

PRO-NICARAGUA ACTIVITY PERFORMANCE EVALUATION

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CONTENTS

Executive Summary	i
I. Background and Project Description	1
A. Introduction	1
B. Project Activities	2
C. Background	3
D. Program Logic	5
E. Intended Benefits	6
F. Projected Results	6
II. Methodology and Data	6
A. Evaluation Strategy	6
B. Data	7
III. Findings and Analysis	9
A. Program Logic	9
B. Economic Benefits	10
C. Range of Impacts	12
D. Sustainability	13
E. Implementation Factors	14
F. Reporting of Results	14
IV. Lessons Learned	16
V. Recommendations	16
VI. Conclusions	16
 Annex A – People Consulted	 17
Annex B – Literature and Data Review	18

EXECUTIVE SUMMARY

Introduction/Background: In July 2005, the Millennium Challenge Corporation signed a five-year, \$175 million Compact with the Government of Nicaragua to reduce transportation costs, improve access to markets, strengthen property rights, increase investments, and raise incomes for farms and rural businesses. The MCC Compact in Nicaragua entered into force in May 2006, formally initiating the 5-year timeline for project implementation. Conditions leading up to, during, and following municipal elections of November 2008 were inconsistent with MCC's eligibility criteria. In June 2009, the MCC Board terminated a portion of MCC's compact, reducing compact funding from \$175 million to \$113.5 million. Activities under ProNicaragua were not affected.

Within the Rural Business Development Project, this Activity (referred to as the ProNicaragua Activity) was expected to generate economic growth and job creation in the northwest region of Nicaragua by attracting high-quality foreign direct investment through the provision of support services to qualified investors seeking investment opportunities in Nicaragua. The investment promotion component of the Rural Business Development Project began in August 2006. Three consecutive agreements were signed with ProNicaragua, a specialized Nicaraguan public-private agency, to promote northwest Nicaragua for new investment. The Rural Business Development Project included eight activities for a total of \$8.5 million expended. MCC expended \$1.3 million of this amount on the ProNicaragua Activity.

Evaluation Strategy: The focus of this performance evaluation was whether or not the ProNicaragua Activity's program logic was sound and successful and had the intended benefits related to generating economic growth. The evaluation sought to determine if the Activity did what it was designed to do, and whether it had unintended benefits. This Performance Evaluation employed qualitative methods to assess the degree to which activities were undertaken and implemented; the achievement of outputs, outcomes and impacts; and prospects for sustainability.

Key Findings:

- MCA-Nicaragua's reporting system relied on unverified, self-reported data.
- The program logic was sound and led to sensible and focused promotion investment activities.
- Although foreign businesses made real investments and created jobs in the target region, causation cannot be established for the Activity's results.

Lessons Learned:

- Self-reported data is suspect until verified.
- Conceiving the first ProNicaragua agreement as a nine-month pilot operation with the understanding that a second agreement would be negotiated based on the implementing agency's achievements served as leverage for MCC to improve how the

implementing agency reported on a key MCC indicator in subsequent agreements (real expenditures versus projected investments).

- A key factor that contributed to this Activity's reported successes was the initial selection of the hybrid public-private implementing agency with a complementary mission to generate economic growth and job creation by attracting quality foreign direct investment.

Recommendations:

- To address the issue of unverified data:
 - Perform spot checks with businesses to verify reported data;
 - Require confirmation letters from participating businesses with projected and expended investments, and numbers of jobs from the beginning of the Project;
 - Review lessons learned regarding monitoring and verifying domestic job creation and investment promotion by the U.S. Department of Commerce's Economic Development Agency, such as developing a system to perform strategic spot checks to confirm investments expended, and use of approaches such as reviews of government data such as tax rolls to confirm jobs created.
- Collect more detailed data related to jobs creation, such as wages, job longevity, security and total remuneration.
- Stipulate numerical targets for output and outcome indicators to assess progress on the investment expended and jobs created.
- Consider monitoring "spillover" direct foreign investment results in non-target areas from investment promotion activities.

Conclusions:

During the three years of the ProNicaragua Activity, foreign businesses made real investments and created jobs with the support of MCC funding but causation cannot be reliably established. Several worthwhile components of this Activity have apparently continued in northwest Nicaragua since MCC funding ended in October 2009, with increased Government of Nicaragua funding, new Swiss funding, and interest by several multilateral donors to replicate the regional investment promotion model that MCC used. Finding reporting errors by the implementer and locating two distinct versions of the final report during the evaluation creates uncertainty as to the numbers and serves to confirm that the self-reported data needs stronger verification.

I. BACKGROUND AND PROJECT DESCRIPTION



A. Introduction: In July 2005, the Millennium Challenge Corporation signed a five-year, \$175 million Compact with the Government of Nicaragua to reduce transportation costs, improve access to markets, strengthen property rights, increase investments, and raise incomes for farms and rural businesses.¹ The MCC Compact in Nicaragua entered into force in May 2006, formally initiating the 5-year timeline for project implementation. The investment promotion component of the Rural Business Development Project (the ProNicaragua Activity) began in August 2006. The Rural Business Development Services activities of the Rural Business

Development Project included eight activities for a total of \$8.5 million, with \$1.3 million of this expended on the ProNicaragua Activity.

The Rural Business Development Project's overall objective was to support services that help develop higher-profit agriculture and agribusiness enterprises. MCC funds were to support the following Rural Business Development Services Activities:

- expanding higher-profit agriculture and agribusiness by providing business development services,
- disseminating market information, and
- developing improved production techniques.²

The objective of the ProNicaragua Activity was to promote direct foreign investment. Economic growth and job creation in the northwest region of Nicaragua were to be generated by attracting high-quality foreign direct investment through the provision of complimentary support services, such as customized site visits, facilitation services, and provision of investor information, to qualified investors seeking investment opportunities in Nicaragua.

Three consecutive agreements were signed with ProNicaragua, a specialized Nicaraguan public-private agency, to promote the regions of León and Chinandega for new investment projects.³

¹ Conditions leading up to, during, and following municipal elections of November 2008 were inconsistent with MCC's eligibility criteria. In June 2009, the MCC Board terminated a portion of MCC's compact, reducing compact funding from \$175 million to \$113.5 million. Activities under ProNicaragua were not affected.

² MCC funding was to be used to support rural business development services that MCA-Nicaragua was to provide in León and Chinandega, including setting up and equipping an office of MCA-Nicaragua in León-Chinandega (the "Rural Office") that would provide the services.

³ The Special Commission of Investment Promotion, created by Nicaraguan Presidential Decree

B. Project Activities: This Activity intended to promote investment in León-Chinandega by:

- stimulating interest in the region's resources and geographic location, including through a promotional campaign directed by a specialized public private agency, Pro-Nicaragua,
- providing investor services, and
- coordinating with other donor programs.

See Table 1.

ProNicaragua officials noted the development of and follow-up with companies in its investor pipeline as a crucial aspect of its investment promotion strategy. ProNicaragua also considered its investor servicing as a key component of investment promotion, described by ProNicaragua official as working closely with companies to facilitate their decision-making process and to provide any necessary information to make decisions regarding their investment. ProNicaragua highlighted its assistance related to its aftercare visits of companies already established in the area, successfully negotiating with municipal offices' bureaucratic processes and trying to get answers for companies regarding high tax bills. Officials from investing companies interviewed as part of this evaluation provided specific examples of investor servicing by ProNicaragua, such as assistance provided at the municipal level to facilitate acquisition of basic services such as water or electricity. Additionally, ProNicaragua accentuated its promotional materials such as its website and Investor's Guide CD, and opined that these materials, although eventually needing updates, will serve for the area for the next several years.

For example, ProNicaragua participated in a site visit that took place during an Agribusiness Forum organized by ProNicaragua in September 2009 and worked to secure reinvestment by a company called Casa Bazzini. ProNicaragua initially contacted this company in 2007 in a roadshow carried out in El Salvador, where ProNicaragua representatives presented the investment opportunities found in northwest Nicaragua. During the course of the three years, ProNicaragua attended over 30 commercial trade shows in the region and organized five regional trade events. According to ProNicaragua, presentations made at the trade shows and conferences helped improve the image of western Nicaragua as an investment opportunity, and an average of 12 contacts were made at each show.

Table 1: ProNicaragua Investment Promotion

- Promotional tools for Leon and Chinandega, including testimonials in a regional video, promotion of the northwest in a national video, and regional and industry sector brochures
- ProNicaragua website
- Investor's Guide for the Occidente (CD)
- Representation by ProNicaragua representatives at international events such as roadshows, trade shows, and conferences
- Attendance at regional investment forums in the northwest of Nicaragua in forestry, tourism, and agribusiness
- Investor services, called "after care visits" from ProNicaragua staff

Source: ProNicaragua Reports on Cooperating Agreements (2007, 2008, 2009)

Number 75-2002, requested this. See www.pronicaragua.org.

For the last two agreements, ProNicaragua expended almost 50% of the Activity's funds on lead generation, with 86% of this to fund staff's participation at national and international trade shows, conferences, and regional events. Over 25% of the funds were used to visit the foreign companies in western Nicaragua and other parts of Nicaragua, especially Managua. ProNicaragua expended over \$150,00 developing promotional materials for western Nicaragua. See Table 2.

Table 2: Cost Per Activity (2007-2009)*

Activities	Executed (\$) 2007-08	Executed (\$) 2008-09	Totals (\$) 2007-09
Lead Generation	203,340	228,454	431,794
Searching/Mining Databases	23,008	34,100	57,108
Trade Shows and Conferences	104,393	99,379	203,772
Regional Events	75,939	94,975	170,914
Other	5,074		5,074
Investor Servicing	107,098	115,000	222,098
Site Visits	51,012	65,895	116,907
After Care	51,012	31,050	82,062
Regional Network		18,055	18,055
Promotion Tools	102,701	111,545	214,246
Materials	69,538	81,890	151,428
Public Relations	33,163	29,655	62,818
Capacity Building	18,673	0	18,673
TOTAL			886,811

Source: ProNica Reports (2008, 2009)

* Disaggregated financial information was not available for the first agreement.

C. Background: ProNicaragua, the Nicaraguan Investment Promotion Agency, was created as a project of the United Nations Development Program in August of 2002, with the title "Aid to Investment Promotion" and a mandate to increase sustainable economic development to increase income levels of Nicaraguan families and improve their quality of life. ProNicaragua is a non-profit, public-private institution. It designs and executes investment promotion strategies and develops proposals that promote an attractive investment climate to enhance investor's confidence in establishing operations in Nicaragua in order to create job opportunities, technology transfers, and increase income levels.

The business climate for attracting direct foreign investment to Nicaragua was difficult during the implementation of this Activity due to the global economic crisis and persistent challenges related to investors' confidence in establishing operations in Nicaragua. In Nicaragua, doing business remains difficult, according to the World Bank Group, with a

ranking of 117 out of 183 nations.⁴ According to the World Bank's International Finance Group (IFC), Nicaragua still presents business start-up barriers such as bureaucratic and complex formal incorporation, pre- and post-registration, and licensing procedures. In the 2011 IFC scorecard, Nicaragua's 29% score ranked far below its peer group's median of 50% and did not meet the performance standard.⁵ The World Bank Group ranks Nicaragua as 97 out of 183 nations with respect to ease of starting a business.⁶

Although critical of free trade and capitalism, the Ortega administration has largely maintained the legal and regulatory underpinnings of the market-based economic model of predecessors.⁷ However, despite important protections for investment included in CAFTA-DR, the investment climate has worsened under the current administration. Additionally, uncertain property rights have contributed to the deterioration of the investment climate, especially for tourism investment. According to ProNicaragua officials, decreased interest in tourism and reduced demand for the apparel-manufacturing sector (textiles) in Nicaragua during the three years of operations negatively impacted their investment promotion efforts in the northwest.⁸

This provides context to the difficult business climate for attracting direct foreign investment to Nicaragua during Activity implementation due to the global financial crisis and persistent local challenges related to investor's confidence in establishing operations in Nicaragua.

⁴ Doing Business 2011, World Bank's International Finance Group, 2010. See www.doingbusiness.org/data/exploreeconomies/nicaragua/. See also, Doing Business in Nicaragua: 2011 Country Commercial Guide for U.S. Companies, U.S. Department Of State And U.S. and Foreign Commercial Service, 2010, Introduction.

⁵ Under the name of each indicator is the country's score and percentile ranking in its income peer group (0% is worst; 50% is the median; 100% is best). Under each country's percentile ranking is the peer group median. Country performance is evaluated relative to the peer group median. Scores above the median, represented with green, meet the performance standard. Scores at or below the median, represented with red, do not meet the performance standard. See Doing Business 2011 - Making a Difference for Entrepreneurs, World Bank's International Finance Group, 2010.

⁶ Nicaragua ranked 158 out of 183 nations with a tax rate of 63% of profits. Recent reforms related to paying taxes (158/183) have made it more difficult to business in Nicaragua. Registering properties (138/183) and obtaining construction permits (142/183) are also difficult in Nicaragua. See Doing Business 2011, World Bank's International Finance Group, 2010.

⁷ Doing Business in Nicaragua: 2011 Country Commercial Guide for U.S. Companies, U.S. Department Of State And U.S. and Foreign Commercial Service, 2010, Introduction and Chapter 5.

⁸ In 2011, more than 125 wholly or partly owned subsidiaries of U.S. companies were operating in Nicaragua. Some of the largest of these investments are in textiles and apparel, financial services, and energy. See web.ita.doc.gov/tacgi/overseasnew.nsf/alldata/Nicaragua#MarketInformation. For comparison, 32 U.S. businesses were operating in Nicaragua in 1985. See <http://multinationalmonitor.org/hyper/issues/1985/04/us.html>

D. Program Logic: Program logic is found in the Project's Compact Schedule's summary of activities.⁹ See Figure 1. Program logic and assumptions are not mentioned in the Logic and Assumptions sections of 2010 Monitoring and Evaluation Plan for this Activity.

Figure 1: ProNicaragua Activity Program Logic

ACTIVITIES

Stimulate interest in the region's resources and geographic location:

- ~ Develop Investor's Guide for western Nicaragua
- ~ Develop promotional video
- ~ Promote area in industry sector brochures
- ~ Attend trade shows and roadshows
- ~ Organize and attend regional investment events
- ~ Participate in international conferences
- ~ Enhanced website

Provide investor services:

- ~ Conduct aftercare follow-up visits
- ~ Visit companies at their businesses
- ~ Negotiate issues related to municipal services
- ~ Develop a regional network of foreign businesses

Coordinate with other donors:

- ~ Leverage donor resources
- ~ Improve communication
- ~ Create opportunities for collaboration

OUTPUTS

Investor Pipeline

OUTCOMES

New Investments

OBJECTIVES

Poor Farming Households Benefit from New Jobs

Jobs Created

Market Opportunities Expanded

Sources: Compact; ProNicaragua Reports; Interviews.

The planned activities regarding donor coordination were not implemented since donor coordination was not included in the agreements with ProNicaragua. No explicit outputs were found in Compact documents, ProNicaragua's investor pipeline is a tangible output that results from the first two planned activities and feeds into the Activity's objectives.

Project designers specifically included ProNicaragua as a partner in the language of the Compact: "promotion of investment in León-Chinandega ... directed by a specialized public private agency, Pro-Nicaragua." Instead of using the competitive bidding process, the Compact language identifies ProNicaragua as an implementing agency.¹⁰ MCC's identification of Pro-Nicaragua as a project implementer at the outset of the Compact permitted this

⁹ Compact between MCC and Nicaragua, Schedule 3-2, section a (iv).

¹⁰ The issue of how identification of a specific public-private entity in a Compact, before and without the usual federal competitive bidding process, is permitted was not analyzed during the evaluation. One project designer indicated that ProNicaragua was selected due to its strong reputation and ties with the UNDP, but when asked, would not opine regarding the competitive bidding process.

Activity to hit the ground running. Three consecutive Cooperative Agreements were negotiated and signed with ProNicaragua in 2006, 2007 and 2008.¹¹

E. Intended Benefits: Increased direct foreign investment was expected to create or expand market opportunities and benefit agribusinesses and other micro, small- and medium-sized enterprises.¹² Similarly, relatively poor households employed in agriculture or with small farms, the principal participants of the RBD Project, would benefit from increased opportunities from jobs created by direct foreign investment.

F. Projected Results: The number of jobs created is the objective indicator for this Activity. MCC and MCA-Nicaragua measured the sum of full-time equivalent jobs generated by each business financed by the Rural Business Project and the Investment Promotion Program. The overall target for the Rural Business Development Project was for 7,000 total jobs to be created. This target was not disaggregated between the Investment Promotion and other Rural Business Project activities, but the reported numbers can be disaggregated.

The value of new investments stemming from promotional campaigns in León and Chinandega was the outcome indicator. According to the 2010 Monitoring and Evaluation Plan, the targets for this indicator were to be determined; at Compact End this target was not stipulated. Based on conversations with MCA-Nicaragua, this target was not determined due to other competing priorities.

II. METHODOLOGY AND DATA

Evaluation Strategy: The focus of this performance evaluation was whether or not the ProNicaragua Activity's program logic was sound and successful and had the intended benefits related to generating economic growth. The evaluation seeks to determine if the Activity did what it was designed to do, and whether it had unintended benefits.

The evaluation delved into the components of the logic and sought evidence to (1) confirm whether planned activities were undertaken as planned and fully implemented; (2) analyze whether the initial assumptions made about conditions that could affect the progress or success of the activities held true; (3) assess whether the implemented activities achieved their targeted objectives, outputs, outcomes, and impacts; (4) determine whether activities and outcomes have been and will continue to be sustained, and the likelihood that they will be sustained over the short-and long-term, and (5) whether the project was cost effective.

This Performance Evaluation employed qualitative methods to assess the degree to which activities were undertaken and implemented; achievement of outputs, outcomes and impacts; and prospects for sustainability. Qualitative approaches included interviews

¹¹ The first agreement with ProNicaragua in 2006 was conceived as a nine-month pilot operation with the understanding that once concluded a second phase to the project could be negotiated taking into consideration the achievements and the lessons learned during the execution of the initial agreement.

¹² For example, a micro, small or medium enterprise might supply raw materials to a new agribusiness or sell office products to a new call center.

(structured and unstructured) with key informants, listed in Annex A. Qualitative methods supplied information on the nature and content of this Activity to contextualize numerical evaluation results, and provided insights into program implementation. Rigorous analysis of qualitative data was done using content analysis and analytical induction.¹³ The absence of a counterfactual precludes a quantitative measure of program impact.

Documents, data, and literature reviewed are listed in Annex B.

Data:

Out of the twelve businesses identified by ProNicaragua, five responded to ProNicaragua's requests for interviews with the evaluator. Representatives from only four companies were interviewed. A brief survey was developed and sent to ProNicaragua to forward to the other seven points of contact, but none were returned.¹⁴

See Table 3 for data compiled from interviews and ProNicaragua Reports on Cooperating Agreements from 2007, 2008, and 2009. Also, additional investments of over US\$4.75 million were expended (and orally verified during the evaluation) in the past year by two additional companies not listed by ProNicaragua, and appear in Table 3.

Table 3: ProNicaragua Reported Investments and Jobs Created

Company	Origin	Industry	Reported Investment (US\$)	Reported Jobs Created	Means of Verification
1st Agreement					
Grupo Beta	Honduras	Textiles	2,000,000	400	None
Plastimaq	Mexico	Manufacturing	200,000 ¹⁵	16	Interview

¹³ As used in performance evaluations, analytic induction requires an additional inquiry step once the initial hypothesis or findings are developed, to search the data for falsifying evidence, and to modify the findings accordingly. Content analysis summarizes narrative content by counting various aspects of the content, analyzing written words to produce numbers and percentages, when appropriate.

¹⁴ After an initial, productive meeting, ProNicaragua committed to provide several key documents and to follow up with the private companies directly, but never responded to a series of emails and phone calls from the evaluator. It is unknown why ProNicaragua ceased communicating after that initial meeting. The evaluator chose not to contact the companies directly or make unannounced visits to their offices or facilities. While this would have been one way to verify, at the very minimum, that the businesses existed, it was not undertaken for several valid reasons discussed with MCC and MCA-Nicaragua staff.

¹⁵ In three reports in 2007, 2008, and 2009, ProNicaragua reported that Plastimaq's investment from the First Agreement in 2006 was US\$2 million. This was corrected in a revised 2009 report for the 3rd Agreement. ProNicaragua also reported to MCA-Nicaragua in 2008 and 2009 that GrupoBeta's executed investment was US\$2 million and 400 jobs were created. Both of these numbers doubled in the revised 2009 report.

Call Center	USA- Nicaragua	Business Services	50,000	10	None
Sub-Total			2,250,000	426	
2nd Agreement					
Futuro Forestal	USA	Agribusiness	4,500,000	239	None
Maya Pack	USA	Manufacturing	200,000	30	None
Sub-Total			4,700,000	269	
3rd Agreement					
CAMANICA	Spain	Agribusiness	20,000,000	800	Interview; Letter to ProNicaragua
CASTELNICA	Switzerland	Housing	17,000	5	Letter to ProNicaragua
Holanda Agroindustria	Holland	Agribusiness	550,000 ¹⁶	125	Letter to ProNicaragua
Casa Bazzini	El Salvador	Agribusiness	600,000	250	Letter to ProNicaragua
Algaoil	USA	Agribusiness	15,640,000 ¹⁷	2400	Nicaragua Free Trade Zone Table
Sub-Total			36,807,000	3580	
TOTAL			43,757,000	4275	
Post-Agreements					
TRANSACTEL	Spain	Business Services	4,000,000	250	Interview
CIELO Enterprises Total	USA	Waste Management	750,000	85	Interview
			4,750,000	335	
TOTAL:			48,507,000	4,620	

Sources: ProNicaragua Reports on Cooperating Agreements: 1st Report, generally (2007); Section 4 of the 2nd report (2008), Revised 3rd Report, Appendix 7.2 (2009); confirmation letters from certain companies; interviews.¹⁸

There appears to be a discrepancy in the data due to two versions of the Consolidated Report for the Third Cooperative Agreement. This is of particular interest because the data

¹⁶ ProNicaragua reported US\$1,100,000 invested by Holanda with 350 jobs created in its revised 2009 report, but the letter by Holanda sent to ProNicaragua states that US\$550,000 was invested, half the amount reported by ProNicaragua, with 125 jobs created.

¹⁷ These are estimates for Algaoil. ProNicaragua included this company in its revised 2009 data but does not mention its relationship with the company in the 2009 report.

¹⁸ ProNicaragua reported 1670 jobs via the first version of the 3rd report to MCA/MCC.

that was presented to MCC via the Indicator Tracking Table regarding the value of investments and number of jobs created is based on the first version of the report.

Even though discrepancies were discovered with respect to investment amounts, (i.e. Plastimaq's investment from the First Agreement in 2006 was reported as US\$2 million, reduced to \$200,000 in the revised 3rd report; ProNica reported an extra US\$1.8 million invested by Holanda that was corrected; ProNica reported US\$1.1 million but Holanda's verification letter in the revised 3rd report stated half that amount), the numbers appearing in the ProNicaragua reports will be assessed as submitted to MCA-Nicaragua, correcting for the one Holanda error that had not been corrected by ProNica.

III. FINDINGS AND ANALYSIS

A. PROGRAM LOGIC

Program Logic Was Sound: The program logic found in the Project's Compact Schedule summary of activities led to sensible and focused promotion investment activities. MCC and MCA-Nicaragua identified and leveraged ProNicaragua's expertise and complementary mission, which stimulated interest in the region's resources and geographic location and resulted in increased foreign investment in the target area. When the evaluation asked MCA-Nicaragua officials why they signed only three agreements if they considered the Activity successful, responses varied and were not reflective of general consensus.¹⁹

Stakeholders articulated consistent program logic for the first two components of this investment promotion activity, i.e. stimulating interest in the region and providing investor services. Stakeholders considered the logic of these activities as practical, relevant for the Nicaraguan context, and based on past experiences and lessons from other investment promotion efforts in Nicaragua and Central America. As mentioned, no donor coordination occurred since this planned activity was excluded from the agreements with ProNicaragua.

The Activity's two performance measures (number of jobs and value of investment) were aligned with the Activity's objectives, but since the outcome and objective indicators did not have pre-determined target amounts, the evaluation cannot determine whether the number of jobs created and amount of foreign investment met the targets.²⁰ With additional funding from the Government of Nicaragua and a Swedish Development Agency, discussed below, investment promotion activities in the northwest could be sustained for the next three years, but this has not been verified.²¹

¹⁹ Responses ranged from, "With the [investment] pipeline developed, ProNicaragua would continue to do the promotion work in the region whether we funded them or not," to "The contracts were too expensive."

²⁰ According to the MCA-Nicaragua Director of Monitoring and Evaluation, targets were not established for the ProNicaragua Activity due to a lack of information available at the time.

²¹ ProNicaragua provided two examples of actual investments made by foreign companies post-Agreements, but did not provide a complete list, although requested.

B. ECONOMIC BENEFITS

B1. Companies Made Investments and Created Jobs During the Implementation of the Activity, But Since Causation Cannot Be Established the Activity Cannot Be Characterized As Cost Effective:

ProNicaragua reported US\$43.76 million as cumulative real investments through the third year of operations and 4,395 direct jobs created as a result of secured investments, as reported to ProNicaragua by the foreign businesses investing in Nicaragua. Table 4 breaks down the reported investments and created jobs per year.

**Table 4 – Investment and Jobs
(per implementation year)**

Year	Executed Investment	Jobs Created
2006 - 07	US\$2.25 million	426
2007 - 08	US\$4.7 million	269
2008 - 09	US\$36.81 million	3,580
Sub-Total	US\$43.76 million	4,275 jobs
since 2009	US\$4.75 million	335
Total	US\$48.51 million	4,620 jobs

Source: ProNicaragua Data (2006-2011)

As mentioned, for the first two agreements MCA-Nicaragua did not stipulate specific numerical targets for these two indicators and much of the data, especially that from the first two agreements, are self-reported and unverified by ProNicaragua, MCA-Nicaragua, or this evaluation. No baseline amount of foreign direct investment was contemplated for this line item in the 2010 M/E Plan. Notably, at least two of these companies indicated that they would have invested in northwest Nicaragua anyway, even without ProNicaragua's presence and support, but without interviews of more than four of the twelve companies, this evaluation draws no further conclusions.²²

MCC spent \$1.3 million on this Activity, which reported \$43.76 million invested by foreign companies. For every dollar spent, almost \$34 dollars was invested. The costs for the investment promotion activities were US\$294 per job created. As a comparison, the cost of a job for a public works project in Nicaragua was US\$3027 (inflation adjusted) in 1996.²³

These might appear to be worthwhile investments but since causation cannot be established and the reported numbers have had errors and unexplained revisions, the query whether the Activity was cost effective is inconclusive.

B2. MCC Did Not Calculate an ERR for this Activity:

The evaluation did not find Compact documentation developed during the implementation of the Compact that included explicit

²² Interviews with CAMANICA and PLASTIMAQ.

²³ Public Works As An Anti-Poverty Program: An Overview Of Cross-Country Experience, K. Subbarao, World Bank, Poverty Analysis and Social Assistance Group, 1997, Table 2. US\$2,120 at the market exchange rate in 1996; 2011 inflation adjusted.

economic assumptions for this Activity. Several stakeholders stated that an ERR was not done for this activity. One MCC official characterized this as an “oversight.”

According to the former MCA-Nicaragua Director and Project Designer,²⁴ “ERR was not that important for this activity. The private sector [entity] wouldn’t have decided to participate in the project if it did not think that it would have a positive rate of return. And it did.” This evaluation verifies this assumption as plausible, but cannot verify it via the self-reported, unverified numbers provided.

B3. Market Values Are Not Readily Available for Certain Costs and Benefits: With several of the investments, negative externalities likely exist such as the costs of water pollution by industries that add chemicals (fertilizers, pesticides, herbicides) to the water, which can harm plants, animals, and humans, or increases in particulates or other air contamination by the manufacturing of plastic products. Several of the investments are potentially energy intensive projects (24 hour call centers, manufacturing), which depend upon the supply of local electricity and can increase local energy demand and cost.

For the case of the 80 former trash scavengers hired to sort recyclable trash, benefits exist for which market values are not readily available, such as the environmental, social or health impacts for these individuals, but which are still significant.

B4. MCC Did Not Collect Detailed Data Related to Job Creation: The ProNicaragua Activity’s creation of jobs objective created employment opportunities that were qualitatively different in terms of job longevity, security, remuneration, and the probability that they will be accessible for the poorest inhabitants of the targeted regions; for example, comparing the trash-sorting jobs created by the waste management company to the call center jobs that were created. In interviews, company officials explained that in many cases the employment created was for minimum wage, full-time jobs, but in several instances, officials stated that they had hired professionals, or provided training to productive lower-wage earners. Since more detailed data related to jobs were not collected via the monitoring of this Activity, and the collection of jobs-related primary data was outside the scope of this review, causal links couldn’t be established.

B5. Job Counting Methodologies Varied: The businesses interviewed for this evaluation each counted full-time jobs as the amount of individuals that their businesses reported as employees for which they paid into the Nicaragua Social Security system. Each reported that the new jobs created pay the minimum wage or higher.

One business representative involved in waste management stated that 80 new full-time jobs were created for individuals who used to scavenge in a public dump, but are now paid the minimum wage to sort through the trash and have been trained to separate and classify inorganic recyclables for shipment to Asia, and now participate in the Social Security System. One businessman said that he believes that for every direct job in his industry (shrimp), five or six indirect jobs are created, but did not provide any evidence of this to support this contention; the evaluation confirmed that these indirect jobs were not reported to

²⁴ Juan Sebastian Chamorro.

ProNicaragua. The other business representatives indicated that they do not measure indirect jobs created.

By the end of the third agreement, ProNicaragua had developed a formula to count direct and indirect jobs.²⁵ A ProNicaragua official stated that ProNicaragua had also developed a formula to convert part time jobs to full time, but this formula has not been shared to compare with MCA-Nicaragua's methodology.²⁶

C. RANGE OF IMPACTS

C1. Foreign Companies Made Additional Investments and Created Jobs in the Northwest: Pro-Nicaragua continues to follow-up with businesses identified in its investment pipeline in the northwest developed with three cycles of MCC funding. In addition to the ten businesses appearing in ProNicaragua's reports to MCA-Nicaragua, two additional businesses have since expended US\$4 million and US\$750,000, with 250 jobs created (a Spanish call center, mostly university students) and 85 jobs created (waste management), respectively. These investments have been orally verified with company representatives as part of the evaluation.

While the causation to the three cooperating Agreements cannot be definitively established, ProNicaragua representatives argued that the linkages existed, and investing company representatives confirmed that ProNicaragua sought them out in the course of their investment promotion activities including trade show participation and investor servicing efforts, as were funded by MCC. Moreover, ProNicaragua follow-up has also supported reinvestment by at least two of the eight businesses that invested during the three years of implementation.²⁷

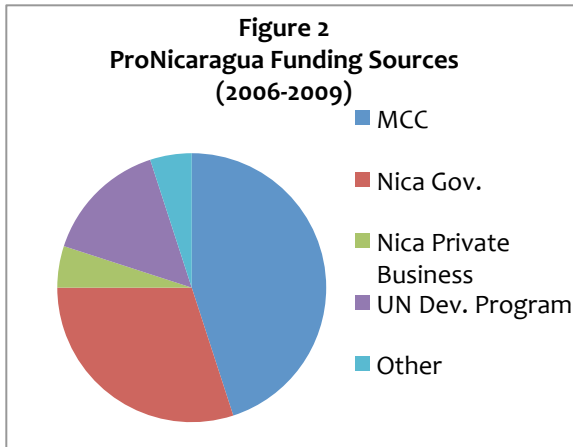
C2. A Replicable Regional Model Was Developed but No Longer Exists in Western Nicaragua: Using MCC funds, ProNicaragua established a regional office in Nicaragua for the first time since its establishment in 2002.²⁸ This regional office, however, no longer exists. According to ProNicaragua, investment promotion in northwest Nicaragua is now managed from its Managua office, as was previously done.

ProNicaragua and MCA-Nicaragua officials considered the development of a promotion unit with the professional capabilities to market the region, staffed with a Regional Manager and

²⁵ According to the revised 2009 report, MCA-Nicaragua and ProNicaragua agreed that jobs were to be projected to be executed over a 4-year period as follows: Y1 = 30%, Y2 = 30%, Y3 = 20%, Y4 = 20%. The same logic applied to indirect jobs. The percentage is of the amount of investments "won" that year.

²⁶ MCA-Nicaragua used the following methodology to count jobs: 1. Incremental Jobs / Net = Total Jobs Executed - total employment; 2. Conversion of temporary to permanent employees = Total person days / 220 days (number of days a person employed permanently: 365 days - 30 days holiday - 9 national holidays - 2 local holidays -104 Saturdays and Sundays at 52 weeks a year = 220 days. See MCC 2010 M/E Plan.

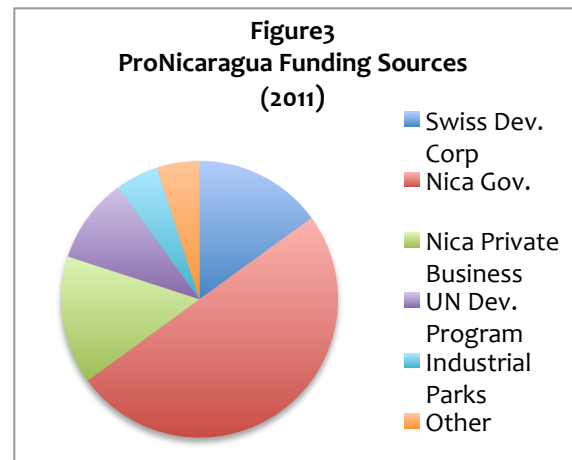
²⁷ For example, CAMINICA reported in an interview its US\$13 million invested in northwest Nicaragua in 2011 and its plans for an additional US\$20 million investment for 2012.



Promotion Advisor, as a key contributing factor to the project's rapid and consistent results. ProNicaragua officials attributed part of the operation's success in the fact that the personnel were from the region; were familiar with companies, business owners, and service providers that served as key contacts and facilitated information to investors exploring the region. Several of the businesses that agreed to be interviewed for this evaluation emphasized that staff's local knowledge, especially contacts with mayors and ProNicaragua's

staff's ability to quickly resolve disputes over municipal services, was an important aspect that contributed to their investment decisions.

Based on the positive results of the regional office on the northwest, ProNicaragua is now working with the United Nations Development Program and Atlantic Coast Regional government officials to create a local office on Nicaragua's Atlantic (Caribbean) Coast. UNDP funds have not been allocated for this activity at this time.²⁹ The irony is that this regional office no longer exists in western Nicaragua.



Source: Interviews with ProNicaragua staff (Figure 2 and Figure 3)

D1. Sustainability: Cannot Be

Established: The evaluation's main inquiry regarding sustainability relates to the project's intended outcomes (foreign direct investment generated and jobs created). As discussed previously, direct foreign investment occurred and jobs were created while MCC funded this Activity, although causation cannot be established.

As long as the investing companies remain in northwest Nicaragua, jobs might be sustained and additional investment is possible. Several businesses indicated that they planned to invest in 2012 and 2013, but this data is just a snapshot of a small sample of companies. It appears that ProNicaragua served as a catalyst for investment and jobs, but was not the sole factor in many cases.

D2. ProNica Receives Continued Support for Investment Promotion: A secondary issue regarding sustainability is also worth addressing; i.e., the sustainability of ProNicaragua as a

²⁹ Similarly, based on the positive results of ProNicaragua's work with MCA-Nicaragua's regional office in the northwest, the International Development Bank has promoted the MCC and MCA-Nicaragua regional investment promotion model in Suriname and Belize.

Nicaraguan institution. As seen in Figures 2 and 3, ProNicaragua's investment promotion activities funded from 2006-2009 by MCC in Leon and Chinandega are now funded by increases by the Government of Nicaragua, the United Nations Development Program, private local businesses, and new funding from the Swiss Agency for Development and Cooperation. MCC funded approximately 45% of ProNicaragua's total budget from 2006 to 2009 (US\$1.3 million expended) for investment promotion activities in Leon and Chinandega.

Only the Swiss funds are targeted for investment promotion in the northwest region, but apparently without the assistance of a ProNicaragua regional office.

E. IMPLEMENTATION FACTORS

MCC Established an Effective Public-Private Partnership: As noted, ProNicaragua is a hybrid public-private organization, established by Nicaraguan Presidential Decree, administered by a United Nations agency, and partially funded by private Nicaraguan businesses. While the agreements with MCA-Nicaragua cannot be characterized as purely public-private, the choice of this local partner, nurtured by the United Nations³⁰, and with local contacts and savvy, turned out to be a wise decision. The identification of this specialized private-public investment promotion agency as the implementer at the outset of the Compact permitted this Activity to hit the ground running and produce results.

In some cases, businesses were already investing in northwest Nicaragua and ProNicaragua served a support role. For example, one business was already looking at Nicaragua for opportunities, but learned about the unique skill set available in the city of Leon from ProNicaragua at an international trade show. This company's representative reported that ProNicaragua's efforts were worthwhile and assisted the company, especially with resolving issues at the municipal level.

F. REPORTING OF RESULTS

MCA-Nicaragua's Reporting System Relied on Unverified, Self-reported Data: In the three years ProNicaragua implemented this Activity, it reported to MCA-Nicaragua that ten businesses expended funds in northwest Nicaragua and created direct jobs. As part of this evaluation, ProNicaragua reported that it had worked with two more companies that were identified in its investment pipeline that had invested in northwest Nicaragua since the fall of 2009, when the last agreement with MCA-Nicaragua ended. These numbers were self-reported by the companies to ProNicaragua. The evaluation could not determine which departments within the companies were responsible for reporting the investment amounts and jobs created, and ProNicaragua did not respond to the evaluation's requests for this information. For the first two agreements, the companies provided this information to ProNicaragua orally.

³⁰ ProNicaragua receives technical assistance from UNDP and pays UNDP a nominal fee for administrative services.

Spot Checks In its revised 2009 report, ProNicaragua reported US\$1,100,000 invested by a company called Holanda with 350 jobs created. Review of a letter Holanda sent to ProNicaragua indicates that US\$550,000 was invested, with 125 jobs created. No evidence was found to explain why ProNicaragua reported to MCA-Nicaragua that both numbers doubled.

Also, during an interview with one company based in Honduras, the US\$2 million reported by ProNicaragua on behalf of this business during the first year of the Activity was orally verified as US\$200,000. ProNicaragua reported this number incorrectly to MCA-Nicaragua in 2007, 2008, and 2009. This error was corrected in a revised report to MCA-Nicaragua in 2009.

When asked, MCA-Nicaragua officials expressed concern about the unverified data, and according to the former MCC-Nicaragua Country Representative, occasionally sent MCA-Nicaragua staff out to visit companies and attempt to verify certain data. This was an ad hoc effort that acknowledged the problem but did not address it with adequate corrective actions. For the last agreement in 2009, MCA-Nicaragua insisted that ProNicaragua obtain letters signed by a company representative on company letterhead with expended investments and jobs created. The evaluation confirmed that four out of five companies submitted one page letters to ProNicaragua on letterhead or by email that stated the amount of expended investment and the number of jobs created in the region. For the fourth company (Algaoil), ProNicaragua relied on estimates from a 2009 table listing Nicaraguan free trade zone expenditures.³¹ While requesting confirmation letters was a good first step to address a significant deficiency in MCA-Nicaragua's reporting system, in every case MCA-Nicaragua still

relied on a company's self-reporting, and in at least two cases, received estimates of expenditures and job created.

For this evaluation, four representatives of businesses were interviewed related to their collaboration with ProNicaragua, levels of foreign investment their companies made in Nicaragua, future projections, and jobs. These interviews amounted to 'spot checks' in terms of verifying some of the reported numbers. Granted, these numbers were self-reported during the interviews, also, but even limited attempts to verify such number have been found to engender more numerical integrity. Eight companies declined to speak or meet for the evaluation. As it turns out, during an interview with one company based in Honduras, the US\$2 million reported by ProNicaragua on behalf of this business during the first year of the Activity was actually US\$200,000, a considerable error. Also, in 2009 ProNicaragua over-reported another investment by US\$550,000 (see text box).

While this may be the largest incorrect number reported by ProNicaragua (or a business) in the course of this activity, finding two errors in such a small sample creates uncertainty. Methods exist to verify self-reported data on investment and job creation. One federal agency in the Department of Commerce called the Economic Development Agency (EDA) has been promoting investment and job creation in disadvantaged communities in the USA for 50 years. Similarly, EDA does not have resources to verify all data, but uses strategic spot checks to confirm investments expended, and approaches such as reviews of tax rolls to

³¹ ProNicaragua Consolidated Report on Third Cooperation Agreement: October 10, 2008 – October 15, 2009; October 15, 2009 (version 2), page 30.

confirm jobs created; a similar option in Nicaragua, for instance, might have been to review the Social Security rolls, if permitted in Nicaragua, to verify names of newly listed employees.

IV. LESSONS LEARNED

- Self-reported data is suspect until verified.
- Conceiving the first ProNicaragua agreement as a nine-month pilot operation with the understanding that a second agreement would be negotiated based on the implementing agency's achievements served as leverage for MCC to improve how the implementing agency reported on a key MCC indicator in subsequent agreements (real expenditures versus projected investments).
- A key factor that contributed to this Activity's reported successes was the initial selection of the hybrid public-private implementing agency with a complementary mission to generate economic growth and job creation by attracting quality foreign direct investment.

V. RECOMMENDATIONS

- To address the issue of unverified data:
 - Perform spot checks with businesses to verify reported data;
 - Require confirmation letters from participating businesses with projected and expended investments, and numbers of jobs from the beginning of the Project;
 - Review lessons learned regarding monitoring and verifying domestic job creation and investment promotion by the U.S. Department of Commerce's Economic Development Agency, such as developing a system to perform strategic spot checks to confirm investments expended, and use of approaches such as reviews of government data such as tax rolls to confirm jobs created.
- Stipulate numerical targets for output and outcome indicators to assess progress on the investment expended and jobs created.
- Collect more detailed data related to jobs creation, such as wages, job longevity, security and total remuneration.
- Consider monitoring "spillover" direct foreign investment results in non-target areas from investment promotion activities.

VI. CONCLUSIONS

During the three years of the ProNicaragua Activity, foreign businesses made real investments and created jobs with the support of MCC funding but causation cannot be reliably established. Several worthwhile components of this Activity have apparently continued in northwest Nicaragua since MCC funding ended in October 2009, with increased Government of Nicaragua funding, new Swiss funding, and interest by several multilateral donors to replicate the regional investment promotion model that MCC used. Finding reporting errors by the implementer and locating two distinct versions of the final report

during the evaluation creates uncertainty as to the numbers and serves to confirm that the self-reported data needs stronger verification.

Annex A

People Consulted

MCC:

- Steve Marma, former MCC Country Representative
- Lola Hermosillo, MCC Monitoring and Evaluation
- Eddy Jerez, former MCC Deputy Director
- Jack Molyneaux, MCC Director of Impact Evaluations (re: scope and methodology)

MCA:

- Juan Sebastian Chamorro, former MCA-Nicaragua Director & Project Designer
- Ignacio Velez, MCA-Nicaragua Director
- Carmen Salgado, MCA-Nicaragua Director of Monitoring and Evaluation
- Claudia Paniagua, MCA-Nicaragua, Monitoring and Evaluation
- Juan Manuel Sanchez Ramirez, former MCA-Nicaragua Counsel and Chief of Staff
- Edgar Sotomayor, former MCA-Nicaragua Operations Manager

ProNicaragua:

- Engelsberth Gómez, ProNicaragua Regional Development and Market Intelligence Director
- Luz Danelia Garcia, ProNicaragua Development Director
- Claudia Mayorga, ProNicaragua Investment Advisor
- Silvia Arbizú, former ProNicaragua Investment Advisor for Northwest Nicaragua

Company Representatives:

- Iraima Narvaez, PLASTIMAQ, Administration
- Luis Lopez Olivo PLASTIMAQ General Manager
- Francisco Ibárgüen, TRANSACTEL, Operations/Account Manager
- Larry Drazba, CAMANICA Advisor
- Silvia Arbizú, CIELO ENTERPRISES staff
- Milton Flores, GRUPO BETA (limited emails)

Other:

- Rodrigo Rojas, US Commercial Service, Department of Commerce, San Jose, Costa Rica

Annex B

Literature and Data Review

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