

## **Nicaragua: Poverty Reduction Strategy Paper Second Progress Report**

Poverty Reduction Strategy Papers (PRSPs) are prepared by member countries in broad consultation with stakeholders and development partners, including the staffs of the World Bank and the IMF. Updated every three years with annual progress reports, they describe the country's macroeconomic, structural, and social policies in support of growth and poverty reduction, as well as associated external financing needs and major sources of financing. This country document for **Nicaragua**, dated **November 2003**, is being made available on the IMF website by agreement with the member country as a service to users of the IMF website.

**To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to [publicationpolicy@imf.org](mailto:publicationpolicy@imf.org).**

Copies of this report are available to the public from

International Monetary Fund • Publication Services  
700 19<sup>th</sup> Street, N.W. • Washington, D.C. 20431  
Telephone: (202) 623-7430 • Telefax: (202) 623-7201  
E-mail: [publications@imf.org](mailto:publications@imf.org) • Internet: <http://www.imf.org>

Price: \$15.00 a copy

**International Monetary Fund  
Washington, D.C.**



# Government of Nicaragua

Coordination and Strategy Secretariat of the Presidency

## Strengthened Growth and Poverty Reduction Strategy

# **SECOND PROGRESS REPORT**

Managua, Nicaragua  
November 2003

## Abbreviations and Acronyms

ACDI	Canadian International Development Agency
AIEPI	Comprehensive Attention to Prevalent Infancy Diseases
AMCHAM	American Trade Chamber of Nicaragua
AMUNIC	Nicaraguan Association of Municipalities
ANIMU	Nicaraguan Women Association
APENN	Nicaraguan Association of Producers and Exporters of Non-Traditional Products
APRENDE	Action for Teaching and Development
ASCI	Swedish International Development Agency
ASOMIF	Nicaraguan Association of Microfinance Institutions
BANIC	Nicaraguan Bank
BASE	Basic Education Program
BAVINIC	Nicaraguan Housing Bank
BCN	Central Bank of Nicaragua
CABEI	Central American Bank for Economic Integration
CACONIC	Nicaraguan Chamber of Trade
CADIN	Nicaraguan Chamber of Industry
CAFTA	US Central America Free Trade Agreement
CAMINIC	Nicaraguan Chamber of Mines
CANILAC	Nicaraguan Chamber of the Dairy Industry
CAPENIC	Nicaraguan Chamber of Fisheries
CEI	Center for Exports and Investments
CENAGRO	National Agricultural Census
CENI	Negotiable Investment Certificate
CEPAL	Economic Commission for Latin America and the Caribbean
CERAP	Committee for the Reform of Public Administration
CFAA	Country Financial Accountability Assessment
CGR	Comptroller General's Office
CJN	Nicaraguan Youth Council
CNC	Nicaraguan Chamber of Construction
CNE	National Energy Commission
CNLD	National Council for the Fight Against Drugs
CNS	National Health Council
CNU	National Universities' Council
CODE	Emergency Operation Center
CODESO	Sustainable Development Council
CONADES	National Sustainable Development Council
CONAPI	National Chamber of Small, Medium Industry and Craftsmanship
CONAPRO	Nicaraguan Confederation of Professional Associations
CONPES	National Council for Social and Economic Planning
COPLAR	Regional Planning Commission
COSEP	High Council for Private Enterprise
COSUDE	Swiss Agency for Development and Cooperation
CPT	Permanent Congress of Workers
CREPEN	Pension Reforms Commissions
CSD	Sector Commission for Decentralization
CSJ	Supreme Court of Justice
CST	Sandinista Workers' Center
CTI	Technical Committee for Investments
CTN	Nicaraguan Workers' Center
CUPROD	Caribbean Nicaraguans Pro the Development of the Atlantic Coast of Nicaragua
DAI	Import Duty Rights
DGA	General Customs Directorate
DGI	General Revenues Directorate
DFID	Department for International Development of the United Kingdom
DHS	Demographic Health Survey
EFA - FTI	Education For All- Fast Track Initiative
ENACAL	Nicaraguan Water and Sewerage Company
ENEL	National Electricity Utility
ENITEL	Nicaraguan Telephone Company
EPN	National Port Authority

EU	European Union
FCR	Rural Credit Fund
FDT	Foundation for Technological Development
FENUP	Nicaraguan Private University Federation
FISE	Emergency Social Investment Fund
FNT	National Workers Front
FONMAT	Fund for Safe Motherhood and Childhood
FOREIBCA	Bilingual and Intercultural Education Program for the Atlantic Cost
FOSED	Education Strengthening in Mitch Affected Zones
FOSOVI	Social Housing Fund
FSS	Supplementary Social Fund
FUNICA	Foundation for Technological Development in Agriculture and Forestry
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
GTZ	German Technical Cooperation
HIDROGESA	Hydroelectric Generation Co.
HIPC	Reinforced Initiative for Heavily Indebted Poor Countries
IDB	Interamerican Development Bank
IDR	Rural Development Institute
IEC	Specific Consumption Tax
IGV	General Sales Tax
IMF	International Monetary Fund
INAA	Water and Sewerage Regulatory Institute
INAFOR	National Forestry Institute
INATEC	National Technological Institute
INCAE	Central American Institute for Business Administration
INDE	Nicaraguan Development Institute
INEC	National Institute for Statistics and Census
INETER	Territorial Studies Institute
INIFOM	Municipal Development Institute
INIM	Women's Institute
INPYME	Small and Medium Enterprises Institute
INSS	Social Security Institute
INTA	Agricultural Technology Institute
INTUR	Tourism Institute
INVUR	Urban and Rural Housing Institute
IR	Income Tax
ISC	Selective Tax on Consumption
VAT	Value Added Tax
JCOP	Local Community Boards
LSMS	Living Standards Measurement Survey
MAGFOR	Ministry of Agriculture and Forestry
MARENA	Ministry of Environment and Natural Resources
MCN	Nicaraguan Communal Movement
MECD	Ministry of Education, Culture, and Sports
MHCP	Ministry of Finance
MIFAMILIA	Ministry of the Family
MIFIC	Ministry of Development, Industry and Trade
MIGOB	Ministry of Government Affaire
MINDEF	Ministry of Defense
MINREX	Ministry of Foreign Affaire
MINSA	Ministry of Health
MPP	Participatory Micro-Planning
MTI	Ministry of Transport and Infrastructure
NA	National Assembly
NFPS	Non-Financial Public Sector
NORAD	Norwegian International Development Authority
NGO	Non-Governmental Organization
OEP	Office of Public Ethics of the Presidency
OPEP	Organization of Petroleum Exporting Countries
PAEBANIC	Adult Basic Education Program
PAI-SGPRS	Program for the Implementation of the Growth and Poverty Reduction Strategy
PAININ	Program for Integral Attention for Children and Adolescents

PANIC	Nicaragua's Environmental Plan
PASE	Program for Appropriation, Follow Up, and Evaluation of the SGPRS
PDDH	Attorney General's Office Human Rights
PDLCA	Local Development Program for the Atlantic Coast
PESA	Special Program for Food Security
PGR	Office of the Attorney General
PIM	Municipal Investment Plan
PINE	Integral Program for School Nutrition
PIP	Public Investment Program
PMSS	Program for Modernization of the Health Sector
PN	National Police
PNC	National Program for Competitiveness
NDP	National Development Plan
PRGF	Poverty Reduction Growth Facility
PROCAFOR	Pine Forest Sustainable Development Project
PRRAC	Reconstruction Program for Central America
PRSP	Poverty Reduction Strategy Paper
PSAC	Programmatic Structural Adjustment Credit
PSIA	Poverty and Social Impact Assessment
PYMES	Small and Medium Enterprises
RAAN	Northern Atlantic Autonomous Region
RAAS	Southern Atlantic Autonomous Region
RPS	Social Safety Net
SAS	Social Action Secretariat
SBOIF	Superintendence of Banks and Other Financial Institutions
SECEP	Secretariat of Coordination and Strategy of the Presidency
SES	Executive Secretariat of the SNPMAD System
SGPRS	Strengthened Growth Poverty Reduction
SIGFA	Integrated System for Financial Management and Auditing
SIGFAPRO	Integrated Project Administration System
SILAIS	System of Local Healthcare Centers
SIMEN	System for the Improvement of Education
SINASIP	National System for the Monitoring of Poverty Indicators
SINIA	National System for Environmental Information
SNIP	National System of Public Investment
SREC	Secretariat for Economic and Cooperation Relations
SYSODA	Official Development Aid Information System
SYSONG	International NGO Information System
TELCOR	Telecommunications and Mail Services Regulatory Agency
TLC	Free Trade Treaty
UIP	Public Investment Unit
UNAG	National Farmers and Cattle Ranchers Union
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program
UPANIC	Union of Agricultural Producers of Nicaragua
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
UTD	Departmental Technical Units
UTIP	Territorial Units for Public Investment
VPCD	Promotion and Monitoring of Child Development
WB	World Bank
WFP	World Food Program

**Contents**

I. Introduction.....	1
II. Executive Summary.....	3
III. Macroeconomic Framework and Poverty Reduction Strategy.....	6
A. International setting.....	6
B. The route to an agreement with the IMF and the World Bank.....	7
D. Fiscal reform: tax, budgetary, and administrative.....	17
E. Evolution of poverty spending.....	19
F. Financing the SGPRS.....	25
G. HIPC relief: allocation and tracking mechanism.....	26
H. Economic growth and poverty reduction.....	31
I. Prospects 2003-2008.....	32
IV. Poverty Reduction.....	34
Evolution of poverty.....	34
V. Progress in Implementing Policies and Programs.....	36
A. Pillar I: broad-based economic growth.....	37
B. Pillar II: investment in human capital.....	38
C. Pillar III: protection of vulnerable groups.....	40
D. Pillar IV: good governance.....	41
E. Cross-cutting themes.....	44
F. Challenges in the SGPRS implementation.....	45
VI. Intermediate Goals and Indicators.....	46
A. Medium-term (2005) and long-term (2015) goals.....	46
B. Intermediate indicators.....	49
VII. Public Spending Administration.....	52
A. Public spending commission.....	52
B. Perspectives for new approaches to cooperation.....	53
C. Supplementary social fund - FSS, registration of HIPC relief.....	54
D. National public investment system – SNIP.....	55
E. Integrated financial management and auditing system – SIGFA.....	56
F. National system for the monitoring poverty indicators – SINASIP.....	57
G. Program and project evaluations.....	57
VIII. Poverty and Social Impact and Analysis (PSIA).....	58
A. Tax reform.....	59
B. Evaluation ex ante of the impact of the education for all project (EFA).....	63
IX. SGPRS Review.....	66
A. Factors for change.....	66
B. National development plan (NDP).....	67
X. Consultation Process.....	70

**Tables**

1. Measures to Reach HIPC Completion Point.....	9
2. Fiscal Indicators.....	15
3. Financing Sources of NFPS Deficit.....	17
4. Tax Reform and Measures 2002-2003.....	19
5. Poverty Expenditure.....	21

6. Poverty Expenditure by Pillars and Crosscutting Themes .....	22
7. Financing Sources of Poverty Expenditure .....	26
8. HIPC Debt Relief 2001-2004 .....	28
9. HIPC Relief Allocation .....	29
10. NFPS Resources and HIPC Relief Additionally .....	30
11. Per Capita Growth and Poverty Reduction .....	32
12. Basic Economic Indicators .....	33
13. Evolution of Poverty .....	35
14. Poverty Gap and its Evolution .....	36
15. Distribution of Consumption in Quintiles .....	36
16. Progress in Meeting the International Targets .....	47
17. Progress of the SGPRS Intermediate Indicators .....	50
18. Distribution of Income and Consumption in Nicaragua in 2001 .....	60
19. Latin American Per Capita Family Income Gini Coefficient .....	61
20. Progressive Index .....	62
21. Incidence of Tax Reform .....	62

### **Graphs**

1. Real GDP Growth .....	10
2. Real Per Capita GDP Growth .....	10
3. Index of Trade Terms 1999-2003 .....	11
4. Evolution of Coffee Prices 1998-2003 .....	11
5. Interest Rates .....	13
6. Overall Deficit of NFPS .....	16
7. Poverty and Extreme Poverty .....	34
8. Urban and Rural Poverty .....	34

### **Annex**

I. Matrix of Policy and Program Actions .....	72
II. Matrix of Goals, Targets and Intermediate Indicators .....	102
III. Citizens' Participation Process .....	107

### **Annex Tables**

1. Fiscal Indicators .....	113
2. Financing Sources of NFPS Deficit .....	114
3. Poverty Expenditure (US\$) .....	115
4. Poverty Expenditure (Percentage of the GDP) .....	116
5. Poverty Expenditure by Pillars and Crosscutting Themes .....	117

<b>Addendum: CONPES Recommendations to the Second SGPRS Progress Report .....</b>	<b>118</b>
---	------------

<b>Bibliography .....</b>	<b>131</b>
---------------------------	------------

## **I. Introduction**

1. After two years (August 2001 – August 2003) of having gotten the Strengthened Growth and Poverty Reduction Strategy (SGPRS) underway, the Government of Nicaragua is now presenting the second progress report to its citizens and the international community providing information about the progress made, the setbacks and difficulties encountered over this short period. This report, besides fulfilling the agreements made with international organizations, offers an excellent opportunity for the governmental entities, civil society, and the donors themselves to provide new recommendations based on what has transpired in order to improve the content of the SGPRS. Along this line, it should be remembered that the strategy paper was not to be considered a static document, but rather it was meant to be improved along the way of its implementation.
2. Since the development of the SGPRS, it was recognized that some fundamental principles had only been stated, hastily developed or weakly formulated given the lack of adequate analytical instruments, the novelty of the subject matter or the over-optimism permeating its elaboration. The frailty of the Strategy facing world events and internal political situations was also recognized. It was necessary to make various revisions to the medium-term macroeconomic scenario on which the SGPRS is based and there were several advances made on positions with the International Monetary Fund (IMF) without being able to reach a formal agreement for the Poverty Reduction Growth Facility (PRGF) in 2001. In the end, the goals of the SGPRS were established with the best criteria available at the time under the prevailing economic prospects and in the frame of an interim program agreed on with the IMF.
3. During its two years of implementation, the SGPRS has not had a climate that is propitious for its development. It came to life under a political environment of elections that slowed down the expectations of the private sector and the donor community. There was also the need to take severe fiscal measures in order to cope with the effects of the financial crisis. In addition, the international setting continued to be highly adverse; the fight against corruption generated political costs that affected the implementation of the government program; and the economic growth was less than expected.
4. Social reform proceeded slowly because of the sector's difficult situation, which imposed its pace for action in the Government's struggle to respond to the most felt needs with a limited budget, also because the accelerated population growth in some regions of the country and the low level of dynamism of the private sector in generating employment in relation to the growth of the economically active population. The budget currently given to health and education is the lowest in the Central American region<sup>1</sup>, and this limits the coverage of services in these sectors. In the long term, the low level of investment for increasing the country's health centers capacity and for building more schools could have an influence on attaining the objectives of the SGPRS.
5. On the other hand, cutting extreme poverty by half by 2015 requires having the economy grow faster than the population, and an increased capacity of the Government to provide health and education services at a rate higher than the present one. It is important to compensate for the

---

<sup>1</sup> CEPAL, Statistics Yearbook of Latin America and The Caribbean 2002.



cumulative shortfall in these sectors with regards to coverage and have the economy generate sustainable employment over this period.

6. This situation becomes particularly relevant when analyzing the evolution of the economy over the last few years. In 2002, economic growth was barely 1.0 percent over the previous year, showing an average annual deceleration of 2.6 percent since 1999. It is estimated that the Gross Domestic Product (GDP) for 2003 may grow by 2.3 percent, in which case per capita income would fall for the third consecutive year, which in turn will further distance the fulfillment of the poverty reduction goals. It is necessary to have greater GDP growth in the future, above 5.0 percent, in order to reach the millennium development goals in 2015, or more time at a lower growth will be needed.

7. The above is due in part to structural factors related to property rights, the judiciary system and the technological gap. In addition, the international setting has not improved for agricultural producers, the private sector is cautious in the presence of political issues, and foreign investment arrives at a slow pace. On the other hand, in 2002 the Government had to maintain a restrictive public spending program, because of the internal debt, the economic slowdown effect on fiscal revenues and the need to increase savings.

8. Nevertheless, due to the efforts that the Government made to control the fiscal deficit and on taking some measures of a structural nature, the first PRGF agreement was reached in December 2002 with the IMF and the World Bank (WB) that guaranteed external resources to support government policies, and included the interim debt relief from HIPC for poverty reduction programs. In 2003, the Government continued to further the adjustment, introducing the Law for Fiscal Equity and regulating spending performance quarterly, which improved the primary savings rate. It was also possible to renegotiate a portion of the internal debt associated with bankruptcies of banks, and given the improvement of some performance indicators for the economy, the IMF agreed in its third quarter review of the PRGF to make the public investment program for 2003 and 2004 more flexible, which is consistent with the initiatives aimed at stimulating economic growth.

9. The Government has worked towards adopting the necessary economic measures to put the country's economy on the course of fiscal sustainability and those that guarantee transparent and austere management, not affecting the most vulnerable population. In the second year of implementing the SGPRS, the Government has managed to protect social spending, providing resources for strategic sectors, improving performance indicators for health and education, and implementing reforms that will have a greater impact on these sectors. It is expected that the tendency for social spending will be maintained in the coming years.

10. It should be mentioned that the international community has supported the Government in this effort by: supporting the fight against corruption undertaken from the onset through programs that strengthen institutionality and the control and supervision of public affairs; granting interim foreign debt relief that has served to protect spending on the priority social programs of the SGPRS; condoning the debt that was impossible to pay in previous years, thereby putting the country into a better balance of payments position; providing technical assistance and, signing new cooperation agreements for budgetary support and financing of public investment.

11. Through these efforts, during the second year of execution of the SGPRS, social indicators showed a general improvement (including those related to the well-being of health and education workers). Modest salary increases, increases in the supply of medicines and medical inputs, greater coverage of drinking water, drainage, and sewage, and more poverty-related capital spending are some indications of good performance in this area.

12. Nonetheless, the historical shortfalls in these sectors, the growth of the population, and the decline in economic activity combined with the effect of the public debt have made these efforts insufficient. To reach the targets committed to in the SGPRS, it is necessary to have more efficient public spending, tax evasion reduction, production stimulation, and institutional reforms. Likewise, there must be greater budgetary allocations for the social sectors, compatible with the savings to assure sustainability.

13. The second report on the SGPRS benefited from the first program for economic growth and poverty reduction agreed on with the IMF for the October 2002 – September 2005 period, signed in December 2002. It also includes the results from the fourth quarter review of the PRGF carried out by the IMF mission of November 2003. Help from other reports related to poverty spending and the economic situation, such as the annual report on social and economic policy for 2002 prepared by the Coordination and Strategy Secretariat of the Presidency (SECEP) and the annual BCN report for 2002, were influential in reinforcing the content of this report. Likewise, the information for drafting the National Budget for 2003 and 2004 was important for reporting on the availability of resources channeled towards the SGPRS.

14. The guidelines for a production strategy and for new ideas to strengthen social policy that were formulated in 2002 and 2003 have served to evaluate the conceptual framework for the SGPRS. The Government began a consultation process to prepare the National Development Plan (NDP), the results of which were presented to the international community at the Consultative Group meeting in October of this year. This strategic plan is consistent with the PRGF and strengthens the poverty reduction strategy (PRSP) agreed on with the international community. It will include a more integral vision between economic growth and poverty reduction, putting forward a production strategy based on the development of clusters and incorporating new mechanisms for allocating resources, combining the poverty map with the map of economic and productive potentials, among others.

15. This second report differs from the first, that besides evaluating the progress of the goals, programs, projects, and intermediate indicators under the different pillars on which the SGPRS rests, it also analyzes the conceptual framework, the assumptions, and macroeconomic projections estimated three years ago. With all this, it has been possible to identify the critical areas in which the initial proposals of the SGPRS must be strengthened based on the strategic guidelines of the NDP.

## **II. Executive Summary**

16. The evaluation of the second year of implementation of the SGPRS shows major progress in the execution of strategic policies, programs, and projects that are aimed at achieving the goals set for 2005 and paving the way for achieving the major strategy objectives: poverty reduction

and economic growth in the medium and long term. It also indicates the shortfalls of some policies and performance indicators in the economy and in the social sector, having to cope with adverse settings in several fronts.

17. The Government has channeled all possible efforts in order to fulfill what is set down in the SGPRS, and it is also seeking to strengthen it with new proposals in the areas of production, public investment, and fiscal and monetary stability. Despite the Government moving ahead with a severe adjustment program in 2002 and 2003 to achieve fiscal sustainability, the major gain was to protect social spending channeled to the public sector in order to improve the welfare of the most vulnerable population. Poverty spending in real terms showed an increasing tendency during the 2001-2003 periods.

18. This allowed for increasing the net rate of primary schooling from 81.1 to 84.7 percent from 2001 to 2002, based partly on the construction and rehabilitation of classrooms, adding 815 in 2002. As of June 2003, the Government has been building classrooms at a similar rate, adding 380 more. There has also been an increase in preschool enrollment by 7.0 and 3.0 percent for 2002 and 2003, respectively.

19. In the health sector, the Government was able to overcome the medicinal shortage crisis in the country's healthcare centers, channeling US\$13.0 million in 2002 and an additional US\$13.0 million as of September 2003, surpassing the 2002 expenditure. This helped reduce the maternal mortality rate from 114 to 100 per 100,000 live births between 2001 and 2002, a 12.2 percent improvement. The mortality rate for children under 5 also improved, dropping from 50 to 40 per thousand live births, a 20.0 percent improvement during 2002. The infant mortality rate improved from 40 to 31 per thousand live births, a 22.5 percent improvement during 2002. Access to reproductive healthcare services also improved, going from 24.5 to 24.7 percent over the 2001-2002 periods.

20. This is consistent with the tendency of decreasing poverty in Nicaragua. According to the 1993 Living Standard Measurement Survey (LSMS), 50.3 percent of the population was poor, 76.1 percent in the rural zones. In 1998, the level of poverty fell to 47.9 percent overall and 68.5 percent in rural areas. In 2001, these figures dropped further to 45.8 percent and 67.8 percent, respectively. The Government can speed up this process through more economic growth, an objective emphasized in the proposed NDP presented in September 2003.

21. The 2002-2003 period was one of great challenges in the economic field. The goals put forward from the start to reduce the fiscal deficit, increase public sector savings, and overcome the crisis of international reserves in 2001, were achieved. This helped in reaching the agreement with the IMF, signing a PRGF in December 2002. This program includes gains obtained in matters of fiscal and monetary discipline and established a medium term path for the economy that allowed the entry of external resources (including HIPC relief) to finance the SGPRS, mainly its public investment program.

22. In the context of the previous actions and its implementation for the first four quarters (October 2002 – September 2003), the Government was able to reduce the Non-Financial Public Sector (NFPS) deficit before donations from 12.5 percent of GDP in 2001 to 8.6 percent in 2002. The goal for 2003 is a deficit of 6.7 percent. The Government will also manage to improve its

savings position this year, going from a negative 2.0 percent of GDP in 2001 to 1.9 in 2003. This allowed for an increase in international reserves in 2002 of US\$48.5 million, after the US\$171.0 million loss of 2001. The monetary and fiscal discipline continued strongly in 2003, and by September the international reserves increased by US\$36.0 million. Notwithstanding this, due to the internal debt, in the end, they will slightly increase by US\$5.8 million by the end of the year.

23. One achievement in matters of economic policy during the 2002-2003 period was the approval of tax reforms (Law for Broadening the Tax Base and Law for Fiscal Equity) that the Government put before the National Assembly (NA). The implementation of these laws has not only allowed for an increase in revenues, it has also reduced exonerations, exemptions, and special treatments in the application of taxes, thereby achieving greater equity among taxpayers and greater orientation towards the objective of stimulating exportable production.

24. The approval of other laws by the NA, like the ones for health, the regime of communal property of the indigenous peoples, municipal solvency, the Social Housing Fund (FOSOVI), forestry development, fisheries, the penal procedural code, and municipal transfers will help the Government implement its medium- and long-term strategic program and will lead to greater ownership of its objectives of poverty reduction and economic growth rate.

25. The renegotiation of the internal debt, due to 2000-2001 bankruptcies, carried out by the Government with its main banking creditors has also been important accomplishment in 2003. The first negotiation included debts expiring in 2004 and allowed for deferring US\$250 million in payments for 10 years at a lower interest – 6 percentage points lower –. This initiative has allowed for the interest rate reduction of BCN titles and an attenuating effect on market rates. This will allow private banks to better manage their liquidity and diversify their investment portfolio. Also this will facilitate making the public investment program more flexible and the 2004 investment program will be broadened and facilitate meeting the goals set in the PRGF.

26. The Government has also placed emphasis in the transparency of the public administration and its open and decisive fight against corruption, commitments with the Nicaraguan population and the international community. State institutions have adopted measures for administering resources with increased transparency and accountability. Among other actions, the Government has gone further with investigations into acts of corruption; it has created an Anti-Corruption Fund with support from the international community; it has implemented the single account system for the Government; it has started the work of the Office for Transparency and Public Ethics (OEP); and implemented the program for efficiency and transparency in State contracts and procurements.

27. As has been recognized since the outset, these efforts have been supported by the international community in various ways and it is expected that they will continue not only in the framework of the strategy for poverty reduction and economic growth, but also in strengthening democracy in our country. A lot of support has been received since 1990, but the route towards the objectives posed is too long. The Government is grateful to the international community for the support they have provided to the people of Nicaragua in the battle against poverty.

28. Lastly, the Government acknowledges that despite the progress made, there is still a long way to go. Yet despite the economy facing an adverse juncture, the Government is optimistic and it has managed to overcome the difficulties in a responsible manner, taking the necessary measures to steer the economy along a course of fiscal sustainability and greater economic growth. Expectations around the proposed NDP pose a panorama of greater gains in the future, but it will be necessary to carry out the pending reforms, maintain fiscal discipline, and keep the support of civil society and the international community.

### **III. Macroeconomic Framework and Poverty Reduction Strategy**

29. Already in the first progress report, the adverse structural profile of the economy was mentioned, as was the international setting, mainly in regards to the prices for coffee and petroleum, the difficulties in the financial system coming out of 2001, and consequent economic slowdown. This situation was not foreseen in the SGPRS, except for the effect on economic growth of the deterioration of the trade balance that led to setting a more modest path for growth of GDP.

30. The prolongation of these effects beyond what was foreseen forced the strengthening of macroeconomic policy and structural reforms to realign the economy and strengthen poverty reduction. As part of this process, a new adjustment program implemented in 2002 conducted to a PRGF agreement, facilitating international financing. At the same time strategic elements were developed to enhance the SGPRS by formulating a NDP.

#### **A. International setting**

31. It is important to begin with a brief description of the adverse international setting. First, the world's economies were affected after the events of September 11, 2001 and the consequences of the war with Iraq. The most developed economies had a downturn in economic growth, to an average annual rate of 2.3 percent with respect to the expectations put forward by the IMF<sup>2</sup> in 2000. The expansion of world trade was not at the 7.0 percent average annual rate expected, but was only 2.4 percent during the 2001-2003 period. According to the most recent estimates, the average annual growth for the strongest economies in the world may be around 3.0 percent for the 2004-2007 period, 4.4 percent less than initially expected.<sup>3</sup>

32. Second, the deterioration of prices for non-manufactured products and the increase in petroleum prices had negative effects on a number of the less developed economies. Coffee prices fell sharply in 2002. In real terms, coffee prices dropped to a third of their level in 1960. The drop was mainly due to a major increase in supply, but also because of weak demand, which had been stagnant for the last 12 years, according to the United States Department of Agriculture (USDA). The price for petroleum rose slightly in 2002 and is expected to continue increasing in 2003 because of the military actions in Iraq and the squeeze on supply resulting from restrictions by the Organization of Petroleum Exporting Countries (OPEC).

33. This situation led to a worsening of the trade relations of developing countries of -3.1 in 2001, after having had a 6.3 percent recovery in 2000. From 2002 to 2003, there was a slight

---

<sup>2</sup> IMF, World Economic Outlook, May 2000.

<sup>3</sup> IMF, World Economic Outlook, April 2003.

recovery, but it is estimated that as of 2004, the trade relations of these countries will face a new decline. In this context, the countries that are net exporters of raw materials were affected by this behavior with their exports increasing by only half what was expected (on average, 8.6 percent).

34. It should be mentioned that, according to the IMF, the effect on inflation because of the worldwide economic downturn and the price movements previously noted, will manifest itself differently in the two groups of countries analyzed. In the developed economies, inflation will increase at an average annual rate of 2.0 percent from 2003 to 2007, close to what was projected. In the less developed economies, it is expected that the inflation rate will be 4.6 percent, 20 percent more than the initial inflationary expectations.

35. Of relevant importance in the world economy was the marked deterioration of shareholding financial markets, accompanied by the depreciation of the dollar. Latin American markets were not only affected by the poor performance of their economies that resulted in a per capita GDP reduction of -2.0 percent and macroeconomic deterioration, but also by the weakening of the currencies, the rise in price in debt markets, and the reduction of external savings, which forced the economies to procure more domestic savings.

#### **B. The route to an agreement with the IMF and the World Bank**

36. 2002 was a year of great challenges for the Government that took office on January 10 of same year. To begin with, it had to take measures to overcome the effects of the economic debacle of the previous years, and it also had to provide attention to the most felt needs of the population in coping with a generalized short supply of basic inputs in the health sector and a shortage of resources in all State institutions. Likewise, it had to build up a track record and implement tough measures to control public spending and promote savings; and to deal with corruption frontally and decisively.

37. The Government took all the necessary measures in the political, economic, and social fields to meet these challenges. Unfortunately, it faced an adverse international setting, a moderate flow of external resources, and expected to have a slight economic growth in 2002; it was believed that the external conditions for 2003 would present a better outlook. Likewise, the fight against corruption affected the approval of laws important to the performance of the SGPRS, as did the maturity of the internal debt and the losses of international reserves in 2001, which restricted public spending.

38. In December 2002, Nicaragua reached the first agreement PRGF with the IMF and the WB. This was possible after taking monetary and fiscal measures to align public finances, which in 2001 had shown the most disproportionate fiscal deficit in Latin America. This agreement determines the macroeconomic framework, policy measures, and structural reforms for the next three years. The Government is committed to this, which constitutes the cornerstone for its economic and social strategy in the medium and long term.

39. To reach this agreement, it was necessary to reduce the NFPS deficit almost 4.0 GPD<sup>4</sup> points in 2002. Public spending had to be reduced by more than US\$120 million<sup>5</sup> and it was also

---

<sup>4</sup> In terms of the new GDP series, using 1994 as the base year.

necessary to make a tax reform in order to increase revenues by 1.0 percent of GDP.<sup>6</sup> In this context, spending on public investment had to be reduced by more than 20.0 percent in the 2002 versus what it was in 2001, with the subsequent effects on GDP growth rate.

40. The structural agenda incorporated into the agreement included<sup>7</sup>: (a) presenting a tax reform to the NA that would generate additional revenues equivalent to 1.0 percent of GDP (previous series) with an annual base; (b) approving a set of prudential norms that would limit the risk stemming from the diminishing gap between assets and liabilities and assuring better supervision of financial entities; (c) implementing a plan by the BCN to liquidate the remaining assets of the liquidation boards; (d) approving the 2004 National Budget consistent with the fiscal deficit goals of the agreed-on macroeconomic framework; (e) liquidating the remaining State shares in the Nicaraguan Telecommunication Firm (ENITEL); and, (f) preparing a proposal for judicial reform and beginning the consultation process.

41. This agreement allowed the flow of external resources needed mainly to support public policies and to finance the public investment program, free up interim foreign debt relief, and lead Nicaragua to the HIPC completion point. This is one of the basic objectives of the PRGF agreement. Four years ago (September 1999), Nicaragua was declared eligible to receive assistance under this initiative and it reached the decision point in December 2000. The Government has slated reaching the completion point in December 2003. After reaching the HIPC completion point, Nicaragua's stock of foreign debt would be reduced to half its GDP and its debt service would be reduced to a third of what it currently pays.

42. The results of the fourth quarterly review (to September 2003) of the PRGF, during the last IMF mission in November 2003 confirmed the Government's seriousness to its commitments with the international community in fulfilling the economic goals set, the performance indicators, and the measures and reforms agreed on in the framework of its poverty reduction strategy. This means that the Government has maintained its fiscal discipline for 24 straight months, 12 of which were before concretizing the PRGF.

43. The BCN international reserves to September 2003 have increased by US\$36.0 million, and it is expected that by year end there will be a slight increase of US\$5.8 million.

44. The majority of the necessary steps to reach the HIPC's completion point (programmed for December 2003) have been achieved, as is shown in the following table.

---

<sup>5</sup> In July 2002, the NA reduced the 2002 budget (approved in 2001) by 1.5 percent of GDP (previous series), approximately 3.0 percent of GDP over the annual base.

<sup>6</sup> Based on the previous GDP series, using 1980 as the base year.

<sup>7</sup> IMF, Supplementary Memorandum of Economic and Financial Policies, April 2003 Mission.

**Table 1. Measures to Reach HIPC Completion Point**

Measures	Status
1. Second SGPRS Progress Report	Done
2. Interim HIPC relief usage. Reliable poverty expenditure mechanism	Done
3. Stable Macroeconomic Framework and satisfactory performance backed by a PRGF	Done
4. Human capital development and social protection	
a. Approval of the School Participation Law	Done
b. Approval of the General Health Law and its implementation	Done
c. Introduction of an effective social protection system	Done
5. Governability	
a. Approval of the Social Service Law and implementation advance	Underway
b. Introduction of a satisfactory management and inspection of public sector spending	Done
c. Satisfactory Progress in the implementation of a plan to strengthen and improve the CGR's efficiency	Done
d. Approval of the Penal Processing Code Reform Law	Done
e. Approval of the Public Ministry's Organic Law	Done
6. Restructuring of INSS and the introduction of a Private Pension System	Underway
7. Privatization	
a. ENITEL	Underway
b. ENEL	Energy sector strategy being elaborated

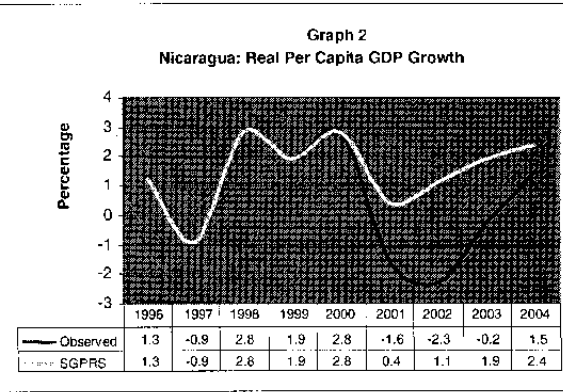
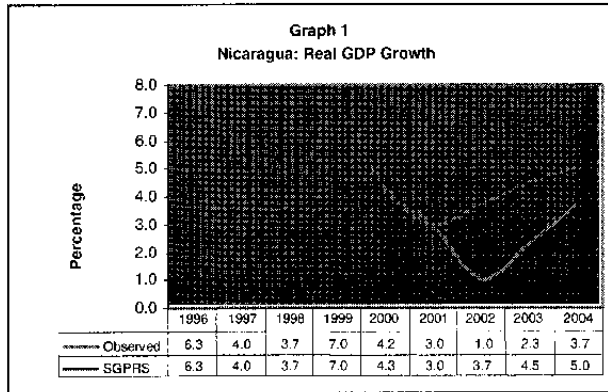
45. The Civil Service Law has been approved in a general sense in the NA and its particularities are being discussed. With regards to the pension system reform, the Government is currently formulating a working plan to implement the new system. ENITEL privatization process is underway and is expected to conclude shortly. Regarding the National Electricity Utility (ENEL), the Government concluded that privatization is not recommended at this point in time and is formulating a global energy sector strategy to improve its efficiency.

### C. Performance of the economy 2002-2003

#### Economic growth and inflation

46. The expectations for economic growth posed in the SGPRS for 2002 were not met, and those for 2003 will be less than expected, according to the third quarter results. The immediate effects of this behavior is a reduction in per capita income, which had a cumulative fall of 4.1 percent over the 2001-2003 period, contrary to the expected increase of 3.4 percent as put forward in the SGPRS; Government revenues were reduced and compensated in part by the tax reforms; and export levels were stagnant contributing to the trade gap by having a faster increase in imports (Graph 1 and 2).





47. The economy has been decelerating at an annual average rate of 2.0 percent for the 2000-2002 period. This indicates that GDP rose over that period at an average annual rate of 2.7 percent, lower than the estimated growth in the SGPRS of 3.7 percent. This means it will be necessary to grow at a rate of over 5.0 percent in the coming years in order to meet the millennium development goals, or more years will be needed at a slower pace. Given that increased per capita income is directly related to poverty reduction, the public investment program (PIP) is being designed to stimulate private investment, emphasizing high-impact social and economic projects.

48. In 2002, GDP grew 1.0 percent with respect to the previous year, the lowest rate since 1994 when the country began the first cycle of economic growth after 10 years of continual decline. According to what was set down in the SGPRS, the estimated growth rate for that year was 3.7 percent and 4.5 percent for 2003.<sup>8</sup> However, despite a greater demand for consumption and an increase in public investment, GDP in 2003 will only grow by 2.3 percent because of the drop in foreign investment and a lack of dynamism in exports.

49. The decline in agriculture, affected by the drop in coffee prices and other major products of the sector, less dynamism in manufacturing and the fishery sector, the restriction of public spending in terms of the investment program, and the effects on the bank credit caused by the financial crisis are the most important elements determining this behavior.

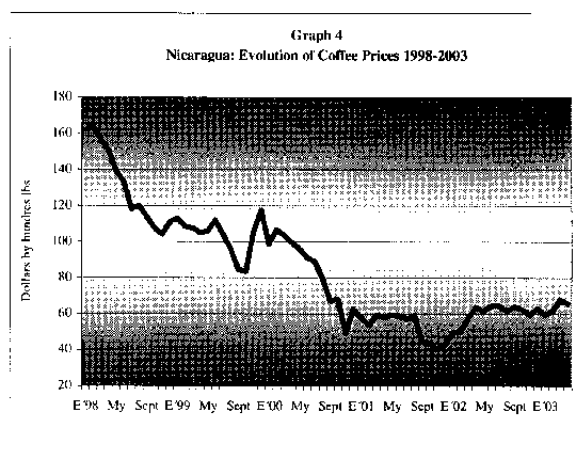
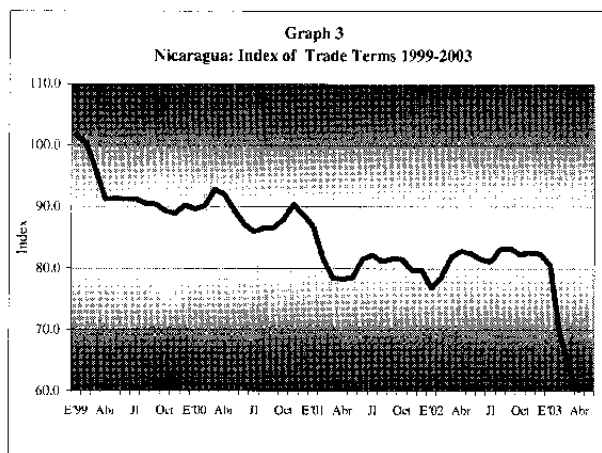
50. The value added for agriculture in 2002 dropped 5.1 percent in relation to 2001. This behavior was a result of the 24.5 percent decline in export production related to the situation with world prices. Coffee fell by 29.1 percent which is important since it represented 26.0 percent of the real gross value of agricultural production. This tendency will continue on a lesser scale in 2003, with the agricultural GDP dropping by around 1.0 percent. In 2003, the livestock and fishery sectors will grow by 4.2 percent and 5.7 percent respectively, compensating for this, making the primary sector as a whole grow by 1.7 percent over the previous year.

51. It is important to note that agriculture has slowed down at an average annual rate of 6.0 percent since 2000. Except for basic grains and tobacco, this situation is generalized for all agro-export products, showing an agricultural economy more for domestic consumption than for

<sup>8</sup> Government of Nicaragua: Reinforced Strategy for Economic Growth and Poverty Reduction, July 2001; page 86, Table No. 5.

export. The Government has promoted the production of basic grains through the “pound-for-pound” program, increasing production by more than 10.0 percent in 2002, partially compensating for the decline in export production. In 2003, this program is continuing with good success and it is expected that basic grains will again compensate for the poor performance of export products.

52. In the particular case of Nicaragua, the declining trend in the terms of trade not only has severely affected the economy, but has also caused social problems in areas where the population depends on growing coffee. Over the last few years, these peasants have seen their real disposable income decline. The depression in the prices for the main export products has caused a situation of insolvency for producers with the banking system, negatively impacting the credit policy for troubled agricultural products.



53. Both the general worsening of the terms of trade and of the price of coffee in particular have been prolonged and consistent since 1998, as can be seen in Graphs 3 and 4. This has caused great losses to the economy, not only because export income has fallen, but because the country’s petroleum invoices on the international market have increased considerably. The combined effect<sup>9</sup> of this trend in prices has resulted in income losses of around US\$1,000 million over the 2000-2003 period, which has not allowed for capitalizing the agricultural sector, and has made the adjustment program more severe.

54. On the side of aggregate demand, economic growth has been sustained more by consumption and private investment than on public spending and exports. In 2002, private consumption increased by 4.1 percent in real terms and investment rose 6.3 percent in relation to the previous year. Nevertheless, given the major adjustment in public spending that year, public consumption and public investment dropped by 13.0 and 16.4 percent, respectively. There was a decline in exports of 3.3 percent, making aggregate demand as a whole grow by only 0.5 percent with respect to 2001.<sup>10</sup> For 2003, it is estimated that the demand growth rate will be below 1.0 percent, with the aggravating factor that this increase would be sustained by public investment (9.3 percent), compensating for the projected drop in private investment (8.9 percent).

<sup>9</sup> SECEP estimates.

<sup>10</sup> BCN: Latest revised figures for the PRGF, based on the new national accounts with a 1994 base. IMF Mission, August 2003.

55. Aside from the worsening trade relation, there are other factors limiting economic growth. Insecurity around property rights continues to be a determinant factor in private sector investment decisions. Unfortunately, the scope of the problem calls for many resources to solve it and a propitious political atmosphere that has yet to be achieved. The infrastructure in roadways, communications, ports, and airports is not competitive at the Central American level, raising the country's transaction costs. The absence of a medium- and long-term savings and loans market decreases the possibilities for private investment. Likewise, the low technological level of many of the country's productive activities restricts access to international markets.

56. Contrary to what was expected, for a number of reasons, the privatization of public services has led to a persistent increase in rates, affecting the transaction in the different markets. Likewise, in spite of the macroeconomic policy being directed at maintaining price stability as a necessary condition for stimulating economic growth, it is obvious that this has not been enough. Structural problems still persist in the public sector, the financial system, and the economy, and combined with the investors' risk perception making interest rates in Nicaragua remain at uncompetitive levels, limiting access to credit for production and private investment.

57. It is important to note that the macroeconomic framework has allowed a major flow of external resources, which has facilitated monetary stability and controlling inflation. In 2002, the average annual inflation rate was 3.75 percent, the lowest rate in 10 years. This is associated with better conditions for supply and less demand pressure caused by less liquidity and the economic slowdown. In 2003, the effect of increased fuel prices, the impact of the tax reform, and the increased demand pressure will force inflation to be higher than the previous year. In any case, it is expected that the inflation rate will not surpass 6.0 percent in 2003.

### **Monetary and credit policy**

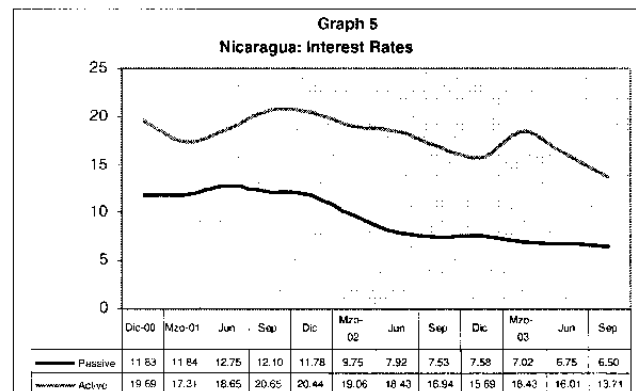
58. Because of the 2001 financial crisis, the instruments for monetary policy were used to avoid the contagious effect of the broken banks on the rest of the financial system, guaranteeing public savings and maintaining exchange rate stability. However, as of 2002, the policy for open market operations was oriented at reducing the internal debt of the BCN, in this way propitiating a drop in interest rates for its titles/securities and in the financial system. The credit policy reversed its expansive policy, the legal reserves were adjusted, and the BCN began a process to liquidate assets taken over during the bankruptcies. All this is congruent with the adjustment program that would align public spending at sustainable levels.

59. In 2002, the agreed monetary program as a prior action for reaching the PRGF resulted in an increase of net (adjusted) international reserves of US\$61.7 million. This was due to the inflow of US\$51.0 million in external resources in December 2002, after the IMF Board of Directors approved the PRGF, to an increased level of governmental deposits, and higher legal reserves of the private banks into the BCN. As of September 2003, fiscal and monetary discipline continued as established in the program, major progress in negotiating the internal debt of the BCN was made, and the rest of the government institutions' deposits were transferred to the BCN, increasing the net international reserves to September 2003 by US\$36.0 million.

60. In terms of flows in 2002, the BCN managed to reduce the internal debt by placing US\$33.0 million in titles/securities, combined with the payment of interest and maintenance of value, meant an injection of US\$112.0 million into the financial system. In 2003, this debt will be reduced by US\$70.0 million, which could mean an injection of US\$175.0 million if the financial cost is added.

61. The debt renegotiation operations undertaken by the BCN with the private banks will improve the outlook for 2004. In July 2003, the first operation with a major bank creditor was concretized. Under this agreement, the interest and amortizations to mature for the Negotiable Investment Certificates (CENI) acquired by this bank were renegotiated to a 10 year term at a rate of 8.4 percent. This operation means that the BCN will defer payments of US\$250.0 million by 2004, improving its reserves position and increasing flexibility in the fiscal program favoring production and social programs. The BCN continues to make arrangements to renegotiate all the internal debt with the rest of the creditor banks.

62. A number of positive effects have come out of the actions noted above. On the one hand, interest rates showed a declining trend because of the increased monetary supply produced by the reduction of the internal debt and legal reserves caused by the fiscal discipline shown in 2002-2003 and by the lowered interest rates negotiated for CENI. During the March 2001 to September 2003 monitoring period, the average savings rate (three-month deposits) dropped by 5.3 percentage points and the average short term lending rate fell by 3.6 percentage points (Graphic 5).



63. On the other hand, the BCN's credit policy<sup>11</sup> towards the Government changed over the 2002-2003 period, after being exaggeratedly expansive in 2001. That year, the BCN granted US\$202.6 million credit to the Central Government. In 2002, the Government transferred US\$98.2 million in resources to the BCN, increasing to US\$115.4 million in 2003 and US\$141.6 million in 2004, regardless of the renegotiation of the internal debt.

64. Likewise, banking credit policy had some major changes in favor of production. Greater accumulated liquidity in the banks provided the opportunity for expanding the system's credit portfolio. While in 2001, the system's balances for productive credit<sup>12</sup> fell by 43.5 percent with respect to the previous year, increased by 14.3 percent in 2002 and about 20.0 percent as of September 2003. An important change in the composition of the credit is the 22.0 percent increase for the agricultural sector, after a 61.2 percent drop in 2001. This tendency was also felt in credit for livestock, commerce, and industry.

<sup>11</sup> Includes credit for servicing the foreign debt by the BCN and withdrawals of deposits by the Government.

<sup>12</sup> BCN, Informe Anual 2002, page 95, table AE-III-8.

65. In 2003, the Government took another step towards sustainability by renegotiating a portion of the bilateral public foreign debt. As part of the Agreed Minutes with the Paris Club (December 2002), the BCN renegotiated US\$575.6 million in foreign debt (till July 2003) with countries like Russia (US\$258.9 million), Germany, (US\$156.9 million), Spain (US\$85.9 million), and France (US\$40.2 million), with the recent addition of Italy in the end of October 2003. This renegotiation partially eased the international reserve pressures and alleviates fiscal policy, providing the Government with resources for production and for its poverty reduction strategy.

66. It is important to note that the change in monetary, credit, and fiscal policy as of 2002 is part of the program for realigning the medium- and long-term macroeconomic framework favoring economic growth. Along this line, the Government is evaluating its exchange rate policy, creating conditions for having a more flexible regime. This will not be possible as long as medium- and long-term fiscal sustainability is not achieved and the gaps in the balance of payments are not closed.

### **Fiscal performance**

67. The policies in matters of revenues and public spending during the 2002-2003 period had the fundamental objective of leading the country towards the path of fiscal sustainability, which would allow for maintaining stability and creating conditions for economic growth. The expansion of public spending in 2001, the bankruptcies of banks, and the financial difficulties in most public institutions resulted in tacit abandonment of the interim program agreed on with the IMF. The Government had to act responsibly through tough fiscal measures, austerity, and transparency in public affairs. It drafted bills for tax reforms and for the expenditure budget before the NA to achieve fiscal equilibrium, and this performance facilitated the PRGF in December 2002.

68. More than seeking a balance between revenues and expenditures, fiscal policy served as a support for the BCN's international reserves recovery and payment on the internal debt service, without abandoning the objectives of the poverty reduction strategy. The appropriate management of the public expenditure was a determinant to achieve this objective, even though the decreased public investment further affected an already poor economic performance. However, in the absence of other economic policy instruments<sup>13</sup>, the fiscal policy and the support from the international community were strategic for the first two years of the current Government.

69. The indicators for fiscal performance agreed on with the IMF in 2002 were met, as were the goals agreed on to September 2003. Nevertheless, the weight of the internal debt and the economic slowdown are factors of concern since the National Budget lacks room for social programs. Both the international community and the private sector have been cautious and this has limited possibilities for the Government's program.

---

<sup>13</sup> Monetary policy was tied to a policy of internal indebtedness to avoid the collapse of the financial system, causing a vicious circle that translated into a greater quasi-fiscal deficit. The exchange rate policy was dragged along by this practice because of the clause for maintenance of value of the BCN liabilities.

70. In light of these limitations, the Government was able to reduce the combined public sector<sup>14</sup> deficit (before donations) from 13.8 percent of GDP<sup>15</sup> in 2001 to 10.6 percent in 2002 as was agreed with IMF. It should be noted that the quasi-fiscal losses of the monetary authority increased to 1.7 percent of GDP, deficit which partially has been compensated with the saving of the NFPS. To do this, it was decided to reduce public spending by 3.3 GDP points, equivalent to US\$127.8 million and increase revenues by 0.6 of a point, or US\$30 million. Savings went from -3.2 to -2.5 percent of GDP over the same period. (Table 2, Annex Table 1).

**Table 2. Nicaragua: Fiscal Indicators**

Items	2000	2001	2002		2003 <sup>1/</sup>
			Program	Observed	
<b>Percentage of GDP</b>					
<b>Combined Public Sector</b>					
Savings	2.2	-3.2	-2.7	-2.5	0.2
Primary Savings	5.5	3.0	4.5	4.7	6.6
Overall Deficit b/g	-9.4	-13.8	-10.6	-10.5	-8.4
Primary Deficit b/g	-6.2	-7.6	-4.9	-3.3	-2.0
<b>Non-Financial Public Sector</b>					
Revenues	20.0	19.7	20.4	20.4	22.0
Current	20.0	19.7	20.4	20.3	21.9
Total Expenditure	28.5	32.2	29.0	28.9	28.7
Current	16.8	21.6	21.1	20.9	20.1
Capital	11.7	10.6	8.0	8.0	8.6
Savings	3.1	-2.0	-0.7	-0.6	1.9
Primary Savings	5.9	3.4	5.0	5.1	7.0
Overall Deficit b/g	-8.5	-12.5	-8.6	-8.6	-6.7
Primary Deficit b/g	-5.7	-7.2	-2.9	-2.8	-1.6
External Grants	4.5	4.7	4.7	5.0	5.1
<b>Central Government</b>					
Revenues	15.0	14.3	15.1	15.1	16.6
Current	15.0	14.2	15.0	15.0	16.5
Total Expenditure	23.8	27.0	23.4	23.7	23.3
Current	13.6	17.6	16.8	16.8	15.9
Capital	10.2	9.4	6.6	6.8	7.3
Primary Savings	3.5	1.9	3.9	3.9	5.7
Overall Deficit b/g	-8.7	-12.8	-8.3	-8.6	-6.7
Primary Savings b/g	-6.7	-7.5	-2.6	-2.9	-1.6
External Grants	3.7	4.0	4.3	4.5	4.6
<b>Memorandum</b>					
Quasi-fiscal losses of BCN	-0.9	-1.3	-2.0	-2.0	-1.7
Current GDP (millions of Córdobas) <sup>2/</sup>	50,144.6	53,653.5	57,051.3	57,051.3	61,926.6

1/: IV PRGF review.

2/: In accordance to the new national account system of BCN.

b/g: before grants

Source: MHCP, BCN.

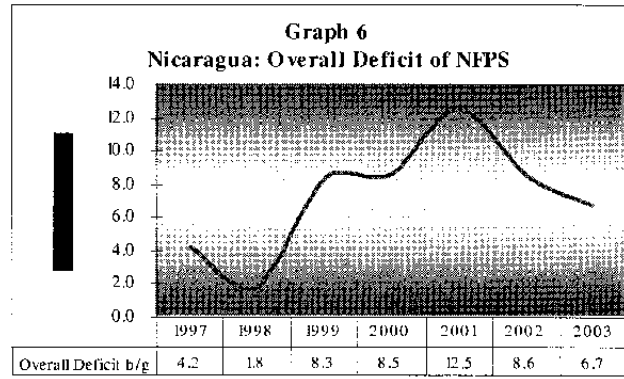
71. In 2003, the Government continued with its fiscal discipline and the indicators by September indicated that the combined public sector deficit will drop by 8.4 percent of GDP, according to

<sup>14</sup> Measured in terms of the new GDP.

<sup>15</sup> The most unbalanced in Latin America.

the tendency considered in the program. Over the two years, the reduction of the overall deficit before donations will add up to an equivalent of 5.4 GDP points (US\$207.2 million). Primary savings reversed its tendency by doubling during 2001-2003, going from 3.0 percent in 2001 to 6.6 percent in 2003 (Graph 6).

72. It is important to note that the net performance of the fiscal reforms has been less than expected given the problems of implementing some lines of reformed taxes and the effect of the economic slowdown. However, Central Government revenue increased by 2.3 GDP points since 2001, of which 1.5 points resulted from the 2003 reform.



73. The NFPS deficit before grants decreased from 12.5 to 8.6 percent of GDP for the period 2001-2003. Along this line, total spending decreased by 3.5 GDP points for the same period. It should be recalled that the greatest adjustment was in public investment, reducing it by 2.0 GDP points, or US\$70.6 million, more than 60.0 percent of the total NFPS spending adjustment of US\$110.0 million.

74. The rigidity of current expenditures shown in the weight of the salary mass, interest payments, and the legal transfers to universities, the judiciary, and the municipalities, as well as the demands from other State branches were the main reasons for having the adjustment fall on capital spending in 2002. However, current spending in 2003, as part of fiscal discipline and debt renegotiation, will slightly decrease in spite of the salary increases considered in the budget.

75. In terms of financing, the Government not only had results of its own efforts but also from the support of the international community, which channeled resources equivalent to 9.2 percent of GDP in 2002 and 10.2 percent in 2003, including interim relief from the HIPC initiative. Net internal financing had a total turnaround by contracting by -1.0 percent of GDP in 2002, while a greater contraction of -4.7 percent of GDP is expected for 2003. This was because of the transfers that the Government has made to the BCN to cover for payment of the internal debt. These transfers are estimated at 3.1 percent of GDP for 2003 (Table 3).

Table 3. Nicaragua: Financing Sources of NFPS Deficit

Items	2000	2001	2002		2003 <sup>1/</sup>
			Program	Observed	
	Percentage of GDP				
<b>Overall Deficit before Grants</b>	<b>-8.5</b>	<b>-12.5</b>	<b>-8.6</b>	<b>-8.6</b>	<b>-6.7</b>
<b>Total Financing</b>	<b>8.5</b>	<b>12.5</b>	<b>8.6</b>	<b>8.6</b>	<b>6.7</b>
<b>Net External Financing</b>	<b>8.4</b>	<b>7.7</b>	<b>8.9</b>	<b>9.2</b>	<b>10.4</b>
Net Loans	4.0	3.0	0.4	0.2	1.3
Arrears Reduction	-	-	3.8	4.0	4.0
Foreign Grants	4.5	4.7	4.7	5.0	5.1
HIPC Relief	-	1.6	1.8	1.8	2.5
Other Grants	4.5	3.1	2.9	3.2	2.7
<b>Net Domestic Financing</b>	<b>-2.8</b>	<b>3.9</b>	<b>-0.7</b>	<b>-1.0</b>	<b>-4.7</b>
Central Bank	-0.7	5.4	-1.7	-2.6	-3.1
Rest of Financial System	-1.1	-1.6	0.0	-0.3	-1.1
Suppliers	-1.0	0.1	1.0	1.9	-0.5
<b>Revenues from Privatization</b>	<b>2.9</b>	<b>0.9</b>	<b>0.5</b>	<b>0.4</b>	<b>1.0</b>
<b>Memorandum</b>					
<b>Current GDP (millions of Córdobas)<sup>2/</sup></b>	<b>50,144.6</b>	<b>53,653.5</b>	<b>57,051.3</b>	<b>57,051.3</b>	<b>61,926.6</b>

1/: IV PRGF review.

2/: In accordance to the new national account system of BCN.

Source: MHCP, BCN.

76. The delay in reaching an agreement with the IMF did not allow for the timely entry of external resources in 2002. That year, the Government did not receive any liquid resources until December when the PRGF was approved. This trend was reversed in 2003 when the country received US\$41.0 million in liquid resources and US\$92.5 million for projects, 8.0 percent more than scheduled.

77. A major source of financing was the HIPC relief. In 2002, the Government freed up resources under this concept of approximately US\$70.8 million (1.8 percent of GDP) and in 2003, it will free up US\$100.9 million (2.5 percent of GDP), (Annex Table 2). It should be mentioned that many donors have substituted donations with HIPC relief. In 2000, donations represented about 4.5 percent of GDP; currently, they represent 2.6 percent. This mainly affects the principle of the additionality of HIPC relief within overall poverty spending, which is analyzed further.

78. The containment of public spending and the reverse of the downward trend of fiscal revenues are an achievement, and more important is the fact that it could protect social spending for its poverty reduction strategy (see section on poverty spending). The downside of this behavior is the slowdown in the execution of major infrastructure projects and the allocation of additional resources to service the internal debt.

#### D. Fiscal reform: tax, budgetary, and administrative

79. The measures for revenues that Government took during 2002-2003 are structural and administrative measures that not only seek increasing revenues, but also mending the tax structure aimed in part at eliminating distortions. It has been estimated that the reforms of 2002 and 2003, the fiscal loss because of the burden of exonerations, exemptions, and special fiscal



treatments applied to taxes on consumption and imports amounted to more than 6.3 percent of GDP (in reference to the new GDP base); that is, about US\$235.0 million<sup>16</sup>, which reflected a revenues collection efficiency of 54.0 percent in 1999.

80. Besides this inefficiency, the tax system rested on a very narrow base, not only because of the high levels of exonerations, but also because it applied to few goods, which made it highly discretionary and complex to manage. Therefore, it was necessary to carry out structural and administrative reforms in the system in order to help with revenue collection but also to promote economic growth and strengthen the poverty reduction strategy.

81. This frame of reference helped the Government to introduce draft bills for budgetary and tax reforms before the NA and to apply administrative measures to increase revenue raising efficiency. The essential objectives were directed at: (a) seeking medium-term fiscal sustainability; (b) implementing a more efficient spending policy with greater impact on social programs and economic growth; (c) increasing consistency among the budget, the international reserve targets, and the exchange rate stability; and, (d) making the tax system less discretionary and more equitable.

82. The Law for Broadening the Tax Base approved in 2002 introduced the following measures: (a) the Value Added Tax (IGV or sales tax) was increased from 6.0 to 10.0 percent in 2002 and from 10.0 to 15.0 percent in 2003 for international air transport services and the sales mechanism for zero rate invoices was derogated; (b) the base for applying the Specific Consumption Tax (IEC) for carbonated beverages was changed, applying the tax to the retailer price rather than the producer/wholesaler price and eliminating the duty reduction schedule taking effect in 2003; (c) Income Tax was applied to interest on savings and term deposits for commercial entities in the financial system, to lottery prizes, and the retention of income tax for professional services was increased from 5.0 to 10.0 percent; and, (d) all benefits for exemptions and exonerations for imports were removed, except for those granted by the Constitution.

83. The Law for Fiscal Equity approved by the NA in 2003 continued furthering the principle of fiscal equity and broadening of the tax base. The main tax reforms included: (a) a minimum income tax payment of 1.0 percent over total gross assets, excluding firms with less than US\$150,000 in assets; (b) a levy on financial income of 10.0 percent over interest earned on personal savings accounts and term deposits of more than US\$5,000; (c) derogation of exonerations, exemptions, and special treatments applied to the Value Added Tax (VAT), the Selective Consumption Tax (ISC), and the Import Tariff Rights (DAI), except for those established by the Constitution, international treaties, and exports; and, (d) a 25.0 percent tax return on fuels for firms under the Temporary Admission Law, against proper presentation of Bill Lading.

84. Achieved results under these reforms in terms of revenue collection have been important in reducing the fiscal deficit and leading the economy along a path of sustainability. In annual terms, the two reforms could add an estimated C\$2,074.7 million (US\$142.7 million), or 3.5 percent of GDP (Table 4). This marginal increase in tax revenues collection has been estimated under an economic slowdown scenario, which would indicate that the yield from broadening the

---

<sup>16</sup> IMF, "Nicaragua: Tratamientos Especiales en la Tributación al Consumo y a las Importaciones", March 2000.

tax base and from administrative measures could partially compensate for the decrease in fiscal revenue collection.

Table 4. Nicaragua: Tax Reform and Measures 2002 - 2003

Laws / Mesures	2002		2003		Total	2002		2003	
	Annual Base	Oct-Dec	Annual Base	Annual Base	Annual Base	Annual Base	Oct-Dec	Annual Base	May-Dec
	Million of Córdoba					Percentage of GDP			
<b>TOTAL</b>	<b>1,351.0</b>	<b>220.1</b>	<b>723.7</b>	<b>494.2</b>	<b>2,074.7</b>	<b>2.4</b>	<b>0.4</b>	<b>1.2</b>	<b>0.8</b>
<b>Tax Reform: ABT Law and EF Law <sup>1/</sup></b>	<b>1,019.0</b>	<b>124.3</b>	<b>679.0</b>	<b>464.5</b>	<b>1,698.0</b>	<b>1.8</b>	<b>0.2</b>	<b>1.1</b>	<b>0.8</b>
Income Tax (IR)	244.3	30.9	269.3	187.4	513.6	0.5	0.1	0.4	0.3
General Sales Tax (IGV) / Value Added Tax (IVA)	79.8	-43.0	303.9	204.4	383.7	0.1	-0.1	0.5	0.3
Specific Consumption Tax (IEC) / Selective Consumption Tax (ISC)	21.0	5.3	53.3	37.0	74.3	-	-	0.1	0.1
Import Duty Rights (DAI)	673.9	131.1	6.9	4.4	680.8	1.2	0.2	-	-
Special Regimes	-	-	45.6	31.3	45.6	-	-	0.1	0.1
a) By Tax	-	-	-1.8	-0.3	-1.8	-	-	-	-
b) Services Fees	-	-	47.4	31.6	47.4	-	-	0.1	0.1
<b>Law Application Measures</b>	<b>134.8</b>	<b>9.6</b>	<b>16.9</b>	<b>11.2</b>	<b>151.7</b>	<b>0.2</b>	<b>-</b>	<b>0.0</b>	<b>0.0</b>
<b>Administrative and Austerity Measures</b>	<b>197.2</b>	<b>86.2</b>	<b>27.8</b>	<b>18.5</b>	<b>225.0</b>	<b>0.4</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>

1/: Law of Broadening the Tax Base 2002 (Law No. 439), Law of Fiscal Equity 2003 (Law No. 453).

Source: MHCP. BCN.

85. As noted in the preceding table, the greatest effect of the tax reforms has been on imports, income, and consumption, which is consistent with the recommendations made in the analysis by the IMF. On an annual basis, the reform of these three taxes would generate 79.6 percent of the estimated revenues collection during the two years. Likewise, the measures taken to improve tax administration would mean 10.8 percent of the total estimated revenues collected.

### E. Evolution of poverty spending

86. In 2002 and 2003, poverty spending has been the Government's priority in its budgetary policy; despite the severe adjustments to which total spending has been subjected to reduce the fiscal deficit to sustainable levels. The main characteristic of poverty spending in the second year of implementation of the SGPRS has been increased capital spending and the priority given to health, education, housing, and drinking water.

87. The poverty reduction spending efforts were maintained under a context of lower economic growth rates than those estimated in the SGPRS, high fiscal cost resulting from the banking crisis, and the adverse international setting, which resulted in the worsening of the terms of trade.

88. The effects on the slowdown of economic activity have been more serious and prolonged than expected, which had a direct impact on the levels of fiscal revenues and public spending. Accordingly, in December 2002, under the PRGF agreement, the medium-term policies were determined in line with the new macroeconomic frame, ensuring that the fiscal program reduces the public sector deficit and guarantees an increase in poverty reduction spending. New levels for poverty spending were set from 10.0 percent of GDP in 2002 to 11.0 percent in 2003, and 11.4 percent in 2004.

## **Government policy**

89. Government poverty spending policy was directed to shield poverty spending from additional reduction resulting from budgetary constraints and to increase efficiency and impact. As a result, while NFPS spending had a declining profile, poverty spending actually increased. Under this circumstance the adjustment fell mainly on non-poverty spending such as infrastructure, particularly the rehabilitation and construction of highways, airports, and ports, as well as on other governmental branches and sectors.

90. Protecting poverty spending, particularly in the social sector (health, education, water supply, and sanitation) has allowed for coping with the difficult problem of a shortage of medical materials and supplies, and this has helped with a recovery of the supply of basic services, avoiding a further worsening of social indicators.

91. Regarding operational efficiency, the Government is taking steps to evaluate the impact of the existing programs and to adequately define a hierarchy of priorities. Through the Solidarity program, dispersed resources from a number of social protection and rural development programs will be concentrated to coordinate actions, have a more appropriate selection of beneficiaries, and improve the impact.

## **Execution (2002-2003)**

### *Spending dimensions and tendencies*

92. The most relevant trends in public spending are the ascending profile of poverty spending in real terms, as well as the structural change caused by increased capital spending; the greater share of poverty spending with respect to the Government's total primary spending; the concentration on poverty spending on investment in human capital; and the proliferation of micro projects, their high degree of territorial dispersion, and their high level of dependency on external resources.

93. In terms of budget, total poverty spending with respect to total spending by the Central Government has gone from 40.7 percent in 2001 to 56.8 percent in 2003. The share of external resources in poverty spending rose from 40.4 to 45.8 percent of total spending over the same period. An average of 54.5 percent of total poverty spending goes to human capital and 25.2 percent is for economic growth (the most important pillars of the SGPRS) during that period.

94. It is important to clarify that although the reference for poverty spending consigned in the SGPRS is only Central Government spending in the National Budget, this report adds consolidated information from the NFPS in order to know the dimensions of total poverty spending. Likewise, the poverty spending reflected in this report for 2001 and 2002 does not include the extraordinary poverty spending caused by the emergency situation left by hurricane Mitch. To attain a sustainable tendency for poverty spending, it was necessary to apply this methodology.

95. In this context, total poverty spending by the NFPS in 2002 amounted to US\$401.2 million, equivalent to 10.0 percent of GDP, an increase of 0.9 percent of GDP over 2001. Spending 11.0

percent (US\$450 million), an increase of 1.0 percent of GDP, is projected for 2003 as a result of a greater increase in capital spending than originally programmed and agreed on with the IMF (Table 5, Annex Table 3 and 4).

Table 5. Nicaragua: Poverty-reducing Spending <sup>1/</sup>

Items	1997	1998	1999	2000	2001	2002		2003 <sup>3/</sup>
						Program	Executed <sup>2/</sup>	
<b>Percentage of GDP</b>								
Primary Total Expenditure of the NFPS	21.9	20.7	26.1	25.7	26.6	23.3	23.2	23.6
Primary Total Expenditure of the Central Government	16.4	15.7	20.4	21.4	21.5	17.7	17.9	18.2
<b>Total Poverty Spending</b>	<b>8.9</b>	<b>7.5</b>	<b>8.0</b>	<b>8.8</b>	<b>9.1</b>	<b>10.0</b>	<b>10.0</b>	<b>11.0</b>
Current Spending	4.0	3.9	4.2	4.5	4.4	4.9	4.9	4.8
Capital Spending	5.0	3.5	3.8	4.3	4.6	5.1	5.2	6.2
<b>Central Government Poverty Spending</b>	<b>8.1</b>	<b>7.2</b>	<b>7.9</b>	<b>8.5</b>	<b>8.7</b>	<b>9.3</b>	<b>9.4</b>	<b>10.3</b>
Current Spending	4.0	3.9	4.2	4.5	4.4	4.9	4.9	4.8
Capital Spending	4.2	3.3	3.7	4.0	4.3	4.4	4.6	5.5
<b>Autonomous Entities Poverty Spending</b>	<b>0.8</b>	<b>0.2</b>	<b>0.2</b>	<b>0.3</b>	<b>0.3</b>	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>
Capital Spending	0.8	0.2	0.2	0.3	0.3	0.7	0.6	0.6
<b>Estructure</b>								
<b>Non Financial Public Sector</b>								
Poverty Spending / Total Spending	40.7	36.0	30.8	34.4	34.0	42.9	43.2	46.6
Current Poverty Spending / Total Spending	29.1	29.7	30.4	32.4	27.3	31.9	32.0	32.0
Capital Poverty Spending/ Capital Spending	59.8	47.2	31.2	36.9	44.7	64.0	64.4	71.9
<b>Central Government</b>								
Poverty Spending / Total Spending	49.4	45.9	38.5	39.9	40.7	52.4	52.4	56.8
Current Poverty Spending / Current Spending	37.9	39.8	41.0	40.5	36.1	44.1	43.7	44.3
Capital Poverty Spending/ Capital Spending	69.4	56.1	36.0	39.2	46.8	66.4	66.6	75.2

1/: Period 2001-2002 corresponds to the Poverty Spending adjustment, which exclude additional spending caused by Hurricane Mitch and Special Programs and Support for Health, Education and Housing, by 2.3 and 0.2 percentage of GDP, respectively.

2/: Preliminary.

3/: IV PRGF review.

Source: SECEP, MHCP, BCN.

96. The structure of NFPS poverty spending between current and capital expenditures has been maintained over the last three years. In 2002, current spending was US\$194.2 million (4.9 percent of GDP), representing 49.0 percent of the total. For 2003, the estimated amount is US\$196.5 million, 4.8 percent of GDP and 44.0 percent of total poverty spending. Capital spending was US\$206.9 million (5.2 percent of GDP), of which almost 90.0 percent corresponded to the Central Government. An estimated investment of US\$253.5 million (6.2 percent of GDP) for 2003.

#### Spending by pillar and crosscutting themes

97. Investment in human capital is critical for increasing productivity, income, and the well-being of the population, and so it has been prioritized in the execution of the SGPRS. In 2002, resources equivalent to 55.9 percent of the total spending for fighting poverty were channeled to this pillar (US\$224.1 million, 15.4 percent more than the year before). In 2003, given the need to speed up economic growth and improve attention to the most vulnerable groups, more resources were channeled to those pillars, resulting in a drop in the share of spending on human capital to

53.9 percent; however, in absolute terms, spending will increase to US\$242.8 million (Table 6, Annex Table 5). This increase is explained by the program for improving educative quality entering the final phase.

98. Education and health are the priority sectors in this spending. In the former, spending went to expand coverage, particularly that of basic education (primary and preschool) and to improve the pertinence of this subsystem and the efficiency of the regulatory institution. In health, priority was put on the coverage and the quality of services of the primary network by strengthening the Local Integral Healthcare Systems (SILAIS) and the epidemiological control and prevention. In poverty spending in 2002, US\$99.9 million (24.9 percent) went to the pillar for broad-based economic growth, US\$32.4 million (8.5 percent) went to social protection and governance, and US\$43.1 million (10.7 percent) went to the crosscutting themes.

Table 6. Nicaragua: Poverty Spending by Pillars and Cross-cutting Themes<sup>1/</sup>

Item	2001			2002 <sup>2/</sup>			2003 <sup>3/</sup>		
	Current Expenditure	Capital Expenditure	Total	Current Expenditure	Capital Expenditure	Total	Current Expenditure	Capital Expenditure	Total
	<b>Percentage of GDP</b>								
<b>TOTAL SGPRS</b>	<b>4.4</b>	<b>4.6</b>	<b>9.1</b>	<b>4.9</b>	<b>5.2</b>	<b>10.0</b>	<b>4.8</b>	<b>6.2</b>	<b>11.0</b>
<b>Pillars</b>	<b>4.3</b>	<b>3.8</b>	<b>8.1</b>	<b>4.6</b>	<b>4.3</b>	<b>8.9</b>	<b>4.6</b>	<b>5.3</b>	<b>10.0</b>
Economic Growth	0.4	1.8	2.2	0.4	2.1	2.5	0.3	2.6	2.9
Investment in Human Capital	3.7	1.2	4.9	4.1	1.5	5.6	4.2	1.7	5.9
Education	1.5	1.0	2.6	1.9	0.9	2.8	1.8	0.9	2.8
Health	2.2	0.0	2.2	2.3	0.5	2.7	2.4	0.6	3.0
Population	-	0.0	0.0	-	0.0	0.0	-	0.1	0.1
Nutrition	-	0.0	0.0	-	0.1	0.1	-	0.1	0.1
Social Protection	0.1	0.8	1.0	0.1	0.6	0.7	0.1	1.0	1.1
Governance	0.0	0.0	0.1	0.0	0.1	0.1	0.0	0.0	0.1
<b>Cross-cutting Themes</b>	<b>0.2</b>	<b>0.8</b>	<b>1.0</b>	<b>0.2</b>	<b>0.9</b>	<b>1.1</b>	<b>0.1</b>	<b>0.9</b>	<b>1.0</b>
Environment	0.1	0.5	0.6	0.1	0.4	0.5	0.1	0.4	0.4
Decentralization	0.1	0.3	0.4	0.1	0.5	0.6	0.1	0.5	0.6
	<b>Estructure</b>								
<b>TOTAL SGPRS</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Pillars</b>	<b>96.1</b>	<b>82.7</b>	<b>89.3</b>	<b>95.7</b>	<b>83.2</b>	<b>89.3</b>	<b>97.0</b>	<b>85.9</b>	<b>90.7</b>
Economic Growth	8.6	39.5	24.4	7.4	41.3	24.9	6.6	41.6	26.3
Investment in Human Capital	83.5	25.0	53.7	85.1	28.4	55.9	87.7	27.7	53.9
Education	34.5	22.6	28.4	38.6	18.3	28.1	38.5	14.8	25.2
Health	49.0	1.1	24.5	46.5	8.8	27.0	49.2	9.9	27.1
Population	-	1.0	0.5	-	0.1	0.0	-	1.0	0.6
Nutrition	-	0.4	0.2	-	1.4	0.7	-	2.0	1.1
Social Protection	3.3	17.7	10.7	2.6	11.8	7.4	2.0	15.8	9.8
Governance	0.7	0.5	0.6	0.7	1.6	1.1	0.6	0.7	0.7
<b>Cross-cutting Themes</b>	<b>3.9</b>	<b>17.3</b>	<b>10.7</b>	<b>4.3</b>	<b>16.8</b>	<b>10.7</b>	<b>3.0</b>	<b>14.1</b>	<b>9.3</b>
Environment	1.9	10.6	6.3	1.8	7.4	4.7	1.2	5.8	3.8
Decentralization	2.0	6.7	4.4	2.5	9.4	6.1	1.8	8.3	5.5

1/ 2001-2002 exclude spendings caused by hurricane Mitch and Special Programs and Support for Health, Education and Housing.

2/ Preliminary.

3/ IV PRGF review.

Source: SECEP, MHCP.

99. For 2003, it is estimated to increase funds for economic growth by 18.5 percent in relation to total poverty spending for the year before, raising it to US\$118.4 million (Annex Table 5). It is also estimated that spending on social protection and governance will reach US\$47.2 million. A slight reduction to US\$41.8 million is expected for spending on the crosscutting themes.

Current expenditures and capital expenditures

100. **Definitions.** Annex 6 of the SGPRS contains definitions of the criteria used for estimating spending directly related to poverty reduction. Special emphasis is put on the fact that, as of the publication of this document, no homogeneous method had been established internationally to define what should be included in this category, and for the effects of systematic and consistent follow up of this indicator, the following method was adopted:

101. The capital spending defined in the SGPRS portfolio of programs is linked to the four pillars of the strategy (broad based economic growth and structural reform, investment in human capital, protection of vulnerable groups, and institutional development) and to the three crosscutting themes (environmental vulnerability, social equity, and decentralization).

102. The current spending for the SGPRS refers mainly to the programs related to the MECD – central activities; preschool, primary, special education, and continuing adult education; training of primary teachers; community activities to support nutrition programs; and, community activities for coordinating the development of different educative programs, among others –; MINSA – central activities; level I and II healthcare programs; laboratory services; programs for attention to the community, among others –, MAGFOR and the IDR – central activities; sanitary and phyto sanitary services, agricultural and forestry services, and INTA technology transfers programs –; MIFAMILIA – central activities, community programs, family support services, special attention programs, social development, and transfers for decentralized activities –; and the Social Safety Net (RPS).

103. It should be clarified that this definition has been observed, but the projects portfolio has been expanded as new programs directly linked to the objectives proposed for each pillar and crosscutting theme of the SGPRS are incorporated, particularly in the area of broad-based economic growth, which was not developed in the original document. Included in poverty spending are programs related to territorial zoning and the titling of properties, support for competitiveness and the development of small and medium firms, as well as those related to environmental vulnerability. This definition will be adjusted during the SGPRS revision.

104. **Execution of current spending.** Current expenditures on poverty cover the Central Government and refer mainly to salaries for the health and education sectors, but also those expenditures related to programs directed at other social sectors, as noted earlier. In 2002, this spending increased by 10.0 percent over the previous year, going from a GDP share of 4.4 percent (US\$177.3 million) in 2001 to 4.9 percent (US\$194.2 million) in 2002. For 2003, it is estimated that this spending will be around 4.8 percent of the GDP (US\$196.5 million) (Table 6; Annex Table 5).

105. It should be mentioned that in 2002, 85.1 percent of these resources (US\$165.2 million) went to the pillar for investment in human capital, particularly the financing of programs to improve quality and extend the coverage of health and education services. For 2003, this percentage rises to 88.0 percent, going to US\$172.4 million and reflecting the same priorities.

106. The pillar for economic growth was allocated US\$14.3 million (7.4 percent of current expenditures) to cover the cost of running the programs of the MAGFOR, MIFIC, and the IDR,

all oriented to strengthening the activities of small and medium urban and rural producers in zones of extreme poverty and promoting export production activities by means of a tax rebate on exports. For 2003, it is estimated that spending will be around 7.0 percent of total poverty spending, equivalent to US\$13.0 million.

107. For social protection of the most vulnerable groups (elderly, disabled, children and adolescents in situations of risk), 2.6 percent (US\$5.1 million) of the total current spending was used for attending to the functioning of the operative units of those programs in MIFAMILIA. During this period, the pillar for governance got about 1.0 percent (US\$1.3 million) for financing activities of the Office of the Human Rights Ombudsman (PDDH) and the National Council for Economic and Social Planning (CONPES). Similar amounts and percentages will be maintained in 2003.

108. For environment and decentralization, there was 4.3 percent (US\$8.3 million) of the SGPRS current expenditures. In the case of environment, it went to the current expenditures of the Nicaraguan Institute for Territorial Studies (INETER) and conservation programs for protected areas and for forest and geological resources. Spending on the theme of decentralization basically consisted of transfers to local governments and the Autonomous Governments of the RAAN and the RAAS to help with their operating costs and for the current spending of the Nicaraguan Institute for Municipal Affairs (INIFOM). For 2003, it is projected that current spending will be of US\$5.9 million to cover these crosscutting themes.

109. **Execution of capital expenditures.** NFPS capital spending on poverty in 2002 amounted to US\$206.9 million, or 5.2 percent of GDP, an increase of 13.0 percent over 2001. The Central Government invested US\$182.5 million (4.6 percent of GDP), 6.5 percent more than the year before. For 2003, the Central Government has scheduled investments of US\$227.4 million, a 24.6 percent increase over the previous year (Annex Table 3).

110. In terms of allocation by pillar, the resources went as follows: 41.3 percent (US\$85.5 million) for economic growth and social infrastructure; 28.4 percent (US\$58.9 million) for investment in human capital; 11.8 percent (US\$24.5 million) for social protection programs; 1.6 percent (US\$3.3 million) for governance; and, 16.8 percent (US\$34.8 million) for the crosscutting themes of environment and decentralization (Annex Table 5).

111. Among the economic growth programs, priority was given to programs aimed to improve and extend water and sanitation systems in marginal urban zones and rural areas, executed by ENACAL. Rural development programs were also prioritized, like fostering production of livestock and basic grains, projects for rural road rehabilitation and maintenance, rural electrification, and strengthening and developing agricultural technology. For 2003, capital spending is estimated at US\$105.4 million, raising its share of total capital poverty spending to 41.6 percent.

112. Regarding investment in human capital, priority was put on the construction, rehabilitation, and equipping of primary and preschool education centers, as well health centers and the equipping of the hospital network. Resources were assigned to the modernization of the administration systems of the institutions governing health and education. For 2003, there is an

increase of 19.4 percent because of entering the final stage of some programs, like APRENDE in education and the Modernization of the Health Sector (PMSS).

113. Priority was given to three programs in social protection: the Social Safety Net (RPS), the Integral Program for School Nutrition (PINE), and the Program for Integral Attention for Children and Adolescents (PAININ). In 2003, this spending will increase by 63.7 percent (US\$15.6 million) in order to provide better coverage for these and to start other programs related to social infrastructure executed by FISE and other food assistance programs in extreme poverty zones.

114. In the area of governance, the Government concentrated efforts on developing the Program for Efficiency and Transparency in State Purchases and Contracts and on building the Women's Penitentiary Center. For 2003, it is estimated that this pillar will represent less than 1.0 percent (US\$1.9 million) of capital expenditures.

115. Standing out in the area of environment are the programs for forest conservation and the maintenance of the Mesoamerican Biological Corridor and the Bosawás Reserve, and for decentralization, local development programs, and transfers to municipalities for the development of roadways and municipal infrastructure. For 2003, a similar amount to that of 2002 is budgeted.

#### **F. Financing the SGPRS**

116. The main characteristic of financing poverty spending in 2002 was the greater share of internal resources, representing 57.2 percent of total spending, US\$229.4 million, or 5.8 percent of GDP. It should be mentioned that of this, US\$70.8 million (1.8 percent of the GDP) came from interim HIPC relief. For 2003, more internal resources disbursements are projected, representing 6.0 percent of GDP. This increase is associated with the increased relief and more Treasury resources as counterpart funding for external resources for investment spending.

117. For 2002, it should be made clear that greatest share of internal resources over total poverty spending was due more to a reduction in non-poverty spending than to a real increase in Treasury resources. The Treasury resources (US\$158.6 million) were slightly above the levels of the previous year, but in 2003, they were reduced by 9.7 percent. This situation is framed in the constraints that the Government applied to total spending to have more public sector savings as part of the fiscal discipline imposed in its adjustment program (Table 7).

118. External resources increased by 17.7 percent in 2002 over the previous year, going from US\$146.0 million to US\$171.8 million. Based on execution during the first half of 2003, it is estimated that there will be an increase of 19.8 percent over 2002, reaching a level of US\$205.9 million. This trend reflects the government policy of restricting those public investment projects financed with Treasury resources and prioritizing those that have assured external financing with a minimum national counterpart. This is in line with the macroeconomic objectives established in the program agreed on with the IMF (Table 7).



Table 7. Nicaragua: Financing Sources of Poverty Spending

Financing Sources	2001	2002		2003 <sup>1/</sup>
		Program	Observed	
Million of dollars				
<b>Total Poverty Spending</b>	<b>361.8</b>	<b>400.2</b>	<b>401.1</b>	<b>450.0</b>
<b>Domestic Resources</b>	<b>215.7</b>	<b>236.6</b>	<b>229.4</b>	<b>244.1</b>
HIPC Relief	63.3	72.9	70.8	100.9
Treasury Resources	152.4	163.7	158.6	143.2
<b>External Resources</b>	<b>146.0</b>	<b>163.6</b>	<b>171.8</b>	<b>205.9</b>
<b>Loans</b>	<b>66.9</b>	<b>88.5</b>	<b>85.1</b>	<b>114.5</b>
<b>Multilateral</b>	<b>56.2</b>	<b>74.1</b>	<b>82.5</b>	<b>108.6</b>
WB	25.0	27.9	37.9	53.5
IDB	26.0	43.4	35.7	52.5
Others	5.2	2.8	8.8	2.5
<b>Bilateral</b>	<b>10.7</b>	<b>14.4</b>	<b>2.7</b>	<b>5.9</b>
TAIWAN	10.7	0.0	2.7	2.6
Spain	0.0	12.3	0.0	3.3
Others	0.0	2.0	0.0	0.0
<b>Grants</b>	<b>79.1</b>	<b>75.1</b>	<b>86.7</b>	<b>91.4</b>
<b>Multilateral</b>	<b>26.9</b>	<b>22.4</b>	<b>23.2</b>	<b>32.9</b>
European Union	7.2	10.2	11.4	20.1
WFP	10.0	8.0	6.7	7.0
Others	9.7	4.1	5.0	5.7
<b>Bilateral</b>	<b>52.2</b>	<b>52.7</b>	<b>63.5</b>	<b>58.6</b>
Japan	13.3	17.0	14.1	16.2
Germany	17.3	12.5	23.8	13.5
Others	21.7	23.2	25.6	28.8

1/: IV PRGF review.

Source: SECEP.

119. During the 2001-2003 period, prevailing among the sources of external financing were loans with 51.0 percent of the total. The rest was made up by donations. Most of the loans came from multilateral sources, led by the IDB and the WB with 86.5 percent of total disbursements. Donations from Japan, Germany, the European Union, and the World Food Program (WFP) represented 62.5 percent of total donations during that period.

### G. HIPC relief: allocation and tracking mechanism

120. **Methodology for calculation.** Given that the maturing of the contractual service for all the public foreign debt is more than the country's payment capacity, Nicaragua has to prioritize its payments to multilateral bodies and member-countries of the Paris Club in order to remain with the IMF program. The non-prioritized service has been reflected in the balance of payments as extraordinary financing due to accumulation of delays. The debt pardon by creditors on which debt service was being paid can easily become relief for poverty spending since the budgeted resource are allocated, except for debt pardoned by those countries outside the payment scheme.

121. The Government of Nicaragua agreed with the IMF and WB on a methodology for calculating the cash relief (relief for poverty spending) that would go to poverty spending. For the country's "effectively paid service," the average service paid with its own resources during the 1992-1998 period, was used. The average amount turned out to be US\$216.6 million. In this

way, the HIPC relief is the difference of the service after a hypothetical operation of total debt stock in terms of Cologne (90.0 percent reduction) and the service for the same stock operation but in terms of Naples (67.0 percent). The completion point for these calculations was assumed to be December 2003.

122. It was also agreed that if in a given year, the amount of cash relief was less than the amount of interim relief; the latter would be taken as cash relief. This is only valid for the interim period. For the distribution of cash relief among creditors, it was agreed that first the relief for the multilaterals would be exhausted and any balance that was lacking to complete the total amount would be assigned as part of the bilateral relief for the Paris Club. It is assumed that all foreign debt service relief that was not paid before is considered as relief for balance of payments purposes.

123. For the interim HIPC debt relief period, this methodology has served its purpose since it was established for Nicaragua in 2001 and will end by 2003, once the completion point is reached in December, as programmed. As explained before, the objective was to calculate a debt relief that would provide resources to finance SGPRS social programs. The capacity to carry out this budgetary action was associated to the historic payment capacity of the country in previous years.

124. After reaching the completion point and an expected sustainable economic growth rate, the payment capacity will improve and the Government will find itself in a better financial position to increase poverty spending, in accordance with the HIPC initiative spirit. The methodology currently used to calculate HIPC debt relief allocated to poverty is static and does not foresee the above situation.

125. In conjunction with the WB, such methodology is being revised to adjust it to the new mentioned situation, so that the estimate of these resources will be dynamic in accordance with the evolution of the economy. This methodology and its corresponding estimates will be included in the completion point document for its application starting in 2005, given the fact that the 2004 HIPC relief has been already incorporated into the national budget proposal to be approved by the NA shortly.

126. **Amounts of relief.** Starting in 2001, Nicaragua began to receive interim foreign debt relief at an annual average of US\$78.3 million, after complying with the requirements for reaching the decision point of the HIPC initiative. After that year, the amounts of relief have increased to the extent that more countries join this initiative at the same time as more interim relief is received from the multilateral bodies. From 2001 to 2003, the HIPC relief going to poverty spending amounted to US\$235.0 million. This relative increase was 56.3 percent, by going from 1.6 to 2.5 percent of GDP during the 2001-2003 period. It is expected to reach the equivalent of 2.9 percent of GDP by 2004.

127. Table 8 shows the total amount of interim HIPC relief for the 2001-2004 period. An average of 82.9 percent of this relief comes from the multilaterals, with the IDB having 40.2 percent of the total and the CABI having 30.0 percent. The increase in HIPC relief amounts has made their share of total poverty spending go from 17.5 percent in 2001 to 22.4 percent in 2003.

Table 8. Nicaragua: HIPC Debt Relief 2001 - 2004

Items	2001	2002	2003	2004	2001	2002	2003	2004
	Million of Dollars				Percentage of GDP			
1. Average service 1992-1998 <sup>1/</sup>	216.6	216.6	216.6	216.6	5.4	5.4	5.3	5.1
2. Service after HIPC Relief	153.3	158.0	115.7	91.1	3.8	3.9	2.8	2.1
3. Relief cash (1-2)	63.3	58.6	100.9	125.5	1.6	1.5	2.5	2.9
4. Total HIPC Relief <sup>2/</sup>	<u>99.4</u>	<u>239.0</u>	<u>241.9</u>	<u>232.4</u>	<u>2.5</u>	<u>6.0</u>	<u>5.9</u>	<u>5.4</u>
<b>5. HIPC Relief for Balance of Payments</b>	<b>36.1</b>	<b>168.2</b>	<b>141.0</b>	<b>106.9</b>	<b>0.9</b>	<b>4.2</b>	<b>3.4</b>	<b>2.5</b>
<b>6. HIPC Relief for Poverty Spending <sup>3/</sup></b>	<b>63.3</b>	<b>70.8</b>	<b>100.9</b>	<b>125.5</b>	<b>1.6</b>	<b>1.8</b>	<b>2.5</b>	<b>2.9</b>
<b>Multilateral</b>	<b>48.1</b>	<b>70.8</b>	<b>76.0</b>	<b>80.3</b>	<b>1.2</b>	<b>1.8</b>	<b>1.9</b>	<b>1.9</b>
WB	5.7	8.0	8.4	10.1	0.1	0.2	0.2	0.2
IDB	19.8	35.3	39.3	36.7	0.5	0.9	1.0	0.9
CABEI	22.6	22.9	25.3	24.0	0.6	0.6	0.6	0.6
IMF	-	0.9	2.7	6.5	-	0.0	0.1	0.2
OPEC	0.0	3.7	0.3	1.9	0.0	0.1	0.0	0.0
Others	-	-	-	1.1	-	-	-	0.0
<b>Bilateral</b>	<b>15.2</b>	<b>0.0</b>	<b>24.9</b>	<b>45.2</b>	<b>0.4</b>	<b>0.0</b>	<b>0.6</b>	<b>1.1</b>
Paris Club	15.2	0.0	24.9	45.2	0.4	0.0	0.6	1.1
<b>A. HIPC Relief for Current Expenditure</b>	<b>49.9</b>	<b>47.9</b>	<b>67.0</b>	<b>83.4</b>	<b>1.3</b>	<b>1.2</b>	<b>1.6</b>	<b>2.0</b>
<b>Multilateral</b>	<b>34.7</b>	<b>47.9</b>	<b>42.1</b>	<b>38.2</b>	<b>0.9</b>	<b>1.2</b>	<b>1.0</b>	<b>0.9</b>
WB	2.5	0.0	0.0	0.0	0.1	0.0	0.0	0.0
IDB	9.6	20.4	13.8	4.7	0.2	0.5	0.3	0.1
CABEI	22.6	22.9	25.3	24.0	0.6	0.6	0.6	0.6
IMF	-	0.9	2.7	6.5	-	0.0	0.1	0.2
OPEC	-	3.7	0.3	1.9	0.0	0.1	0.0	0.0
Otros	-	-	-	1.1	-	-	-	0.0
<b>Bilateral</b>	<b>15.2</b>	<b>0.0</b>	<b>24.9</b>	<b>45.2</b>	<b>0.4</b>	<b>0.0</b>	<b>0.6</b>	<b>1.1</b>
Paris Club	15.2	0.0	24.9	45.2	0.4	0.0	0.6	1.1
<b>B. HIPC Relief for Capital Expenditure</b>	<b>13.4</b>	<b>22.9</b>	<b>33.9</b>	<b>42.1</b>	<b>0.3</b>	<b>0.6</b>	<b>0.8</b>	<b>1.0</b>
<b>Multilateral</b>	<b>13.4</b>	<b>22.9</b>	<b>33.9</b>	<b>42.1</b>	<b>0.3</b>	<b>0.6</b>	<b>0.8</b>	<b>1.0</b>
WB	3.2	8.0	8.4	10.1	0.1	0.2	0.2	0.2
IDB	10.2	14.9	25.5	32.0	0.3	0.4	0.6	0.7

1/: Average service 1992-1998 paid with domestic resources.

2/: Difference between service after a stock operation in Naples's Terms (hypothetic) and service after implementation of Colonia's Terms. It is assumed the culmination point in December 2003.

3/: Calculated from the biggest amount that came out as a result of subtracting the service effectively paid during 1992-1998 and service to be paid after HIPC relief; or else the total HIPC relief coming from creditors.

Source: SECEP, BCN.

128. **Allocation of the relief.** The allocation of these resources has been according to the social priorities defined in the SGPRS. The application of the HIPC relief for the 2002-2005 period is taken up in this document in general terms, emphasizing that this would be used to finance ten second-generation programs, each of them with a given percentage of the total relief, that have been developed based on the experience with donors. Most of these programs are based on demand and all have rigorous systems for follow up and evaluation. It is also assured that the programs to be financed, including those that may be incorporated in the future, have to be directly related to poverty reduction.

129. On average, 84 percent of these resources during the 2001-2003 period have been allocated to have greater coverage of basic social services. As can be seen in Table 9, 55.0 percent of the relief has been allocated to education, 20.0 percent to health, and around 9.0 percent to water, sanitation, housing, and municipal infrastructure. Seven percent was allocated for protection of vulnerable groups.

Table 9. Nicaragua: HIPC Relief Allocation

Programs	2001	2002	2003	2001	2002	2003	2001	2002	2003
	Million of dollars			Percentage of the GDP			Structure		
<b>TOTAL</b>	<b>63.3</b>	<b>70.8</b>	<b>100.9</b>	<b>1.6</b>	<b>1.8</b>	<b>2.5</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
1. Primary rural healthcare	-	1.5	1.3	-	0.0	0.0	-	2.1	1.2
2. Social Safety Net	0.7	0.8	0.7	0.0	0.0	0.0	1.1	1.1	0.7
3. More coverage of basic social services	57.5	58.3	80.2	1.4	1.5	2.0	90.8	82.3	79.4
3.1 Education	37.9	38.2	52.3	0.9	1.0	1.3	59.9	54.0	51.9
3.2 Health	14.4	12.3	20.1	0.4	0.3	0.5	22.7	17.4	19.9
3.3 Water and Sanitation	2.0	1.2	2.0	0.1	0.0	0.0	3.2	1.6	2.0
3.4 Housing	1.0	0.5	0.4	0.0	0.0	0.0	1.6	0.7	0.4
3.5 Municipal Infrastructure	2.2	6.0	5.3	0.1	0.2	0.1	3.5	8.5	5.2
4. Protection of vulnerable groups	3.4	5.8	6.8	0.1	0.1	0.2	5.4	8.1	6.7
5. Social Investment Fund	1.6	4.0	4.0	0.0	0.1	0.1	2.5	5.6	4.0
6. Development of the Atlantic Coast	0.1	0.2	0.2	0.0	0.0	0.0	0.2	0.3	0.2
7. Implementation of ERCERP	-	0.1	0.6	-	0.0	0.0	-	0.1	0.6
8. Support for Production	-	0.2	7.3	-	0.0	0.2	-	0.4	7.2

Source: SECEP. MHCP.

130. Part of the relief was allocated to FISE to finance social infrastructure in areas of extreme poverty and to the local development program for the Atlantic Coast to strengthen their regional and local governments, to increase their capacity to identify and formulate projects, land use zoning, and natural resource administration.

131. The implementation of the SGPRS, as estimated in the document, is costly. Part of the HIPC relief funds goes to developing and applying systems for follow up and evaluation, fostering greater rural participation in programs, and strengthening the capacities of the National Public Investment System (SNIP). Lastly, coherent with the first pillar of economic growth, funds were applied for different programs to support production and upgrade agricultural technology.

132. **The principle of additionality of the HIPC relief.** The foreign debt relief, granted to countries selected for this initiative, shall be invested in strategies for poverty reduction was the condition established in Cologne, Germany in 1999. This was the condition set to increase flexibility in the initial classification parameters and the basic principles for accessing this relief. It was also established that the relief should reflect additional spending for the efforts that the countries were making to fight poverty with their own resources. HIPC relief should not substitute for internal resources that were used for those purposes before.

133. It is necessary to have the following in order to comply with the above principle: (a) the HIPC relief would mean real available resources for poverty spending and not merely an accounting transaction; (b) the rest of the funding sources for poverty spending would remain constant or increase; (c) the additionality of poverty spending because of increased HIPC relief would not counter macroeconomic stability; (d) there would be no substitution effect by donors of HIPC relief for donations granted earlier; and (e) the projected economic growth would be achieved.

134. Nicaragua has been working on the conditions to comply with the principle of additionality of the HIPC relief by increasing the poverty spending in a continuous way for the

2001-2003 period, and by allocating Treasury resources in the 2004 budget similar to those in the previous year (Table 10). It is important to note that external aid declined in real terms after the Mitch bubble effect, which coincided with less liquid donations once the 2001 interim HIPC debt relief started, a decrease in the economic growth rate and 2002 public spending reduction to reduce the fiscal deficit and increase savings.

135. Nevertheless, the tendency in sustainable poverty spending (without the Mitch effect) has been upwards during the 2001-2003 period, due in part to the increase debt service relief. This shows that the Government has put priority on poverty spending over non-poverty spending. Table 10 shows that spending not related to the SGPRS dropped with respect to 2000, the year of reference before the interim relief was allocated.

**Table 10. Nicaragua: NFPS Resources and HIPC Relief Additionality**

Items	2000	2001	2002	2003	2004 <sup>1/</sup>	Cumulative variation relative to 2000			
						2001	2002-2003	2001-2003	2001-2004
Million of dollars									
<b>Total Revenue</b>	791.1	785.0	814.8	900.1	938.1	-6.1	132.6	126.5	273.5
<b>Total Spending</b>	1,128.0	1,284.7	1,157.9	1,175.4	1,141.3	156.7	77.4	234.1	247.5
<b>Total Poverty Spending</b>	457.0	455.3	409.1	450.0	488.2	-1.7	-54.9	-56.6	-25.4
Domestic Resources	251.9	175.9	160.9	143.2	144.4	-76.1	-199.8	-275.9	-383.5
External Resources	205.0	279.4	248.2	306.8	343.8	74.4	145.0	219.3	358.1
HIPC Relief	-	63.3	70.8	100.9	125.5	63.3	171.7	235.0	360.5
Other	205.0	216.1	177.4	205.9	218.4	11.1	-26.7	-15.7	-2.3
<b>Adjusted Poverty Spending</b>	349.3	361.8	401.1	450.0	488.2	12.4	152.5	164.9	303.8
Domestic Resources	216.7	152.4	158.6	143.2	144.4	-64.3	-131.7	-196.0	-268.3
External Resources	132.6	209.3	242.6	306.8	343.8	76.7	284.2	360.9	572.2
HIPC Relief	-	63.3	70.8	100.9	125.5	63.3	171.7	235.0	360.5
Other	132.6	146.0	171.8	205.9	218.4	13.4	112.5	125.9	211.7
<b>Mitch Poverty Spending</b>	107.7	93.5	8.0	0.0	0.0	-14.1	-207.4	-221.5	-329.2
Domestic Resources	35.2	23.4	2.3	0.0	0.0	-11.8	-68.1	-79.9	-115.1
External Resources	72.5	70.1	5.7	0.0	0.0	-2.3	-139.2	-141.6	-214.0
<b>Non Poverty Spending</b>	671.0	829.4	748.8	725.4	653.2	158.4	132.3	290.7	272.9
Domestic Resources <sup>2/</sup>	441.9	700.8	444.1	422.3	373.2	258.9	-17.4	241.5	172.7
External Resources	229.1	128.6	304.7	303.1	280.0	-100.4	149.7	49.2	100.2
<b>Global Balance b/g</b>	-336.8	-499.7	-343.1	-275.3	-203.2	-162.9	55.3	-107.6	26.0
<b>Financing</b>	336.8	499.7	343.1	275.3	203.2	162.9	-55.3	107.6	-26.0
Net External Financing <sup>3/</sup>	333.2	305.7	368.9	426.2	605.8	-27.5	128.7	101.3	373.8
Net Internal Financing	-111.5	156.8	-41.7	-192.1	-419.2	268.3	-10.8	257.5	-50.2
Revenue from Privatization	115.1	37.2	15.9	41.2	16.7	-78.0	-173.2	-251.2	-349.6

b/d: before grants.

1/: Includes Annual 2004 National Budget Project.

2/: Includes Interests.

3/: Includes disbursement, grants, HIPC relief, arrears reduction, and foreign amortization payments.

Source: MHCP, BCN, SECEP.

136. In this report, the importance of a sustainable fiscal policy has been emphasized as well as the present need to manage public expenditure with higher efficiency and greater impact. At this stage, the Government finds itself in a better fiscal and budgetary situation to be eligible for debt relief.

137. The realignment of the financial sources of public spending was important for achieving a better macroeconomic performance and increasing public spending. This resulted in an increased use of external resources since the internal resources substituted for poverty spending were assigned for an improved macroeconomic balance. As can be seen in the same table, while the HIPC resources increased during the 2001-2003 period by US\$235 million, total internal resources for poverty spending fell by US\$196.0 million, substituted in part by an increase in non-HIPC external resources of US\$125.9 million. This shift of resources allowed for an increase in poverty spending of US\$164.9 million during the period in question and for a reduction of the NFPS deficit of US\$107.6 million.

138. This substitutive tendency of the HIPC resources will be overcome through an improved budgetary position in the next year. In the project for the 2004 annual budget, the Government hopes to maintain the same internal resources that were expected in 2003 that is US\$144.4 million. This means that in 2004, aside for increasing HIPC resources by US\$24.6 million, poverty spending will increase by US\$38.2 million. Internal resources remain constant and there will be an increase in non-HIPC external resources of US\$12.5 million complying with the additionality principle, increasing total poverty spending to 11.4 percent of GDP.

139. The unsustainability of the fiscal deficit and its consequences on inflation levels particularly affects the most vulnerable population. When in the end the corrective measures are adopted, the cost of adjustment also affects the poorest, an effect that the Government can successfully sort out by maintaining a rising profile of poverty spending. Along this line, the Government considers that in this initial stage, having destined part of the HIPC relief to improve the macroeconomic balance was a correct choice. Through the temporary nature of this measure, the Government, in coordination with the IMF and the WB, has been able to increase public investment spending flexibility in 2003 and 2004.

## **H. Economic growth and poverty reduction**

140. With a less optimistic profile for economic growth than was set down in the SGPRS, in the first progress report the question was if the growth expected in the following years would be enough to reach the millennium development goals in terms of reducing extreme poverty by half. To assess the impact of a lower economic growth, data from the 2001 LSMS and the method of Ravallion M. and Datt G. 1991 were used, using the POVCALC program developed by the WB.

141. The results presented in Table 11 show three illustrative scenarios. In preparing them, the same income distribution shown in 2001 is maintained, varying the per capita GDP growth rates by half a percentage point. This exercise shows that as the per capita GDP increases, the proportion of the population in extreme poverty decreases and that the elasticity of the proportion of extreme poor with respect to changes in per capita income is 2.1 percent.

**Table 11. Nicaragua: Per Capita Growth and Poverty Reduction**

Indicator	2001	2002	2003	2004	2005
	Percentage				
<b>Scenario 1</b>					
Per capita Growth	...	-1.60	-1.60	1.00	1.00
Extreme Poor	15.10	15.57	16.05	15.76	15.46
<b>Scenario 2</b>					
Per capita Growth	...	-1.60	-1.60	1.50	1.50
Extreme Poor	15.10	15.57	16.05	15.61	15.17
<b>Scenario 3</b>					
Per capita Growth	...	-1.60	-1.60	2.00	2.00
Extreme Poor	15.10	15.57	16.05	15.47	14.89

Source: SECEP, based on the 2001 LSMS

142. After the low growth rates of 2002 and 2003, it shows that only in scenario 3 (the most optimistic) would the proportion of the population in extreme poverty not increase up to 2005 with respect to base year 2001. In scenarios 1 and 2, there are moderate increases in the proportion of extreme poor. The real result will depend on the success of other components of the SGPRS designed to ensure that the poor benefit more from future economic expansion.

### I. Prospects 2003-2008

143. The prospects for the coming years have been reviewed in light of the evolution of the economy to September 2003, a review of the prospects for the world economy, the fourth review in November of the program agreed on with the IMF, the policies and programs of the Government that are reflected in the NDP, and 2004 budget guidelines.

Table 12. Nicaragua: Basic Economic Indicators

Items	1995-1998	2001	2002	2003	2004	2005	2006	2007	2008
	<b>Growth rate</b>								
GDP, constant	5.0	3.0	1.0	2.3	3.7	3.8	4.2	4.6	4.8
GDP, real per capita	2.1	0.3	-1.6	-0.4	1.0	1.1	1.7	2.1	2.3
Accumulated inflation	12.2	4.7	4.0	6.0	5.0	4.5	4.0	3.0	2.0
	<b>Percentage of GDP</b>								
Deficit, balance of payment current account <sup>1/</sup> *	-16.2	-17.2	-16.3	-14.6	-12.8	-12.1	-11.3	-10.5	-10.0
Overall deficit of the NFPS b/g	-6.1	-12.5	-8.6	-6.7	-4.7	-5.0	-5.6	-4.4	-3.9
Primary deficit of the NFPS b/g <sup>2/</sup>	-3.2	-7.2	-2.8	-1.6	-2.6	-2.8	-3.1	-1.8	-1.4
Primary savings of the NFPS	5.6	3.4	5.1	7.0	7.1	7.0	6.5	7.8	8.3
NFPS revenue	19.5	19.7	20.4	22.0	21.9	21.5	21.7	22.0	22.1
NFPS spending <sup>1/</sup>	22.7	26.9	23.2	23.6	24.5	24.2	24.8	23.8	23.5
Poverty spending	8.2 <sup>3/</sup>	9.1	10.0	11.0	11.4	11.6	11.8	12.0	12.2
Domestic savings **	4.1	9.7	10.7	11.9	13.7	14.6	14.5	15.1	15.3
Private	3.7	15.2	15.0	13.5	12.9	13.2	13.4	12.7	12.2
Public	0.4	-5.5	-4.3	-1.6	0.8	1.5	1.1	2.4	3.1
External savings **	-23.4	-22.3	-21.4	-19.4	-17.3	-16.2	-15.4	-14.4	-13.6
Domestic investment **	28.1	32.1	32.1	31.4	31.0	30.8	29.9	29.4	28.9
Public	6.8	8.5	6.8	6.8	7.7	7.6	7.6	7.7	7.8
Private	21.3	23.5	25.3	24.5	23.3	23.2	22.3	21.8	21.1
Public sector deficit b/g <sup>4/</sup>	-6.7	-13.8	-10.5	-8.4	-6.8	-6.3	-6.7	-5.4	-4.7
Public sector primary deficit b/g	-3.7	-8.5	-4.8	-3.3	-4.7	-4.0	-4.2	-2.9	-2.1
International reserves <sup>5/</sup>	2.4	2.3	2.8	2.9	3.1	3.3	3.3	3.4	3.5
<b>Memorandum:</b>									
GDP, US\$ million	3,366.9	3,990.7	4,003.2	4,099.4	4,271.6	4,433.5	4,637.5	4,876.5	5,144.9

1/: Excludes interests.

2/: Deficit of the NFPS before grants, less interests.

3/: 1997-1998 average.

4/: Includes quasi-fiscal losses of the BCN.

5/: Gross international reserves in months of imports of goods and services.

\* : Calculated using IMF methodology.

\*\* : Calculated using BCN National Accounts methodology, which includes the savings for earned contractual interest.

Source: BCN, MHCP, SECEP.

144. Macroeconomic stability and public and private investment will ensure a greater economic growth, reaching, in the mid term, external and internal sustainability along with the poverty reduction strategy (PRSP) implementation. The mid term projections point to strengthening public finances and diminishing vulnerabilities. The above will allow an average economic growth of 4.2 percent in the 2004-2008 period, situation that is hoped will count with a more favorable international environment.

145. The reduction of the 2008 NFPS's overall deficit (3.9 percent of GDP compared with 6.7 percent in 2003) shows the commitment to macroeconomic stability, in spite of: the pension system privatized administration starting in 2004, and the municipal and national elections of 2004 and 2006 respectively. The poverty spending will continue to be sheltered and will increase from 11.4 to 12.2 percent of GDP during the 2004-2008 period.

146. The fiscal stability will be attained in spite of a more dynamic public investment program, financed mostly by external donations. It is expected that this program will increase to 7.7 percent of GDP in 2004 and maintain this level through 2008. Public investment was 6.8 percent



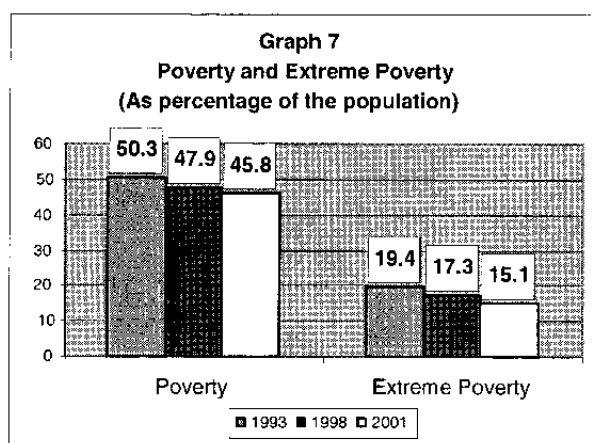
of GDP in 2003. Total investment will be an important component in spending (30 percent of GDP), with a significant participation in private investment.

147. Domestic savings will continue to increase by strengthening fiscal discipline and greater public and private savings. For 2008, savings are expected to reach 15.3 percent of GDP, greater than the observed 1995-1998 average of 4.1 percent. Furthermore, the reduction in the fiscal imbalances and greater private savings will require less external savings and will provide for less external debt used to finance investment.

#### IV. Poverty Reduction

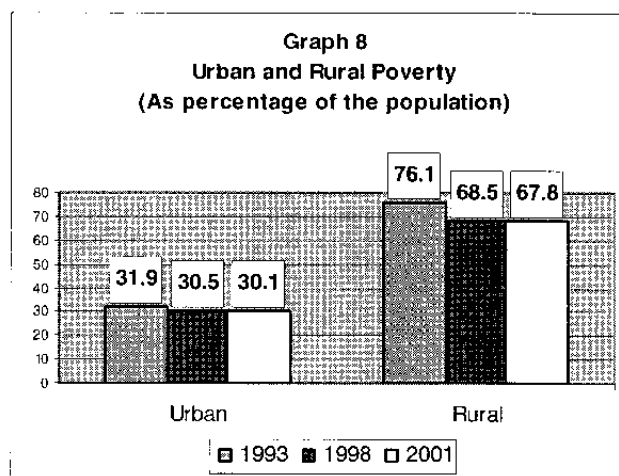
148. While the first progress report had the benefit of the LSMS 2001, there was no current survey information for 2002 available for this second report, so the analysis is based on recent studies about the evolution of poverty and extreme poverty, broken down by areas of residence and regions. It also addresses aspects related to inequality in the distribution of income and consumption, using data from 1993, 1998, and 2001.

##### Evolution of poverty



149. Nicaragua's per capita GDP is only one third of the regional average and its per capita foreign debt cannot compare with any other country in Latin America. It is therefore considered the 2<sup>nd</sup> poorest country after Haiti. Based on the consumer index, almost half (45.8 percent) of the population of Nicaragua is poor. This is equivalent to 2.3 million people, of whom 785,955 (15.1 percent) are extremely poor. Using the income distribution method of measurement, overall poverty is 51.9 percent and extreme poverty is 23.2 percent<sup>17</sup>.

150. Although the incidence of poverty continued to be high in 2001, there was a small decrease compared to 1998. Based on relative levels of consumption, poverty decreased by 2.1 percentage points (Graph 7), while the level of extreme poverty fell by 2.2 points. However, despite the relative decrease in poverty, the absolute number of poor people remained constant compared to 1998.



151. The results of the surveys from 1993, 1998, and 2001 reveal great regional

<sup>17</sup> LSMS 2001.

differences in the incidence, intensity and evolution of poverty. In relative terms, poverty and extreme poverty continue to be overwhelmingly rural (Graph 8). Two out of every three people in rural areas are poor, compared with one out of every three in urban areas. Although the rural areas have a higher incidence of poverty and extreme poverty, they experienced a greater decrease in 2001 compared to 1998, with the exception of the central rural region, where poverty increased by 1.1 percentage points and extreme poverty by 5.7 percentage points.

152. The reduction of rural poverty comes primarily from the increase in production of basic grains and other essential foods due to the fall in prices for export crops (the impact of this is noted in the increased poverty in the central rural region).

153. The evolution of poverty during the 1998-2001 period reveals that extreme poverty decreased more quickly in the rural Pacific region (-7.8) and in the rural Atlantic region (-14.5), but sharply increased in the central rural region (5.7), according to the LSMS for those years. This tendency was also demonstrated in terms of rural poverty (Table 13).

**Table 13. Nicaragua: Evolution of Poverty**

	Extreme Poverty				Poverty			
	1993	1998	2001	Change 1998-2001	1993	1998	2001	Change 1998-2001
<b>Percentage of the population</b>								
<b>National</b>	19.4	17.3	15.1	-2.2	50.3	47.9	45.8	-2.1
Urban	7.3	7.6	6.2	-1.4	31.9	30.5	30.1	-0.4
Rural	36.3	28.9	27.4	-1.5	76.1	68.5	67.8	-0.7
<b>Managua</b>	5.1	3.1	2.5	-0.6	29.9	18.5	20.2	1.7
<b>Pacific</b>								
Urban	6.4	9.8	5.9	-3.9	28.1	39.6	37.2	-2.4
Rural	31.6	24.1	16.3	-7.8	70.7	67.1	56.8	-10.3
<b>Central</b>								
Urban	15.3	12.2	11.1	-1.1	49.2	39.4	37.6	-1.8
Rural	47.6	32.7	38.4	5.7	84.7	74.0	75.1	1.1
<b>Atlantic</b>								
Urban	7.9	17.0	13.1	-3.9	35.5	44.4	43.0	-1.4
Rural	30.3	41.4	26.9	-14.5	83.6	79.3	76.7	-2.6

Source: INEC/LSMS 1993, 1998 and 2001

154. The rural areas not only have a greater proportion of poor households, but also have a greater poverty gap<sup>18</sup>. The Atlantic Coast has the highest poverty gap, at 30 percent; the central region and the Pacific region also show significant gaps. However, between 1998 and 2001, there was a reduction in the national poverty gap. In 2001, the poor needed to increase their level of spending by 17.0 percent to reach the poverty line, compared to 18.3 percent in 1998 (Table 14). The main reductions in the intensity of poverty occurred in rural areas, especially in the rural Pacific and rural Atlantic regions. In addition to the above, the poor of the rural central region underwent a substantial decrease in their well-being. The decrease in the central rural region is mainly due to the economic crisis in some departments – particularly Matagalpa and Jinotega – caused by low coffee prices.

<sup>18</sup> The poverty gap is defined as the percentage increase in consumption needed to reach the poverty line.

155. The lowest incidence of poverty is found in Managua, where only two of every ten people are poor. The economic recovery and expansion of the service sector in this city – particularly in trade – have contributed to a notable reduction in poverty, compared to 1998. Likewise, the expansion of water, sewage and electricity services has contributed to these results.

156. From the perspective of income distribution and consumption, Nicaragua, like a great many Latin American countries, has a high degree of inequality. Nicaragua is in the top quartile of the world's countries for income disparity; its Gini coefficient is 56.0, measured by income, approaching the Latin American average of 50.8. The wealthiest 10.0 percent of the country has an average income 19 times higher than the poorest 40.0 percent. In addition, the wealthiest 10.0 percent receive 45.0 percent of the total income of the country, while the poorest 40.0 percent receive only 10.0 percent.

**Table 14. Nicaragua: Poverty Gap and its Evolution**

	1993	1998	2001	Change 1998-2001
Percentage				
<b>National</b>	21.8	18.3	17.0	-1.3
Urban	10.9	9.9	9.1	-0.8
Rural	37.1	28.3	28.0	-0.3
<b>Managua</b>	9.5	5.1	5.3	0.2
<b>Pacific</b>				
Urban	9.4	12.6	9.9	-2.7
Rural	32.3	26.0	19.7	-6.3
<b>Central</b>				
Urban	19.4	14.3	13.3	-1.0
Rural	45.3	30.9	31.4	0.5
<b>Atlantic</b>				
Urban	12.1	17.5	14.2	-3.3
Rural	35.9	37.3	29.9	-7.4

Source: INEC/LSMS 1993, 1998 and 2001

157. Inequality in consumption also remained high in 2001. The Gini coefficient, measured for consumption is 43.0. This reveals the enormous disparity between the consumption by the wealthiest and by the poorest. The wealthiest 20.0 percent consume 49.2 percent of the total for the country, while the poorest 20.0 percent only consume 5.6 percent.

**Table 15. Nicaragua: Distribution of Consumption in Quintiles**

	In Percentage of total aggregate consumption				
	Q1	Q2	Q3	Q4	Q5
<b>Urban</b>	6.1	10.3	14.6	21.1	47.9
<b>Rural</b>	7.2	11.9	16.3	22.5	42.1
<b>National</b>	5.6	9.8	14.2	21.1	49.2
	Consumption Ratio between Quintiles				
	Q2/Q1	Q3/Q2	Q4/Q3	Q5/Q4	Q5/Q1
<b>Urban</b>	1.7	1.4	1.5	2.3	7.8
<b>Rural</b>	1.6	1.4	1.4	1.9	5.8
<b>National</b>	1.8	1.4	1.5	2.3	8.8

Source: INEC/LSMS 2001

The disparity in the rural areas is slightly less than in the urban areas. In the urban areas, the consumption level of the wealthiest 20.0 percent is eight times higher than that of the poorest 20.0 percent, while in the rural areas the difference decreases to six times (Table 15).

## V. Progress in Implementing Policies and Programs

158. Advances have been made in the implementation of SGPRS policies and programs, and challenges have also been identified. The macroeconomic environment remains relatively stable; progress was made in enacting laws; and productive, social, and environmental programs were implemented along with programs for infrastructure. These interventions have benefited the population in general, including the rural population and the north and south Atlantic regions. However, as demand for services increases with the growth of the population, the Government must make greater efforts in the future.

### **A. Pillar I: broad-based economic growth**

159. Since 1999, when the economy reached its highest rate of growth (7.4) in the last two decades, it has shown a tendency to be less dynamic, with a GDP growth rate of 1.0 percent in 2002. The worsening of the terms of trade, primarily due to the fall in coffee prices, a political climate which does not encourage private investment and the problems of the financial system are the most significant elements in determining this behavior.

160. However, in the last two years, the Government has taken steps to decrease the impact of these phenomena, particularly in those sectors that generate employment. The NA approved laws that will have an impact on productive sectors, the private sector was strengthened through the process of privatization and the liquidation of assets by the BCN, the tax structure was improved through two tax reforms, an agreement was signed with the IMF that will assure foreign resources to finance the PIP, and a proposal was recently prepared for a NDP which includes a productive strategy.

161. In order to maintain economic, social, and political stability, the Government renegotiated a part of the internal debt associated with the bank failures, thus freeing up more resources for the economy and reducing the interest rate. Recently, the NA selected the Superintendent of Pensions, a prerequisite for putting the first two private pension administrators into operation, with a new system of individual accounts.

162. In the rural sector, fiscal incentives were maintained as per the Law for Fiscal Equity of 2003; agricultural technology and technical education programs were implemented under the components of research, technology transfer, creation of loan funds, commercialization, and establishment of information systems. Rural energy programs were also implemented, based on the master plan for rural electrification, and a greater connection was fostered between the Rural Credit Fund (FCR) and other public loan programs for small farmers.

163. The Government also carried out the “pound-for-pound” program, distributing improved seeds for basic grains and fertilizer to peasant farmers, resulting in a record harvest for those farmers in 2002, with similar results expected in 2003. It should be mentioned that the production of basic grains has attenuated the effects of the decline in agricultural export products, primarily coffee. Complementing the above efforts and using FSS-PAI resources, 10,000 additional small farmers have benefited from metal silos that have a storage capacity of between 4 and 18 hundred pound weights (quintales) of basic grains. As part of a more integral strategy for the sector, MAGFOR presented the strategic elements for future agricultural policy in July 2003.

164. Likewise, in the sector of small industry, the Government obtained US\$30.0 million in resources in 2003 for technological improvements in medium and small industries. This program is being financed by the IDB. With all of the above, the growth of the GDP in 2003 may reach 2.3 percent. However, despite progress, there are also difficulties. The privatization of ENITEL has gone through a long process which is expected to be completed by the end of 2003. ENEL has faced the same situation with the privatization of a hydroelectric generating plant.

165. In the legislative arena, the NA approved the following laws, among others, in the 2002-2003 period: Credit Agreement for the Land Administration Project; Central American Treaty on Investment and Trade in Services; Operations, Norms, and Procedures for FOSOVI; General Health Law; Law to Broaden the Tax Base; and, the Law for Tax Justice; and all the laws to do with cooperation agreements, loans and foreign debt reduction. Legislations such as the Civil Service Law and the Public Debt Law are in the process of being approved.

166. The updating of Nicaragua's National Accounts System also progressed with the publication of the new GDP calculation which, according to studies, was undervalued by 70.0 percent. The BCN applied the new National Accounts System recommended by the IMF and international cooperating community for the period 1994-2004, which, among other things, has meant a correction in per capita income from US\$478 to US\$752 in 2003. This effort has provided the country with greater and better statistical coverage, as it includes the Living Standards Measurement Surveys, the annual surveys conducted by the manufacturing industry, and the results of the National Agricultural Census (CENAGRO). In addition to the above, work has begun on the technical aspects of the National Population and Housing Census, to be taken in 2005.

### **B. Pillar II: investment in human capital**

167. Investments in human capital in order to increase productivity, income, and the well-being of the population focused on basic education, preventative health care at the primary care level, and the prevention of chronic malnutrition in children. These measures have been complemented with actions to provide water and sanitation.

#### **Education**

168. Despite the reduction in overall spending by the Central Government in 2002, spending in the education sector remained at the same level as 2001, which was 5.9 percent of GDP. This average is higher than that recorded in 1997 and 1998, before hurricane Mitch. However, the proportions of current expenditures and capital expenditures changed compared to 2001, with an increase in current expenditures of 11.5 percent in 2002 in order to respond to the salary demands of the teachers. Capital expenditures decreased by 20.0 percent due to budgetary constraints that restricted the funds available. In 2003, the budget allocated to the Ministry of Education, Culture, and Sports (MECD) was US\$104.1 million, compared to US\$115.6 million in 2002.

169. In spite of the ongoing budgetary constraints for education in 2003, the actions from the first year of implementation of the Education Participation Law and complementary activities continued to be strengthened. These efforts were aimed primarily at: (a) increasing the enrollment level over that of the previous year; (b) improving the retention coefficient; (c) strengthening the network of school infrastructure; (d) publishing guidelines and orientation manuals for the process of school autonomy and parent participation; and, (e) advancing the process of municipal decentralization in the departments of Carazo and Managua, as previous steps for a national policy for municipal educational decentralization. In addition, MECD began actions to broaden, diversify, and make more flexible its educational offer for children from 6 to 12 years old, offering an educational television program as a complementary activity.

170. The 2002 budget for capital expenditures was directed at school construction and rehabilitation, which surpassed the goal of 490 classrooms by 325 for a total of 815 classrooms. By the first half of 2003, 380 primary school classrooms had been built or rehabilitated, a pace similar to last year's. Also, the Schooling Map was broadened, including the cartographic survey of all the municipalities, facilitating targeted actions for the distribution of texts, school materials, and desks for students. During the 2002 school year, food rations were distributed to 363,000 preschool and primary-age children and the "School Glass of Milk" program began, benefiting an additional 420,000 children. These two programs continue with success in 2003.

171. As a result of the above, in absolute terms, preschool enrollment in 2002 increased by 8.36 percent and primary enrollment by 6.56 percent over that of 2001. In 2003, an additional increase in enrollment of 3.4 percent was experienced for the preschool level and 0.44 percent for primary school. It is important to note that the natural increase of the population in this age group is greater than the growth of the corresponding schooling rates.

172. It should be mentioned that, Nicaragua was selected in 2002 to benefit from the Education for All initiative (EFA) of the WB. The resources to implement this initiative have not yet materialized; however, MECD, with funds from loans, began actions in the department of Carazo, and in 2003, with donations through the Supplementary Social Fund (FSS), activities are being conducted under the conceptual framework of the EFA.

### **Health and nutrition**

173. As in education, budget constraints were a determining factor that limited the scope of the Government's health policy. The health budget for 2002 was US\$125.8 million and US\$121 million for 2003. However, this sector has historically fallen short in the implementation of the investment program, a tendency which it seems to have reversed in 2003. Actions were begun to improve the allocation and decentralization of resources in a transparent fashion, and processes for scheduling, budgeting, and accountability for local accounts have been strengthened.

174. In early 2003, authorities from the Ministry of Health (MINSa) began to formulate the National Health Plan, organizing it by sector to streamline resources, improve efficiency and equity, decrease transaction costs, and support the sustainability of the sector. As part of this process, the 1997-2001 health policy will be evaluated. This will provide important input for the preparation of the new health policy. The firm that will undertake this was contracted in November 2003. The National Health Council (CNS), created by the General Health Law as an advisory body in 2002, will participate extensively throughout this entire process.

175. In 2002, regulations were established for the General Health Law and development of guidelines and procedure manuals began. The procurements division was strengthened as were the processes for ensuring transparency and improving efficiency. In addition, the coordination mechanisms for tendering bids were improved, carrying out some joint bidding processes from various sources of financing. Rapid arrangements were made for the resources needed to alleviate the medical supplies crisis that the new Government inherited. Consequently, US\$13.0 million worth of medicines was purchased in 2002, and an additional US\$13.0 million by September 2003. Most of the 2002 purchases entered the health system in the first quarter of 2003. Improvements made in the purchasing processes and larger donations – Norway, The

Netherlands, Sweden and Finland – have accelerated the procurement and distribution of medications in 2003. Additional resources were also obtained from the WB and the IDB.

176. An important measure in 2002 was the implementation of the voluntary retirement plan for health personnel, with 54 percent of those eligible taking advantage of the plan, for a savings of US\$1.8 million annually, furthering the reform and streamlining of resources.

177. During 2002, MINSA prepared a communications and community action strategy for six SILAIS in order to increase knowledge, attitudes, and practices that improve the capacity of households and communities to prevent and treat the most common illnesses. It is expected that this will be extended to all the SILAIS in 2003 and 2004, depending on available financing.

178. In 2002, in order to broaden coverage and quality, MINSA continued to adopt procedures for the purchase of services in remote areas, as well as the delivery of the basic primary care package through the Fund for Safe Motherhood and Childhood (FONMAT). In addition, maternity houses have been established in those SILAIS with high maternal mortality rates. Also in 2002, 13 management agreements were signed with health centers for the second consecutive year; and 25 have been signed in 2003.

179. Likewise, hospital reform was furthered in order to improve management of hospitals so that, among other matters, which will be better equipped and have greater capacity to serve the population. For this, strategic hospital planning was developed and the contracting and management processes were improved. In addition, improvements have been undertaken to increase quality, prioritizing the critical route, and the development of clinical protocols, standards and norms. Regarding improvements in infrastructure of the three hospitals in the Atlantic Coast region (Bluefields, Puerto Cabezas, and Rosita), four financial sources have been available and the projects are expected to be concluded by December 2003.

180. Regarding nutrition, standardization of the methodology for training mothers in the communities was completed. Two other government programs, as well as non-governmental organizations (NGO), will use the same manual. In addition, as part of MINSA's management, various programs that work in nutrition will use the indicator for chronic malnutrition; an important step for carrying out actions on this issue to obtain higher prioritization of resources. MINSA has improved its coordination with NGOs for activities in the field and has held several workshops on this. In some SILAIS, planning among the SILAIS and NGO working in health has been strengthened.

### **C. Pillar III: protection of vulnerable groups**

181. Continuing with the processes initiated in 2002, efforts in 2003 centered on the design of the social protection policy, developing out of the conceptual framework approved by the social cabinet in November 2002. The social protection policy was developed and approved by the social cabinet in November 2003 and the consultation process will take place in 2004. As part of this process, studies describing vulnerable groups and types of intervention were completed, and a methodological base for common intervention for the social protection programs was constructed, including an analysis of the program of public investment in social protection.

182. Workshops on this have been conducted with government institutions and civil society, and support has been provided by officials from cooperation agencies. In addition, the Government designed and initiated a National System for Social Protection called "Solidarity". This system is aimed at connecting, coordinating, and complementing the programs and projects oriented toward protection of the most vulnerable. It is expected that this initiative will streamline costs, reduce duplication, maximize the impact of the programs, and offer greater equity in access to social protection and development programs. It has a Single Registry of Beneficiaries of the programs and projects that deliver direct benefits to the population. Currently, this registry has information on over 100,000 beneficiaries of 24 projects of various government institutions.

183. MIFAMILIA has been restructured to administer the social protection policy and norms. This ministry is developing policy and normative instruments for integrated attention for children under six, people with disabilities, and senior citizens. The National Commission on Senior Citizens has also been formed. In addition, actions continue to be implemented and coordinated for the population affected by flooding and the prolonged coffee crisis, including attention to 6,583 children.

184. The Government began the second phase of the Social Safety Net (RPS) Program, with resources from the IDB, the WB, and the Central American Bank for Economic Integration (CABEI) totaling US\$29.5 million, expanding its coverage in 2003 to seven municipalities and offering attention to 13,170 families. More than three thousand households in 21 communities joined the program and were the control group in the first phase of the program. The types of services have been expanded in the second phase.

185. PAININ also began its second phase, expanding from 33 to 65 municipalities in 2003, including some municipalities in the country's Autonomous Regions, and reaching more than 50,000 children. Local and sector coordination has also progressed with this program.

186. Efforts for coordination among the main programs and institutions has resulted in the adjustment of the monitoring systems for PAININ and the RPS, complementary actions in both programs, as well as transfers of food by the WFP to 26 of the municipalities served by PAININ.

#### **D. Pillar IV: good governance**

187. It is internationally recognized that good governance is vital for the economic and social development of countries. In the quest for greater efficiency, political stability and democracy, the Government has continued to make efforts to develop the basic elements of good governance: the struggle against corruption, transparency and accountability, institutionality, rule of law and equality before the law, and citizen participation.

##### **Fight against corruption**

188. The Government has continued its commitment to fight corruption. The Attorney-General of the Republic has concentrated efforts on investigating acts of corruption at the highest levels, concretely presenting 216 complaints to the Judicial Branch. In December 2002, a former president of the Republic was divested of his immunity by the NA, put on trial, and incarcerated.



189. With the support of eight European nations and the United Nations Development Program (UNDP), an anti-corruption fund was established to support the efforts of the Government. This fund financed the unit for investigation, monitoring, and technical assistance of the Attorney-General's Office, and enabled the Office of Public Ethics (OEP) to reorganize a program to prevent corruption. This office is implementing and providing follow up in Nicaragua to the Interamerican Convention Against Corruption.

### **Transparency**

190. In order to ensure transparency in the administration of public funds, the implementation of the Single Account has been completed. This is the record of all income from domestic resources and foreign loans. Work is being done to include donations. In addition, the OEP continues its efforts to institutionalize a culture of integrity and transparency. This office is conducting workshops on technical guidelines and ethics for civil servants in the executive branch, and drafting a basic manual for the civil servant and the Law for Probity.

191. The Government continues to implement the System for State Purchases and Contracts, financed by the IDB and other donors: the United States Agency for International Development (USAID), The Netherlands, the Department for International Development of the United Kingdom (DFID), Sweden, Canada, Austria, and Norway. This program is strengthening the internal control systems of public sector entities – MINSAs, FISE, IDR, INIFOM, ENACAL, MECD, and the Ministry of Transportation and Infrastructure (MTI) – which represent 80.0 percent of public investment, and it is working to ensure the efficient, effective, and transparent use of resources. In the inspection component, the concurrent institutional analysis, begun in 2002, continued in each of the entities. The standardization of portfolios of processes under implementation also continued and 203 contract processes were inspected, including visits to projects in 20 municipalities.

192. In the component to support the management of purchases and contracts, work continued on training on general policies; Law 323 and its regulations were reviewed; manuals on the organization and operations of procurement units in the institutions and purchasing manuals were prepared; a computerized system for follow up was designed and implemented; and, in the case of MINSAs, an action plan of action to improve the supply system was prepared. For the component involving development and training in purchasing and contracts, the pre-selection of the international firm was completed and a "Steering Committee" for the system is now being set up.

### **Institutionality – State reform**

193. Along this line, the NA passed the following laws: the Fiscal Equity Law, the Reform of the Tax Justice Law, the Law to Broaden the Tax Base, the Law for Citizen Participation, the Law on the Operations of the FOSOFI, the Law for Budgetary Transfers to the Municipalities of Nicaragua, and the Forestry Development Law, among others.

194. Respecting the rights of the population of the North and South Atlantic Autonomous Regions to property, culture, and development, approval was given to the Communal Property

Code of the Indigenous Peoples and Ethnic Communities of the Atlantic Coast, and regulations were approved for the Autonomy Law of the Atlantic Coast.

195. The Government also continued responding to property claims, prioritizing titles in rural areas. In the first half of the year, 139 percent of the annual target was met for issuing rural titles.

196. In 2003, the Supreme Court of Justice (CSJ) began implementation of the program to modernize the Judicial Branch, with IDB resources. The new Processing Penal Code was implemented. In 2003, the Comptroller-General's Office (CGR) began to implement the modernization program with IDB funds approved in 2002. They are currently reviewing the organizational structural development contract, contracted the equipment for the strengthening for the control mechanism and the approval of the norms and respective manuals. With the assistance of the MHCP's technology division, a diagnostic of the CGR information system is being elaborated.

### **Citizen participation**

197. Citizen participation continued to be a basic factor in the formulation of public policies and decision-making on them. This has been important in the fight against corruption and in the construction of the NDP. To strengthen this process, the NA passed, in general terms, the Citizen Participation Law in July of 2003, expected to be totally approved by end November 2003.

198. The Departmental and Regional Development Councils have become the highest forums for discussion and consensus among the various stakeholders at the national and area levels. The members of these include the Mayors from the departments, delegates from the National Government, representatives from civil society organizations, private sectors, and other government entities. These Councils are being strengthened in 2003 with the implementation of the National Coordination System for Participatory Implementation, Monitoring, and Evaluation of the SGPRS (PASE) in four departments – León, Rivas, Río San Juan, and Boaco – and the two Atlantic Autonomous Regions – RAAN and RAAS. This Government-Society coordination system, which links the various stakeholders and geographic areas, will facilitate national planning and citizen participation. In 2003 and 2004, resources from the UNDP, DFID, COSUDE, GTZ, and APPI-Italy-UNOPS are provided to establish PASE. The Citizen Participation Law, approved in June 2003 by the NA, includes these initiatives for departmental coordination.

199. As a result of these initiatives, the Sustainable Development Council of the Department of Río San Juan (CODESO) prepared and presented the Strategic Departmental Development Plan in May 2003, with the support of SNIP, the Secretariat for Economic Relations and Cooperation (SREC), INIFOM, and SECEP. This plan is based on current public investment and the resources, limitations, and potentials of the area, as well as the coordination efforts of the central and municipal governments and civil society. Likewise, in RAAS, the Regional Planning Commission (COPLAR) is the result of a process of closer coordination between civil society, municipal governments, the autonomous regional government, and SNIP, which has facilitated the presentation of a regional development proposal. These initiatives are being implemented in a gradual fashion in other departments and regions, and serve as instruments for the preparation

of departmental development plans and the NDP. Similar initiatives have been started as of October 2003 in León, Rivas, Jinotega, Boaco, Estelí, Nueva Segovia, and RAAN and it is expected to have the remaining departments included by the end of the year.

200. Primers on citizen participation and social audits have been prepared with the participation of municipal development committees and territorial institutions, with the support of PAI-SGPRS. Training workshops were conducted in order to strengthen the capacities of community leaders. This experience is occurring in eleven municipalities, nine in the central, northern, and southern regions of the country and two in the regions of the Atlantic Coast.

## **E. Cross-cutting themes**

### **Decentralization**

201. In various national and international forums, the Government has expressed its willingness to further the process of government decentralization and promotion of local development with citizen participation. As part of the consultation that resulted in the National Decentralization Policy, 45 events were held, 15 departmental workshops, two with the NA in which more than 3,000 people participated. For these consultations, in particular in the Atlantic Coast regions, primers were developed in English, Miskito, and Mayagna.

202. On the other hand, INIFOM continues to foster the Municipal Strengthening Program. The Law for Budgetary Transfers to the Municipalities of Nicaragua was approved in June 2003, by the National Assembly within a consensus process between AMUNIC, INIFOM, SECEP, the Ministry of Finance (MHCP), and the Commission on Municipal Affairs of the NA. Beginning in 2004, this law grants a budget line item equivalent to 4.0 percent of the tax income in the National Budget. The law introduces criteria for the distribution of resources and fiscal equity. Fifty percent of the resources to be distributed are linked to municipal performance criteria – fiscal effort and implementation of public works.

203. The new law on budgetary transfers to the municipalities allocates new duties to INIFOM, establishing the creation of a system for information, follow up, and evaluation of municipal finances, budget implementation, as well as a required annual report. Criteria and municipal performance indicators are being designed to allow for the classification of municipalities according to their performance.

204. In first quarter 2003, the NA approved the Municipal Solvency Law in order to strengthen municipal revenues collection, establishing the requirement of a certificate of up-to-date payment of taxes before any real estate or property transactions may be undertaken or any municipal permits may be obtained. The regulations for Law 28, the Autonomy Statute for the Atlantic Regions, were also approved in June 2003.

205. Complementary to this, INIFOM, FISE, SECEP, and AMUNIC have been implementing a participatory planning system that links the strategic and operational levels. As of October 2002, 90 municipalities had prepared Municipal Development Plans; 132 Municipal Investment Programs and 119 Operational Plans for 2003. There are approximately 60 municipalities that

FISE has certified as having the financial administrative capacity for managing resources in a decentralized manner.

206. In 2002, in consultation with international cooperation agencies, civil society, and direct support from DFID and UNDP; SECEP designed PASE, a system that links government institutions, communication, and citizen participation in poverty strategy follow up, and strengthening coordination for regional development. This system was developed in a participatory manner at the regional level in the RAAN (Puerto Cabezas), RAAS (Bluefields), Jinotega, Boaco, Rivas, Río San Juan, and León at the end of 2002 and the beginning of 2003, and will have Departmental Technical Units (UTD) for the formulation, coordination, and public investment follow up.

### **Environment and ecological vulnerability**

207. The Ministry of the Environment and Natural Resources (MARENA), in coordination with INETER, is developing a national program for land use planning and has also designed a national system of environmental indicators that will help improve the national accounts of BCN. This institution has begun preparation of the second report on the state of the environment in Nicaragua, to be presented in December 2003.

208. In the area of environment, guidelines are being applied to solid waste management and the sustainable use of natural resources at the farm level. Teachers and MECD technical personnel have been trained in the content of the environment and natural resources course approved by law by the NA.

209. To foster local environmental management, MARENA has promoted the purchase of carbon certificates which will be implemented with resources from the WB and The Netherlands. It is believed that the program will begin with US\$10.0 million, by implementing 341 environmental projects in the departments of León, Chinandega, Estelí, Nueva Segovia, Matagalpa, Jinotega, Chontales, Masaya, Managua, Carazo, Río San Juan, the RAAS, and the RAAN.

210. Through the National Office for Clean Development, MARENA has promoted the purchase of carbon certificates for implementation of the prototype carbon fund of the WB and The Netherlands by two national companies located in the department of Chinandega. The resources committed to this total US\$4.2 million.

### **F. Challenges in the SGPRS implementation**

211. The SGPRS mentions a series of risks faced by the economy: natural, political, and external. The latter have already occurred, affecting Nicaragua's terms of trade and thus its growth perspective in the short term. However, the agreement with the IMF may provide more foreign assistance than might have been given under other circumstances.

212. After the second year of implementing the SGPRS, there are some important advances in most intermediate indicators and the implementation of policies that are improving the social

condition; however, there are significant challenges and some delays that need answers in the short term in order to program for the future.

213. The most significant challenge still facing the SGPRS is economic growth and the job creation, which are basic to the reduction of poverty, as stated in the document itself. Improving the quality of expenditures and reaching the SGPRS targets are other challenges. If the performance of the intermediate indicators continues at current levels, these targets will not be reached. Part of the response to this challenge is to strengthen Pillar I, economic growth, which is proposed in the NDP and the Government is joining forces with the international community to update the financing of the targets and to improve the quality of expenditures.

214. Following the appointment of the Superintendent of Pensions, another challenge is making progress in the process of establishing private administrators and the new system of individual accounts, as well as improving coordination of foreign assistance to support national priorities, making progress with the harmonization of the types of cooperation and the implementation of alternatives with a sector approach. The private pension administration system will open opportunities for the financial market and private investment.

215. While there has been progress in the approval of laws that help to overcome fiscal and administrative dysfunctions in the area of municipal and regional autonomy, the norms to complete the legal framework for the decentralization process must still be prepared and approved. These are: the Municipal Administrative Career Law, the Municipal Cadastre System Law, and a study to analyze public jurisdictional conflicts.

## **VI. Intermediate Goals and Indicators**

### **A. Medium-term (2005) and long-term (2015) goals**

216. Continuing with the process to analyze year two of SGPRS implementation, this section includes reflections about the monitoring of international goals that this country must achieve by 2015 and of the intermediate indicators related to each goal. The Government has proposed medium-term goals to set the pace necessary to achieve the long-term goals.

217. International goals to be reached by 2015 include: (a) reduce extreme poverty by 50.0 percent; (b) reduce infant and child (under 5) mortality by 66.0 percent; (c) reduce maternal mortality by 75.0 percent; (d) provide universal primary education; (e) ensure access to reproductive health services (through healthcare services) for all people within the appropriate age group; (f) initiate implementation of a sustainable development strategy by 2005; and, (g) eliminate gender disparities in primary and secondary education by 2005. As is known, the first six of these goals were included in SGPRS; the last goal had been achieved.

218. It should be noted that Nicaragua has incorporated other goals that it considers to be of great importance but that were not included among the international goals, such as: increase access to water and sanitation in urban and rural areas, decrease illiteracy, and reduce chronic malnutrition. Some of these are now included as millennium development goals.

**Table 16. Nicaragua: Progress in Meeting the International Targets**

International Target	Targets base <sup>1/</sup>	1998	2001	2002	Target 2005	Target 2015
Reduce extreme poverty by 50%	19.4	17.3	15.1		16.0	9.7
Increase net rate of primary schooling to 100%	75.0	75.0 <sup>2/</sup>	81.1	84.7	83.4	90.0 <sup>3/</sup>
Reduce infant mortality rate by 66%	58.0	40.0	31.0		32.0	20.0
Reduce mortality rate of children under 5 by 66%	72	50	40		37	24
Reduce maternal mortality rate by 75% <sup>4/</sup>	88	118	114	100	93	22

<sup>1/</sup> The base year for the international development targets is 1990. Since Nicaragua does not have all the figures for 1990, the closest year was used, in most cases 1993 or 1994.

<sup>2/</sup> The figure for the net rate of primary schooling is from 1999.

<sup>3/</sup> Nicaragua set this target at 90% instead of the international target of 100%.

<sup>4/</sup> The mortality rates were recalculated in 2001 to include only the direct obstetric deaths, so the data have been adjusted.

Source: SECEP

219. It must be clarified that the goals and intermediate indicators have different measurement sources: some are measured by the LSMS and the Demographic and Health Survey (DHS), whereas others –mostly intermediate indicators– are measured by continuous statistical sources of MECD, MINSAL, and ENACAL. This second report includes a summary of the results of goals for 2001 that are not subject to measurement this year. It also provides greater details about the intermediate indicators that it was possible to measure in 2002. The next assessment of progress toward goals will be carried out with the next LSMS and DHS surveys, scheduled for 2004 and 2005, respectively.

220. In general, progress toward international goals has been satisfactory. However, it is worth noting that the country has only been implementing the SGPRS for two years. The structural reforms have not been finalized, and those that have been accomplished will show results as of 2004. Concerns about whether advances made toward goals to date can be sustained in the future may dissipate as improvements occur in the economy, a greater budget is allocated to social sectors, and the first effects of the reforms will be seen.

221. In general terms, 9 of 19 intermediate indicators were completed in 2002. Only one of the two economic indicators was reached, whereas five of seven proposed goals were achieved in education and two of three in water and sanitation. Health indicators warrant particular attention: only one (access to reproductive health services for women of child-bearing ages) registered satisfactory behavior at 112.0 percent. The remaining six health indicators were affected, in part, by delays in fund disbursement to the SILAIS (in the case of immunization coverage) and because the fertility rate decrease shown in DHS 2001 was not reflected in the projections for denominators of indicators related to pregnancies and births. The National Institute for Statistics and Census (INEC) will have new population projections in December 2003, which will allow for the revision of the health indicators.

### **Reduce extreme poverty**

222. The reduction of poverty and extreme poverty is closely related to economic growth. Therefore, with negative growth of the per capita GDP in 2002 and 2003, poverty conditions may have remained the same or increased (especially in the rural area where, according to LSMS 2001 data, 27.4 percent of the population is extremely poor.)

### **Increase net rate of primary schooling**

223. The net rate of primary school enrollment increased from 81.1 to 84.7 percent between 2001 and 2002. In absolute numbers, primary school enrollment in 2002 totaled 923,391 children, an increase of 56,875 (6.5 percent) with respect to 2001. This was due to a number of actions, including an increase in the number of model schools, extension and repair of school infrastructures, continuation of the school backpack program, and subsidization according to demand in areas of extreme poverty. According to the LSMS 2001, 35.0 percent of the children who do not attend school fail to do so for economic reasons, leading one to assume that the increase in registration over the last two years is not sustainable unless greater resources are obtained to finance subsidization and to hire teachers. A detailed analysis is planned in order to identify elements that will ensure the sustainability of these achievements.

### **Reduce infant and child (under 5) mortality**

224. DHS 2001 measured these mortality rates. As reported in the first progress report, infant mortality decreased from 40 to 31 per 1,000 live births between 1998 and 2001, a 22.5 percent improvement. In the same way, the mortality rate for children under 5 decreased from 50 to 40 per 1,000 live births during the same period, a 20.0 percent improvement.

225. In spite of the satisfactory progress made with both rates, these achievements may revert if specific actions to prevent infant mortality in the first month of life are not consolidated and if the tendency to comply with the international goal is not maintained. Analyses in 2002 and 2003 show that actions to reduce infections and respiratory illnesses during the peri-natal period (the most common causes of death) must be reinforced. Most of these actions are carried out in hospitals, so neonatology departments must be strengthened. This will require investments in equipment and infrastructure in order to comply with minimum sanitary standards.

226. With respect to the mortality rate for children under 5, analyses show that in order to sustain current achievements and/or reduce the rate, actions must concentrate on respiratory ailments and infectious and parasitic diseases (particularly diarrhea). In addition, preventive actions carried out by first-level healthcare personnel or through massive education campaigns must be promoted, targeting mothers especially. The participation of other sectors, such as water and sanitation, is vital to achieving the established goals.

### **Reduce maternal mortality**

227. For the SGPRS, the maternal mortality rate included direct and indirect obstetric causes as well as non-obstetric deaths (caused by violence, accidents, suicides, etc.). In other words, the international definition was not applied. For this reason, in 2002 the rate since 1994 was recalculated in order to provide the base year for the international goal. This changed the goal for 2005 as well as figures reported in the past. The new rate definition uses 1999 as the base year for the SGPRS and shows a maternal mortality rate of 118 instead of 148 per 100,000 live births. As part of the process to review this goal, the rate for 2005 has been changed to 93 instead of the initial 129 per 100,000 live births.

228. Indicators show that maternal mortality decreased from 114 to 100 per 100,000 live births between 2001 and 2002, representing a 12.2 percent improvement. Poverty and the lack of access to specialized services for obstetric complications (especially for women in rural zones) mean that these achievements remain fragile. Considering this fragility, MINSA has developed a plan to reduce maternal and peri-natal mortality with emergency obstetric care. It will also extend the establishment of maternity centers, which have been opened over the last two years and serve as shelters for rural women suffering from complications during pregnancy and/or delivery.

### **B. Intermediate indicators**

229. Although data from the LSMS and DHS surveys are not available for 2002 and 2003, records kept by the respective ministries were used to monitor advances toward SGPRS goals and indicators. Of the total of 33 intermediate indicators, only 19 could be monitored in this way: two economic indicators, seven education indicators, seven health indicators and three water and sanitation indicators. Table 17 illustrates the current status of intermediate indicators.



Table 17. Nicaragua: Progress of the SGPRS Intermediate Indicators as of 2002

Indicator (percentage)	Base Year 1999	Target 2002	Current 2002	Meeting Targets in percents <sup>4/</sup>
1. Central Government Spending on Poverty	52.5	54.2	<b>53.5<sup>3/</sup></b>	98.7
2. Growth of the GDP	7.0	3.7	<b>1.0</b>	27.0
3. Net Rate of Primary Schooling	75.0	79.3	<b>84.7</b>	107.0
4. Third Grade Promotion Rate in Rural Schools	76.6	79.6	<b>80.9</b>	102
5. Students who finish primary school in six year	32.0	38.0	<b>38.5</b>	101.0
6. Implement National System for Academia Evaluation	...	In Effect	<b>In</b>	100.0
7. Net Rate of Preschool Schooling	26.0	29.0	<b>27.9</b>	96.0
8. Multi-grade Rural Schools with Six Grades	29.0	41.0	<b>22.3</b>	54.0
9. Construction or repair of primary school classrooms, annually	977	490	<b>815</b>	166.0
10. Institutional Births	47.0	55.9	<b>49.9</b>	89.0
11. Prenatal Care	71.6	81.4	<b>70.5</b>	87.0
12. Early Detection of Pregnancy (prenatal care in the first trimester of the pregnancy)	31.9	38.9	<b>31.8</b>	82.0
Vaccination Coverage				
13. 1 dose of BCG	99.0	99.0	<b>93.2</b>	94.0
14. 3 dose of polio vaccine	91.0	92.0	<b>85.3</b>	93.0
15. 3 dose 5-en-1 (pentavalent)	7.0	91	<b>84.7</b>	93.0
16. Polio Vaccine in children from 12-23 months <sup>1/</sup>	83.8		<b>85.7</b>	
17. Incidence of Diarrhea in children under 5 years <sup>1/</sup>	21.9	n.d.	<b>24.8</b>	n.d.
18. Incidence of Respiratory Infections, children under 5 years <sup>1/</sup>	27.3	n.d.	<b>23.7</b>	n.d.
19. Unmet demand for Family Planning Services for Women with a partner between 15 and 19 years old <sup>2/</sup>	27.1	n.d.	<b>19.8</b>	n.d.
20. Unmet demand for Family Planning Services for Women with a partner between 20 and 24 years old <sup>2/</sup>	19.7	n.d.	<b>17.0</b>	n.d.
21. Access to Reproductive Health Services for Women of Childbearing age	21.0	22.0	<b>24.7</b>	112.0
22. Nicaragua's Environmental Plan	...	Approved	<b>Approved</b>	
23. Chronic Malnutrition among children under 5 years <sup>1/</sup>	19.9	n.d.	<b>17.8</b>	n.d.
24. National Coverage of Drinking Water	66.5	71.0	<b>72.8</b>	103.0
25. Access to Safe Water in Rural Settlements	39.0	48.2	<b>49.8</b>	103.0
26. National Access to Sewage Services <sup>1/</sup>	84.1		<b>86.2</b>	
27. Access to Sewage Services in Urban Settlements	33.6	35.8	<b>32.7</b>	91.0
28. Illiteracy Rate (older than 10 years) <sup>1/</sup>	19.0	n.d.	<b>18.7</b>	n.d.
29. Average Number of Years in School, Children from 10 to 19 years <sup>1/</sup>	4.6	n.d.	<b>4.9</b>	n.d.

1/: This indicator does not have set a target for 2002, since it comes from LSMS. This data refers to 2001.

2/: This indicator does not have set a target for 2002, since it comes from DHS. This data refers to 2001.

3/: Include poverty spending related to Mitch and special programs and support for health, education and housing.

4/: It is considered that an indicator has been achieved if it has 97% or higher.

Note: Indicators from 17 to 20, 23 and 28 show improvement when the numbers are reduced.

Source: SECEP, BCN, MINSAL, MECD, INEC, ENACAL and MAGFOR.

## Education

230. MECD established nine intermediate indicators. Of these, two were not measured in 2002 (illiteracy and average number of years in school); five were met (net rate of primary school enrollment, third grade promotion rate in rural schools, students who finished primary school in six years, construction or repair of primary classrooms, and implementation of the

national academic assessment system); and two were not met (multi-grade rural schools with six grades and net rate of preschool enrollment).

231. In 2002 the improvements in internal efficiency is related to the percentage of children who finish primary school in six years are due to a series of actions carried out by MECD, including an increase in the number of model schools, more specific teacher training, and the dissemination of better teaching strategies. The surpassing of the goals for the net rate of primary school enrollment and for the percentage of children who finish primary school in six years is due to the program to repair, replace, and build schools, combined with incentives for teachers and parents. Nevertheless, it must be noted that 78,698 children remained outside of the system. The goal for primary school classroom construction and repair was met, affecting a total of 815 classrooms (325 more than the corresponding indicator).

232. The third grade promotion rate in rural schools dropped (2.2 percentage points) compared to 2001. A preliminary analysis indicates that the contents of third-grade classes are ambitious and that the automatic promotion policy was not well oriented or adequately monitored and thus is not considered effective or functional. For this reason, MECD, in coordination with SECEP, will review curriculum contents and evaluate policies for automatic and flexible promotion.

233. MECD administered tests in mathematics and Spanish at the third- and sixth-grade levels, thereby institutionalizing academic accountability throughout the system. The results, currently being analyzed, may be used to improve the educational development projects of each school and to design training activities that respond to the specific needs of each school.

234. Due to resource limitations, the goal for the net rate of preschool enrollment was not met. According to MECD data for 2002, a total of 370,597 children did not enroll. MECD is currently seeking financial resources to cover the operations of existing preschools and to continue establishing community-based preschools, so as to meet the goals stipulated for next year. Budgetary restrictions also prevented MECD from increasing the percentage of multi-grade rural schools with six grades.

## **Health**

235. Of the 13 intermediate indicators proposed by MINSA in the SGPRS, only seven could be measured in 2002 through continuous statistics. The other six are measured through the LSMS and DHS. Of the seven measured indicators, only one was met: access to reproductive health services for women of child-bearing ages. There was less success with the remaining six and thus were not met.

236. With respect to access to reproductive health services, the goal for 2002 was to reach 22.0 percent; by reaching 24.7 percent, this indicator was surpassed. The same indicator was also surpassed in 2001, partly as a result of the family planning program financed with approximately US\$15 million in external resources and implemented over the past three years. With extensive participation by health NGO, this program has promoted community-based experiences, brought services to the population and reduced costs for MINSA. The program finalizes in 2003, but the Government is currently seeking other sources of financing to ensure its continuation.

237. The indicators for institutional births, prenatal care, and early monitoring of pregnancies were not met. In this case, indicators in 2002 were similar to those of 1999, reflecting a certain degree of stagnation. However, data collected by LSMS and DHS in 2001 showed the opposite, with a moderate general increase between 1998 and 2001 and greater increases in rural areas (where the highest fertility rates remain). Birth coverage decreased in 15 of the 17 SILAIS between 2001 and 2002. The decrease in early monitoring of pregnancies was due in part to the lack of an educational strategy targeting women in child-bearing ages. The decreasing tendencies of these three indicators may be explained by biased data: denominators reflecting the new fertility rates are still not being applied.

238. Vaccination coverage of children under one experienced a more significant decrease than the above-mentioned indicators. Compared to 2001, BCG, polio, and 5-in-one vaccinations decreased by 4.9 percent, 7.3 percent, and 7.1 percent, respectively. Delays in the disbursement of funds to some SILAIS in 2002 (especially with respect to per diems for visits to rural areas) affected systematic vaccination efforts. In addition, the SILAIS have detected overestimations in the figures used to calculate the number of children under one (the denominators for this indicator), which is consistent with the lower fertility rates found by DHS. For this reason, in 2003 MINSAs carried out small surveys in the SILAIS, finding that coverage has been equal to or greater than 90.0 percent. The new population projections will make it necessary to recalculate the indicators. For example, preliminary estimates indicate that there is a decrease in the number of children under one year of age.

### **Water and sanitation**

239. In 2002, both indicators for potable water were surpassed by 103.0 percent. Compared with the prior year, there were increases of 2.8 percent in national potable water coverage and 3.8 percent in access to safe water in rural areas. The goal with respect to urban populations' access to sewage services was not reached; increases in connections to sewage systems not controlled by ENACAL (Matagalpa and Jinotega) were below the population growth.

## **VII. Public Spending Administration**

240. As part of the effort to make government spending more transparent and efficient, a number of information systems have been designed and implemented. These serve as instruments for the formulation, execution, and monitoring of the National Budget, PIP, and the indicators and goals established in the SGPRS.

### **A. Public spending commission**

241. In July 2003, a public spending commission was conformed, including the Government's main economic advisers (MHCP, BCN, and SECEP), private sector and civil society representatives, and a technical team from pertinent government ministries. The commission's objectives are to study the evolution of public spending, to evaluate its consistency with the objectives of economic growth and poverty reduction, and to recommend an action plan to improve government financial administration. The commission's recommendations served as input in the formulation of the 2004 National Budget, in the Nicaragua Country Financial Accountability Assessment (CFAA) action plan (including the presentation of a law on financial

administration and fiscal responsibility), and in requirements for technical assistance. The commission will receive support from the staffs of the WB and IMF.

242. The Commission made recommendations to the National Budget Project 2004, directed to increase the primary expenditure efficiency so that it allows for unexpected expenses without increasing the current expenditure amount contemplated in the PRGF. This is more important when considering that next year budget faces increased pressures due to the resources approved in the new Municipal Transfer Laws and the scheduled local government elections.

243. The commission recommended, among other things, the estimation of the recurrent expenses associated with the public investment projects. A methodology for this calculation, adapted to a PIP with a high number of micro-projects and donors, is being elaborated. An additional recommendation was to coordinate the work with the international community through sector coordination tables to reorganize donor programs with the objective of increasing efficiency as contemplated in the PRGF and SGPRS.

244. Current expenditure has been identified as an important portion of the PIP, which merits a re-classification, this point also will need the consensus of the multilateral financial organizations, particularly, since the program's macroeconomic goals would be affected.

245. For the poverty expenditure, the registries and reports must be adjusted to what is established in article 32 of the FSS regulation. In 2002 reports and registries have started being elaborated showing the allocation for the HIPC relief in line with governmental priorities and the donor communities requirements. Also, according to the Public Expenditure Review, the revision of the classification of the poverty expenditure is recommended.

### **B. Perspectives for new approaches to cooperation**

246. The first coordination of international cooperation forum was held in 2002. As a result, sector-based coordinating tables were created through a presidential agreement in February 2003. The main objectives of these tables are to promote the sector wide approach, to improve coordination of the flow of international cooperation, and to facilitate medium- and long-term budgetary support. There is a global movement to standardize procedures, and Nicaragua is one of 17 countries piloting the initiative, attempting to advance toward a programmatic focus on two levels: the sector level, with investment and budgetary support; and the multi-sector level, generally with budgetary support. The coordinating tables cover the following areas: Production and Competitiveness; Infrastructure; Social Sector (Health and Education); and Governance (the latter table was formed as a result of a second workshop).

247. In June 2003, a second forum for the coordination of international cooperation was held. Its objective was to identify viable alternative models for better resource allocation. Civil society, NGO, and other branches of government are actively involved in this process. As a result of this forum, a Global Coordinating table and a Governance table were established. The latter table has the benefit of including key technical representatives from the National Assembly, Comptroller General's Office, and the Supreme Court, in addition to the institutions of the executive branch. An Official Development Assistance Information System

([www.sysoda.cancilleria.gob.ni](http://www.sysoda.cancilleria.gob.ni)) and an International NGO Information System ([www.ong.cancilleria.gob.ni](http://www.ong.cancilleria.gob.ni)) were developed by MINREX.

248. In 2002 the Social Policy Reform Program in Support of the SGPRS was designed, with US\$30 million financed by the IDB. Its objectives are: (a) to support SGPRS implementation with the establishment of goals for education, health and social protection and the monitoring of the SGPRS performance indicators; (b) to prioritize and monitor spending by specific social programs; and (c) promote pending reforms in education, health, and social protection. The first disbursement of US\$15 million was made in December 2002; the second is scheduled for 2004. It is important to note that existing mechanisms such as SIGFA and SNIP, are being used to monitor the progress achieved under this program thereby improving the ministries' planning processes as stated in the June 2003 progress report.

249. In late 2002, the government and WB negotiated the disbursement of US\$15 million to support the balance of payments through a Programmatic Structural Adjustment Credit (PSAC). These resources were disbursed in June 2003. Currently, a Poverty Reduction Support Credit (PRSC) of approximately US\$35 million is under negotiation. Several multi-sector workshops were held within the Government and between the Government and the WB to define the conditionalities and ownership.

250. In June 2003 forum, members of the international community presented different approaches and experiences with respect to the sector wide programs. Implementation of the programs requires instruments such as a national strategy and sector plans that determine each institution's priorities.

### **C. Supplementary social fund - FSS, registration of HIPC relief**

#### **Poverty spending and HIPC relief registration**

251. The new FSS-HIPC regulations were approved in September 2002. These regulations establish: (a) HIPC relief assignment recommendations by the Coordinating Council, (b) budget registration and monitoring through SIGFA, and (c) the provision of timely information on poverty spending and HIPC debt relief.

252. 2001-2003 progress reports have been presented to the Coordinating Council. It is worth noting that the HIPC relief allocation during this period was done through the individual ministries that make up the Coordinating Council following the established mechanism for budget formulation. For the proposed 2004 budget, a more institutionalized resource allocation process was followed allowing for the Coordinating Council to make the appropriate recommendations during the budget formulation before being presented to the NA.

253. Likewise the MHCP has advanced, through SIGFA, in HIPC relief and poverty spending registration process by establishing the recommended tables in the regulations including resource origin and allocation, and spending classification by programs and projects.

254. The FSS has prepared reports on poverty expenditure and HIPC relief including its sources of financing and programs. The Coordinating Council is currently modifying its

regulations to improve the registry and classification of HIPC relief funds and output reports to facilitate tracking with budget execution.

255. The 2003 work plan was formulated and approved considering three sources of financing: HIPC relief of US\$98.4 million (excluding US\$2.5 million from the August 2003 PRGF review); donations from the Netherlands and Denmark of US\$9 million; and ongoing programs, basically with IDB financing of US\$13 million – PAININ, RPS, Strategy Implementation Support Program (PAI), and PDLCA–. In addition, in late June the Government signed an additional agreement with Finland for US\$2.1 million.

256. Financed with donations, the FSS work plan for 2003 contributed in the area of education to the manufacturing of furniture for students and teachers in approximately 53 municipalities. It also contributed to the repair of schools and the construction of sanitation infrastructure. In health, it promoted rural primary healthcare with the hiring of physicians and nurses for rural zones, construction of sanitation infrastructure, supply of medical inputs, strengthening of epidemiological capacities, and support for continuous vaccination. In social protection, it supported improvements in the quality of integrated child and adolescent healthcare as well as transfers to special child and infant development and protection centers.

257. Through MAGFOR and local governments, the pound-for-pound program was extended. This included the delivery of fertilizers, certified seed, and 10,000 metallic silos, benefiting 10,000 farmers in 31 municipalities. The FSS provided complementary resources to MTI for the maintenance of 153 kilometers of prioritized roads in the departments of Chinandega, Estelí, Matagalpa, RAAN, RAAS, and Río San Juan.

#### **D. National public investment system – SNIP**

258. SNIP modernization continued, including initiation of the process to provide technical backing for the management of new cooperation resources according to national, sector, and local strategies. In order to analyze the quality of public investment, a study was implemented to identify the magnitude of current expenditures classified as investment expenditures in the period from 1997 to 2003, based on international criteria applied in the National Accounts System. The study showed that, on average, 46.0 percent of the PIP is applicable to current expenditures and 54.0 percent to capital expenditures. This confirms the results of prior analyses: public investment has little influence on the gross formation of fixed capital. A procedure is being prepared to determine recurrent expenditures required to ensure the useful life of economic and social physical infrastructure, so as to differentiate those recurring expenditures not associated with capital expenditures.

259. In order to improve the government's pre-investment capacities, SNIP is seeking bids from different universities for professional training courses specializing in project formulation and evaluation. Methodological guidelines on pre-investment are being prepared for 25 types of projects; these will facilitate project formulation at the institutional and local levels. The IDB has been asked to provide a US\$3 million pre-investment fund to formulate priority projects as of 2004.

260. In order to provide follow up to public investment programs, a monitoring unit was formed within the Public Investments Unit (UIP). Its objective is to provide physical/financial monitoring of the PIP on a quarterly basis, as well as monthly monitoring of projects that represent 75.0 percent of programmed investment expenditures.

261. In order to coordinate public investment and information at the territorial level, SNIP established Territorial Public Investment Units (UTIPs) in 2003 as part of the Departmental Technical Units (UTDs). Currently, UTIPs have been established in the departments of Rivas and Río San Juan with financing from German Technical Cooperation (GTZ), and in León with support from the UNOPS-APPI Project of Italian Cooperation and UNDP. The establishment of UTIPs in Boaco and the RAAN and the RAAS is planned for late 2003. During 2003, SNIP facilitated the preparation of departmental development strategies in Río San Juan and the RAAS; similar efforts will continue with the remaining departments over the next several months. The UTIPs will facilitate implementation of the new Law for Municipal Transfers and completion of the NDP.

262. The information base was changed to a Web platform, allowing the ministries' UIPs to prepare their 2004 budget proposals online, with indicators. In addition, this platform allows for greater access –including public access– to investment information, manuals, documents, project banks, and reports. SNIP is also interconnected with the government's intranet. The capacity to formulate multi-year investment budgets is being strengthened, and for the first time in the proposal for the National Budget, the PIP 2004 will be accompanied by a report that projects investment budgets for the following three years.

#### **E. Integrated financial management and auditing system – SIGFA**

263. As reported in the first progress report, SIGFA is more than a networked information system; it involves a change in the way public funds are administered. As of 2002, SIGFA was implemented in 31 State institutions; it was extended to seven more institutions and one municipality in 2003. Among the new institutions covered are: the Immigration Directorate, the National Penitentiary System, and the Fire Department of the Ministry of the Interior (MIGOB), all of which initiated decentralized online budget implementation in July.

264. As part of activities in 2003, the fiscal payroll was computerized and decentralized in six institutions –MECD, National Police, CSJ, MARENA, Ministry of Defense (including the Army) and the Vice-presidency–, representing over 50.0 percent of the State payroll. In the same way, payments from the Treasury General to service providers of five ministries were carried out via electronic transfers. The Service Bureau in the Department of Technology (in which the SIGFA is located) implemented payments in the same way.

265. Within the process to modernize the CGR, the installation and configuration of a network, email and *e*-SIGFA were completed. This makes it possible to carry out online audits of administrative and financial offices of State institutions connected to *e*-SIGFA. In this context, the auditing units of all ministries have been strengthened with equipment and training.

266. In the same way, the new MHCP web site ([www.hacienda.gob.ni](http://www.hacienda.gob.ni)) was implemented to provide public information and facilitate budget monitoring. The site includes the National

Budgets starting with 2000, as well as the report on budget execution from January to June 2003 and *e*-SIGFA reports. The module for citizens' consultations was also developed, including lists of information expressed in easy-to-understand language.

267. An evaluation of the Integrated Project Administration System (SIGFAPRO) is underway, along with the validation of information from accounting reports. The objective is to integrate this data with other systems that record information about cooperation projects and internal and external public debt.

#### **F. National system for the monitoring poverty indicators – SINASIP**

268. The computer system is currently being designed. It will contain information on SGPRS indicators, programs and policy actions. The Statistical Technical Committee has been established and includes MINSA, MECD, ENACAL, SREC, INEC, BCN, MHCP, and SECEP. It will be directly responsible for monitoring the SGPRS. The system will include a web page to reflect advances in the strategy's implementation.

269. As part of PASE implementation and in order to support processes to decentralize investment, SINASIP will be established within UTDs to contribute to the formulation, execution and monitoring processes of the SGPRS programs, projects, and indicators at the departmental and local levels. Through INIFOM and with PAI-SGPRS support, municipal governments are currently being provided with monitoring tools for Municipal Investment Projects (PIM).

#### **G. Program and project evaluations**

##### **Education**

270. Analysis of MECD's portfolio focuses on three main projects: (a) Basic Education Project (BASE II); (b) School Nutrition Program (PINE); and (c) Second Basic Education Project (APRENDE II).

271. The Academy for Educational Development carried out the annual formative evaluation for the 2002 BASE II-USAID project. The following variables were examined: teacher and students behavior; textbooks; learning guides and other teaching materials; student government participation; active students participation index; teaching quality; students learning; parents participation; and elementary school completion rates. The results of this evaluation, in general, indicate a positive tendency in the indicators. Elementary school completion rates were not examined since MECD has not tabulated the corresponding data.

272. The results from the PINE evaluation, published by the end of 2001, indicate that this project helped increase attendance and reduce preschool children drop out rates, while showing no effect in 7 to 9 year old kids.

273. The APRENDE II teacher training component was evaluated showing results indicating that this activity had a positive impact on teachers' performance. It is considered that these training activities would have had a higher impact if the principals better aided the teachers



through a clinical supervision. The scholarship component was also evaluated finding that it had a positive influence in enrollment, conduct, and student attendance.

### **Health and nutrition**

274. The process to select and contract an international firm to carry out the evaluation of primary healthcare programs concluded in April 2003. The objective of this evaluation is to determine the impact of primary healthcare models, especially with respect to coverage, quality and cost effectiveness. This process was delayed, in part, because of the inclusion of three projects in addition to the seven originally programmed. The request to include these projects was the result of interest shown by certain donors to take part in the evaluation, demonstrating their flexibility and support for the Government's efforts to rationalize spending. Preliminary results are to be made public in end November 2003, which will be used as input in the development of a new primary healthcare model definition and for the design of a sector wide program.

275. As reflected in the first progress report, another evaluation that should have been carried out in late 2002 but that has not yet been started is of the community-based health and nutrition pilot program. This program directly supports the nutrition strategy defined in the SGPRS, promoting behavioral improvements at the community level. The evaluation will begin before the end of 2003. Manuals from this program are being used by other NGO and programs in the health sector.

### **Social protection**

276. RPS carried out the third impact evaluation measurement and a cost analysis of the first phase. The qualitative evaluation was designed, and the registration of households from phase I control communities was completed. Some of the main results of the RPS evaluation in program target areas are: the registration of first- to fourth-grade children increased by 18.0 percent; participation by children under five in the Growth and Development Promotion and Surveillance Program (VPCD) decreased by 6.0 percent; and annual per capita spending on food increased by an average of C\$360 (US\$20). However, the expected impact in decreasing anemia was not achieved.

277. Before implementing the second phase of PAININ, a baseline study was carried out between November 2002 and January 2003. This was the starting point for program evaluation. With respect to special protection, a study of the global and per capita costs of the Special Protection Centers was implemented.

## **VIII. Poverty and Social Impact and Analysis (PSIA)**

278. In order to further an analysis of government policies, two poverty and social impact analyses were made in 2003, together with the WB: the first on tax reform and the second on the Education For All project.

## A. Tax reform

### The distributive effect of Nicaragua's law for fiscal equality: summary

279. **The design of the tax system.** The positions of the public finances experts have been closing in on the "ideal" design for a tax system for market economies. The idea is to have a tax system based on a generalized consumption tax (VAT) with few exemptions and uniform aliquot; with additional taxes for select consumption seeking to resolve contamination problems or externalities (alcoholic beverages, tobacco, and fuel); with a system for taxing the earnings of individuals that maintains a progressive structure, and with few exemptions and deductions in order to avoid a dissipation of that progressiveness and effects on efficiency; with a tax on the earnings of companies with a uniform rate aligned with the maximum marginal rate for personal tax, which acts as a retention system for some capital earnings. Together with other economic policy measures, a well-designed and administered tax system allows for generating appropriate incentives for investment and growth, and helps improve income distribution together with policies for targeted social spending.

280. **Taxes in Nicaragua.** The existing tax system in Nicaragua in 2002 was far from "ideal." Taxation on consumption, which together with customs revenues contributed around 80.0 percent of the Central Government's resources, characterized by a multiplicity of tax exemptions treatments and the existence of numerous special levies that generated little revenue. VAT had four tax rates; zero rate treatments included a number of products for the domestic market; there were exonerations by type of good and in function of who was the purchaser; and, evasion was high (around 35.0 percent, according to IMF estimates). The ISC was applied to almost 1000 products when it is justified only for those that generate negative externalities (cigarettes, alcoholic beverages, and fuels) and both special taxes on consumption and import duties were plagued with exonerations depending on who the buyer was, making the work of the tax collection agencies enormously difficult and running counter to equity and efficiency in the economy. With the income tax, there was a general treatment for fostering investment through the option of accelerated amortization, investments financed with indebtedness were favored, and there were exonerations and special treatments for fostering given sectors or organizations.

281. **Tax pressure.** Tax revenue collection in Nicaragua, including the contributions to Social Security, was around 20.0 percent of GDP, a figure similar to that for developing countries.

282. **The 2003 tax reform.** In this context, the Government decided to modify the tax system by means of the approval of the Law for Fiscal Equity. This law was approved by NA in May 2003 and entered into effect in June. The law seeks to increase Government revenues by reducing the fiscal gap, reducing distortions, and improving transparency and vertical and horizontal equity.<sup>19</sup> Among the most important measures in terms of their fiscal impact are: replacing the zero rate in the VAT by an exemption; eliminating some exonerations in the VAT; reducing the dispersion in the ISC rates; introducing a tax on assets that acts as a tax on minimum income; eliminating the mechanisms for accelerated depreciation for investments; and

---

<sup>19</sup> Fiscal policy is equitable in the vertical sense if the richest contribute a greater portion of their income or consumption to those who have less. Horizontal equity can be defined as two people with equal income or consumption levels paying the same amount of taxes.

taxing financial gains. The Government expected to improve revenues collection by CS773 million a year (a little more than 1.0 percent of GDP).

283. **Well-being indicators.** In order to analyze the impact on income distribution of the Law for Fiscal Equity, the 2001 LSMS data were used to provide information on rural and urban family income and consumption. This information was ordered in function of two indicators of well-being: income and consumption. The first looks at the situation of a person at the time of the survey and therefore is exposed to problems of measurement. In principle, it is preferable to have information on income patterns throughout an individual's lifespan. Unfortunately, that information is not available but it can be approximated through the current consumption of each person. Empirical evidence supports the hypothesis that people tend to consume in function of what they estimate their permanent income will be, buffering income through savings. This allows for using current consumption as a better approximation for the income flow of a person during their life.

284. **Distributive profile in Nicaragua.** In distributive impact studies, it was habitual to order people in function of their per capita income or consumption. More recently, the idea has spread that it is better to measure by "adult equivalent" in order to reflect the fact that children consume a portion of what their parents make. Table 18 shows that income distribution in Nicaragua is slightly more regressive than in other countries of the region when looking at per capita income (Table 19), but the comparison is less favorable when using per capita consumption, reflecting the presence of distribution mechanisms that allow for individuals with fewer resources to consume above their income.

**Table 18. Nicaragua: Distribution of Income and Consumption in Nicaragua 2001**

	<b>Equivalent Consumption</b>	<b>Equivalent Income</b>	<b>Per capita Consumption</b>	<b>Per capita Income</b>
<b>Deciles</b>				
1	2.4	1.5	2.2	1.3
2	3.7	2.6	3.4	2.3
3	4.8	3.3	4.4	3.1
4	5.8	4.2	5.4	3.9
5	6.8	5.1	6.5	4.8
6	8.0	6.4	7.7	6.1
7	9.5	8.1	9.3	7.8
8	11.8	10.3	11.8	10.2
9	15.4	14.8	15.5	14.7
10	31.6	43.7	33.7	45.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Quintiles</b>				
1	6.2	4.1	5.6	3.6
2	10.6	7.6	9.8	7.0
3	14.8	11.5	14.2	10.9
4	21.3	18.4	21.1	18.0
5	47.0	58.5	49.2	60.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

**Table 19. Nicaragua: Latin American Per Capita Family Income Gini Coefficient**

Countries	90's Beginnings	90's Beginnings	90's Beginnings	Change
Argentina	42.6	45.8	50.4	7.7
Bolivia	54.3	55.8	55.9	1.6
Brazil	59.5	58.3	57.2	-2.3
Chile	54.7	54.9	56.1	1.4
Colombia	55.9	54.3	55.8	-0.1
Costa Rica	43.9	44.0	44.6	0.8
El Salvador	50.5	49.4	51.8	1.3
Honduras	55.6	54.1	53.0	-2.6
Jamaica	49.6	51.5	49.0	-0.6
México	53.9	52.5	52.7	-1.2
Nicaragua	54.2		53.9	-0.2
Panama	54.7	54.0	54.4	-0.3
Peru	45.6	46.7	48.2	2.5
Uruguay	40.8	40.9	42.5	1.7
Venezuela	41.7	44.5	45.5	3.8
Not weighed Average	50.5	50.7	51.4	0.9
Weighed Average	52.0	51.2	51.5	-0.5
Dominican Rep.		50.2	48.1	
Ecuador		53.0	54.3	
Guatemala			57.4	
Paraguay		57.8	54.9	
Trinidad and Tobago	47.2			

285. **Methodology used.** To analyze the impact of the Law for Fiscal Equity, the methodology of “transfer assumptions” was used. Per tax category, the legal capacity of each tax payer to transfer the tax to other individuals is evaluated. Usually the literature assumes that taxes on consumption fall on consumers, personal income tax is borne by each individual paying this tribute, and for income tax for companies, three alternatives for transfer are postulated: falling fully on investors, or partially transferred to workers or consumers. Considering the estimated variation in collection of each tax and based on the transfer assumptions mentioned, conclusions can be drawn about the impact of the reform on income distribution.

286. **Distributive impact of the reforms by type of tax.**

- **VAT.** The reform tends to be progressive if the indicator used for well-being is per capita consumption or consumption by adult equivalent for each range of distribution. The progressive index is slightly positive (Table 20). There are some products for which the elimination of the zero rate is regressive (for example: rice, salt, beans, sugar, coffee, cooking oil), but for others, it is progressive (butane, electricity, bananas, beef, fresh fish, clothing).
- **ISC.** The reduced dispersion of ISC rates produced by the reform is progressive (Table 20).
- **Income Tax.** The reforms to personal income tax and company income tax, regardless of the hypothesis for transfer used, are progressive (Table 20).

**Table 20. Nicaragua: Progressive Index**

VAT	1.4
VAT Exonerations	1.7
ISC	20.2
IT	23.7
<b>Total</b>	<b>14.3</b>

Note: Individuals organized by equivalent adult consumption

287. **Impact of the Law for Fiscal Equity on vertical equity.** The impact on revenues collection (projected at C\$733 million) is slightly progressive (Tables 20 and 21). For example, while the poorest quintile consumes 6.2 percent of the total, it faces 3.4 percent of the greater tax burden. The richest quintile, which consumes 47.1 percent, will pay 59.2 percent of the increased taxes. The last column of Table 21 measures the tax burden for each quintile (the relation between both previous variables). It can be seen that it increases with the consumption level, thereby showing progressiveness. A usual equity measurement indicator in the distribution for a country is the Gini coefficient. This coefficient fell between 1998 and 2001 from 42.4 to 40.3 when the people are ordered according to their level of consumption. The Law for Fiscal Equity would reduce it to 40.

**Table 21. Nicaragua: Incidence of Tax Reform**

	Distribution of consumption	Distribution of tax reform burden	Tax burden
Quintile 1	6.2	3.4	0.5
Quintile 2	10.6	7.9	0.7
Quintile 3	14.8	10.9	0.7
Quintile 4	21.3	18.6	0.9
Quintile 5	47.1	59.2	1.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	

288. **Impact of the Law for Fiscal Equity on horizontal equity.** An approximation was also made of the impact of the Law for Fiscal Equity on horizontal equity. The conclusion is that it has improved for almost all deciles.

289. **Conclusions.** Fiscal policy can help improve income distribution, acting on the income side and through State spending. It can be concluded that the Law for Fiscal Equity will allow for an improvement in income distribution in Nicaragua, since it will be complemented by the SGPRS, through which 55.9 percent of total government spending will go to poverty reduction projects.

290. **Suggestions for improving vertical and horizontal equity in Nicaragua.** Some suggestions come out of the work for improving the profile of distribution.

- There is a small group of goods with consumption very concentrated in the poor strata of the population. By removing preferential treatment for them in the VAT, the reform would result in a significant impact on the consumption basket for low income families. It would be good to study the possibility of compensating these groups directly.
- Generalized exonerations and exemptions with no clear motive for redistribution result in distortions, horizontal inequities, and few or no distributive gains. The work suggests that

the elimination of sector exonerations is important in order to give transparency to the taxation system, increasing its degree of horizontal equity and increasing its ability to collect revenues.

- The exercise illustrates the importance of respecting the revenues collection objectives of the Law for Fiscal Equity. Given that the increase in the degree of progressiveness is moderate, most of its differential redistributive impact comes from greater revenues collection and more social spending, as put forward in the SGPRS. If the revenues collection objectives of the reform are not met, the reform will be neutral in fiscal terms, and therefore would not constitute a real shift towards fiscal equity.
- Based on this, the improvements that could be made in tax administration that would allow for reducing tax evasion and increasing revenues collection would also improve the horizontal and vertical equity of Nicaragua's tax system.
- Lastly, the exercises of this work illustrate the relevance of combining progressive tax reform with a well-articulated strategy for poverty reduction like the SGPRS. A large part of the redistributive potential of the Law for Fiscal Equity comes from an increase in revenues collection that can go to public social spending for the neediest of the population.

#### **B. Evaluation *ex ante* of the impact of the education for all project (EFA)**

291. The purpose of this *ex ante* analysis is to review the EFA proposal of the MECD and to analyze its impact on public spending and on the policy actions stemming from this proposal that it will be necessary to execute in order to achieve the objectives put forward in the corresponding document. The purpose is to assist the MECD and donors in evaluating the EFA proposal that Nicaragua has developed as part of the strategy for development and formation of human capital.

#### **Establishing objectives**

292. The SGPRS document identifies the target for 2015 of having 90.0 percent coverage in the primary education enrollment rate. Recently, in October 2002, the MECD decided to participate in the EFA Initiative and it prepared the respective document that presents the objective of making primary education universal by 2015. The document also notes that this objective cannot be reached without obtaining additional financing. Preliminary figures for the annual financial shortfall for implementing the EFA were calculated by the MECD in October 2002.<sup>20</sup>

293. Specific quantitative indicators for inputs and outputs were identified for 2015. Among these quantitative indicators is the increase in enrollment by removing the economic causes that prevent many children from attending school. Data from the latest LSMS indicate that 50.0 percent of the children who do not attend school do not do so because of economic reasons. In rural areas, this percentage goes up to 78.0 percent.

---

<sup>20</sup> Republic of Nicaragua. 2002. "Education For All-Fast Track Initiative, Country Proposal." Managua. Ministry of Education, Culture, Sports.

### **EFA: offering quality education**

294. Besides the quantitative objectives, MECD proposal seeks to improve the quality of education at both the school and classroom level. Making use of successful experiences in the past like the Model Schools, Smile Fund, and the System for Maintenance of Primary Schools (SIMCEP), the MECD proposes as part of the EFA to use a Program for Improvement of Teaching. Implementing such an ambitious program requires that all schools adopt modern methods and teaching strategies and design teacher handbooks, study guides, and teaching materials. The designing of materials, training of teachers, and implementing new strategies and teaching methods effectively is difficult to implement in a three-year period, much less seen results in two years, as proposed in the EFA. It would be good to consider this observation in subsequent reviews of the EFA to once again look at the impact that the EFA would have on repetition and desertion rates, which would have an effect on the enrollment rate estimated for the coming years, which obviously would have an impact on the MECD budget.

### **Distribution of enrollment with EFA**

295. MECD's enrollment projections for 2015 with EFA could reach 1.15 million students; without EFA, this figure would be 1.2 million. If the distribution of enrollment between different quintiles remains constant, all quintiles will have lower enrollment because with EFA, there would be fewer repeaters in each quintile since there is the assumption that the system would become more efficient. It should be noted that improved quality of education could result in many students from non-poor families increasing their participation and enrolling in public schools.<sup>21</sup>

### **Public spending and private spending for education**

296. It has been estimated that poor families spend C\$264 (US\$19.6) per student per year on primary schooling, C\$720 (US\$53.6) per year on secondary schooling, and C\$1,185 (US\$88) per student per year on university. For the poor, the cost of sending a child to primary school represents less than 3.0 percent of their spending on matters not related to obtaining food. If the child goes to secondary school, this cost rises to 6.3 percent and if the youth goes to university, the cost increases up to 9.7 percent of their non-food related family spending. The private cost of education for non-poor families for primary and secondary is close to double the amount spent by the poor.<sup>22</sup>

297. Public spending per student in 2001 was US\$86 for primary, US\$32 for secondary, US\$1,402 for university, and US\$432 for technical education. Expenditures on primary education were progressive. The poorest group received the highest subsidy and the amount of the subsidy dropped as income increased. Secondary education was highly regressive with the poorest quintiles of the population getting the smallest portion of the subsidy in education. In fact, the lowest 20.0 percent of the population received only 11.0 percent of the subsidy. Public spending on technical education and university was very regressive. With technical education and university, the richest quintile of the population had the biggest portion of the subsidy, and

---

<sup>21</sup> Arcia G. 2003. "The Incidence of Public Education Spending in Nicaragua: The Impact of the Education For All-Fast Track Initiative". Consulting Report presented to The World Bank. Managua.

<sup>22</sup> Ibid.

the poorest quintile had the smallest portion. In the case of university education, the top 40.0 percent of the population got 84.0 percent of the subsidy for university education.<sup>23</sup>

### **Equality of educative opportunities**

298. Reimers (2000) of Harvard University has identified five levels of educative opportunity. The first level is the most basic for opportunity: entry of the child into the school system. This act requires that there be a school that the student could attend and that the parents or guardians are willing to enroll him or her and have the economic means to afford the private cost of education.

299. In Nicaragua, 50.0 percent of the children who do not attend school do not do so because of economic reasons. Because of this, a scholarship program to help poor families with private spending for sending their children to school and the opportunity cost – for those who have children who work – would have an impact on the demand for educative services and, consequently, enrollment would increase significantly. It should be noted that close to 10.0 percent of 10-year old children and 30.0 percent of 15-year old children work. It has been estimated that a family would lose about C\$1,614 a year (US\$108) if their child stops work in order to go to school. This figure should be considered as the maximum amount to offer those families who have a 10- to 15-year child who is working. If this type of scholarship is offered to the poor, there is the risk that many families would send their children to work in hopes of obtaining this kind of scholarship. Because of this, it is necessary that the Government establish a set of rules to minimize this risk.

### **Conclusions: implications for pedagogy, financing, and social protection**

300. The EFA proposal designed by MECD includes the implementation of the Program for Improvement of Teaching, a set of standards and strategies based on previous successful experiences of MECD that would allow for improving the quality of education in primary schools, propitiating a change in the setting at the school and classroom levels.

301. Change at the classroom level requires, in part, that teachers acquire new knowledge, learn to use new strategies, and develop new skills and abilities. In other words, teachers must develop a whole new set of behaviors, and this requires a prolonged period of time for learning, development, and effective use. For this, it is recommended to review the estimated time within which this EFA sub-model would begin to show its effects on repetition and desertion rates.

302. The enrollment projections throughout the implementation period of EFA show a net reduction in total enrollment at the same time as primary education is made universal. Nonetheless, the distribution of enrollment shows that to the extent that the quality of primary education is improved, the probability that parents of non-poor sectors would decide to send their children to public schools arises. The Government can make good use of this situation by obtaining more political support for increased budget allocations for MECD.

---

<sup>23</sup> Ibid.



303. No doubt that increased enrollment in primary education creates the need for MECD to have a bigger budget in order to address the increase. Because of this, the EFA document poses the need to obtain additional funding in order to increase coverage and improve the quality of primary education. Likewise, increased primary enrollment will result in a demand for more coverage for secondary education. The impact of EFA on mid-level education enrollment will be of such magnitude that the budget allocated to this level would have to be doubled by 2015.<sup>24</sup>

304. The probable reconfiguration of primary school enrollment adds a sense of urgency to the issue of targeted subsidies for demand, which are not popular among donors because of the moral risk that can arise in their implementation. However, the long-term social cost caused by not implementing a demand subsidy will be much higher.<sup>25</sup>

## **IX. SGPRS Review**

### **A. Factors for change**

305. Opportunities and threats, weaknesses and strengths have been recognized since the formulation of the SGPRS and thus it has always been considered a living document which would be open to periodic updates. Two years after its inception, there is progress in some indicators, testifying to the Government's efforts. However, in light of new evidence, studies (PER-WB 2001), surveys (CENAGRO 2002, DHS 2001, LSMS 2001), program evaluations, and the weaknesses of the SGPRS itself, adjustments need to be made in line with evaluations, changes in context, and the priorities of the current Government.

306. There has been mixed progress with the social indicators. Some targets for 2005 have already been reached. However, others have deteriorated, such as prenatal care and early detection of pregnancy. According to recent studies, there is uncertainty about whether the millennium development goals can be reached in the future without economic growth rates that are higher than the population growth rates, plus resources in the budget for social sectors and to further reforms in institutions in the social arena.

307. In general, the social policy has not incorporated the criteria of integration, sustainability and participatory co-responsibility, nor is there an explicit connection to economic policy. In addition, the strategic proposals are not evident in medium and long term policies and programs.

308. The targeting of resources using only the poverty map leaves open whether the resources are allocated efficiently and whether the poor are poor because the areas in which they live do not offer any economic opportunities. Recent research has demonstrated the need to consider other variables such as the economic potential of the areas; the environment; population and external and internal migrations; the social environment and marginality; and, productive infrastructure.

---

<sup>24</sup> Arcia, G. 2003. "The Financing of Public Education in Nicaragua." Consulting Report. Managua, Ministry of Education, Culture, and Sports.

<sup>25</sup> Arcia, G. 2003. 'The Incidence of Public Education Spending In Nicaragua: The Impact of the Education For All-Fast Track Initiative'. Consulting Report presented to the World Bank. Managua

309. The developed economies have seen a downturn in their economic growth relative to the expectations stated by the IMF in 2000. According to the latest estimates, average annual growth may be set at 3.0 percent for the 2004-2007 period, below the initial expectation of 4.4 percent. The decline of prices of non-manufactured goods, agricultural products in particular, and the rise in oil prices has had negative effects on developing economies and, in particular, on Nicaragua.

310. The SGPRS was designed under presumed economic growth rates that proved to be unrealistic in the face of the international situation. Based on this hypothesis, a profile was established for increased per capita income, linked directly to the reduction of poverty. However, there has been a significant slowdown in the economy, along with a decrease in per capita income which is not compatible with what was established in the strategy.

311. It should be remembered that there had not been a formal program with the IMF since 2000 and, despite an agreement for an interim program in 2001, that program was not carried out. Today, the Government has a PRGF agreement which determines a macroeconomic profile adapted to the reality.

312. As the WB has observed, “broad, equitable and sustainable economic growth will be vital to reducing poverty”<sup>26</sup>. As such, the first pillar of the SGPRS was established as the most important and the one which would need the support of a series of measures ranging from prudent and coherent fiscal and monetary policies to the privatization of electricity, telephone, water, and port services; from the ongoing strengthening of the financial system to a reformed pension system; from providing legal titles and a more secure property situation to the modernization of regulatory frameworks<sup>27</sup>.

313. The SGPRS also mentions some specific measures to foster agricultural production including rural infrastructure (especially roads, water, and housing), encouraging small and medium enterprise, and developing and promoting productive and strategic clusters<sup>28</sup>.

314. The main weakness of the SGPRS is the lack of a comprehensive proposal for a production and export strategy, which would also serve as an economic growth strategy. In order to fill this void, the government presented a NDP proposal to Nicaraguan society and to the international community.

## **B. National development plan (NDP)**

315. The NDP has been formulated with input from a broad consultation process with participation from youth, women, political parties, private enterprise, organized civil society, local leaders, universities, religious representatives, and leaders from the Atlantic Coast. This first proposal was presented to the nation and to international donors in September 2003, and will be presented to the consultative group in October. This consensus process will continue with a second phase, and will include the preparation of departmental development strategies with citizen participation.

---

<sup>26</sup> Nicaragua Poverty Assessment, 20488-NI, June 2000.

<sup>27</sup> Strengthened Growth and Poverty Reduction Strategy, July 2001.

<sup>28</sup> Idem.

316. Nicaragua cannot continue acting in the same manner, since it is getting into a situation that is neither socially nor economically viable. This is reflected in at least five areas. First, a fragile fiscal sustainability which is evidenced by internal and external debt that consumes a large proportion of the budgetary resources; second, a fragile external sustainability as it has one of the highest debts per inhabitant with the rest of the world and a large trade deficit which has been increasing in recent years; third, environmental unsustainability; fourth, social unsustainability due to the high levels of unemployment and under-employment, elevated poverty associated with high fertility, malnutrition, and maternal and infant mortality; and fifth, institutional unsustainability as the Government is characterized by institutions that do not enjoy the trust of its citizens.

317. Part of the response to these challenges is found in higher sustainable growth of the GDP, particularly in exports; in the construction of a new institutionalality; in the efficiency and transparency of public administration; and in the development of the private sector as the central pivot for economic development.

### **Parts of the proposal**

318. The plan indicates the economic growth rates required to make the country sustainable internally and externally, and it suggests how this route may lead to the creation of jobs for the great majority of the population. It shows the need to simultaneously combine macroeconomic and productive aspects with infrastructure and social and institutional elements, defining the main obstacles and how they will be overcome, so that all productive resources may perform at their maximum potential.

319. The main policies for providing incentives for production and trade, and thus employment and income, are found in the section on competitiveness as a strategy for poverty reduction. It describes the main actions that the government can develop in the regions, related to both support in the productive arena and market attainment— in particular for small and medium farmers, as well as government services and infrastructure development. It offers a proposal on production and exports, based on the development of integrated productive complexes called clusters. This will provide a response to the void currently found within the SGPRS.

320. Macroeconomic policy is reexamined, to avoid falling into a situation of fiscal and external imbalance which could delay the generation of employment and improved well-being of the population. Thus, the short term is defined by the PRGF program and the SGPRS. It establishes that fiscal sustainability and the poverty reduction goals will be unattainable if the economy does not grow at significant and sustainable rates in the future.

321. In the social section, the main social policies, programs and projects are proposed. These will be formulated and implemented based on the principles of integration, sustainability, complementarity, double targeting, social accountability, decentralization, and equity. Special treatment will be given to support for the most vulnerable through the formation of human capital and the reduction of intergenerational dependency. It is important to indicate that the NDP embraces the millennium development goals and reiterated the Government commitments.

322. Novel mechanisms are offered for the efficient allocation of scarce economic resources. The NDP proposes that the resources directed at combating poverty should incorporate the issues of territoriality and economic potential. The basic measures of policies and projects for development and extension of coverage of the productive infrastructure are essential for increasing productivity and reducing transaction costs. The main projects are presented along with how they are linked to the regions.

323. Next there is discussion of the public investment policy which will improve the quality of spending to support stability and promote economic growth. A process will be initiated to better classify operating and capital expenditures within investment projects, the use of the poverty map as targeting mechanism will be complemented with other maps like economic potential, migration, productive marginality, and other items to improve capital expenditures efficiency and impact at the local level. Finally, the plan states the reasons why all the above policies and actions are insufficient for the development and employment creation, better income and well-being in the absent of a new institutionality in the Executive Branch, the regions, the Judiciary, the Electoral Branch, and the National Assembly.

324. It is important to indicate that public investment projects included in the NDP proposal have been incorporated into the formulation of the 2004 National Budget proposal, including investment in human capital programs.

### **Transition toward the NDP**

325. The SGPRS' transition to the NDP will be determined by the Government's priorities, the advancement achieved on the proposed institutional reforms, the availability and improved allocation management of resources, the population's demands and the government's commitments to the international community within the PRGF, PRSP, and HIPC frameworks.

326. The transition route includes broadening and completing the NDP consultation process with all the social and economic sectors, re-organizing the Executive to better address stated priorities, and establishing negotiations with political sectors and other branches of government to establish a national implementation agenda. This includes the elaboration of departmental development plans, process that began simultaneously with the NDP formulation. These processes are estimated to be in an advanced stage by December 2003.

327. The NDP was presented to the international community in the October 2003 Consultative Group Meeting, seeking consensus and support. The Government expects that the NDP will provide the basis for the development of an enhanced SGPRS or a Second Generation PRSP.

328. One of the necessary conditions for implementing the NDP is to attain the HIPC external debt relief. Nicaragua expects to reach the HIPC completion point in December 2003, without this result, the NDP would not be viable as most internal resources would be directed to service internal and external debts, threatening to make Nicaragua unviable. Work has been done to maintain adequate performance for the fourth quarter PRGF review.

329. The Government, in accordance with the IMF and WB, will create a calendar of activities to discuss the strategic elements of the NDP with the international community, make

macroeconomic balance projections, establish goals, and determine the flow of the necessary resources. A version of the NDP – enhanced SGPRS – including the processes and requirements internationally established in the PRSP framework, to be presented to the IMF and WB board of directors, will be elaborated. This document will be consistent with the PRGF.

## **X. Consultation Process**

330. The processes for citizen participation continue to be promoted and strengthened nationally, departmentally, and locally. The implementation and follow up of the SGPRS has resulted in a change in attitude among the economic, political, and social stakeholders, with citizen participation and consultations on policies and programs becoming broader. The SGPRS and the Government's policies and actions continue to be appropriated in working sessions, workshops, and technical consultations with government institutions, municipalities, and civil society, particularly in the territories and with international cooperation.

331. The President of the Republic, accompanied by the cabinet members, presented the 2003 public investment plan broken down by department and municipality in public sessions with civil society in 15 departments and in private working meetings with the respective municipal Mayors. The different public investment programs for each department and municipality were broadly distributed and publicized. The SNIP continued to hold workshops and is supporting local initiatives on public investment and how it is formulated, implemented, and followed up with citizen participation.

332. In late 2002, the Government began to design the NDP with a view to strengthening the SGPRS, particularly pillar I – broad-based economic growth – since this is fundamental for economic growth and poverty reduction. In December 2002, the first draft of the NDP was presented to the national and international community. This draft was the result of a process of evaluating the SGPRS inside the government and consultations with members of civil society, in particular CONPES, and international cooperation. A short version called Basis for a Prosperous Nicaragua was prepared and used in the process of building up the NDP from March to September 2003 with support from the UNDP, DFID, NORAD, COSUDE, SIDA, the UNCDF, and CIDA. The result was the proposed NDP presented recently.

333. The National Council for Sustainable Development (CONADES) facilitated the processes of participation in the territories with the departmental delegates of the Government and then the territorial consultations (forums for synthesis) in each of the 15 departmental seats and with the regional governments on the Atlantic Coast. Participating in these sessions were municipal representatives, members of civil society, young indigenous women, workers, labor unions, NGOs, ranchers, merchants, social communicators, universities, religious workers, and scientists. Representatives of international cooperation were informed and invited to participate in this process. CONPES supported the sector consultations for the NDP with Mayors and municipal associations, labor unions, women, youth, children, adolescents, NGOs, and businesspeople.

334. The territorial forums for synthesis were held to find out what local perceptions and expectations are, to analyze the proposed strategy, and to establish territorial priorities with a view towards 2008 with social, economic, environmental, and organizational goals; and to define the bodies for territorial participation.

335. Coming out of this first stage, priorities were identified, as was the need to establish mechanisms for territorial follow up of investment and of citizen participation. Consolidated reports by territory were written. Parallel to this, there were sessions to inform international cooperation of the progress with the consultations, as well as to coordinate cooperation.

336. Since 2001, work has been done with local actors through the PAI-SGPRS to develop methods for citizen participation and social auditing. In some municipalities, the practice has included project formulation with participatory processes involving citizens, Mayors, and government institutions, the selection of beneficiaries, and follow up. Primers for citizen participation and social auditing have been prepared.

337. CONPES continues to give follow up to the SGPRS and other national policies like the reform of the State, the process of negotiating and following up the PRGF with the IMF, and the formulation of the 2003 budget. The Council also made recommendations around the draft Annual Law for the General Budget of the Republic for 2004. A first draft of this report progress report was presented to CONPES.

338. CONPES is constantly renewing itself and searching for more efficient work mechanisms. For the fourth period of sessions in 2003, CONPES expanded representation from the business sector and included more civil associations and individual members. It has five commissions: Economic, Social, Production, Labor, and Governance. In the program to support the implementation of the SGPRS, it has led the social audit process in 11 municipalities and this will serve as a model for the country. The 2002-2003 agenda has included reforms to the political legal framework of the Nicaraguan State, the Plan Puebla Panama, the free trade treaties, the budgets for 2003 and 2004, and the NDP.

339. Civil society and the private sector have participated actively in the US Central America Free Trade Agreement (CAFTA) negotiations. A strong communication campaign was begun in 2003 and there were working sessions to make known the objectives and scope.

340. This second progress report has had support from government institutions that have contributed sector institutional information and information about the programs reflected in it. As part of the process of implementing the SGPRS, there has been appropriation of the policies and programs and a critical evaluation of the problems, gains, and challenges. More organizations of civil society are giving follow up to Government policies and programs, in particular the SGPRS, acquiring experience that will serve to improve policies and programs.

# **Annex I**

## **Matrix of Policy and Program Actions**

## MATRIX OF POLICY AND PROGRAM ACTIONS

PILLAR 1: Broad-based economic growth					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
<b>Macroeconomic Aspects</b>					
Maintain economic stability and growth	Maintain a real average annual rate of growth of 3.5% during 2000-2005  Reduce annual inflation rate to 4.0% by 2005	<b>MACROECONOMIC POLICIES</b>			
		<b>FISCAL POLICY</b>			
		<ul style="list-style-type: none"> <li>Rationalize public investment programs</li> <li>Increase poverty-related outlays to 63.5% of budget</li> </ul>	Ongoing	DGIP	Underway
		<ul style="list-style-type: none"> <li>Prudent monetary foreign borrowing policies</li> </ul>	2005	MHCP	53.5%
			2000-2005	MHCP	Underway
	Continue the transformation towards a market economy		<b>STRUCTURAL REFORMS</b>		
<b>PUBLIC SECTOR</b>					
<ul style="list-style-type: none"> <li>Implement SNIP decree</li> <li>Approve and implement civil service law</li> </ul>			Under execution	DGIP	Decree being implemented
			Oct. 2001	MHCP, CERAP, NA	Pending approval, some technical issues of the law have been implemented in the executive branch.
<b>PRIVATIZATION AND PUBLIC SECTOR TARIFFS</b>					
	<b>ENITEL</b>	<ul style="list-style-type: none"> <li>Sell 40% of ENITEL assets</li> <li>Offer remaining shares for sale</li> </ul>	2001	ENITEL/ TELCOR	Sold Oct. 2001
			2002-2003	ENITEL/ TELCOR	Bidding process has been initiated. Shares will be sold by the end of 2003.
	<b>ENACAL</b>	<ul style="list-style-type: none"> <li>Continue adjusting water and sewerage tariffs until marginal costs are fully recovered</li> </ul>	2001-2002	ENACAL/ INAA	Since June/03 polynomial indexation it has been applied to adjust fees by 7%



<b>PILLAR 1: Broad-based economic growth</b>					
<b>Guidelines</b>	<b>Objectives</b>	<b>Policy actions</b>	<b>Originally scheduled execution</b>	<b>Executor</b>	<b>Status</b>
		<ul style="list-style-type: none"> <li>Foster public-private partnerships through management contract for regional water and sewage sub-systems: León and Chinandega Matagalpa and Jinotega Other regional systems to be offered or measures to reform sector.</li> </ul>	2001 2001-2002 2001-2002	ENACAL/ INAA	Process stopped since Law 440, which was approved by the legislative branch, was vetoed by the executive.
		ENEL <ul style="list-style-type: none"> <li>Privatize thermal generating plants</li> </ul>	Jun.2001	ENEL	Partially sold
		ENAP <ul style="list-style-type: none"> <li>Privatize hydroelectric generating plant</li> </ul>	July 2001	ENEL	Delayed
		ENAP <ul style="list-style-type: none"> <li>Offer long-term concession to private investors for operation of major public port facilities (Corinto, Potosí, and San Juan del Sur).</li> </ul>	2003-2005	ENAP	Pending development of a legal and judicial framework to carry out concessions.
		BANIC <ul style="list-style-type: none"> <li>Approval of law authorizing sale of the remaining government shares in BANIC.</li> </ul>		Presidency	BANIC closed.

PILLAR 1: Broad-based economic growth					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
		<b>STRENGTHENING OF THE FINANCIAL SYSTEM</b>			
		<ul style="list-style-type: none"> <li>Implement prudential norms of capital adequacy, credit risk assessment, provisioning, and on-lending limits to related parties</li> </ul>	Sept. 2001	SBIF	Underway
		<ul style="list-style-type: none"> <li>Implement plan to strengthen superintendency of banks and the supervision process</li> </ul>	2001-2002	SBIF	Underway
		<ul style="list-style-type: none"> <li>Approval of revised prudential norms on asset-risk classification and provisioning, along the lines recommended by the World Bank</li> </ul>	Sept. 2001	SBIF	Done
		<ul style="list-style-type: none"> <li>Modifications of the criminal code to update the definition of financial crimes: Submission to the Assembly and approval</li> </ul>	July 2001	Government, NA	Done
		<ul style="list-style-type: none"> <li>Finalize the current first cycle of on-site assisted inspections, design and implement strengthening program where weaknesses have been found</li> </ul>	Sept. 2001	SBIF	Done
		<ul style="list-style-type: none"> <li>Complete the second cycle of on-site assisted inspections in the banks that absorbed the intervened banks and those banks where weaknesses are found in the first cycle; implement strengthening programs for banks where weakness have been found</li> </ul>	Nov. 2001	SBIF	First cycle complete; second completed Oct 2002, pending strengthening program
		<ul style="list-style-type: none"> <li>Conduct a diagnosis of the operating procedures of the risk management centre and implement an action plan with time limits to correct any deficiencies found</li> </ul>	Dec. 2001	SBIF	Delayed
		<ul style="list-style-type: none"> <li>Amend accounting standards to bring them into conformity with GAAP (Generally Accepted Accounting Principles), and with respect to proper asset valuation (mark to market valuation of securities –except held to maturity- and real estate assets) and accounting of restructured loans.</li> </ul>	Under exec.	SBIF	Done May 2002, used NIC instead of GAAP
		<ul style="list-style-type: none"> <li>Complete review of supervisory practices and undertake, with the assistance of the IFI's and foreign supervisors, compliance assessments of the Basle core principles</li> </ul>	Jan. 2002	SBIF	Pending

<b>PILLAR I: Broad-based economic growth</b>					
<b>Guidelines</b>	<b>Objectives</b>	<b>Policy actions</b>	<b>Originally scheduled execution</b>	<b>Executor</b>	<b>Status</b>
		<b>SOCIAL SECURITY</b>			
		<ul style="list-style-type: none"> <li>Award contracts to private pension fund managers</li> </ul>	Oct. 2001	CREPEN, SECEP	Delayed
		<ul style="list-style-type: none"> <li>Introduce the new system of funded individual accounts</li> </ul>	Oct. 2001	CREPEN, SECEP	Delayed
		<ul style="list-style-type: none"> <li>Restructure and streamline the Nicaraguan Social Security Institute (INSS)</li> </ul>	Sept. 2001	CREPEN, SECEP	In process
		<ul style="list-style-type: none"> <li>Approval of laws to strengthen framework for developing a domestic capital market:               <ul style="list-style-type: none"> <li>Capital market Law</li> </ul> </li> </ul>	Oct. 2001	BCN, NA	Pending approval by National Assembly
		<ul style="list-style-type: none"> <li>Insurance Law</li> </ul>	Oct. 2001	SBIF, NA	Pending
		<ul style="list-style-type: none"> <li>Establish and make operational the supervision agency of private pension fund managers</li> </ul>	Sept. 2001	CREPEN, SECEP	Underway
<b>Sectoral Aspects</b>					
Improve the framework for incentives and competitiveness in the rural sector	Correct distortions that still persist in the market	<b>RURAL SECTOR</b>			
		<ul style="list-style-type: none"> <li>Expedite 1.5% refund of exported value to producers</li> </ul>	Jun. 2005	MHCP	Achieved. Changed with the Fiscal Equity Law from a direct reimbursement for exporters to a credit to assure the transfer of benefits from the exporters to the producers
		<ul style="list-style-type: none"> <li>Fiscal incentives for agricultural capital goods and inputs</li> </ul>	...	MIFIC/MHCP	Achieved, according to what is stipulated in the Fiscal Equity Law and its regulation.

<b>PILLAR I: Broad-based economic growth</b>					
<b>Guidelines</b>	<b>Objectives</b>	<b>Policy actions</b>	<b>Originally scheduled execution</b>	<b>Executor</b>	<b>Status</b>
Increase efficiency by pushing ahead with the factors market, diversification, and better rural infrastructure	Increase mobility of factors of production and improve their distributive efficiency	<b>LAND MARKET</b> <ul style="list-style-type: none"> <li>• Modernize the cadastral system and property registry, and regularize property titles, including titling, conflict resolution, documentation legitimizing and land demarcation:</li> <li>• Pilot in 3 departments (Madríz, Estelí and Chinandega) plus 12 indigenous communities of the Atlantic Coast and Bosawás In the rest the national territory</li> <li>• Conduct study on lands market: design land policies based on study</li> <li>• Approval of law for demarcating indigenous lands</li> <li>• Demarcate and title lands of the indigenous communities of the Atlantic Coast and Bosawás</li> </ul>	2005 2009 Sept. 2001 ... 2001	MHCP  MAGFOR  Presidency / NA  INETER/ MHCP	Initial phase of implementation. Pending draft of the laws of Cadastre and public registries in the National Assembly.  Created Earth Policy Framework (Draft). In process the organizing the Land General Directorate  Approved late 2002  In process demarcation and titling of 6 indigenous communities
	Increase rural productivity in the long run	<b>FINANCIAL AND AGRICULTURAL SERVICES</b> <ul style="list-style-type: none"> <li>• Implement: Tighter linkage between the Rural Credit Fund (FCR) and other public financing funds  Plan to transform non-conventional organizations into rural banks supervised by the Superintendency of Banks</li> <li>• Establish, strengthen rural financial intermediaries</li> </ul>	Underway  Underway  Underway	IDR, FCR, MAGFOR  Presidency/ SBIF  MAGFOR, INPYME, IDR, FCR	Underway  In Assembly, legislation for SBIOF rules micro credits.  Underway

PILLAR I: Broad-based economic growth					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
		<ul style="list-style-type: none"> <li>Develop norms, regulate and encourage marketing of certified seeds</li> <li>Coordinate with other institutions and civil society rational and environment-friendly uses of insecticides</li> <li>Viability analysis of private agricultural insurance</li> <li>Prepare status reports and monitor country's food situation</li> <li>Implement program that guarantees the Atlantic Coast's food security through production, marketing, and post-harvest storage programs</li> </ul>	Underway	MAGFOR	Underway, it has been promoted through the "pound for pound" program
			Underway	MAGFOR	Underway
			2001	MAGFOR, MHCP, Presidency	External enterprises interested in providing this kind of service
			Underway	MAGFOR	Reports prepared by the Unit of alimentary security
			2001-2002	FSS-FISE	Program extended for 12 months.
		<b>COMMERCIALIZATION</b>			
		<ul style="list-style-type: none"> <li>Provide training on commercial negotiations, creation of agri-businesses, and market intelligence</li> </ul>	Underway	MAGFOR/MIFIC	Underway, Training Plan of CAFTA. 30 conferences have been held in different sectors.
		<ul style="list-style-type: none"> <li>Support basic grains commercialization processes</li> <li>Support the transformation of selected primary products and their sale in domestic and export markets</li> <li>Implement:               <ul style="list-style-type: none"> <li>Actions stemming from tri-national agreement between Nicaragua, El Salvador, and Guatemala in regards to agriculture</li> <li>Program to promote development of new technologies for storing and processing food on farms.</li> </ul> </li> </ul>	Underway	MAGFOR	Follow up has been made to the disbursements of 15 infrastructure rehabilitation projects
			Underway	IDR	Underway
			Underway	MAGFOR, MIFIC, INTA	Tri national agreement was attained by the removal of the 35% patriotic tax on Hondurans products. It has also incorporated Costa Rica to the process of custom unison.

PILLAR 1: Broad-based economic growth					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
		<b>INFRASTRUCTURE</b> <ul style="list-style-type: none"> <li>Implement programs for:               <ul style="list-style-type: none"> <li>Rural electrification</li> <li>Energization of rural areas</li> <li>Energy efficiency</li> <li>Dendroenergy evaluation</li> </ul> </li> <li>Master plan for rural electrification</li> <li>Expand paving stone program</li> </ul>	2000-2001 2000-2002 Under formulation 2000-2001 2003-2005 2000-2001	CNE CNE CNE CNE CNE MTI	Underway Waspan Project signed biddings to Puerto Cabzas project and improved stoves plan. Dropped Completed Bioelectricity Study Done May 2003 Signed 42 kilometers, underway 30%
Increase rate of technological progress in agriculture	Increase rural productivity in the long run	<b>RURAL EXTENSION WORK, DIVERSIFICATION, AND INSTITUTIONAL STRENGTHENING</b> <ul style="list-style-type: none"> <li>Create, through participatory processes, capacity for planning in rural communities through advice, technical assistance, and training</li> <li>Strengthen the institutional capabilities of MAGFOR, INATEC, INTA, the Foundation for Technological Development (FUNICA) and IDR</li> <li>Improve coordination among institutions supporting development of rural sector</li> <li>Implement the National Program of Technology and Technical Agricultural Education with the following components:               <ul style="list-style-type: none"> <li>Institutional Strengthening</li> <li>Investigation and technical transference</li> <li>Training and education</li> <li>Creation and implementation of FUNICA</li> <li>Agricultural information system</li> </ul> </li> <li>Increase farm-level yields and diversification through technology transfers, validations, and improvement of existing technologies</li> <li>Implement national irrigation program</li> </ul>	Underway 2001-2004 2000-2004 2001-2004 Underway Underway	IDR MAGFOR, INATEC, INTA, FDT, IDR, FUNICA MAGFOR, IDR MAGFOR, INTA, INATEC IDR, other agencies, and NGOs MAGFOR/private banks	Underway Underway Underway Underway trained 247 participants in extension and rural promotion Underway Underway

<b>PILLAR 1: Broad-based economic growth</b>					
<b>Guidelines</b>	<b>Objectives</b>	<b>Policy actions</b>	<b>Originally scheduled execution</b>	<b>Executor</b>	<b>Status</b>
		<ul style="list-style-type: none"> <li>Develop Participatory Micro-Planning (MPP) methodology and implement local projects identified by this methodology in the Atlantic Coast</li> </ul>	2000-2001	FSS-FISE	Completed 230 projects in 60 municipalities. Concluded 15 projects in the Atlantic Coast.
Develop small and medium enterprises in accord with their potential, strengthening their institutional framework	Promote employment in the urban sector	<b>NON-RURAL PRODUCTIVE SECTOR</b> <ul style="list-style-type: none"> <li>Implement projects for science and technology, fishing, seafood farming, tanneries, dairy processing, handicrafts, and mining</li> </ul>	2001-2004	MIFIC	Underway, program of productive transformation supporting sectors of leather, shoes, dairy and basic urban services; projects of support to technological innovation of dairy, fishing and aquiculture sectors among others.

PILLAR I: Broad-based economic growth					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
	Strengthen institutional framework and improve inter-institutional coordination in the sector	<ul style="list-style-type: none"> <li>Modernize regulatory framework</li> <li>Improve coordination of NGOs, local governments, and the central government to further enhance assistance to small and medium enterprises</li> <li>Implement projects that:               <ul style="list-style-type: none"> <li>Support and promote small and medium enterprises</li> <li>Train small and medium enterprise personnel</li> <li>Strengthen coordinating mechanisms</li> <li>Extend credit to small and medium enterprises</li> <li>Extend technical assistance to small and medium enterprises</li> </ul> </li> </ul>	2001-2005  2001-2002  Underway Underway 2001-2002 Underway Underway	MIFIC  MIFIC, NGOs  MIFIC MIFIC MIFIC MIFIC	Diagnosis and analyzes were made of some laws and administrative dispositions (i.e. micro finances, procurement and acquisitions law, among others)  Created operative regulation for the functioning of coordinating tables.  All underway. In approval process for Comprehensive Support Project for MIPYME. This includes programs of training, credit, institutional strengthening, comprehensive information system, quality and innovation and commercialization.
Develop clusters in tourism, coffee, textiles and clothing, manufacture, and milk derivatives	Increase productivity in other sectors	GENERAL <ul style="list-style-type: none"> <li>Develop framework and medium and long term action plans for each strategic cluster</li> <li>Prepare operations plan for 2002</li> </ul> TOURISM <ul style="list-style-type: none"> <li>Update analysis of tourism sector</li> <li>Design program for certification of sustainable tourism</li> </ul>	Dec. 2001  Dec. 2001  Underway  2001-2004	MIFIC/PNC  MIFIC/PNC  INCAE  INTUR/PNC	4 cluster commissions working, created strategic plans and in process of being incorporated to the NDP. 3 new clusters are progressing.  Underway  Done  Underway, Pilot plan



<b>PILLAR I: Broad-based economic growth</b>					
<b>Guidelines</b>	<b>Objectives</b>	<b>Policy actions</b>	<b>Originally scheduled execution</b>	<b>Executor</b>	<b>Status</b>
		<b>COFFEE</b> <ul style="list-style-type: none"> <li>Support development of the coffee sector: Diagnostic of small and medium coffee businesses Implement special plan of support to the coffee sector</li> </ul>	Underway	MAGFOR, MIFIC	Progress has been made in the formulation and discussion of the coffee culture re-conversion plan. It has been supported by the coffee sector through PROCOMPE
		<b>TEXTILE-CLOTHING</b> <ul style="list-style-type: none"> <li>Prepare proposal for development of the sector</li> <li>Promote the WRAP certification program (Worldwide Responsible Apparel Production Program)</li> </ul>	2001 May 2001	PNC PNC	Draft in process of discussion In process certification of three enterprises
		<b>MILK PRODUCTS</b> Accelerate development of milk industry, emphasizing quality, storage and marketing of milk products	Underway	IDR, PNC, CANISLAC	Completed training to 600 producers (10 cheese factories) quality levels increased to 40%
		<b>ATTRACTION OF INVESTMENT AND EXPORT PROMOTION</b> <ul style="list-style-type: none"> <li>Collaborate in analysis of projects that foster exports and attract new investment</li> </ul>	Jul. 2001-2004	CEI	Delayed
		<b>PORTS</b> <ul style="list-style-type: none"> <li>Draw up simplified and streamlined port regulations</li> </ul>	Underway	PNC/MIFIC	Program 2003, approved by the EPN and the private sector
<b>Expand provision of safe water and sanitation in rural areas</b>	<b>Increase coverage of safe water and sanitation in rural areas.</b>	<b>SOCIAL INFRASTRUCTURE</b> <b>WATER AND SANITATION</b> <ul style="list-style-type: none"> <li>Set new rates and revised subsidies for extremely poor neighborhoods</li> <li>Implement water and sanitation project for marginal sectors of Managua</li> <li>Implement comprehensive water and sanitation programs plus training: Potable water in rural high-density areas Matagalpa and Jinotega Nueva Guinea Partial transfers and training programs (latrines, training in preventive health, water chlorination)</li> </ul>	June 2001 2001 Underway Underway Underway 2000-2004	ENACAL ENACAL ENACAL/ FISE ENACAL MINSA/FISE	Underway Underway Underway Underway Done Pending, final FISE report

PILLAR I: Broad-based economic growth					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
		<ul style="list-style-type: none"> <li>Improve systems for gathering, transporting, and treating solid wastes in 40 municipalities across the country</li> <li>Build 2,000 septic tanks to treat liquid waste dumped directly into surface waters, including the provision of the equipment and machinery necessary for the transport and final disposal of garbage, and 2,200 additional tanks in marginal urban zones of 25 municipalities</li> </ul>	2001-2004	INIFOM	Underway
		<ul style="list-style-type: none"> <li>Implement program to provide information about sustainable water usage and associated costs: "Nicaraguan Initiative for Care and Rehabilitation of the Environment"</li> </ul>	2001-2004	INIFOM	Underway
		<ul style="list-style-type: none"> <li>Implement program to provide information about sustainable water usage and associated costs: "Nicaraguan Initiative for Care and Rehabilitation of the Environment"</li> </ul>	Underway	ENACAL	Underway
Have INVUR function as a formulator of policies, supervisor, and promoter of housing development	Transform role of the State in housing sector from executor to facilitator and norm setter	<p><b>HOUSING</b></p> <ul style="list-style-type: none"> <li>Deliver draft of the organic law of INVUR, and a draft law for the Housing Social Fund (FOSOV) and private housing market to the National Assembly</li> <li>Plan to close BAVINIC</li> <li>Implement community-assisted housing reconstruction programs</li> <li>Construction of floor and roof for 100,000 houses</li> <li>Reconstruct damaged houses and build emergency shelters for those affected by hurricane Mitch.</li> <li>Provide 15,000 annual targeted subsidies to fill unsatisfied housing needs from low-income sectors</li> </ul>	Jun. 2001	INVUR, NA	FOSOV's regulation approved June 23, 2003
		<ul style="list-style-type: none"> <li>Plan to close BAVINIC</li> </ul>	Jun. 2001	INVUR	Underway
		<ul style="list-style-type: none"> <li>Implement community-assisted housing reconstruction programs</li> </ul>	2001-2003	SECEP, ENEL, ENACAL, INIFOM	Underway
		<ul style="list-style-type: none"> <li>Construction of floor and roof for 100,000 houses</li> </ul>	2000-2004	INVUR	Suspended
		<ul style="list-style-type: none"> <li>Reconstruct damaged houses and build emergency shelters for those affected by hurricane Mitch.</li> </ul>	2000-2005	INVUR, SAS	Suspended
		<ul style="list-style-type: none"> <li>Provide 15,000 annual targeted subsidies to fill unsatisfied housing needs from low-income sectors</li> </ul>	2000-2004	INVUR	To begin late 2003, targets reformulated
Develop and regulate the private financing of housing	Increase the supply of financial resources for housing projects	<ul style="list-style-type: none"> <li>Promote the development of private mortgage market</li> </ul>	Under formulation	INVUR	Postponed

<b>PILLAR 2: Investment in human capital</b>					
<b>Guidelines</b>	<b>Objectives</b>	<b>Policy actions</b>	<b>Originally scheduled execution</b>	<b>Executor</b>	<b>Status</b>
<b>Education</b>					
Increase coverage	Increase net primary enrollment to 83.4% in 2005 from 75% in 1999  Reduce illiteracy rate to 18% in 2004 from 19% in 1998	• Implement pilot project for preschool education during vacations	2001	MECD	Dropped
		• Design plans to: Increase double shifts Expand multigrade schools in rural areas Incorporate classrooms with community support (community primary)	Being formulated	MECD	Double shifts now 90%; other components delayed
		• Rehabilitate, replace, and/or build over 6,000 primary classrooms	2000-2005	MECD, FISE, PRRAC	Underway
		• Expand program for functional illiteracy	2001	MECD, PAEBANIC	Underway
		• Make a situation analysis of coverage at the municipal level and define strategies and financial requirements and develop physical facilities master plan	2001-2002	MECD	Underway
		• Build homes for teachers in rural areas	Underway	MECD, APRENDE, PRRAC (FOSED)	Underway
Improve the quality of education	Improve the quality of education by improving relevance and pertinence of teaching	• Give primary teachers incentives linked to performance 14,000 teachers 18,000 teachers	2001 2002	MECD FSS-MECD	Done Done
		• Improve initial and ongoing training for teachers (including the Atlantic Coast)	2000-2003	SIMEN, FOREBICA, ASEN, BASE, APRENDE	Underway
		• Expand textbooks and educational materials distribution by 2% a year	2000-2003	MECD, FOREBICA, APRENDE	Underway
		• Generalize primary school standards	2001	MECD	Done
		• Reform secondary education	2001	MECD	Underway
		• Reform elementary bilingual intercultural education	2001	FOREIBCA, MECD, BASE	Expanded; underway
		• Modernize tertiary education	2001-2004	CNU, MHCP	Satisfactory underway. An extension of the project to 2004 is being requested.

<b>PILLAR 2: Investment in human capital</b>					
<b>Guidelines</b>	<b>Objectives</b>	<b>Policy actions</b>	<b>Originally scheduled execution</b>	<b>Executor</b>	<b>Status</b>
		<ul style="list-style-type: none"> <li>Strengthen plan for flagship schools</li> <li>Provide scholarships in teacher training schools</li> <li>Reinforce multi-grade schools</li> <li>Implement comprehensive supervision strategies to education programs in the Atlantic Coast</li> </ul>	Underway	MECD	Underway
			Underway	MECD	Underway
			Underway	MECD	Underway
			2000-2001	FSS-MECD	Underway
<b>School decentralization</b>	<p>Improve participation of families and communities</p> <p>Improve financial efficiency and transparency</p>	<ul style="list-style-type: none"> <li>Implement training plan for the School Directive Councils, parents, and school principals</li> <li>Expand school autonomy by 100%</li> <li>Pass Law for Participation in Education</li> </ul>	2000-2003	MECD	Underway
			2001	MECD	Underway
			2001	MECD/NA	Law and regulation approved
<b>Modernize the sector</b>	<p>Implement model for provision of education, in which the central level fulfils the role of setting norms and supervising</p>	<ul style="list-style-type: none"> <li>Design and implement: <ul style="list-style-type: none"> <li>National System for Institutional and Academic Evaluation</li> <li>Integrated Financial Management System (Local SIGFA)</li> </ul> </li> <li>Finalize design of the National Education Plan</li> </ul>	2002	MECD	Underway
			2001-2002	MECD	Underway
			2001	MECD	Done, published late 2001
<b>Health</b>					
<p>Improve coverage and quality of reproductive health services for women of childbearing age and integral attention for children and adolescents</p>	<p>Reduce maternal mortality rate to 129/100,000 lbs.; infant mortality rate to 32/1,000 lbs.; under five mortality rate to 37/1,000 lbs.; as well as the rate of occurrence of transmissible diseases</p> <p>Reduce to 25% by 2003 from 27% in 1998 the unsatisfied demand for family planning methods among women with partners in the 15-19 age group, and to 18% from 20% among women with partners in the 20-24 age group</p>	<ul style="list-style-type: none"> <li>Support the 15 SILAIS to improve the quality of healthcare by providing medical equipment, inputs, rehabilitation of infrastructure, and training of staff and community volunteers</li> <li>Repair the primary network: equipment, furnishings, health centers and posts (7 on the Atlantic Coast)</li> <li>Repair hospitals in RAAN, RAAS, and Río San Juan</li> <li>Adopt alternative modalities for delivering services in faraway areas: FONMAT and Social Protection Safety Net and design and implement a package of services for pregnancy and infants under one year of age (FONMAT)</li> <li>Get a functional community reference and counter-reference system underway in</li> </ul>	2000-2002	MINSA	Underway
			2000-2002	MINSA/FISE	Underway
			2001	MINSA	Contract advanced in October 2003.
			2000-2003	MINSA FSS-FISE	Underway, in communities of difficult access in SILAIS of: Chinandega, Madriz, Nueva Segovia, Chontales, RAAN, RAAS, Jinotega, Matagalpa and Estelí.
			2001	MINSA	Underway

<b>PILLAR 2: Investment in human capital</b>					
<b>Guidelines</b>	<b>Objectives</b>	<b>Policy actions</b>	<b>Originally scheduled execution</b>	<b>Executor</b>	<b>Status</b>
		order to improve follow-up to patient care in 12 municipalities of 6 SILAIS			
		<ul style="list-style-type: none"> <li>Evaluate seven main health care projects to choose one, simplified model for future emphasis</li> </ul>	2002-2003	SECEP	Begun recollection of information
		<ul style="list-style-type: none"> <li>Strengthen comprehensive healthcare system for children (Strategic Plan for Comprehensive Attention to Diseases Prevalent during Infancy – AIEPI):               <ul style="list-style-type: none"> <li>Provide vaccines, medicines, and inputs for immunization program and for comprehensive attention to women and children</li> </ul> </li> </ul>	2001	MINSA	Underway
		<ul style="list-style-type: none"> <li>Implement model for comprehensive reproductive health care services</li> </ul>	2002-2003	MINSA	Begin late 2003
		<ul style="list-style-type: none"> <li>Support for organizing reproductive health services and work with adolescents in 40 municipalities</li> </ul>	2001	MINSA	In formulation National Reproductive Health Care Program
		<ul style="list-style-type: none"> <li>Conduct study to expand benefits coverage in INSS health services</li> </ul>	2001-2003	MINSA FSS-FISE	Underway
		<ul style="list-style-type: none"> <li>Implement pilot project to introduce tele-medicine on the Atlantic Coast</li> </ul>	2000-2001	INSS	Studies advanced
			2001-2002	FSS-MINSA	Project reformulated under concept Program of Local Development of Atlantic Coast. Began in June 2003
Improve capacity of households to care for their own health	Change family sanitary behavior and habits in order to improve the health and nutrition of families	<ul style="list-style-type: none"> <li>Support maternal mortality monitoring system</li> </ul>	2000-2003	MINSA	In process elaboration of monitoring manual for comprehensive primary care
		<ul style="list-style-type: none"> <li>Prevent and control epidemics through monitoring, control, basic sanitation and epidemiological investigation</li> </ul>	2001-2003	MINSA	Underway
		<ul style="list-style-type: none"> <li>Design and disseminate educational, informational, and communications campaigns to promote healthy lifestyles</li> </ul>	Under formulation	MINSA	Underway
Modernize the sector	Strengthen MINSA in its role of setting norms and financing and promoting a pluralistic offer of services	<ul style="list-style-type: none"> <li>Approval of General Law for Health</li> </ul>	2001	NA, MINSA	Approved March 2002, now in process of implementation training
		<ul style="list-style-type: none"> <li>Design National Health Plan and basic package of health services</li> </ul>	2001	MINSA	In formulation
		<ul style="list-style-type: none"> <li>Develop human resource policy for the sector, allocating staff according to need</li> </ul>	2002	MINSA	In implementation subsystem of human resources information

<b>PILLAR 2: Investment in human capital</b>					
<b>Guidelines</b>	<b>Objectives</b>	<b>Policy actions</b>	<b>Originally scheduled execution</b>	<b>Executor</b>	<b>Status</b>
		<ul style="list-style-type: none"> <li>Further hospital autonomy program</li> </ul>	2000-2003	MINSA	Underway
<b>Nutrition</b>					
Foster preventive approaches to malnutrition	Reduce under five chronic malnutrition to 16% in 2004 from 19.9% in 1998	<ul style="list-style-type: none"> <li>Foster educational approaches based on promoting behavioral changes in families and communities to promote hygiene, preventative health, and practices for caring for children among pregnant women and breastfeeding mothers</li> </ul>	2001	MINSA	Completed Phase I and II of Communal Health and Nutrition Program (PROCOSAN) Phase III begins 2004.
	Promote prevention of malnutrition by means of measures in the household and the community	<ul style="list-style-type: none"> <li>Promote at the community level healthy growth and development strategies for children, monitoring weight during pregnancy, support actions and develop social communication strategy to promote breastfeeding</li> </ul>	Apr.-Dec. 2001	MINSA	Underway
		<ul style="list-style-type: none"> <li>Revise the topics and include in primary school health education curricula, and adult literacy programs topics on malnutrition prevention</li> </ul>	2001-2002	MECD	Underway
		<ul style="list-style-type: none"> <li>Guarantee quality standards for fortifying sugar with vitamin A, wheat flour with iron, and salt with iodine, and increase coverage in the most needy areas</li> </ul>	2002	MINSA	Security and Control System operating in sugar-mills, retailers and homes
		<ul style="list-style-type: none"> <li>Evaluate the pilot project "Comprehensive Attention to Community Children" and draw applicable lessons for other projects</li> </ul>	June 2002	MINSA	Communication materials in validation phase
<b>Population</b>					
Incorporate reproductive healthcare services as a basic component of human capital investments in the poor	Increase access to reproductive healthcare services to individuals of all ages by 2015	<ul style="list-style-type: none"> <li>Provide basic package of social services including preventive, basic, emergency, and reproductive healthcare services with emphasis on women and adolescents</li> </ul>	Dec. 2001	MINSA	In formulation
		<ul style="list-style-type: none"> <li>Finish work plan for the implementation of the National Population Policy</li> </ul>	Dec. 2001	MINSA/ National Commission on Population	Pending
	Foster responsible patterns of conduct in vulnerable groups families	<ul style="list-style-type: none"> <li>Support the adaptation of obstetric emergency norms. Evaluation of care and proposals for adolescents' services</li> </ul>	2001-2003	MINSA	Underway

<b>PILLAR 3: Protection of vulnerable groups</b>					
<b>Guidelines</b>	<b>Objectives</b>	<b>Policy actions</b>	<b>Originally scheduled execution</b>	<b>Executor</b>	<b>Status</b>
Modernize the institutional framework	Improve legislative framework and strengthen institutional capacity	IMPROVE LEGISLATIVE FRAMEWORK	2002	MIFAMILIA, National Assembly	Sent to legal adviser's Presidency
		<ul style="list-style-type: none"> <li>Pass new Adoption Law; issue regulations to enforce the law</li> </ul>	2002-2005	MIFAMILIA, NA	Draft in National Assembly
		<ul style="list-style-type: none"> <li>Develop new Family Code</li> </ul>	2002-2003	MIFAMILIA	Diagnosis and proposal completed. Implementing new structure
		INSTITUTIONAL STRENGTHENING	2001-2002	MIFAMILIA, SECEP, FISE	Preparing Phase II of Strengthening Program
		<ul style="list-style-type: none"> <li>After diagnosis, restructure and reinforce MIFAMILIA</li> </ul>	Underway	SECEP, All sectors	Underway
		<ul style="list-style-type: none"> <li>Implement programs to strengthen organizations that formulate, coordinate, follow up, and evaluate social and economic policies directed at extremely poor and vulnerable groups</li> </ul>	2001	SECEP	Done
		DEVELOP SOCIAL PROTECTION STRATEGY BASED ON PROGRAM EXPERIENCE	Underway	SECEP/FISE, MIFAMILIA	Pilot phase of registry of beneficiaries completed. Designing Solidarity Program for Development
Improve condition of poorest		IMPROVEMENT OF PRODUCTIVE CAPACITY OF THE EXTREMELY POOR	2001-2003	FISE-SECEP	In formulation
		<ul style="list-style-type: none"> <li>Implement Integrated Program for Poor Urban Neighborhoods</li> </ul>	Underway	MAGFOR, INTA	Underway Support Program for poor rural families affected by droughts or floods.
		<ul style="list-style-type: none"> <li>Implement food security programs among 33,000 rural families facing adverse environmental conditions (Special Program for Food Security PESA, Support food security of poor rural families affected by drought or flooding and rehabilitate families affected by hurricane Mitch)</li> </ul>	Underway	INIM, INTA	50 families lead by women have been benefited through loans and technical assistance
<ul style="list-style-type: none"> <li>Programs to fight women's poverty (women and credit program; women's garden economy with technology and credit-in-kind)</li> </ul>					

PILLAR 3: Protection of vulnerable groups					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
		<b>HUMAN CAPITAL PROTECTION</b>			
		<ul style="list-style-type: none"> <li>Implement strategic plan to increase health coverage among formal and informal sector workers</li> </ul>	Underway	INSS	Almost done
		<ul style="list-style-type: none"> <li>Assistance to groups facing nutritional and educational risk:               <ul style="list-style-type: none"> <li>School Lunch Program for 300,000 children.</li> </ul> </li> </ul>	2001-2005	MIFAMILIA	46,254 children under 6 years were assisted in 59 municipalities
		<ul style="list-style-type: none"> <li>Increase coverage of integral attention of children 0-6 years (PAININ).</li> </ul>	2001-2003	MIFAMILIA	Underway increase to 63 municipalities, covering 32,246 children under 6
		<ul style="list-style-type: none"> <li>Implement programs to fight extreme rural poverty (Social Safety Network).</li> </ul>	2000-2002	FSS, MIFAMILIA, MECD, MINSA	Phase II underway, extended to 7 municipalities
		<ul style="list-style-type: none"> <li>Healthy Schools Program</li> </ul>	Under formulation	MECD, MINSA, ENACAL	Underway in 300 schools
		<ul style="list-style-type: none"> <li>Implement program to assist handicapped children:               <ul style="list-style-type: none"> <li>Special education program to assist 3,900 children (teachers' training, promoting handicapped children's participation, promotion of diversity).</li> <li>Rehabilitation by the community (Smile operation).</li> </ul> </li> </ul>	Underway	MECD	Underway
			Underway	MIFAMILIA	Underway
		<ul style="list-style-type: none"> <li>Programs to protect working children</li> </ul>	Underway	MIFAMILIA	Underway
		<ul style="list-style-type: none"> <li>Protection of minors under high-risk conditions (delinquency and abandonment):               <ul style="list-style-type: none"> <li>Protection for 600 stoplight children</li> <li>Protection for 350 children under risk due to drug use and sexual abuse</li> <li>Attention to 790 gluc sniffing children</li> </ul> </li> </ul>	Underway 2000-2001 Underway	MIFAMILIA MIFAMILIA MIFAMILIA, Casa Alianza	Creating Model of Prevention and Comprehensive Attention to high-risk children and adolescents
		<ul style="list-style-type: none"> <li>Comprehensive development plan for the prevention of juvenile delinquency</li> </ul>	2002	MIFAMILIA	Underway
		<ul style="list-style-type: none"> <li>Protection centers for abandoned children</li> </ul>	Underway	MIFAMILIA	Functioning 30 protection centers attending 2,829 high-risk children and adolescents



PILAR 3: Protection of vulnerable groups					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
		<ul style="list-style-type: none"> <li>Fight Against Drugs: Approval and negotiation of Plan to Fight Drugs</li> </ul>	Underway	CNLD, MINGOR	Done, partial implementation due to insufficient financial resources
		Implement antidrug campaigns in primary, secondary schools and communities	Underway	MECD, CNLD, PN, MIFAMILIA, MINSAs, NGO's	Underway
		Prevention plan against drugs in the Atlantic Coast	August 2001	Regional Autonomous Councils for Fight Against Drugs	Underway
Strengthen community participation and social solidarity	Foster the sustainability of the interventions	<ul style="list-style-type: none"> <li>Implement programs for the elderly Attention program for senior citizens</li> </ul>	Underway	MIFAMILIA	Conformation of the National Council for the Elderly People. Trained 302 promoters
		Feasibility study on increasing coverage for the elderly	New program phase under design	INSS	Program begun
		<ul style="list-style-type: none"> <li>Development of community capacities Foster homes program</li> </ul>	Underway	MIFAMILIA	Placed 412 children and 383 adolescents in foster homes.

PILLAR 4: Governance						
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status	
Strengthen governance, legal framework, and processes	Strengthen the rule of law, transparency, and accountability	TRANSPARENCY				
		<ul style="list-style-type: none"> <li>Establish and implement a system for public sector procurement and contracting:               <ul style="list-style-type: none"> <li>Sign contract for private inspection</li> <li>Sign contract for administrative support</li> <li>Diagnosis of Law 323 State Contracts</li> </ul> </li> </ul>	June 2001 Sept. 2001 June 2002	SECEP/MHCP	Underway Underway Done, in process review of law reform	
		<ul style="list-style-type: none"> <li>Approve Law on access to information</li> </ul>	Dec. 2001	OEP/NA	Draft sent to legal office of Presidency	
		<ul style="list-style-type: none"> <li>Ensure that all domestic receipts (revenue and transfers) of the public sector entities are recorded at the Treasury (single account)</li> </ul>	2001-2002	MHCP	All revenues coming from domestic resources and external loans registered in the treasury. Working on including donations	
		<ul style="list-style-type: none"> <li>Increase share of Treasury revenues and transfers registered in the SIGFA integrated system for financial management and auditing;               <ul style="list-style-type: none"> <li>In the Ministries of Treasury and Public Credit, Transport, Agriculture, Education, and Health</li> <li>In all other entities of the Central Government</li> </ul> </li> </ul>	Dec. 2001 Dec. 2002	MHCP	Done	
		<ul style="list-style-type: none"> <li>Strengthening of the Comptroller's Office:               <ul style="list-style-type: none"> <li>Introduce and implement a system of internal controls in 50 percent of the public sector</li> </ul> </li> </ul>	July 2001	CGR	Delayed	
		Develop auditing norms	2001	CGR	Approved and published Jan. 2002	
		Design and start a system of management and supervision of audits	July 2001	CGR	Began 2002	
		Design and start a training program	April 2001	CGR	Done; underway	
		JUDICIAL REFORM				
		<ul style="list-style-type: none"> <li>Approve the laws to reform the judicial process:               <ul style="list-style-type: none"> <li>New Penal Code</li> <li>New law on penal procedures</li> </ul> </li> </ul>	June 2001 Oct. 2001	NA CSJ, NA	In implementation Approved Nov. 2001	
		<ul style="list-style-type: none"> <li>Implement a technical strengthening program to put these laws into practice</li> </ul>	June 2001	CSJ	Underway	
		<ul style="list-style-type: none"> <li>Implement the recently-approved Law on Administrative Dispute Settlement</li> </ul>	Sep. 2001	CSJ	Training begun; Tribunal still not established	
		<ul style="list-style-type: none"> <li>Implement program for institutional strengthening (technical and professional) in judicial matters</li> </ul>	2001-2003	CSJ	Begun	

PILLAR 4: Governance					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
		<b>PROPERTY RIGHTS</b> <ul style="list-style-type: none"> <li>Monitor quantitative targets on property claims solved, and urban and rural property titles issued</li> <li>Approve law on public registries</li> </ul>	2001-2002  July 2001	MIICP  CSJ, NA	The first semester 2003 achieved 14% of the annual target of urban title emission and the 139% of the annual target of rural title emission  Delayed
		<b>ADDITIONAL ACTIONS ON GOVERNANCE</b> <ul style="list-style-type: none"> <li>Implementation of National Integrity Plan</li> <li>Institutional strengthening of the National Integrity Committee</li> <li>Design a program to promote a culture of transparency and integrity</li> <li>Design and implement an educational campaign on human rights for the army and police</li> <li>Strengthen the Attorney General's Office for Human Rights and the Special Attorney Offices for the protection of children, women, and indigenous communities.</li> <li>Approval of law:               <ul style="list-style-type: none"> <li>On family patrimony</li> <li>On probity and moral integrity of civil officials and employees</li> </ul> </li> </ul>	Underway  2001  June 2001  Underway  Underway  2000  2001	OEP  OEP  OEP  PDH  PDH  NA  OEP, NA	Underway. National Assembly approved the Citizen Participation Law.  Development of Ethic and Transparency Program in State procurement and contracts  In implementation, it has been done 63 seminars of Public Ethics, training 1,844 public employees  Underway  Underway  Pending  Approved July 16, 2002

<b>PILLAR 4: Governance</b>					
<b>Guidelines</b>	<b>Objectives</b>	<b>Policy actions</b>	<b>Originally scheduled execution</b>	<b>Executor</b>	<b>Status</b>
		<b>PARTICIPATION</b>			
		<ul style="list-style-type: none"> <li>• Design coordination mechanisms to monitor the strategy (Government, CONPES, and donor community)</li> </ul>	Underway	SECEP	Done
		<ul style="list-style-type: none"> <li>• Strengthen the National Council for Social and Economic Planning</li> </ul>	2000-2001	CONPES	Done
		<ul style="list-style-type: none"> <li>• Activate sectoral commissions</li> </ul>	...	CONPES	Done

<b>CROSS-CUTTING THEMES: Environment and ecological vulnerability</b>					
<b>Guidelines</b>	<b>Objectives</b>	<b>Policy actions</b>	<b>Originally scheduled execution</b>	<b>Executor</b>	<b>Status</b>
Environmental restoration and sustainable production processes	Reduce environmental degradation	<ul style="list-style-type: none"> <li>Implement and monitor the Environmental Policy and Action Plan (PANic)</li> </ul>	2001-2005	MARENA	Underway actions of PANic, in a municipal level it is implementing the Municipal Environmental Plan
	Promote the ecological restoration of productive areas	<ul style="list-style-type: none"> <li>Prepare: Strategy for Biodiversity</li> </ul>	2001-2005	MARENA	Being implemented. Formalized by ministerial resolution 27-2002; Gaceta 156 of 20/10/02
		Biodiversity Law	2001-2002	MARENA/NA	Draft with Presidency, being coordinated by MAGFOR
		National Strategy for Sustainable Development	2001-2002	MARENA/ CONADES	Presidency of the Republic leads the formulation and consultation of the National Strategy of Development in coordination with CONADES and CONPES, with participation of MARENA.
		Approval of laws on: Water resources	2001-2002	MIFIC/NA	Once approved by ministers of NCWR, it'll be ready for popular consultation
		Fisheries	2001-2002	MIFIC/NA	Commissions of National Assembly elaborating new version
		Mining	2001-2002	MIFIC/NA	Approved
		<ul style="list-style-type: none"> <li>Strengthen environmental units to consolidate the National System for</li> </ul>	2001-2005	MARENA	Elaborated, situational

CROSS-CUTTING THEMES: Environment and ecological vulnerability					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
		Environmental Administration			diagnosis of 19 unities sectoral environmental arrangement, and proposal of coordination mechanism
		<ul style="list-style-type: none"> <li>Approve National Environmental Fund regulation</li> </ul>	2001-2002	MARENA/NA	Pending board designation to start operations
Management and conservation of forests	Promote sustainable management and biodiversity	<ul style="list-style-type: none"> <li>Approval of the Forestry Development Law</li> <li>Conservation of forest ecosystems</li> </ul>	2001-2002	MAGFOR/NA	Approved 26/06/03
	Offer environmental services		Underway	MARENA	Underway 34 investment projects approved to private farms, benefiting 6,054 families in 20 municipalities of Managua, Carazo, Nueva Segovia, Estelí, Matagalpa and Jinotega.
		<ul style="list-style-type: none"> <li>Enter the international compensation market for carbon sequestration</li> </ul>	2001-2005	MARENA	Through the National Office of Unpolluted Development has encouraged the sale of carbon certificates

CROSS-CUTTING THEMES: Environment and ecological vulnerability					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
	Promote productive forest development	<ul style="list-style-type: none"> <li>Implement project for:               <ul style="list-style-type: none"> <li>Reforestation and management</li> <li>Wood processing, by-products, and commercialization</li> </ul> </li> <li>Promote sustainable forest investment</li> <li>Promote technological change in the forestry industry</li> <li>Support small farmers' forest activities in Nueva Segovia</li> <li>Promote sustainable production practices and adequate management of natural resources</li> </ul>	2001-2004  2001-2004  Underway  Underway  Underway  Underway	MAGFOR- INAFOR  MIFIC  MAGFOR  MAGFOR  INAFOR  IDR	Done Forestry Management Plan. 652 beneficiaries  Underway Project Nicamuebles  Underway  Underway  8 curses of forestry promotion were instructed to 242 promoters  Underway
Strengthen local and institutional environmental management	Increase local level management capacity	<ul style="list-style-type: none"> <li>Implement:               <ul style="list-style-type: none"> <li>Program for institutional strengthening and interinstitutional coordination</li> <li>National prevention system on real-time</li> </ul> </li> <li>Strengthen municipal environmental commissions and local capabilities</li> </ul>	2001-2002  2001-2003  2001-2005	INETER  INETER  MARENA	Without financing  Underway, actions consisting in strengthening and modernization of basic networks systems, creation of geological flaws map of Managua and mapping of natural risks.  MARENA attends 130 municipal environmental commissions; 79 MEC functioning through Municipals Regulation, 35 MEC still pending to be legalized and 16 waiting to be conformed.

CROSS-CUTTING THEMES: Environment and ecological vulnerability					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
	Risk reduction	<ul style="list-style-type: none"> <li>Modernize early warning systems</li> </ul>	Underway	INETER	15 stations functioning, staff has been trained
		<ul style="list-style-type: none"> <li>Prepare:               <ul style="list-style-type: none"> <li>Map of geological and dangerous zones in the vicinity of the Telica, Cerro Negro, and Momotombo volcanoes</li> <li>National geological map at 1:50,000 scale, and cartographic mapping of risks due to natural phenomena</li> </ul> </li> </ul>	Underway	INETER	Done
		<ul style="list-style-type: none"> <li>Expand geographical information system for mapping of natural threats</li> </ul>	2001-2005	INETER	Geological maps done for Matagalpa and Jinotega
		<ul style="list-style-type: none"> <li>Expand geographical information system for mapping of natural threats</li> </ul>	2001-2004	INETER	Underway, project of Geographical Information System applied to multi-risks, mitigation and prevention of geo-risks cartography. Done risk maps for Ciudad Sandino, Estelí and Ocotal.
		<ul style="list-style-type: none"> <li>Install:               <ul style="list-style-type: none"> <li>25 telemetric meteorological stations in dry productive vulnerable zones</li> </ul> </li> </ul>	Underway	INETER	International bidding to buy the rest of stations(15)
		<ul style="list-style-type: none"> <li>Install:               <ul style="list-style-type: none"> <li>15 telemetric hydrometry stations in flood risk areas</li> </ul> </li> </ul>	Underway	INETER	Rest of stations (7) will be installed by the end of 2003.
		<ul style="list-style-type: none"> <li>Install:               <ul style="list-style-type: none"> <li>8 seismic stations</li> </ul> </li> </ul>	2001-2002	INETER	Done.
		<ul style="list-style-type: none"> <li>Install:               <ul style="list-style-type: none"> <li>National tsunami warning center</li> </ul> </li> </ul>	2001-2002	INETER	Underway
		<ul style="list-style-type: none"> <li>Equiping of the accelerograph network with telemetric accessories</li> </ul>	2001-2004	INETER	Stations functioning. They are part of the National Seismic Network.
		<ul style="list-style-type: none"> <li>Organize The Disaster Operation Center (COE)</li> </ul>	2001-2002	ESS, Civil Defense	Pending information
		<ul style="list-style-type: none"> <li>Formulate National Emergencies Plan</li> </ul>	2002-2003	ESS	Being formulated
		<ul style="list-style-type: none"> <li>Implement rehabilitation project in area around Casitas volcano</li> </ul>	2000-2004	MAGFOR	Underway



CROSS-CUTTING THEMES: Environment and ecological vulnerability					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
		<ul style="list-style-type: none"> <li>Improve volcano-monitoring system with automatic cameras, temperature measurements, and gas monitoring, and monitor areas exposed to landslides</li> </ul>	2001-2003	INETER	Installed 4 motoring stations in volcanoes San Cristóbal, Casitas, Mombacho and Concepción. Installed 4 web cams for gas and ashes monitoring: San Cristóbal, Cerro Negro, Telica and Momotombo.
	Develop culture of social responsibility	<ul style="list-style-type: none"> <li>Develop a national environmental information system (SINIA)</li> </ul>	2001-2003	MARENA	Functioning Committee of SINIA Direction and Technical Operative Committee
		<ul style="list-style-type: none"> <li>Design and implement education and information campaigns for the population</li> </ul>	2001-2003	MARENA	Underway, teachers and technicians of MECD have been trained for the use of environmental contents in schools, in process legalization of Policy and Strategy Guidelines of Environmental Education
Incorporate the demographic dimension into territorial planning	Land use and planning	<ul style="list-style-type: none"> <li>Elaborate, approve and implement norms and criteria for land-use planning</li> </ul>	2001	MARENA / INETER	Elaborated departmental diagnosis of 6 municipalities and 6 departmental cities in the Department of Boaco
		<ul style="list-style-type: none"> <li>Make maps showing potential land uses</li> </ul>	2001-2004	INETER/ MAGFOR	Without financing
		<ul style="list-style-type: none"> <li>Elaborate plans to rationalize land use in prioritized territories / municipalities</li> </ul>	2001-2005	Municipalities, Reg. Govt.	Progress has been made in land use planning of the Department of Madriz and it's working in the LU of Boaco.
		<ul style="list-style-type: none"> <li>Implementation of local environment plans</li> </ul>	2001-2005	Municipalities,	Officiated 58

<b>CROSS-CUTTING THEMES: Environment and ecological vulnerability</b>					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
		<ul style="list-style-type: none"> <li>Initiate improvement of urban settlements</li> </ul>	Under formulation	MARENA SECEP/FISE	environment plans, 55 being implemented  Under formulation

<b>CROSS-CUTTING THEMES: Social equity</b>					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
Promote equal access to services and opportunities and overcome problems of social exclusion	Guarantee equal gender access to economic, social, cultural, and political areas	<ul style="list-style-type: none"> <li>Promote follow-up of international conventions: Female, children and adolescents</li> </ul>	2001	INIM	Underway
		<ul style="list-style-type: none"> <li>Design plan to promote sexual equality in salaries, in the public and private sector</li> </ul>	2001	INIM	Elaborating Action Plan of Opportunities between men and women.
	Prevent, sanction, and eradicate abuse and mistreatment of women and children	<ul style="list-style-type: none"> <li>Guarantee the continued functioning of Women's Commissariats 40 women centers</li> </ul> <p>National Plan Against Domestic Violence</p>	2001-2004  2001	INIM, PN, Civil Society  INIM	Underway  Imparted 6 workshops of sensitivity and 4 trainings to 149 technicians in Chinandega, Managua and Boaco on follow up in Performance Protocol in Crimes of Familiar Mistreatment and Sexual aggressions.

<b>CROSS-CUTTING THEMES: Decentralization</b>					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
Strengthen local governments and accelerate their modernization process	Increase efficiency and effectiveness in the provision of services	<ul style="list-style-type: none"> <li>Define national policy and strategy on decentralization</li> </ul>	Dec. 2001	CSD	Approved by National Assembly, being reviewed by Presidency
	Consolidate decentralization policies towards local governments	<ul style="list-style-type: none"> <li>Advance implementation of decentralization strategy</li> </ul>	2002-2003	Sectors	In Implementation
	Develop local	<ul style="list-style-type: none"> <li>Implement program to develop and strengthen the technical capabilities of municipal administrations</li> </ul>	2001-2004	INIFOM	Underway

<b>CROSS-CUTTING THEMES: Decentralization</b>					
<b>Guidelines</b>	<b>Objectives</b>	<b>Policy actions</b>	<b>Originally scheduled execution</b>	<b>Executor</b>	<b>Status</b>
	administrative and fiscal capacities	<ul style="list-style-type: none"> <li>Implement the institutional strengthening of INIFOM</li> </ul>	2001-2002	INIFOM	First phase of restructuring concluded
	Improve local governance	<ul style="list-style-type: none"> <li>Approve law on:               <ul style="list-style-type: none"> <li>Municipal administrative career and civil service</li> </ul> </li> </ul>	2001	NA, INIFOM, AMUNIC	Draft with National Assembly
	Promote civil society participation in public investment administration	<ul style="list-style-type: none"> <li>National comprehensive cadastre incorporating municipal cadastres</li> </ul>	2001	INIFOM, NA	Draft with National Assembly
		<ul style="list-style-type: none"> <li>Prepare and approve amendments to Law of Municipalities</li> </ul>	2000-2001	NA	With Assembly
		<ul style="list-style-type: none"> <li>Harmonize municipal public investment systems with SNIP</li> </ul>	2001	INIFOM, SECEP	Underway
		<ul style="list-style-type: none"> <li>Issue regulation of the Law for the Autonomy of the Atlantic Coast</li> </ul>	2001	Presidency, NA	Approved regulation on 09/07/03

<b>SUPPORTING ACTIONS: Targeting, monitoring, and evaluation of impact</b>					
<b>Guidelines</b>	<b>Objectives</b>	<b>Policy actions</b>	<b>Originally scheduled execution</b>	<b>Executor</b>	<b>Status</b>
<b>Targeting</b>					
Target vulnerable groups	Increase the efficiency of programs by directing efforts at the appropriate groups	<ul style="list-style-type: none"> <li>Establish targets by municipality, vulnerable groups and families using Poverty Map</li> </ul>	2001	All sectors	Underway
		<ul style="list-style-type: none"> <li>Improve targeting mechanisms of programs on the basis of equity and cost-effectiveness criteria: Comparative analysis of the costs of providing services, subsidies, and transfers for social protection programs in Nicaragua and other countries</li> </ul>	2001	SECEP/SNIP	Underway
		<ul style="list-style-type: none"> <li>Cost efficiency evaluation of targeting mechanisms of the Social Safety Net Program</li> </ul>	2001-2002	SECEP	Underway
<b>Monitoring and evaluation of impact</b>					
Program monitoring and evaluation of impacts	Availability of timely information for decision making	<ul style="list-style-type: none"> <li>Design a monitoring and impact evaluation system for information and decision making</li> </ul>	Underway	SECEP	Completed
		<ul style="list-style-type: none"> <li>Implement system for: Monitoring by means of existing indicators and systems (SIGFA, SNIP, SIG-SECEP) Evaluation of impact including participatory approaches (household surveys), (surveys of user satisfaction, LSMS 2001, DIHS 2003)</li> </ul>	Annual	All sectors	Underway
		<ul style="list-style-type: none"> <li>Publication of results (central government, local governments, civil society, donors)</li> </ul>	Under formulation	SECEP	Underway
		<ul style="list-style-type: none"> <li>Institutional strengthening for monitoring and evaluation</li> </ul>	Underway	All sectors	Second Progress Report published
			2001	All sectors	Underway

## **Annex II**

# **Matrix of Goals, Targets and Intermediate Indicators**

## Matrix of Goals, Targets and Intermediate Indicators

Current situation	National Goals	National Targets Year 2005	Intermediate Indicators	Base Year 1999	Est. 2000	Actual 2000	Goal 2001	Actual 2001	Goal 2002	Actual 2002	2003	2004	2005	International Targets Year 2015
According to poverty line methodology, 47.9% of Nicaraguan's population is poor and 17.3% are extremely poor. In the rural area the incidence of poverty is higher, 68.5% of population is poor and 28.3% are extremely poor.	Poverty reduction	Reduce extreme poverty by 17.5%	Increase government spending on poverty related outlays to 63.5% from 50% of budget by year 2005 <sup>17</sup>	52.5	49.6	54.0	50.0	48.7	54.2	53.5	55.5	60.0	62.1	Reduce extreme poverty by 50% by 2015 with respect to 1995
			Projected rate of growth of real GDP	7.0	4.3	5.9	3.0	3.3	3.7	1.0	4.5	5.0	5.0	
Almost 50% of school-aged children (6-18 years) in extreme poverty do not attend school, compared with only 16% for their non-poor counterparts. Poor and extremely poor people have only 2.3 - 3.1 years of education. More than half the children who abandon school do so for economic reasons.	Raising primary education access to 90%	Increase net primary enrollment rate to 83.4% from 75% in 1999	Annual average increase of 1.4 percentage points in the net primary enrollment rate	75.0	76.4	80.1	77.9	81.1	79.3	84.7	80.6	82.0	83.4	90% access to primary education
			Annual increase of 1.0 percentage point in promotion rate of third graders in rural areas during 2000-2005	76.6	77.6	79.2	78.6	83.1	79.6	80.9	80.6	81.6	82.6	
			Annual increase of 2 percentage points in number of children that finish primary school in six years during 2000-2005	32.0	34.0	33.9	36.0	34.3	38.0	38.5	40.0	42.0	44.0	
			Put into effect academic achievement measuring system, and make first evaluation in math and Spanish in 2001 for 3 <sup>rd</sup> and 6 <sup>th</sup> grade	...	...		Done	Delayed	...	In implementat	...	...	...	
			Annual increase of 1.0 percentage point in the net pre-school enrollment rate during 2000-2005	26.0	27.0	27.0	28.0	26.0	29.0	27.9	30.0	31.0	32.0	
			Increase to one half the percent of rural multigrade schools offering 6 <sup>th</sup> grade by 2005	9.9	33.0	12.8	37.0	17.8	41.0	22.3	44.0	47.0	50.0	
			Construct and replace 2630 elementary school classrooms during 2001-2005 <sup>27</sup>	977	860	1404	400	723	490	815	540	600	600	
Nicaragua's maternal mortality (148 per 1,000 live births) is high. The high	Reduction in maternal mortality rate	Reduce maternal mortality rate to 129 per	Increase to 62% the share of institutional births from 47% in 1999 (an annual average increase of 3,700 new institutional births per year during 2000-2005) <sup>37</sup>	47.0	52.4	52.8	54.6	50.4	55.9	49.9	57.2	59.4	61.7	Reduce maternal mortality rate by 3/4 by

Current situation	National Goals	National Targets Year 2005	Intermediate Indicators	Base Year 1999	Est. 2000	Actual 2000	Goal 2001	Actual 2001	Goal 2002	Actual 2002	2003	2004	2005	International Targets Year 2015	
incidence of pregnancies among teenagers and short intervals between pregnancies increases the risks and contributes to higher mortality rates.		one-hundred-thousand live births from 148 per one-hundred-thousand born alive in 1999	Increase to 86% the coverage of prenatal care from 71.6% in 1999 (an annual average increase of 3,800 prenatal controls during 2000-2005) <sup>34</sup>	71.6	78.6	75.2	80.6	70.2	81.4	70.5	82.2	84.3	86.5	2015 with respect to 1994	
			Increase to 44% the coverage of early prenatal care from 31.9% in 1999 (an annual average increase of 3,400 early prenatal care controls during 2000-2005) <sup>35</sup>	31.9	35.9	33.6	37.7	32.2	38.9	31.8	40.1	41.9	43.8		
			Introduce an education program on population for students in public schools as well as a non-formal program by 2002.	...	...	...	...	...	Introduced	n.d	Done	...	...		
Although infant mortality has declined for the last two decades from 83 to 40 per 1,000 live birth in 1998, it still remains above the Central American average. Acute respiratory infections are the principal cause of illness and the second cause of death among children under 5 years old, while diarrhea is another important cause of child deaths.	<b>Reduction in infant and children under 5 mortality rates</b>	Reduce infant mortality rate to 32 per thousand live births from 40 per thousand live births in 1998  Reduce mortality in children under five to 37 per thousand live births from 50 per thousand live births in 1998	Increase immunization coverage (%) for children under 1 year											Reduce infant and under five mortality rates by 2/3 by 2015 with respect to 1994	
			1 d. of BCG	99.0	99.0	99.0	99.0	98.1	99.0	93.2	99.0	99.0	99.0		99.0
			3 d. Polio vaccine	91.0	91.0	93.5	91.0	92.6	92.0	85.3	93.0	94.0	94.5		94.0
			3 d. 5-in-1	7.0 <sup>41</sup>	90.0	92.7	90.0	91.8	91.0	84.7	92.0	93.0	94.0		94.0
			Increase polio immunization coverage (3 doses) for children 12 to 23 months (measured by LSMS) from 83.8% in 1998 to 94% in 2004 <sup>37</sup>	83.8 (1998)	...	...	92.5	85.7	...	n.d	...	94.0	...		...
Reduce the incidence of diarrhea in children under 5 to 16.2% by 2004 <sup>38</sup> from 21.9% in 1998 <sup>36</sup>	21.9 (1998)	...	...	19.0	24.8	...	n.d	...	16.2	...	...				
Reduce the incidence of acute respiratory infections in children under 5 to 21% by 2004 <sup>39</sup> from 27.3% in 1998	27.3 (1998)	...	...	24.0	23.7	...	n.d	...	20.8	...	...				
Distance and economic reasons limit the access of poor people to health services. On average, to obtain health care the extreme poor must travel three times the distance, and spend three times as much to	<b>Access to reproductive healthcare services</b>	Reduce to 24.8% <sup>71</sup> the unsatisfied demand for family planning among women with partners in the 15-19 age group	Reduce to 26.1% in 2001 and 24.8% in 2005 <sup>72</sup> the unsatisfied demand for family planning among women with partners in the 15-19 age group from 27.1% in 1998	27.1 (1998)	...	...	26.1	19.8	...	n.d	...	...	24.8	Provide access to reproductive health care services for all individuals of appropriate age	
			Reduce to 18.9% in 2001 and 18% in 2005 <sup>73</sup> the unsatisfied demand for family planning among women with partners in the 20-24 age group from 19.7% in 1998	19.7 (1998)	...	...	18.9	17.0	...	n.d	...	...	18.0		

Current situation	National Goals	National Targets Year 2005	Intermediate Indicators	Base Year 1999	Est. 2000	Actual 2000	Goal 2001	Actual 2001	Goal 2002	Actual 2002	2003	2004	2005	International Targets Year 2015
reach health facilities, as non-poor households. One third of extremely poor women receive no prenatal care, one half deliver their babies without benefit of institutional facilities, and are only half as likely as non-poor women to be attended by doctors when giving birth.		from 27.1% in 1998 Reduce to 18% <sup>7/</sup> the unsatisfied demand for family planning among women with partners in the 20-24 age group from 19.7% in 1998	Increase the share of women of childbearing age accessing reproductive healthcare services to 23% by 2005 from 21% in 1999 (an annual average increase of 14,000 women of childbearing age during 2000-2005 period) <sup>8/ 3/</sup>	21.0	21.0	22.0	22.0	24.5	22.0	24.7	23.0	23.0	23.0	
			Introduce an education program on population for students in public schools as well as a non-formal program by 2002. [See also maternal mortality]	...	...	...	...	...	Introduce	n.d	Done	...	...	
Nicaragua's inappropriate use of natural resources and environmental degradation makes the population more vulnerable to ecological risks	Implement National Strategy for Sustainable Development	Have the National Strategy for Sustainable Development implemented by 2005	Published and implemented policy and environmental action plan	...	...	...	Approved	Approved	...	Approved	...	...	...	Have a sustainable development strategy implemented by year 2005
			Approve the Forestry and Development Law	...	...	...	...	...	Approved	Approved	...	...	...	
			Approve the Fisheries Law	...	...	...	...	...	Approved	Pending	...	...	...	
			Approve the Biodiversity Law	...	...	...	...	...	Approved	Pending	...	...	...	
27% of poor children under five years old suffer from chronic malnutrition, as well as 37.5% of extremely poor, as compared to 9.4% of the non-poor children.	Reduce chronic malnutrition	Reduce chronic malnutrition in children under 5 to 16% in 2004 <sup>5/</sup> from 19.9% in 1998	Reduce chronic malnutrition in children under 5 to 17.9% in 2001 and 16% in 2004 from 19.9% in 1998	19.9 (1998)	...	...	17.9	17.8	...	n.d	...	16.0	...	Reduce chronic malnutrition to 7% by 2015 <sup>9/</sup>
35% of the overall population has no access to potable water and 16% have no access to safe water. The percentages among extremely poor households in rural areas are considerably higher, 77% lack potable water and 40% lack safe water.	Increase access to water and sanitation	Increase national coverage of water to 75.4% from 66.5% in 1999  Increase access to safe water and sanitation in rural dispersed areas to 53.5% from 39% in 1999 <sup>7/</sup>	Annual average increase of national potable water coverage by 1.4 percentage point per year during 2000-2005	66.5	68.1	68.1	69.5	72.1	71.0	72.8	72.4	73.9	75.4	Increase to 100% national water coverage <sup>9/</sup>
			Annual average increase of 2.4 percentage points in access to safe water in rural dispersed areas during 2000-2005 <sup>10/</sup>	39.0	41.6	41.1	45.8	48.5	48.2	49.8	50.5	52.6	53.5	



Current situation	National Goals	National Targets Year 2005	Intermediate Indicators	Base Year 1999	Est. 2000	Actual 2000	Goal 2001	Actual 2001	Goal 2002	Actual 2002	2003	2004	2005	International Targets Year 2015
94.8% of the population living in urban areas has access to sanitation. In contrast, 70% of the rural population has access to sanitation.		Increase national access to sanitation to 88% in 2004 from 84.1% in 1998 <sup>11/</sup>  Increase access to sewerage in urban areas to 44.1% from 33.6% in 1999 <sup>12/</sup>	Increase national access to sanitation by 4 percentage points during 2000-2004 <sup>11/</sup>	84.1 (1998)	...	...	85.0	86.2	...	n.d	...	88.0	...	Increase to 95% national access to sanitation <sup>9/</sup>
			Annual increase of 1.7 percentage point in share of urban population with access to sewerage <sup>12/</sup>	33.6	35.8	35.8	34.9	35.8	35.8	32.7	37.4	40.3	44.1	
19% of Nicaragua's population over 10 years old is illiterate and illiteracy rate among extreme poor is 41%.	Reduce illiteracy rate	Reduce illiteracy rate to 16% by 2004 from 19% from 1998 <sup>5/</sup>	Decrease illiteracy rate by 3 percentage point by 2004 as measured by LSMS <sup>5/</sup>	19.0 (1998)	...	...	18.5	18.7	...	n.d	...	16.0	...	Decrease illiteracy rates to 10% <sup>9/</sup>
			Increase mean years of schooling among the 10-19 age group to 5.0 years in 2004 <sup>5/</sup> from 4.6 years in 1998	4.6 (1998)	...	...	4.8	4.9	...	n.d	...	5.0	...	

<sup>1/</sup> These indicators will be defined ahead.

<sup>2/</sup> This indicator includes only elementary school classrooms constructed, rehabilitated and/or replaced.

<sup>3/</sup> Past population data of expected pregnancies and deliveries was usually calculated yearly by MINSA; recently these have been calculated as average for the next five years.

<sup>4/</sup> The low 1999 coverage stems from a shift from 3 dosage DPT to a 5 dosage approach in that year.

<sup>5/</sup> Measured by LSMS.

<sup>6/</sup> Achieving these levels is partly dependent on the increase of water and sanitation services.

<sup>7/</sup> Measured by Demographic and Health Survey (DHS).

<sup>8/</sup> Increase the share of women of childbearing age accessing reproductive healthcare services to 23% by 2005 from 21% in 1999 (an annual average increase of 14,000 women of childbearing age during 2000-2005 period) is an intermediate indicator which affects two national goals: (1) reduce maternal mortality rate; and (2) increase access to reproductive healthcare services.

<sup>9/</sup> National target.

<sup>10/</sup> Increase access to safe water and sanitation in rural dispersed areas is an intermediate indicator, which crosses four national goals: (1) reduce infant mortality rate; (2) reduce mortality of children under five; (3) increase access to water; and (4) increase access to sanitation.

<sup>11/</sup> Sanitation includes sewerage and latrines.

<sup>12/</sup> Increasing access to sewerage in urban population is an intermediate indicator, which affects three national goals: (1) reduce infant mortality rate; (2) reduce mortality rate of children under five; and (3) increase access to sanitation.

# **Annex III**

## **Citizens' Participation Process**

### **Citizens' Participation Process**

1. CONPES began the training program to discuss the 2004 budget in August this year. So far, there have been working meetings with the BCN, the MHCP, and the SNIP. There have also been meetings with the MTI, MECD, FISE, DGI, and DGA, among others, to know more about the execution of the investment portfolio.
2. Currently, CONPES has 46 members representing sectors and 15 individual members. For the fourth period of sessions, there were more representatives from the business sector, including the chambers of producers, microfinance associations, and civil associations. The individual members include professionals, experts, former government officials, and citizens with an exemplary track record. For this period, the political parties were excluded from CONPES so that there would be a better representation of civil society.
3. CONPES commissions were reorganized in order to have five: Governance, Economic, Social, Production, and Labor. The topics on the agenda for 2003 have been: reforms to the political legal framework for the Nicaraguan State, the Plan Puebla Panama, the Free Trade Agreement, and the NDP. The commissions have taken up the following priority issues: employment policy; productive competitiveness; social policies like health, education, and housing; and the citizen "window", which is a computerized tool to enable the common citizen to issue opinions about different government policies.
4. CONPES has the faculty to make recommendations on its own initiative. The Economic Commission has sub-commissions for budget, fiscal issues, and international treaties. The Social Commission has a sub-commission for follow up to the implementation and social audit of the SGPRS and the other commissions look at the issues of production, labor, and governance. CONPES supported the sector consultations for the NDP through working sessions with Mayors, labor unions, businesspeople, NGOs, and others.
5. According to presidential decrees of the year 2003, the members of CONPES are: the High Council for Private Enterprise (COSEP); the Nicaraguan Chamber of Industry (CADIN); the Nicaraguan Chamber of Fisheries (CAPENIC); the Union of Agricultural Producers of Nicaragua (UPANIC); the Nicaraguan Chamber of Construction (CNC); the National Association of Poultry Producers and Feed Producers; the Nicaraguan Association of Producers and Exporters of Non-Traditional Products (APENN); the Nicaraguan Development Institute (INDE); the Nicaraguan National Chamber of Tourism; the Civil Coordinator; Civitas of Nicaragua; the Ibero-American Foundation for Culture; the Confederation of Professional Associations of Nicaragua (CONAPRO); the Chamber of Commerce of Nicaragua (CACONIC); the Nicaraguan Chamber of Mines (CAMINIC); the National Chamber of Medium and Small Industry and Handicrafts (CONAPI); the Nicaragua Communal Movement; Local Community Boards (JCOP); the Nicaraguan American Chamber of Commerce (AMCHAM); the National Union of Farmers and Ranchers (UNAG); the Permanent Congress of Workers (CPT); the National Workers' Front (FNT); the Sandinista Workers' Central (CST); the Workers' Central of Nicaragua (CTN); the Nicaraguan Workers' Central; the Nicaraguan Association of Microfinance Institutions (ASOMIF); NGOs from the South Atlantic Autonomous Region; NGOs from the North Atlantic Autonomous Region; Costeños United for Development of the

Atlantic Coast of Nicaragua (CUPROD); youth organizations; the Association of Municipalities of Nicaragua (AMUNIC); the National Council of Universities (CNU); the Nicaraguan Federation of Private Universities (FENUP); the Nicaraguan Association for Women (ANIMU); the Nicaraguan Council for Youth (CJN); the Network of Women Against Violence; the Nicaraguan Union of Journalists; the Nicaraguan Association of Journalists; the Nicaraguan Federation of Collective Transport; individual members; and, the Board of Directors.

### **Territorial consultation on a proposal for the National Development Plan (NDP)**

6. The participatory process of preparing the NDP was conceived of and designed as an effort to facilitate having civil society think about the national reality and to awaken individual and collective awareness of the fact that we all must make thorough changes for a better future. The objective of building a strategic alliance between the Government and society for development and democratization starts from governance and co-responsibility.

7. The Government promoted the idea that the social and economic players should hold independent working sessions to draft their recommendations in order to define methods for participation and to designate delegates to the bodies for reaching agreement on planning, and management on departmental and regional level affairs.

#### *First stage*

8. In December 2002, the Government presented to the Nicaraguan society and the international community the first draft of a national development plan and prepared a document called “Basis for a Prosperous Nicaragua” that defined the medium- and long-term vision of the territory and established a first scenario for planning.

9. Based on the experience obtained with the consultation process for the SGPRS, the formulation of the “Vision of Nation,” and other sector and territorial experiences like the Strategy for Conservation and Development of Nicaragua (ECODESNIC, 1992), the policy for citizen participation, strategic municipal planning; the processes for drawing up the strategic plans for the RAAS and Río San Juan, the document “The Nicaragua that We Want” of the Civil Coordinator, and much more, a process of territorial consultations began in March 2003.

10. **Territorial forums.** The process of participatory construction from the territories included two types working sessions: ones with institutional delegates of the Executive Branch at the departmental level called executive sessions; and others called forums for synthesis with representatives of the sectors identified as key players for development: municipal and regional governments; social sectors (organizations, NGOs, and associations), economic sectors (businesspeople and labor union representatives); and delegates from government institutions in the departments. These sessions were conducted using methodologies that were executed in two stages, including a pilot phase in four departments: Madriz, Nueva Segovia, Jinotega, and Río San Juan.

11. The objectives of these forums held from March to August 2003 was to know about the perceptions and expectations of the actors, to analyze the Government’s proposal, to establish territorial priorities and the vision from 2008 to 2028, defining social, economic, environmental,

and organizational goals for each territory and the bodies for participatory management of development in the department or region, the members of these bodies, their mission, decision-making mechanisms, the role of the participants, and the support expected from the Government.

12. There were 17 territorial forums in 15 departments and the two autonomous regions on the Atlantic Coast. A breakdown of the participants by sectors is as follows: social (489 – 48%); government institutions (240 – 21%); municipal governments (151 – 13%); businesspeople (226 – 20%); and, regional governments (30 – 3%) for a total of 1,136 people.

13. Preliminary results were obtained to enrich the NDP proposal and to initiate strategic planning processes in the territory and others were strengthened like Río San Juan and RAAN that already have developed their own plan.

14. The objective of the territorial forums was to have the participants identify the economic and social activities considered as priorities in each territory, to assess the general principles of the NDP, to identify the roles, priorities, and to promote the departmental development councils as entities for consensus and planning. This process validated the need to have a NDP, and there were some expressions of mistrust and skepticism by participants.

15. The principles of the NDP were considered indispensable by the participants, although they were perceived as being utopian given the present level of institutionality, and so shows of “good will” were demanded from the Government. Something that motivated participation was the presentation of the budget for public investment and the possibility of defining its use from the territories and where it would go. One weakness was the lack of more participation by Mayors and businesspeople.

16. **Forums with social sectors.** The sessions with representatives from social and economic sectors took the form of seven forums supported by CONPES. The sectors were: Mayors, adolescents, youth, women, social movements (environmentalists, indigenous peoples, NGOs), businesspeople, and labor unions. The organizations working with adolescents pushed for a special session with secondary students. The objectives were to assess the proposal, hear recommendations from each sector, and define their role.

17. **Working sessions with government delegates in the territories.** There were seven sessions with delegates from all the institutions of the Executive Branch in the departments and autonomous regions in order to promote departmental cabinets, analyze the public investment portfolio, and define a departmental or regional vision.

18. As a result of this first stage of sector and territorial forums, a NDP proposal was developed by September 2003 that included two separate reports, one, “Consultation and Territorial Priorities” and another one, “Consultation and Sectoral Priorities” that reflected the commitments and priorities for every department, region and economic sector of the country.

*Second stage*

19. Within the process that started in 2003, work will continue in 2004 to build consensus for the NDP and its implementation; and the departmental and regional development strategies will be finalized by December 2003. The PASE project will assist in articulating this effort. The donor community will continue to support this effort and it is expected that the number of contributors will increase. The NDP proposal and the consultation process are available on the web page [www.ndp.gob.ni](http://www.ndp.gob.ni) and through Internet service providers in Nicaragua.

# **Annex Tables**

Table 2. Nicaragua: Fiscal Indicators

Items	2000	2001	2002		2003 <sup>1/</sup>
			Program	Observed	
Percentage of GDP					
<b>Combined Public Sector</b>					
Savings	2.2	-3.2	-2.7	-2.5	0.2
Primary Savings	5.5	3.0	4.5	4.7	6.6
Overall Deficit b/g	-9.4	-13.8	-10.6	-10.5	-8.4
Primary Deficit b/g	-6.2	-7.6	-4.9	-3.3	-2.0
<b>Non-Financial Public Sector</b>					
Revenues	20.0	19.7	20.4	20.4	22.0
Current	20.0	19.7	20.4	20.3	21.9
Total Expenditure	28.5	32.2	29.0	28.9	28.7
Current	16.8	21.6	21.1	20.9	20.1
Capital	11.7	10.6	8.0	8.0	8.6
Savings	3.1	-2.0	-0.7	-0.6	1.9
Primary Savings	5.9	3.4	5.0	5.1	7.0
Overall Deficit b/g	-8.5	-12.5	-8.6	-8.6	-6.7
Primary Deficit b/g	-5.7	-7.2	-2.9	-2.8	-1.6
External Grants	4.5	4.7	4.7	5.0	5.1
<b>Central Government</b>					
Revenues	15.0	14.3	15.1	15.1	16.6
Current	15.0	14.2	15.0	15.0	16.5
Total Expenditure	23.8	27.0	23.4	23.7	23.3
Current	13.6	17.6	16.8	16.8	15.9
Capital	10.2	9.4	6.6	6.8	7.3
Primary Savings	3.5	1.9	3.9	3.9	5.7
Overall Deficit b/g	-8.7	-12.8	-8.3	-8.6	-6.7
Primary Savings b/g	-6.7	-7.5	-2.6	-2.9	-1.6
External Grants	3.7	4.0	4.3	4.5	4.6
<b>Memorandum</b>					
Quasi-fiscal losses of BCN	-0.9	-1.3	-2.0	-2.0	-1.7
Current GDP (millions of Córdoba) <sup>2/</sup>	50,144.6	53,653.5	57,051.3	57,051.3	61,926.6

1/: IV PRGF review.

2/: In accordance to the new national account system of BCN.

b/g: before grants

Source: MHCP, BCN.



Annex Table 2. Nicaragua: Financing Sources of NFPS Deficit

Items	2000	2001	2002		2003 <sup>1/</sup>
			Program	Observed	
	Million of dollars				
<b>Overall Deficit before Grants</b>	<b>-336.8</b>	<b>-499.7</b>	<b>-346.0</b>	<b>-343.1</b>	<b>-275.3</b>
<b>Total Financing</b>	<b>336.8</b>	<b>499.7</b>	<b>346.0</b>	<b>343.1</b>	<b>275.3</b>
<b>Net External Financing</b>	<b>333.2</b>	<b>305.7</b>	<b>356.3</b>	<b>368.8</b>	<b>426.2</b>
Net Loans	157.0	118.7	16.5	9.8	52.3
Arrears Reduction	-	-	151.1	159.9	163.5
Foreign Grants	176.2	187.0	188.8	199.2	210.5
HIPC Relief	-	63.3	72.9	70.8	100.9
Other Grants	176.2	123.7	115.9	128.4	109.6
<b>Net Domestic Financing</b>	<b>-111.5</b>	<b>156.8</b>	<b>-29.2</b>	<b>-41.7</b>	<b>-192.1</b>
Central Bank	-27.7	216.9	-69.6	-105.0	-128.5
Rest of Financial System	-43.4	-64.5	-0.7	-11.0	-42.9
Suppliers	-40.4	4.4	41.0	74.4	-20.6
<b>Revenues from Privatization</b>	<b>115.1</b>	<b>37.2</b>	<b>19.0</b>	<b>15.9</b>	<b>41.2</b>
<u>Memorandum</u>					
Average exchange rate	12.6844	13.4446	14.2513	14.2513	15.1064

1/: IV PRGF review.

Source: MHCP, BCN.

## ANNEX TABLES

Annex Table 3. Nicaragua: Poverty-reducing Spending <sup>1/</sup>

Items	1997	2001	2002		2003 <sup>3/</sup>
			Program	Executed <sup>2/</sup>	
	Million of dollars				
Primary Total Expenditure of the NFPS	741.9	1,062.5	933.9	928.1	966.0
Current Spending <sup>4/</sup>	460.7	649.5	615.3	607.0	613.3
Capital Spending <sup>5/</sup>	281.1	413.1	318.6	321.1	352.6
Central Government Poverty Spending	556.4	857.0	708.6	718.6	746.2
Current Spending <sup>4/</sup>	353.3	491.0	445.2	444.4	443.7
Capital Spending <sup>5/</sup>	203.1	366.0	263.3	274.2	302.6
<b>Total Poverty Spending</b>	<b>301.9</b>	<b>361.8</b>	<b>400.2</b>	<b>401.1</b>	<b>450.0</b>
<b>Current Spending</b>	<b>133.9</b>	<b>177.3</b>	<b>196.4</b>	<b>194.2</b>	<b>196.5</b>
Domestic Resources	133.9	177.3	196.4	194.2	196.5
Of which: HIPC Relief	-	49.9	49.9	47.9	67.0
Treasury Resources	133.9	127.4	146.5	146.3	129.5
<b>Capital Spending</b>	<b>168.1</b>	<b>184.5</b>	<b>203.8</b>	<b>206.9</b>	<b>253.5</b>
Domestic Resources	24.1	38.5	40.2	35.1	47.6
Of which: HIPC Relief	-	13.4	23.0	22.9	33.9
Autonomous Entities Resources	1.7	0.8	2.5	0.5	1.6
Treasury Resources	22.5	24.3	14.8	11.7	12.1
External Resources	143.9	146.0	163.6	171.8	205.9
Total HIPC Relief <sup>6/</sup>	-	63.3	72.9	70.8	100.9
<b>Central Government Poverty Spending</b>	<b>274.7</b>	<b>348.6</b>	<b>371.3</b>	<b>376.7</b>	<b>423.9</b>
Current Spending	133.9	177.3	196.4	194.2	196.5
Domestic Resources	133.9	177.3	196.4	194.2	196.5
Of which: HIPC Relief	-	49.9	49.9	47.9	67.0
Treasury Resources	133.9	127.4	146.5	146.3	129.5
Capital Spending	140.9	171.4	174.9	182.5	227.4
Domestic Resources	22.5	37.7	37.8	34.6	46.0
Of which: HIPC Relief	-	13.4	23.0	22.9	33.9
Treasury Resources	22.5	24.3	14.8	11.7	12.1
External Resources	118.4	133.7	137.1	147.9	181.4
Total HIPC Relief <sup>6/</sup>	-	63.3	72.9	70.8	100.9
<b>Autonomous Entities Poverty Spending</b>	<b>27.2</b>	<b>13.1</b>	<b>28.9</b>	<b>24.4</b>	<b>26.1</b>
Capital Spending	27.2	13.1	28.9	24.4	26.1
Domestic Resources	1.7	0.8	2.5	0.5	1.6
External Resources	25.6	12.3	26.5	23.9	24.5
	<b>Estructure</b>				
<b>Non Financial Public Sector</b>					
Poverty Spending / Total Expenditure	40.7	34.0	42.9	43.2	46.6
Current Poverty Spending/ Current Expenditure	29.1	27.3	31.9	32.0	32.0
Capital Poverty Spending / Capital Expenditure	59.8	44.7	64.0	64.4	71.9
Domestic Resources / Poverty Expenditure	52.3	59.6	59.1	57.2	54.2
<b>Central Government</b>	0.0	0.0	0.0	0.0	0.0
Poverty Spending / Total Expenditure	49.4	40.7	52.4	52.4	56.8
Current Poverty Spending/ Current Expenditure	37.9	36.1	44.1	43.7	44.3
Capital Poverty Spending / Capital Expenditure	69.4	46.8	66.4	66.6	75.2
Domestic Resources / Poverty Expenditure	56.9	61.7	63.1	60.7	57.2

1/: The 1998-2002 periods corresponds to the adjusted Poverty Spending, which does not include spending caused by hurricane Mitch and Special Programs and Support for Health, Education and Housing.

2/: Preliminary.

3/: IV PRGF review

4/: Exclude Interests.

5/: Exclude Concesión of Net Loans.

6/: Calculated from the biggest amount that came out as a result of subtracting the service effectively paid during 1992-1998, and service to be paid after HIPC relief, or else the total HIPC relief coming from multilateral creditors.

Source: SECEP, MHCP, BCN.

Annex Table 4. Nicaragua: Poverty-reducing Spending <sup>1/</sup>

Items	1997	2001	2002		2003 <sup>3/</sup>
			Program	Executed <sup>2/</sup>	
			Percentage of GDP		
Primary Total Expenditure of the NFPS	21.9	26.6	23.3	23.2	23.6
Current Spending <sup>4/</sup>	13.6	16.3	15.4	15.2	15.0
Capital Spending <sup>5/</sup>	8.3	10.4	8.0	8.0	8.6
Primary Total Expenditure of the Central Government	16.4	21.5	17.7	17.9	18.2
Current Spending <sup>4/</sup>	10.4	12.3	11.1	11.1	10.8
Capital Spending <sup>5/</sup>	6.0	9.2	6.6	6.8	7.4
<b>Total Poverty Spending</b>	<b>8.9</b>	<b>9.1</b>	<b>10.0</b>	<b>10.0</b>	<b>11.0</b>
<b>Current Spending</b>	<b>4.0</b>	<b>4.4</b>	<b>4.9</b>	<b>4.9</b>	<b>4.8</b>
Domestic Resources	4.0	4.4	4.9	4.9	4.8
Of which: HIPC Relief	0.0	1.3	1.2	1.2	1.6
Treasury Resources	4.0	3.2	3.7	3.7	3.2
<b>Capital Spending</b>	<b>5.0</b>	<b>4.6</b>	<b>5.1</b>	<b>5.2</b>	<b>6.2</b>
Domestic Resources	0.7	1.0	1.0	0.9	1.2
Of which: HIPC Relief	0.0	0.3	0.6	0.6	0.8
Autonomous Entities Resources	0.0	0.0	0.1	0.0	0.0
Treasury Resources	0.7	0.6	0.4	0.3	0.3
External Resources	4.3	3.7	4.1	4.3	5.0
Total HIPC Relief <sup>6/</sup>	0.0	1.6	1.8	1.8	2.5
<b>Central Government Poverty Spending</b>	<b>8.1</b>	<b>8.7</b>	<b>9.3</b>	<b>9.4</b>	<b>10.3</b>
Current Spending	4.0	4.4	4.9	4.9	4.8
Domestic Resources	4.0	4.4	4.9	4.9	4.8
Of which: HIPC Relief	0.0	1.3	1.2	1.2	1.6
Treasury Resources	4.0	3.2	3.7	3.7	3.2
Capital Spending	4.2	4.3	4.4	4.6	5.5
Domestic Resources	0.7	0.9	0.9	0.9	1.1
Of which: HIPC Relief	0.0	0.3	0.6	0.6	0.8
Treasury Resources	0.7	0.6	0.4	0.3	0.3
External Resources	3.5	3.4	3.4	3.7	4.4
Total HIPC Relief <sup>6/</sup>	0.0	1.6	1.8	1.8	2.5
<b>Autonomous Entities Poverty Spending</b>	<b>0.8</b>	<b>0.3</b>	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>
Capital Spending	0.8	0.3	0.7	0.6	0.6
Domestic Resources	0.0	0.0	0.1	0.0	0.0
External Resources	0.8	0.3	0.7	0.6	0.6
			Estructure		
<b>Non Financial Public Sector</b>					
Poverty Spending / Total Expenditure	40.7	34.0	42.9	43.2	46.6
Current Poverty Spending/ Current Expenditure	29.1	27.3	31.9	32.0	32.0
Capital Poverty Spending / Capital Expenditure	59.8	44.7	64.0	64.4	71.9
Domestic Resources / Poverty Expenditure	52.3	59.6	59.1	57.2	54.2
<b>Central Government</b>	0.0	0.0	0.0	0.0	0.0
Poverty Spending / Total Expenditure	49.4	40.7	52.4	52.4	56.8
Current Poverty Spending/ Current Expenditure	37.9	36.1	44.1	43.7	44.3
Capital Poverty Spending / Capital Expenditure	69.4	46.8	66.4	66.6	75.2
Domestic Resources / Poverty Expenditure	56.9	61.7	63.1	60.7	57.2

<sup>1/</sup>: The 1998-2002 period corresponds to the adjusted Poverty Spending, which does not include spending caused by hurricane Mitch and Special Programs and Support for Health, Education and Housing.

<sup>2/</sup>: Preliminary.

<sup>3/</sup>: IV PRGF review

<sup>4/</sup>: Excludes interests.

<sup>5/</sup>: Exclude Concession of Net Loans.

<sup>6/</sup>: Calculated from the biggest amount that came out as a result of subtracting the service effectively paid during 1992-1998, and service to be paid after HIPC relief, or else the total HIPC relief from multilateral creditors.

Source: SECEP, MHCP, BCN.

## ANNEX TABLES

Cuadro Anexo 5. Nicaragua: Poverty Spending by Pillars and Cross-cutting Themes<sup>1/</sup>

Items	2001			2002 <sup>2/</sup>			2003 <sup>3/</sup>		
	Current Expenditure	Capital Expenditure	Total	Current Expenditure	Capital Expenditure	Total	Current Expenditure	Capital Expenditure	Total
<b>Million of dollars</b>									
<b>TOTAL SGPRS</b>	<b>177.3</b>	<b>184.5</b>	<b>361.8</b>	<b>194.2</b>	<b>206.9</b>	<b>401.1</b>	<b>196.5</b>	<b>253.5</b>	<b>450.0</b>
<b>Pillars</b>	<b>170.4</b>	<b>152.6</b>	<b>323.0</b>	<b>185.9</b>	<b>172.2</b>	<b>358.1</b>	<b>190.6</b>	<b>217.7</b>	<b>408.2</b>
Economic Growth	15.3	72.9	88.2	14.3	85.5	99.9	13.0	105.4	118.4
Investment in Human Capital	148.0	46.2	194.2	165.2	58.9	224.1	172.4	70.3	242.8
Education	61.1	41.6	102.7	74.9	37.8	112.7	75.7	37.6	113.3
Health	86.9	1.9	88.8	90.3	18.1	108.4	96.7	25.2	121.9
Population	-	1.8	1.8	-	0.1	0.1	-	2.5	2.5
Nutrition	-	0.8	0.8	-	2.8	2.8	-	5.1	5.1
Social Protection	5.9	32.7	38.6	5.1	24.5	29.6	4.0	40.1	44.1
Governance	1.2	0.9	2.0	1.3	3.3	4.6	1.2	1.9	3.1
<b>Cross-cutting Themes</b>	<b>6.9</b>	<b>31.9</b>	<b>38.8</b>	<b>8.3</b>	<b>34.8</b>	<b>43.0</b>	<b>5.9</b>	<b>35.8</b>	<b>41.8</b>
Environment	3.3	19.5	22.8	3.5	15.2	18.7	2.3	14.7	17.0
Decentralization	3.6	12.4	15.9	4.8	19.5	24.4	3.6	21.1	24.8
<b>Estructure</b>									
<b>TOTAL SGPRS</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Pillars</b>	<b>96.1</b>	<b>82.7</b>	<b>89.3</b>	<b>95.7</b>	<b>83.2</b>	<b>89.3</b>	<b>97.0</b>	<b>85.9</b>	<b>90.7</b>
Economic Growth	8.6	39.5	24.4	7.4	41.3	24.9	6.6	41.6	26.3
Investment in Human Capital	83.5	25.0	53.7	85.1	28.4	55.9	87.7	27.7	53.9
Education	34.5	22.6	28.4	38.6	18.3	28.1	38.5	14.8	25.2
Health	49.0	1.1	24.5	46.5	8.8	27.0	49.2	9.9	27.1
Population	-	1.0	0.5	-	0.1	0.0	-	1.0	0.6
Nutrition	-	0.4	0.2	-	1.4	0.7	-	2.0	1.1
Social Protection	3.3	17.7	10.7	2.6	11.8	7.4	2.0	15.8	9.8
<b>Cross-cutting Themes</b>	<b>0.7</b>	<b>0.5</b>	<b>0.6</b>	<b>0.7</b>	<b>1.6</b>	<b>1.1</b>	<b>0.6</b>	<b>0.7</b>	<b>0.7</b>
<b>Cross-cutting Themes</b>	<b>3.9</b>	<b>17.3</b>	<b>10.7</b>	<b>4.3</b>	<b>16.8</b>	<b>10.7</b>	<b>3.0</b>	<b>14.1</b>	<b>9.3</b>
Environment	1.9	10.6	6.3	1.8	7.4	4.7	1.2	5.8	3.8
Decentralization	2.0	6.7	4.4	2.5	9.4	6.1	1.8	8.3	5.5

1/: 2001-2002 exclude spendings caused by hurricane Mitch and Special Programs and Support for Health, Education and Housing.

2/: Preliminary.

3/: IV PRGF review.

Source: SECEP, MHCP.

**Addendum:**  
**CONPES Recommendations to the**  
**Second SGPRS Progress Report**

The National Council for Social and Economic Planning,

### **Whereas**

The Presidency of the Republic through the Secretariat of Coordination and Strategy of the Presidency submitted for consideration of the Council the document “Strengthened Growth and Poverty Reduction Strategy – Second Progress Report,”

Resolves to make the following recommendations to the document in question:

#### **I. General recommendations**

##### **Recommendations regarding spending on the SGPRS and intermediate indicators**

- a) We reiterate to the Government the obligation to send the Council documents for consultation with sufficient time beforehand in order to be able to make timely consultations so that the Government would have the opinion of the organizations represented on it in good time.
- b) The Government’s achievements in maintaining poverty spending despite enormous budgetary constraints and the significant fiscal adjustment made in 2002 and 2003 is acknowledged; however, in spite of that effort, the positive impact of poverty spending to improve the situation of the poor is not evident. The report must urge the Government to make greater efforts so that spending is oriented to those actions that would have an immediate positive impact on the most vulnerable.
- c) We feel that the document must evaluate and give more efficient follow up to social spending and determine the impact on the poor, and clearly identify the beneficiaries. The main objective of monitoring the SGPRS in the document should be centered on determining the real benefits achieved and to know what would have happened if that spending had not occurred. The conditions of the IMF and the WB do not provide answers either, since they do not have mechanisms to evaluate if the objectives of the social programs were reached. We recommend that proposals for new evaluation methods and for spending on social programs be introduced into the Progress Report.
- d) The Progress Report shows that the statistical information about the current state of the SGPRS indicators is insufficient and inconsistent. This shows the weaknesses of the Government institutions in generating a base of accurate and homogenous statistics that would allow for more precision in monitoring the behavior of those indicators. We feel that, in the future, there must be priority efforts made to create a single center of economic and social information that would provide feedback for the monitoring of the SGPRS indicators.
- e) In order to solve the social and economic problems faced by Nicaraguan families, we recommend that the document call for support and backing from international organizations for the related measures and actions of the Government. The stability of the country depends not only on macroeconomic statistics, but also on the family’s micro-economy. The experiences in similar countries provide examples to be kept in mind.

- f) The document shows the lack of an evaluation of the priorities of the SGPRS and a critical approach for implementing it.

### **Recommendations on the management of resources from the HIPC Initiative**

- a) The Progress Report must establish that the relief from the HIPC initiative be directed in priority fashion to poverty spending and not to administrative-bureaucratic matters.
- b) The Progress Report must include the breakdown of spending of the HIPC relief of the Supplementary Social Fund (FSS) and explain how this is reflected in the 2004 National Budget. We recommend the incorporation of the HIPC relief funds into the 2004 Budget and include the breakdown of such expenditures, as well as an explanation in the Progress Report.
- c) The Progress Report must list and evaluate, one by one, the conditions for reaching the completion point of the HIPC initiative; all of them must be mentioned. We see that the following are missing: (1) reform to the private pension system; (2) follow up mechanisms for HIPC resources; and, (3) privatization of the electricity generation firms.

### **Recommendations for managing fiscal policy and its relation to poverty**

The Report must make a proposal to evaluate the relationship between fiscal equity and poverty. This section should show to what extent the prevailing fiscal equity is an obstacle to overcoming poverty and a factor for economic stagnation. The Report must also urgently propose a study of the social impact of the fiscal reforms of 2002 and 2003.

### **Recommendations to do with the need to strengthen what is mentioned in the Report about the regulatory role of the State**

- a) We recommend that the Report show the need for the Government to promote the strengthening of the regulatory institutions in order to watch out for consumer rights.
- b) The Report does not mention the fact that the privatization processes have broadened the room for action of the private sector in the country and have contributed to technological innovation. **Nevertheless, it is necessary to put forward the need for an evaluation of the privatization processes and their impact on the application of the SGPRS.**
- c) We feel that the Report must indicate that the privatization processes should be carried out with the objective of improving public finances and obtaining technological investment and not for ideological reasons. Therefore, the Report must propose that future privatizations be done based on these criteria and on case-by-case basis.
- d) We recommend that the Report **urge to the different Branches of Government to promote institutional strengthening and transparency to contribute to create stable macroeconomic conditions** as a precondition for the SGPRS pillar of economic growth and the production strategy of the National Development Plan.

## II. Observations on the form and content of the document

### Observations on the form of the document

- a) There is no coherence between the Executive Summary and the content of the document, or among the paragraphs in it.
- b) The text of the document needs to be conciliated with the matrixes: the former does not use the information contained in the latter.
- c) The writing style of the document needs to be unified for congruency.
- d) We propose replacing the term “new Government” with “Government” (since this Administration has been in office for 22 months).
- e) Replace the expression “poverty spending” with “spending to reduce poverty.”
- f) There is a lack of precision in indicating and referring to Laws, so we recommend putting the number, exact name, and date of publication in La Gaceta of each law mentioned.

### Observations on the content of the document

- a) We consider it highly positive that goals for fighting overall poverty, and not just extreme poverty, are included in the second Report.
- b) Paragraph 310 has a lot of force in justifying the need for institutional reform and to achieve the objectives of the National Development Plan (NDP); so we recommend that the spirit of that paragraph be imbued throughout the entire document.

The Progress Report needs to develop the following information:

1. A more detailed explanation of the mechanism for transition from the SGPRS to the NDP.
2. Give details of the factors of governance that are having a negative effect on reaching the country’s goals for economic and social development. It is necessary to make reference to the conflicts between Branches of Government and the political cost of some laws required by the HIPC Initiative.
3. Emphasize in the Executive Summary and the body of the text that without massive continued foreign aid, **combined with the commitment of the Nicaraguan Government**, Nicaragua will not reach the Millennium Development Goals for 2015.
4. Make reference to the issue of ecological and environmental vulnerability in the introduction to the Report. At the same time, it is necessary to mention the rural and urban environmental problems, as well as efforts made by the Government to deal with them.



5. Include in the Executive Summary and in the body of the text references to the Free Trade Agreements, in particular the Free Trade Agreement between Central America and the United States (CAFTA) and its potential for economic growth and poverty. The lack of available information and transparency in the negotiations is worrisome.
6. Make reference to the themes of population, migration, and family remittances that have taken on great importance in the country's economic and social panorama.
7. The document must make an evaluation of what has been done in matters of population policy, as contemplated in Pillar II.
8. Detailed explanation of why, despite increased social spending, no positive results are seen from these actions. It is obvious that there are still high levels of poverty and no major impact from social spending is felt.
9. Explain the under-execution of some infrastructure projects and delays in budgetary disbursements for social spending.
10. Evaluation of systems for monitoring the impact of social spending on the poorest.
11. Proposals for concrete measures to improve linkages between SGPRS programs and projects and the National Budget.
12. Mention the gains made with the Program for Implementation of the SGPRS (PAI), for which we propose writing an additional paragraph into the document. It is also necessary to mention the relevant role of CONPES in regards to citizen participation; so we recommend adding a paragraph for each theme.
13. Precise description of the HIPC initiative debt forgiveness process.
14. The Report must contain comments on the liquidation of the assets from the bankrupted banks. It should be mentioned whether or not benefits were obtained from these liquidation, along with the costs incurred. CONPES asks for a reasoned inclusion of this theme in the Second SGPRS Progress Report. **Legal action must also be taken against those responsible for the bank failures.**
15. The Report must contain a paragraph describing the situation of the national financial system and **the threats hovering over it because of actions by judges.**
16. The Report must include an assessment of what has been done around the crosscutting theme of equity.

### III. Specific comments to the chapters and paragraphs of the document

#### I. Introduction

**Paragraph 4.** Correct the last sentence of the paragraph. As written, one cannot appreciate the scope of the negative impact that this would have on reaching the SGPRS objectives.

**Paragraph 6.** We feel that this paragraph must be written in a more propositive way with regards to the approach to debt forgiveness.

**Paragraph 7.** The implementation of the SGPRS Program has not been effective. The Government was not belligerent enough to obtain the funds necessary to execute the SGPRS projects. Under-execution of the projects is evident. The lack of definition of a strategy for the Government to arrange for resources had a negative effect on implementing the piloting of the SGPRS.

**Paragraph 9.** The wording should reflect that, despite Government efforts to take palliative measures for the most vulnerable sectors, the impact of the measures has not been of benefit to the quality of life of those sectors.

**Paragraph 11.** It cannot be stated positively, as it is in the Report, that there was an improvement in the indicators. The increase in medicine supply mentioned is not significant. This information can be verified with MINSA figures and in that institution's report on budget execution for 2001 and 2003.

**Paragraph 15.** A comment should be added to explain conceptually how it is proposed to make the transition from the SGPRS to the NDP. The SGPRS is an operative document in the process of implementation; the NDP is the Government's proposal for improving the first pillar of the SGPRS. After an agreement with the donor community and the support of civil society, the NDP can become the SGPRS II or Revised SGPRS. This new SGPRS could be called the National Development Plan, but it shall meet the technical requirements required for being considered as an SGPRS- II-type document, supported by civil society and the donor community.

#### II. Executive Summary

**Paragraph 18.** It is incorrect to establish a direct correlation between the net rate of schooling and construction of classrooms.

**Paragraph 19.** More clarity around the concepts used is needed; for example, maternal mortality and infant mortality. We also recommend reviewing the maternal mortality rate (MINSA talks of 125 to 100) and the infant mortality rate (MINSA has different figures: 43 per 1,000 live births and 35.5% for infant mortality and not 22.0% as appears in this paragraph). *Source: MINSA, Situation Analysis of Health for the National Development Plan.*

Access to health services and the slight improvement in this does not meet expectations (from 24.5 to 24.7). It would be more prudent to remove this figure from the Executive Summary or move it to the respective section.

**Paragraph 44.** All the conditions must be mentioned and include: the pensions system, mechanisms for following up HIPC resources, and privatization of power plants.

### **C. Performance of the economy 2002-2003**

**Paragraph 46.** Remove from the paragraph that per capita increase automatically determines reduction of poverty.

**Paragraph 52.** Put special emphasis on the negative impact of the US\$1,000.00 million shortfall in social spending and productive investment.

**Paragraph 55.** Divide it in two, so that the issue of rates for public services and privatization are separate from what is said about macroeconomic policy.

**Paragraph 56.** Add the increase in electricity rates as one of the causes of inflation.

### **Monetary and credit policy**

**Paragraph 59.** Indicate that negotiations will continue on the rest of the internal debt with CENI bondholders.

**Paragraph 63.** Breakdown the beneficiaries of these loans. Include the credit represented by credit cards. Cite sources for the figures.

### **Fiscal performance**

**Paragraph 71.** It is necessary to specify the closing date, whether 2002 or 2003. Explain what are the mentioned problems of implementation, especially for taxing banks.

### **D. Fiscal reform: taxation, budgeting, and administration**

It is necessary to explain the contribution of the two tax reforms: expansion of the tax base (2002) and fiscal equity (2003). Also present a brief description of the evolution of effective revenues collection through taxes, specifying banking taxes from 2001, 2002, and 2003. The Report should contain a breakdown by tax, tax by taxpayer, and reference to the impact on the basic shopping basket in order to appreciate the results of these reforms.

**Paragraphs 78 and 82.** In either one, add that revenues collection efficiency was not attained. Exoncrations and exemptions remain in place and are discretionary, and therefore, there is no more fiscal equity than before.

**Paragraph 83.** A new tax reform on top of those already made by the present Government is not convenient (three reforms in two years, four reforms in six years).

## **E. Evolution of poverty spending<sup>29</sup>. Execution 2002-2003**

### **Table 3, page 22.**

Clarify the source for the period from May to December 2003. Are the data, estimates or real?

## **G. HIPC relief, allocation and follow up. The principle of the additionality of the HIPC relief**

**Paragraph 130.** Strengthen the writing of the paragraph. A more thorough reflection must be made. The HIPC relief is linked to additionality and it must be put before the donor community that if this principle is not considered, there would be a negative effect on social spending. Additionality implies cash resources complementary to accounting relief.

**Paragraph 136.** It is necessary to include the figures for 2004 in Table No. 9 (No. 10 on final version).

## **IV. Poverty Reduction**

**Paragraph 141.** Mention that the studies referred to, are recent.

### **Evolution of poverty**

**Paragraph 145.** Explain more clearly how basic grains production and lower export prices relate to poverty reduction (better wording suggested).

## **V. Progress in implementing Policies and Programs**

**Paragraph 151.** Specify the laws being mentioned.

The Report makes modest mention that “*demand for services increases at the pace of population growth and so the Government will have to make greater efforts in the future.*” This means that the Government must make enormous efforts to obtain money. For this, it needs to reach the completion point of the HIPC initiative by means of consensus with civil society and support from donors.

### **A. Pillar I: broad-based economic growth**

Despite the difficult economic situation described, specifically noting the impact of external and internal environment on our economy, a certain improvement in the sectors for job creation is shown. Though it is important to reflect Government efforts along this line, these actions have not been enough to palliate the situation described; since neither the improvements or the impacts described here are observed and there is no description of concrete actions. It would be necessary to check with agricultural sectors and PYMEs what they think about what is mentioned in regards to “improvements” in those sectors. It must be remembered that mere

---

<sup>29</sup> It has been recommended before to change the term “poverty spending” for “spending on poverty reduction.”

approval of a certain number of Laws does not have a direct influence on “broad-based economic growth.”

In other words, it is necessary to have the Progress Report reflect the policies, measures and concrete actions for reaching these ends, or to make reference to the guidelines for the production strategy contained in the National Development Plan.

**Paragraph 153.** Specify the Laws mentioned.

**Paragraph 156.** The data should be completed.

## **B. Pillar II: Investment in human capital**

### **Education**

Regarding this pillar, no concrete activities are appreciated in the same way as they are with the approval of laws, administrative measures, etc.

Paragraph 163 notes efforts in education, but it is necessary to have concrete and ample data about the results and to compare these to the goals. Indicators show no improvement in the sector.

The Progress Report must contain a proposal to evaluate the national education system, and based on that evaluation, a National Education Policy should be formulated. This must seek to articulate the education sector subsystems and have them be coherent with the SGPRS. The Report must also recommend that the Government give greater priority to preschool education.

**Paragraphs 163 and 167.** Show a lack of coherence in dealing with similar themes. The writing of both paragraphs should be made more coherent.

### **Health and Nutrition**

**Paragraph 167.** There must be a better more detailed explanation of the causes for the shortfalls. To better understand the impact of the budgetary constraints on the education and health sectors, there must be a quantification of the assertions made in this section and details regarding to what extent the health and education sectors and their goals were affected.

**D. Pillar IV: Governance.** This is too weak.

### **Fight against corruption**

**Paragraph 182.** It must be indicated that the necessary conditions have not been created in the different Branches of Government to continue the fight against corruption successfully.

## **Government Institutional Reforms**

The consultations with sectors of civil society by the Government through CONPES for proposing candidates to the Supreme Court of Justice that led towards promoting reforms in the Judiciary must be added to this section. CONPES prepared a proposal to reform all the Branches of Government that opened up a national debate on this issue.

**Paragraph 190.** Refers to the implementation of the new Code for Penal Proceedings and not to the Penal Code. It must be noted that although the program for modernizing the Judicial Branch has begun, significant gains have yet to be seen.

## **Citizen participation**

**Paragraph 191.** The Law for Citizen Participation has yet to be approved.

## **E. Crosscutting themes**

### **Decentralization**

We consider that actions undertaken around the process of decentralization as highly positive.

### **Environment and ecological vulnerability**

1. The information in the Report should be expanded beyond what MARENA does. It makes no reference to forestry or private initiatives in this respect. The Report must put forward a reorientation of foreign aid towards sustainable development through natural resource management and not have a merely conservationist approach. The Report must also call for the definition of an appropriate policy for natural resource exploitation and management.
2. The Report must urge the Central, Regional and Municipal Governments to be more energetic in regards to policies related to natural resource management; otherwise, the SGPRS would not work.
3. The Report must recommend a review of the institutional apparatus in the environmental area.

## **F. Challenges in implementing the SGPRS**

**Paragraph 206** says: “*The SGPRS mentions a series of risks faced by the economy: natural, political, and external.*” The Report must describe the nature of these risks and the policies or measures to implement in order to cope with them.

**Paragraph 207.** The correct name of the Law is: “Law for Civil Service and the Administrative Career.” It should be corrected in the paragraph.

The Report must also urge the Government to acknowledge the social costs of privatization processes carried out. This must be put before the IMF. We recommend that these issues be a topic of permanent consultation with civil society.

**Paragraph 208** says: *“The most important pending challenge for the SGPRS is economic growth and job creation.”* We recommend that consequently, the Report must indicate the proposal to meet this challenge. It also says: *“Improving the quality of spending and reaching the goals of the SGPRS is another challenge.”* The Report must put forward which immediate actions the Government should carry out in order to improve the quality of spending. It also says: *“If the present level of behavior of the intermediate indicators continues, these goals would be unachievable.”* The Report must indicate what has to be done in order to change the behavior of these indicators.

## **VI. Intermediate Goals and Indicators**

- a) In evaluating the goals, the Report explains that there is increasing demand in the social sector (in line with population growth) in sensitive aspects like infant mortality, maternal mortality, malnutrition, schooling, and access to public services and drinking water. To attend this growing demand, there is a weak offer of these services, decreasing, and with the risk of being reduced, according to the economic indicators shown in the Report. It also says that this situation cannot be sustainable. One thing determining this situation is the fertility rate and a cultural and ideological environment that maintains these trends, **as well as the lack of implementation of policies that would provide attention to this phenomenon.** Therefore, CONPES feels that the Report must promote the need to formulate indicators for education oriented towards the preparation of a population policy appropriate to our country, and that promotes poverty reduction and economic growth.
- b) The Report lacks quantified information about the costs of SGPRS goals for 2004. These must be included in the Report so that they can be evaluated.

**Paragraph 215.** It notes: *“...progress towards international goals has been satisfactory...”* This is incongruent with what is noted in paragraph 216.

### **Reduce extreme poverty**

**Paragraph 217.** This paragraph is worded ambiguously. It must better explain the assertion that the conditions of poverty “WERE MAINTAINED or INCREASED.” In reality, the content of the paragraph does not reflect significant progress; so we recommend its removal.

### **Reduce maternal mortality**

The Report must go further into the analysis of the causes of maternal mortality. Nicaragua’s indicators for maternal mortality are among the highest in Latin America and this calls for greater efforts to deal with this problem immediately. The Progress Report has to be categorical in this respect, as well as with infant mortality and the rest of the social indicators in health, education, water and sanitation, and housing.

## **B. Intermediate Indicators**

### **Health**

**Paragraph 233.** The Report notes that delays in delivering per diems affected vaccinations. It is unfortunate this happened. This is a new obstacle for the SGPRS, together with other administrative failings in the social public sector mentioned earlier in another part of the Report, such as lack of capacity for gathering data, for analysis, for monitoring, delays in disbursements from the budget, etc.

## **VII. Administration of Public Spending**

The Report indicates that a very big challenge for the SGPRS is deficient budgetary execution by government institutions; however, the Report still needs to have proposals for concrete measures to resolve these failings that aggravate the situation of poverty in the country.

**Paragraph 236.** The Report does not give enough information about public spending. The information provided is very weak. The Report must contain more detailed data on public spending. Above all, it should mention that an ad hoc commission prepared recommendations on this theme.

## **C. National System for Public Investments – SNIP**

Has no content. The information in the paragraph must also be detailed.

## **VIII. Poverty and Social Impact Analysis (PSIA)**

**A. Tax reform.** The Report must contain an appreciation of the tax reforms made in 2002 and 2003 with respect to broadening the tax base and vertical and horizontal equity.

**Paragraph 265.** The Report must acknowledge that despite the reforms made, there are still basic defects in the Nicaraguan tax system: a narrow base of taxpayers, high tax rates, discretionality in applying exemptions or exonerations. There is also much inequity and evasion.

**Paragraph 268.** There are no data that reflects improvement in the fiscal system since the approval of Law for Fiscal Equity. It is not shown whether the base was broadened and whether vertical and horizontal equity improved.

**Paragraph 269.** It is cause for concern that the Report indicates that there is no information available to sustain or analyze the impact of spending in order to establish indicators for well-being, since this constitutes the substance of the SGPRS and the Report.



## **IX. SGPRS Review**

### **A. Factors for change**

**Paragraph 294.** The CONPES feels that the poverty map must not be completely rejected as a criterion for social investment. Nevertheless, zoning the country by economic potential could be a good complementary element. We feel that this should be discussed further.

We also feel it pertinent to emphasize that prerequisites and preconditions must be made explicit for developing the clusters, like: roadway infrastructure, communications infrastructure, and human capital.

### **B. National Development Plan (NDP). Parts of the proposal**

**Paragraph 305.** CONPES considers that competitiveness is not directly a strategy for poverty reduction. Productivity, and implicitly competitiveness, determines production levels; and that is what plays a direct role in poverty reduction.

#### **Transition to the NDP**

**Paragraph 312.** It must be added to this paragraph that CONPES feels that the support and consensus of civil society and the donor community are necessary for the transition to the National Development Plan; as is obtaining political agreements within the country's main political forces.

## **X. Processes for Citizen Consultation**

**Paragraph 321.** It must be made clear that within the program, CONPES has led the process of citizen participation and social auditing.

## Bibliography

Arcia G. "The Incidence of Public Education Spending in Nicaragua: The Impact of the Education for All-Fast Track Initiative" 2003, Consulting Report presented to The World Bank, Managua, Nicaragua

Arcia, G. "The Financing of Public Education in Nicaragua." 2003, Consulting Report. Ministry of Education, Culture, and Sports, Managua, Nicaragua.

Central Bank of Nicaragua, "Informe Anual 2002", May 2003, Managua, Nicaragua.

Central Bank of Nicaragua, "Últimas cifras revisadas del PRGF en base a las nuevas cuentas nacionales con base 1994". IMF Mission, August 2003.

World Bank, "Nicaragua Poverty Assessment, 20488-NI", June 2000.

Comisión Económica para América Latina y El Caribe (CEPAL), "Anuario Estadístico de América Latina y El Caribe 2002", April 2003.

International Monetary Fund, "Nicaragua: Tratamientos Especiales en la Tributación al Consumo y a las Importaciones", March 2000.

International Monetary Fund, "Supplement Memorandum Economic and Financial Policies," Mission April 2003.

International Monetary Fund, "Supplementary Memorandum of Economic and Financial Policies," Mission August 2003.

IMF, World Economic Outlook, April 2003

IMF, World Economic Outlook, May 2000

Government of Nicaragua, "Reinforced Strategy for Economic Growth and Poverty Reduction," July 2001, Managua, Nicaragua.

Government of Nicaragua, "Propuesta de Plan Nacional de Desarrollo", September 2003, Managua, Nicaragua.

Nicaraguan Institute for Statistics and Census, "Living Standards Measurement Survey (LSMS) 2001", Managua, Nicaragua.

Ministry of Education, Culture, and Sports, "Education For All - Fast Track Initiative, Country Proposal", 2002, Managua, Nicaragua.

Ministry of Treasury and Public Credit, "Presupuesto General de la República 2003", 2003, Managua, Nicaragua.

United Nations, "Development Goals: Follow up to the Millennium Summit, Nicaragua, First Report", January 2003.

Ravallion, Martin and Datt, Guarav, "Growth and Redistribution Components of Changes in Poverty Measures" LSMS Working Paper No. 83, September 1991, Washington, D.C

Secretariat for Coordination and Strategy of the Presidency, "Política Social y Económica, Informe 2002", May 2003, Managua, Nicaragua.