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[4] Informe final: Monitoreo *y Evaluación de Impacto a Diciembre del 2011 del Proyecto de Telecomunicaciones Rurales 2005-10.* Management, Coaching & Consulting Group S.A., February, 2012.

4, 2009. It is consistent with Pillar III, "Infrastructure and Sustainable Development". The CPS emphasizes the need to expand economic opportunities for the poor, predominantly in rural area, and recognizes the pivotal role telecommunications services can play in achieving this objective. Moreover, The AF will provide an opportunity to assist the Government in strengthening the local economy and to improve social equity and opportunities for RAAN, RAAS, and the Department of Rio San Juan. Areas where the poverty level reaches nearly 55 percent and where poverty is especially prevalent among indigenous and Afro-descendant populations that live mainly in small and remote communities.

The proposed Project is also consistent with the Government's Caribbean Coast Development Strategy *(Plan de Desarrollo de la Costa Caribe)* which identifies the need to increase access to telecommunication services in the region by at least 40 percent by 2014.

II.   Proposed Project Development Objectives

No changes are proposed to the existing PDO.

III.   Preliminary Description

The AF is expected to bring ICT infrastructure and the skills to use technology to rural and low-income areas that currently do not have (or have only limited) access to telecom services, thus contributing to social and economic development of the region.[5] The AF would extend activities under all three existing project components:

Component 1: Rural Access (US$2.6 million, of which IDA $2.6 million) – The objective of this component is to stimulate the demand and supply of broadband internet, mobile coverage, public payphones, and telecenters in underserved rural communities in Caribbean costal region and Rio San Juan using competitive mechanisms (such as output-based aid or OBA[6]) for private sector operators to build and operate shared infrastructure. The OBA tender process has proven a successful mechanism for private sector involvement in installing, operating, and maintaining telecommunications infrastructure under the ongoing Project. Activities under this component will seek to provide telecommunication infrastructure and services to at least forty underserved communities concentrated in twenty municipalities in RAAS and RAAN, as well as six municipalities in the Department of Rio San Juan. These activities are expected to benefit over 200,000 people. In addition, activities under this component will continue to offer incentives such as competitive pricing for private sector telecommunications services to increase coverage of mobile networks on a commercially-sustainable basis. This approach will better enable public entities (including national and regional government institutions), individual consumers, and businesses to become internet and phone subscribers. Furthermore, the Project will continue to expand the network of telecenters in the Caribbean costal region and Rio San Juan using the successful business model of local ownership (including Municipal Governments, NGOs, local private sector, and capacity building) established under the ongoing Rural Telecommunications Project.

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[5] WB study: *Information and Communications for Development 2009*, suggests that an increase of 10 percent in broadband penetration in a developing country results in a 1.38 percent increase in GDP growth.
[6] OBA links the payment of aid to the delivery of specific services or "outputs." These can include connection of poor households to telcom services.

*Component 2***:** *Regulatory Capacity Strengthening and Technical Assistance to Communities (US$2.0 million, of which IDA $1.0 million) –* This component aims to strengthen the institutional capacity of TELCOR to design projects by conducting detailed pre-feasibility studies and preparing tender documents. In addition, this component will continue to provide relevant training to TELCOR and local government staff in targeted ICT areas. Additionally, activities under this component will help to establish a *Regional e-Government Data Center* for the Caribbean Coastal area. Finally, this component will support the design and implementation of at least four e-Government applications such as distance learning programs to strengthen productive capacity and programs to improve the quality of education, as well as health and disaster prevention services. The Center will help to foster the region's transition into a knowledge-based economy. Internet or mobile applications and capacity-building activities will be chosen by TELCOR and local regional authorities based on proposals made by national and local government agencies, private sector, NGOs, and academic institutions.

Component 3: Project Management, Audit and Contingencies (US$1.9 million, of which IDA $1.4) – This component will finance the provision of technical assistance, equipment, training, and operating costs needed to establish, operate, and strengthen the Institutional Development Unit (IDU/TELCOR). Additional funding will enable these units to more effectively coordinate, monitor, and evaluate implementation of project activities (including periodic audits).

IV.   Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment (OP/BP 4.01)	X		
Natural Habitats (OP/BP 4.04)	X		
Pest Management (OP 4.09)		X	
Physical Cultural Resources (OP/BP 4.11)	X		
Involuntary Resettlement (OP/BP 4.12)	X		
Indigenous Peoples (OP/BP 4.10)	X		
Forests (OP/BP 4.36)		X	
Safety of Dams (OP/BP 4.37)		X	
Projects in Disputed Areas (OP/BP 7.60)		X	
Projects on International Waterways (OP/BP 7.50)		X	

V.   Tentative financing

Source:	($m.)
Borrower/Recipient: Government of Nicaragua (TELCOR)	1.50
IBRD	
IDA	5.00
Others (specify):	
-	
Total	6.50

VI. Contact point

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