

INTERNATIONAL DEVELOPMENT ASSOCIATION AND  
INTERNATIONAL MONETARY FUND

NICARAGUA

**Poverty Reduction Strategy Paper  
Joint Staff Assessment**

Prepared by the Staffs of the International Development Association and  
the International Monetary Fund

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**I. OVERVIEW**

1. **The Poverty Reduction Strategy Paper<sup>1</sup> (PRSP) of the Government of Nicaragua builds on the interim strategy (I-PRSP) presented to the Boards of IDA and the Fund in December 2000, and presents the results of the government's continuing commitment and efforts to reduce poverty and improve welfare.** The preparation of the PRSP involved intensive consultations within the government, and with civil society, stakeholders, and the poor. It also benefited from broad bilateral and multilateral donor support during its preparation. The PRSP's main strengths are: (i) an active participatory process; (ii) a good diagnosis of poverty and its multidimensional nature; (iii) the identification and adequate progress in costing of goals, targets, and intermediate indicators, which are related to the International Development Goals (IDGs); (iv) a clear position that macroeconomic stability, including a prudent management of public finances, is critical to growth and poverty reduction; and (v) the identification of program areas critical for poverty reduction. A comprehensive review of public projects has been undertaken parallel to the preparation of the PRSP, and its recommendations are in the process of being implemented through the national public investment system.

2. **While the PRSP presents a comprehensive and coherent strategy to reduce poverty in Nicaragua,** additional work is needed in several areas, especially in: (i) enhancing participation and ownership in the course of implementing and monitoring the strategy; (ii) advancing the needed institutional reforms in the social sectors; (iii) developing further the tracking mechanism within the government's new integrated financial

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<sup>1</sup> *Estrategia Reforzada de Crecimiento Económico y Reducción de Pobreza*, Government of Nicaragua, July 2001.

management system to cover all poverty spending; and (iv) government-led efforts to realign donor assistance to support the PRSP.

3. **While the overall poverty reduction strategy appears appropriate, Nicaragua currently does not have a Fund-supported program**, and the authorities' program, which they requested Fund staff to monitor, extends only through December 2001. The implementation of the strategy faces major risks relating to the implementation of macroeconomic and structural policies during the upcoming political transition (presidential elections are scheduled for early November). There are also risks associated with possible negative developments in the external environment and the country's weak institutional capacity. In addition, there are a number of crucial elements of the strategy, including specific policy measures, that would need to be confirmed and developed further in the context of the economic program of the administration taking office in January 2002. On this basis, a PRSP progress report, including an updated macroeconomic framework, which could be the basis for a new Poverty Reduction and Growth Facility (PRGF), would need to be prepared.

## II. THE PARTICIPATORY PROCESS

4. **The PRSP emerged from an intensive consultation process.** Preparation of the PRSP provided a valuable opportunity to deepen a previous process of national consultation. By the time the international community sought to link more explicitly the benefits of the enhanced HIPC initiative to the preparation of participatory poverty reduction strategies, Nicaragua had already advanced in this task. The present government, upon taking office in 1997, initiated consultations to mobilize domestic support for its policies, followed by a request for external support at the April 1998 Consultative Group Meeting in Geneva. The consultation process was intensified, partly at the urging of civil society organizations, in the aftermath of Hurricane Mitch, with the creation of six councils in late 1998 to assess the damage and priority needs of the affected population, and to develop a reconstruction plan. This culminated with the creation of the National Council for Social and Economic Planning (CONPES) in early 1999, which became the primary channel of consultations between the government and civil society on social and economic strategy, and more recently for preparation of the PRSP.<sup>2</sup>

5. **The consultation process has been extensive and is being institutionalized.** In addition to the government at central and departmental levels, it included the civil society, other stakeholders (private sector, labor unions, academics, ethnic minorities, women's groups), and the poor. As part of this process, the National Advisory Program for Public

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<sup>2</sup> CONPES, created to advise the President on the formulation and evaluation of social and economic programs, brings together representatives of political parties, the business community, labor unions, churches, universities, and a network of national NGOs. It was assigned the added responsibility of liaising with civil society and other stakeholders to provide feedback for the preparation of the PRSP and build ownership for the poverty reduction strategy.

Policy Formulation (PRANAFP) was created to provide technical support to CONPES, and the Participatory Consultations Methodology Program (PROCONSULTA) was launched to support local consultations at the departmental/municipal levels of government and a series of focus groups with the poor themselves.<sup>3</sup> These programs benefited from bilateral and multilateral support.

6. **The PRSP contains a description of the consultation process and provides a summary of comments and recommendations received.** The main text of the PRSP and its Annex I provide: (i) a detailed description of the process of participatory consultations around the strategy proposed by the government; (ii) an annotated list of the government's working sessions within the central government, sectoral ministries and autonomous entities, with civil society through CONPES and at the local level through PROCONSULTA (including 9 departments and 16 focal groups with the urban and rural poor themselves), and with bilateral and multilateral donors; and (iii) a synthesis of comments and recommendations gathered during the consultative processes through CONPES and PROCONSULTA, and received from bilateral and multilateral donors. On the basis of the comments and recommendations received during the consultation process, the government revised the I-PRSP by placing more emphasis on broad-based economic growth, rural development, social equity, transparency and better governance, and broad participation. Consultations also were organized by a national NGO (FUNDEMOS), by a cluster organization of national NGOs (Civil Coordinator for Emergency and Reconstruction, CCER), and by a group of four municipalities in the Pacific Region (León Norte).

7. **The PRSP has been formally distributed through CONPES, presented to the donor community in Managua, and has been placed on the government's web page in the Internet: [WWW.SETEC.GOB.NI](http://WWW.SETEC.GOB.NI).** The government has confirmed that, as reflected in the PRSP, more accessible versions of the strategy are being prepared to improve dissemination and facilitate implementation of poverty reduction plans at the municipal level. This additional dissemination effort aims to increase commitment to the strategy, help reveal community level preferences, incorporate local experiences in future revisions of the strategy, and provide additional elements for its monitoring and evaluation. As part of this effort, a one-day event is being planned by the government, CONPES and civil society, sponsored by PROCONSULTA, to: (i) assess the final version of the PRSP; (ii) identify pending issues to be discussed with incoming authorities after the election; and (iii) discuss implementation issues, especially budgetary allocations, and define a modality for the participatory monitoring of the PRSP.

### III. POVERTY DIAGNOSIS

8. **The PRSP is firmly grounded in a comprehensive poverty diagnosis.** The collection of systematic information on poverty in Nicaragua began in earnest during the 1990s, and includes three Living Standards Measurement Surveys (LSMS), carried out in 1993, 1998 and post-Mitch 1999, a 1998 Demographic and Health Survey (DHS), the

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<sup>3</sup> Nicaragua has two autonomous regions, 15 departments and 151 municipalities.

population census of 1995, and the Nicaragua Qualitative Poverty and Exclusion Study (NQPES). Based on this information, the PRSP provides a multidimensional and disaggregated analysis of the nature and determinants of poverty, including an updated poverty map at the municipal level (Annex IV of the PRSP). The availability of comparable surveys separated in time has also permitted an initial evaluation of the impact of policies introduced in the early 1990s on reducing poverty. The NQPES, which places vulnerability at the center of the poor's perception of what perpetuates poverty, supported the need to consider protection of vulnerable groups as part of the PRSP.

9. **The PRSP contains an in-depth analysis of disparities in the incidence of poverty along various dimensions, and their determinants and constraints.** The document presents a thorough analysis of urban/rural, regional, gender, and ethnic disparities in poverty as manifested in different variables, including consumption, employment, property rights, access to infrastructure and public services, human capital, vulnerability, information and opportunity, violence, and exclusion. It identifies determinants of and constraints to poverty reduction and their relation to asset distribution, vulnerability, and risk.

10. **The PRSP evaluates the impact of past policies on growth and poverty.** The PRSP contains an assessment of past policies comparing the current situation with that existing 30 years ago (particularly the evolution of GDP per capita and external debt), the process of transition, the adjustments implemented during the 1990s, and an identification of constraints to economic growth. The document also describes ways in which these constraints might have become causes of poverty and low human capital development, and how vulnerable groups have been excluded.

#### IV. THE POVERTY REDUCTION STRATEGY

11. **The PRSP presents a coherent, long-term and outcome-based strategy to reduce poverty in Nicaragua.** This strategy rests on four pillars and three cross-cutting themes. The four pillars are: (i) broad-based economic growth; (ii) investment in human capital; (iii) better protection of vulnerable groups; and (iv) institutional strengthening and good governance. The three cross-cutting themes address the country's ecological vulnerability, social inequality and the need for greater decentralization. The PRSP ranks broad-based economic growth as the most important pillar to reduce poverty, emphasizing the need to generate productive employment and support rural development. Taking note of recent trends that show rising urban poverty, it also calls for urban-based growth. Focusing on these areas appears appropriate for addressing Nicaragua's poverty situation.

##### A. Targets, Indicators, and Monitoring

12. **The goals, targets, and intermediate indicators presented in the PRSP are consistent with the IDGs.** The goals, targets, and intermediate indicators were selected on the basis of the poverty analysis, the participatory consultation process and a review of the country's commitments made in various United Nations conferences. Nicaragua seeks to meet all the IDGs proposed by OECD-DAC by the year 2015, including reducing extreme

poverty by half, as well as four additional goals that reflect country-specific characteristics. These additional goals refer to complete implementation of a sustainable development strategy by 2005, reducing child malnutrition to 7 percent, expanding coverage of sanitation services to 95 percent, and reducing illiteracy to 10 percent. Nicaragua's child malnutrition at 20 percent is high as compared to regional standards and has shown little improvement over the last 30 years; by the same token inadequate access to water and sanitation services contributes to the low level of a number of social indicators, so that the attention placed on these indicators is clearly warranted. Nicaragua's illiteracy rate at 19 percent is also above the regional average, and its inclusion as a goal complements the IDG schooling target. Access to reproductive health would remain limited as its three intermediate indicators are very modest, practically unchanged from the I-PRSP.

13. **Most targets appear feasible, but their attainment will depend critically on accelerating economic growth, and a few targets may be overly ambitious even if the assumptions regarding growth and the required funding materialize.** In comparison with the I-PRSP, 6 of the 14 intermediate poverty targets were significantly revised, with some becoming less ambitious and others more. In the staffs' view, the target for the reduction in extreme poverty, which was revised from a 25 percent to a 17.5 percent reduction by 2005, is appropriate and attainable, provided there is no worsening of income distribution and economic growth can accelerate from 3 percent in 2001 to about 5 percent in 2004–05 and beyond. With regard to the remaining targets, some continue to appear difficult to reach; in particular, the very ambitious 25 percent target decline in infant mortality over seven years. Some of the other revised targets, however, notably those pertaining to illiteracy rates and chronic malnutrition among children, now appear somewhat modest.

14. **There are some gaps in the proposed system of intermediate indicators.** While the link between goals and intermediate indicators is clearly set out in the social area, there are no intermediate indicators for the productive area. The analysis of poverty in Nicaragua indicates that after family size and education, titling, and access to electricity and roads are at least as important as access to water and sanitation, but these intermediate indicators are not included. In addition and even though the Nicaragua Poverty Map is selected as the tool for targeting at the regional level, goals and targets are stated for the entire population. It will be advisable for the PRSP to consider intermediate indicators covering those groups that are below the national average. Even if targets do not focus on the bottom of the distribution, trends can be monitored to inform policy makers, by for example, tracking service access for the bottom decile.

15. **The PRSP presents a credible approach for monitoring and evaluating the strategy, but many details still need to be worked out.** The PRSP provides a broad overview of all government institutions involved in monitoring the strategy. It emphasizes the coordinating role of Technical Secretariat of the Presidency (SETEC) and the supervisory role of the Supplementary Social Fund (FSS), which represents a subordinated unit within SETEC, in following up on the ten programs to be financed with HIPC debt relief. The organizational structure to implement the strategy is to be strengthened by the

Inter-American Development Bank's (IDB) Program to Support Implementation of the PRSP (PAI) through a pilot in several municipalities. Monitoring and evaluation of the strategy will build upon the Program for the Improvement of Living Standards Measurement Surveys (MECOVI), a government and multi-donor program helping to coordinate efforts to improve data collection and analysis including an LSMS and a DHS in 2001, and an LSMS for 2004, and by IDB technical assistance to support the National System of Poverty Indicators (SINASIP). The series of surveys together with sectoral statistics will measure progress in reducing poverty and reaching PRSP targets.

16. **The structure to monitor implementation of the PRSP needs to be strengthened by indicating more clearly which institutions are responsible for providing what information by which date.** It would ease significantly the monitoring process if one government institution, such as SETEC, could serve as the central compiler of information, gathering all the relevant information on the implementation of program measures, the adoption of structural reforms and the progress made in meeting strategy targets and indicators. Furthermore, it is important that this monitoring process cover the programs to be financed with HIPC debt relief and achievement of structural reforms negotiated with the IMF, as currently envisioned in the PRSP, but also all other programs and reforms included in the PRSP.

#### **B. Macroeconomic Framework**

17. **The macroeconomic framework represents an appropriate outline of sound economic policies for the medium term.** The proposed macroeconomic and structural policies are consistent with the objective of advancing toward macroeconomic stability and external viability and, thus, toward a basis for sustained long run growth and poverty reduction. The PRSP stresses the need to increase national savings (private and public) to finance investment, particularly in light of expected declines in external savings. To achieve this goal, it envisages prudent macroeconomic policies and the implementation of key structural reforms, including on trade liberalization, civil service reform, and governance.

18. **The PRSP recognizes that accelerating growth will be key to reaching the poverty reduction targets.** The projected GDP growth rates are in line with those attained in the second half of the 1990s, but in the staffs' judgment accelerating and sustaining growth at 5 percent will hinge on an appropriate macroeconomic framework, implementation of structural policies and a favorable external environment. The PRSP provides a comprehensive overview of the structural reforms that have taken place over the last decade and that are envisioned in the near future. This program of reforms is appropriate for reaching the PRSP goals and sustaining higher growth. Particularly important will be the strengthening of the judicial system to provide a more predictable and stable legal environment conducive to higher private investment, the strengthening of property rights, implementation, and further refinement of a strategy to promote broad-based rural development and encourage the growth of small and medium-scale enterprises. In addition, there is a need to develop a longer-term decentralization strategy, which includes the roles and responsibilities of municipal governments and their revenue base.

19. **The PRSP presents a somewhat limited analysis of the economy's sources of growth.** Staffs agree with the PRSP's emphasis on broad-based and labor-intensive growth, and the importance of developing rural areas. The proposal to focus on four strategic growth poles—tourism, textiles, forestry, and coffee—appears appropriate, although the long-term prospects of the coffee sector seem highly uncertain. The proposed programs to support broad-based economic growth, however, lack sufficient detail and a clear linkage with the expected impact on growth. For example, 15 percent of investments in the growth pillar aim to increase the coverage of water and sewerage services in urban areas, but it is not clear how this would stimulate broad-based growth.

20. **The proposed fiscal policy appears adequate to address a number of challenges expected to be faced over the medium term.** In particular, the strategy proposes the implementation of a tax reform in 2002, and a reduction in capital expenditure on infrastructure, to historical pre-Hurricane Mitch levels, while increasing poverty reducing expenditure. However, once the likely availability of external financing is confirmed, moderately higher levels of capital expenditures may be viable, particularly in the outer years of the projection, which would help implementation of poverty-reducing projects.

21. **The framework may need to be updated in the context of a program of the new administration taking office in January 2002.** Currently, there is no PRGF arrangement in place and the strategy is based on the authorities' program for July–December 2001 and on indicative goals and broad policies for 2002–05. A progress report would be necessary because the success of the strategy hinges on critical reforms/actions to be adopted by the new administration during 2002–05. In addition, some policies for the medium term need to be further developed. In particular, the cost of the banking crises resolution of 2000/01 would need to be fully assessed and a strategy to deal with it explicitly incorporated into the medium term framework.

22. **The concessional external financing assumptions appear reasonable, after being revised downward significantly with respect to the assumptions of the I-PRSP, which the staffs regarded as overly optimistic.** There is still a significant degree of uncertainty regarding external resources available over the medium term, as commitments from the international community could only be firmed up after the new administration formulates its economic program. In view of these uncertainties, the authorities are advised to develop a fallback scenario that identifies absolute priorities that will be pursued even if external assistance is delayed.

### C. Policies for Implementing the Strategy

23. **The sectoral expenditure priorities set out in the PRSP appear appropriate** These include incentives for decentralization of education, provision of basic equipment and supplies in the health sector, social protection, increased coverage of basic services in key municipalities, development of the Atlantic Coast, urban poverty reduction, rural

development, and small and medium-scale enterprise development. In the staffs' view, the sectoral priorities are broadly appropriate, although it is difficult to determine whether the proposed allocations are sufficient to generate the outcomes targeted in the strategy. The PRSP could have also benefited from an evaluation of trade-offs with other competing sectoral activities.

24. **The PRSP emphasizes the need to address social equity, but does not articulate a clear strategy to reach vulnerable and at-risk groups.** The PRSP acknowledges that beyond social sector programs, social equity requires targeting specific groups, such as indigenous communities, children under six, and adolescents at risk. It also mentions the need to focus on the special needs of rural women and reduce domestic violence. The PRSP, however, proposes implementation of pilot projects that will take time to complete and evaluate. As suggested in the I-PRSP/JSA, it would be advisable to present a preliminary strategy to reach these groups, even if the details are adjusted subsequently, based on a full evaluation of the pilots.

25. **The emphasis on institutional reforms in the social sectors is welcome, but the elements of the reforms need to be defined more clearly and their rationale and urgency should be articulated better.** The PRSP discussion on social sector reforms remains somewhat sparse and does not fully reflect the mixed experience from past social sector reform efforts. It is largely focused on the efforts to strengthen school autonomy and parental participation in education, and the passage of a framework law for the health sector to create a more efficient division of labor between the private and public sectors. While the PRSP acknowledges that these reforms have encountered resistance and will require time to become established, it says little about possible modifications or additional measures that may be needed to overcome this resistance. Nicaragua has made important progress in extending the coverage of social services and, while some gaps still remain, an increasing and more complex challenge will be to improve the quality of services. Implementation of the PRSP as well as improvements in service quality will require a stronger emphasis on institutional reforms and capacity building in social sector institutions.

#### **D. Public Expenditure Program and Financing**

26. **The strategy's medium-term financing plan seems reasonable, provided the new administration implements a strong program in 2002–05.** The PRSP is based on a total estimated program cost of US\$1.1 billion in capital spending over five years (2001–05), or roughly US\$230 million per year (Table 8). This represents a significant reduction from the US\$375 million annual spending projected in the I-PRSP and reflects an improved prioritization of programs.

27. **The PRSP makes an effort to estimate the cost of achieving key program targets, but these estimates are tentative and general, reflecting the difficulties of quantifying the unit costs of meeting intermediate indicators.** The costing of intermediate indicators only pertains to three sectors (education, health, and water and sanitation), but the PRSP also presents ten specific programs to be financed with HIPC debt relief. These include programs



that will provide increased coverage of social services in key municipalities, an expanded social safety net, increased operational funds for rural health posts, and a program to extend and strengthen school autonomy while improving teacher retention and attendance in rural areas. Most of these programs, however, consist of second-generation projects that have yet to be fully developed or linked with the intermediate indicators in the three sectors mentioned above. Only the programs pertaining to education, health and the Social Investment Fund are ongoing projects. The program of social protection is based on the expansion of a successful pilot program, but other programs (Rural Development Fund and the Fund for Small and Medium Enterprises) are still at the concept stage. Since most of the debt relief will become available in 2002–2003, there is still some time to further conceptualize and develop these mechanisms. However, it is important that this take place before the HIPC debt relief resources are allocated.

28. **The government has made a start in implementing the PRSP.** The strategy was used as the overall framework to prepare the 2001 budget, with the budget organized around PRSP pillars. The PRSP is also being used as a framework for preparing sectoral plans and the national five-year public investment program. Sectoral ministries, in particular through their planning directorates, and the National Public Investment General Directorate (DGIP) are using the PRSP's macroeconomic framework and the matrix of goals and targets (Annex III of the PRSP) to develop their sectoral plans (Nicaragua Environmental Plan, Autonomous Entities, etc.) and five-year budgets.

29. **A comprehensive view of all sources of financing and spending dedicated to poverty reduction is required.** The PRSP projects spending on the poverty reduction and its relation to central government spending, but not the rest of the public sector. In addition, the PRSP presents domestic and external financing sources for the central government, but does not distinguish between HIPC debt relief and normal aid flows. For example, on the basis of Table 9, it would appear that additional resources of around 4 percent of GDP per annum would be available for poverty reduction programs, while on the basis of Table 6, it appears that the total spending on poverty reduction programs declines as a share of GDP during 2000–2005. A comprehensive view of expected financing sources and spending for the overall public sector is required to enable appropriate monitoring of PRSP implementation and its link with the country's overall fiscal and external financing situation.

30. **The mechanism for monitoring implementation of the PRSP needs to be developed further and linked to the government's integrated financial management system.** The PRSP devotes considerable attention to the role of the FSS in tracking financing from HIPC debt relief and their allocation toward the ten programs to be financed by HIPC debt relief. To monitor implementation of the PRSP, however, it is neither feasible nor desirable to track only a single source of funding, such as HIPC debt relief. It requires, instead, a more comprehensive tracking mechanism that covers all public spending on all the projects included in the PRSP portfolio, as well as all domestic and external resources. In designing a comprehensive tracking mechanism, it is strongly recommended that a close link be established between the PRSP and the integrated financial management system, which is being introduced at the central government level.

31. **Fiscal transparency and tracking of poverty-reducing public expenditure will need to be improved.** A recent joint Fund-Bank mission reviewed these issues (ROSC) and found that Nicaragua has made progress in recent years, but that transparency in budget preparation, execution and reporting is still inadequate. As regards the tracking of poverty-reducing public expenditure, the mission found that the coverage of the integrated financial management system and basis of recording will also need to be improved. Adequate tracking of all poverty-reducing expenditure will require modifications in the budgetary coding. Further technical assistance by donors and the IFIs will be necessary to help improve Nicaragua's capacity to track poverty-reducing expenditure over the medium term. To address these issues the mission will propose an action plan, which after being agreed with the authorities should be reflected in an updated version of the PRSP.

32. **Further efforts led by the government are needed to improve donor coordination in the implementation of the PRSP.** The donor coordination contemplated in the PRSP is mainly limited to the financing through the FSS of the ten programs targeted for HIPC debt relief. This funding, though significant, only covers a fraction of all programs financed with external resources. To improve the impact of poverty spending, it is advisable to set up a better coordination mechanism, led by the government, that covers the entire flow of external resource inflows and its link with the PRSP.

33. **Implementation of the PRSP will require significant technical assistance support.** The support will especially be needed in costing and improving linkages between intermediate indicators and specific public sector activities, institutional strengthening of social sectors and developing further the PRSP financial tracking mechanism. IDA has been providing inputs into the PRSP through the preparation of a Poverty Assessment (now in gray cover), an Impact Evaluation of the Social Investment Fund, the Poverty Map, costing of PRSP targets, and an ongoing Public Expenditure Review. IDA also will continue to assist in the implementation of social and structural reforms through ongoing and future dialogue and lending operations, including a possible Poverty Reduction Strategy Credit (PRSC). The IMF is in the process of completing a fiscal transparency report on Nicaragua, following a ROSC mission in June 2001, and together with IDA is completing an Action Plan to Strengthen the Tracking Mechanism for HIPC debt relief. The IMF will continue to assist in the surveillance of economic developments, the implementation of sound macroeconomic policies, structural reforms, and improvements in governance in the context of the staff-monitoring program and future PRGF arrangements. IDB support includes a technical assistance operation to support the implementation of the PRSP and an operation to modernize the public procurement system. Also, IDB, UNDP, and the Department for International Development of the United Kingdom (DFID) will continue to support the PRSP consultation process through technical and financial support to CONPES and SETEC.

## **E. Risks to the Strategy**

34. **The staffs consider that the strategy is subject to significant implementation risks**, although the PRSP does not include an evaluation of these risks.

- Given weak policy implementation in late 2000 and the first half of 2001, there is a risk that the authorities may not adhere to their macroeconomic program for July–December 2001, particularly in the run-up to the presidential elections scheduled for November 2001. A significant deviation from the targets of their program would weaken the medium-term economic and social prospects.
- The success of the strategy will depend on its endorsement and implementation by the incoming new administration taking office in January 2002. While political parties have been represented in the national dialogue on the poverty strategy, the extent to which the new authorities will adopt the PRSP remains a source of risk.
- Notwithstanding the strong measures adopted by the authorities, the financial system remains fragile. This is an area of substantial vulnerability for the achievement of the macroeconomic objectives of the strategy.
- The public sector's weak institutional capacity constrains the implementation of poverty-related programs. This will be especially critical in the social sectors, where line ministries and agencies will need considerable strengthening to develop second generation programs to implement the strategy and maintain momentum in policy reform.
- Related to the problem of institutional weaknesses, there is the need to attack corruption and continue efforts to improve governance and accountability. The problem is acknowledged in the PRSP, but if this challenge is not quickly and effectively addressed by the new authorities, the PRSP is unlikely to garner the necessary support and credibility among the population at large. Despite the widespread consultation process followed to prepare the PRSP, and the planned dissemination activities, the extent to which society at large fully embraces and feels a sense of ownership for the PRSP is still limited. This is the result of a politically polarized society, uncertainty over the upcoming elections, and continuing perceptions that efforts to strengthen governance and deal effectively with corruption remain incomplete.
- On the external front, Nicaragua is especially vulnerable to a further terms of trade deterioration by way of weaker coffee prices and higher oil prices. The fall in international coffee prices is already having devastating effects in rural areas (exacerbated by a serious drought affecting over 40 municipalities), and may severely impact prospects for poverty reduction efforts. Also, a further slowdown in the world economy could lead to reduced export access to foreign markets and availability of foreign aid.

## V. CONCLUSIONS

35. The Nicaragua PRSP provides a good framework for the country's efforts to sustainably reduce poverty. It was prepared following an intensive consultation process,

which is expected to be continued and further strengthened during implementation. The PRSP presents a comprehensive and coherent strategy, consistent with the attainment of feasible, although ambitious, poverty reduction targets. Implementation of the strategy faces a number of major risks, some of which are outside the control of the authorities.

36. The staffs of the World Bank and IMF consider that this PRSP presents a credible poverty reduction strategy and provides a sound basis for IDA and Fund concessional assistance. The staffs recommend that the respective Executive Directors of the World Bank and the IMF reach the same conclusion.