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Policies Matter: Promoting the Sustainability of MCC's Road Investments in Nicaragua

In 2005, the Millennium Challenge Corporation (MCC) signed a five-year Compact with the Government of Nicaragua[1] to rehabilitate 74 kilometers of one primary and two secondary roads. The rehabilitation of these roads is designed to reduce transportation costs between Nicaraguan production centers and national, regional and global markets. As a condition for its investments in road rehabilitation, MCC requires partner countries to establish road maintenance funds. In Nicaragua, the road maintenance fund is helping to ensure that MCC's investments are sustainable and promoting long-term economic growth.

The MCC-funded roads have proper drainage and a road maintenance fund ensures that roads and bridges are well maintained.

MCC's Commitment to Policy Reform

MCC's investments aim to address poverty reduction by breaking down fundamental barriers to growth and generating additional income for beneficiaries both during and after the compact ends. To achieve a full and lasting impact, MCC's investments cannot happen in isolation. That is why MCC and its partner countries look closely at the environment in which MCC investments are being made, and plan reforms to policies that might limit the investment's impact and sustainability. MCC is committed to promoting policy and institutional reforms that are necessary to unlock the full potential of the programs funded. These reforms are improving the broader conditions for sustainable growth and investment in Nicaragua.

1 On July 3, 2009, MCC terminated funding under the Compact in response to a pattern of actions by the Government of Nicaragua that were inconsistent with the criteria 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 which 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.

Financing Road Maintenance Fund

FOMAV, the Nicaraguan road maintenance fund, was created in June 2000 as an autonomous state entity with technical and administrative independence to maintain the road network at the national level. Due to a lack of budget, FOMAV was inactive from 2000 to 2002. In 2003, it received seed funding from the Inter-American Development Bank and the World Bank to begin operations. During compact negotiations, MCC, leveraging the work done by the IDB and WB, stated that establishing a funding mechanism and a permanent source of funds for road maintenance was essential for MCC's support.

In 2005, the Nicaraguan National Assembly approved a special law that imposes a tax on the sale of gas, as a means to finance FOMAV. The tariff was gradual, starting off at 0.06 US cents per gallon in 2005 and increased yearly to its target of 0.16 U.S. cents in 2010 and beyond.

Prior to 2005, the Government of Nicaragua was maintaining approximately 500 kilometers of roads with an annual maintenance budget of approximately $2.4 million. Five years later, the Government of Nicaragua was maintaining more than 3,000 kilometers of roads each year, including the three MCC-funded rehabilitated roads, with a budget of $31 million. More than 16,000 kilometers of roads have undergone routine maintenance since the special law was passed. Nicaragua's substantial increase in kilometers of roads maintained is a good example of how MCC's commitment to policy reform is enhancing the sustainability of its investments and promoting long-term economic growth in its partner countries.

FOMAV: Budget and Maintenance

Year	US $ Million	Kilometers per year
2003	1.1	254
2004	3.6	643
2005	2.4	570
2006	12.0	2,673
2007	15.7	2,808
2008	22.2	3,255
2009	30.1	2,877
2010	31.0	3,097

Source: FOMAV

A Weight Control System

To further ensure the longevity of the roads, MCC granted the Ministry of Transport and Infrastructure (MTI) a portable digital weigh scale that is being used on the MCC-funded road section of Villanueva to El Guasaule in Chinandega. This segment is the last stretch of the Pan American Highway, which connects Nicaragua to the rest of Central America and provides a key link to greater regional trade.

According to administrators at the customs terminal, 350 to 400 vehicles travel that road section each day during the high season (150 to 200 pass each day during the low season). This digital weigh scale helps to control the cargo weight of trucks travelling along the road, which reduces the damage caused by excess-weight vehicles, decreases the amount of road maintenance required, and promotes the sustainability of MCC's investments.