

Government of Nicaragua



Strengthened Growth and Poverty
Reduction Strategy
(SGPRS)

FIRST PROGRESS REPORT

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Abbreviations and Acronyms

ALIDES	Central American Alliance for Sustainable Development
ALMA	Municipal Government of Managua
AMUNIC	Association of Nicaraguan Municipalities
AN	National Assembly
APRENDE	Action for Teaching and Development
APS	Primary Health Care System
ASEN	Supporting the Nicaraguan Education System Project
BANIC	Nicaraguan Bank
BASE	Basic Education Program
BAVINIC	Nicaragua Housing Bank
BCN	Central Bank of Nicaragua
CANILAC	Nicaraguan Chamber for the Dairy Industry
BCIE	Central American Bank for Economic Integration
CEI	Center for Exports and Investments
CENAGRO	National Agricultural Census
CERAP	Committee for the Reform of Public Administration
CGR	Comptroller General's Office
CNE	National Energy Commission or National Education Council
CNI	National Integrity Committee
CNLD	National Council for the Fight Against Drugs
CNS	National Health Council
CNU	National Universities' Council
CODE	Emergency Operation Center
CONADES	National Council for Sustainable Development
CONPES	National Council for Social and Economic Planning
CORNAP	Public Sector Holding Company
CREPEN	Pension Reforms Commission
CSD	Sectoral Commission for Decentralization
CSE	Supreme Electoral Council
CSJ	Supreme Court of Justice
DANIDA	Danish Assistance for International Development
DFID	Department for International Development of the United Kingdom
DGIP	Public Investment Department
DHS	Demographic and Health Survey
EFA	Education For All
ENACAL	Nicaraguan Water and Sewerage Company
ENAP	National Ports Administration Company
ENEL	National Electricity Company
ENITEL	National Telephone Company
EU	European Union
FCR	Rural Credit Fund
FDT	Foundation for Technological Development
FISE	Emergency Social Investment Fund
FNA	National Fund for the Environment
FOGADES	Deposit Guarantee Fund
FONMAT	Fund for Safe Motherhood and Childhood
FOREIBCA	Bilingual and Intercultural Education Program for the Atlantic Coast
FOSovi	Social Housing Fund
FSS	Supplementary Social Fund
FUNDEMOS	Democracy Support Group
FUNICA	Foundation for Technological Development in Agriculture and Forestry
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
HIPC	Reinforced Initiative for Heavily Indebted Poor Countries
ICE	Foreign Trade Tax
IDB	Interamerican Development Bank
IDR	Rural Development Institute
IEC	Specific Consumption Tax
IGV	General Sales Tax

IICA	Interamerican Institute for Cooperation in Agriculture
IMCI	Integral Management of Childhood Illnesses
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
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
LSMS	Living Standards Measurement Survey
MAGFOR	Ministry of Agriculture and Forestry
MARENA	Ministry of Environment and Natural Resources
MECD	Ministry of Education, Culture, and Sports
MECOVI	Program for the Improvement of Living Standards Measurement Surveys
MHCP	Ministry of Finance
MIFAMILIA	Ministry of the Family
MIFIC	Ministry of Development, Industry, and Trade
MINGOB	Ministry of Government Affairs
MINREX	Ministry of Foreign Affairs
MINSA	Ministry of Health
MPP	Participatory Micro-Planning
MTI	Ministry of Transport and Infrastructure
NAGUN	Norms for Governmental Audits
NGO	Non-Governmental Organization
OEP	Office of Public Ethics of the Presidency
ONDL	National Office for Clean Development
PAEBANIC	Adult Basic Education Program
PAI-SGPRS	Program for the Implementation of the Growth and Poverty Reduction Strategy
PAINAR	Program for Integral Attention for Children at High Social Risk
PAININ	Program for Integral Attention to Children and Adolescents
PANIC	Nicaragua's Environmental Plan
PASE	Program for Appropriation, Follow Up, and Evaluation of the SGPRS
PDH	Attorney General's Office for Human Rights
PESA	Special Program for Food Security
PGR	Office of the Attorney General
PINE	Integral Program for School Nutrition
PIP	Public Investment Program
PN	National Police
PNC	National Program for Competitiveness
PRGF	Poverty Reduction and Growth Facility
PROCAFOR	Pine Forest Sustainable Development Project
PRRAC	Reconstruction Program for Central America
PRSC	Poverty Reduction Support 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
SGPRS	Strengthened Growth and Poverty Reduction Strategy
SAS	Social Action Secretariat
SBIF	Superintendency of Banks and Other Financial Institutions
SECEP	Secretariat of Coordination and Strategy of the Presidency
SES	Executive Secretariat of the SNPMAD System
SETEC	Technical Secretariat of the Presidency
SIGFA	Integrated System for Financial Management and Auditing

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
SNPMAD	National System for the Prevention, Mitigation and Disaster Relief
SPNF	Non-Financial Public Sector
SREC	Secretariat for Economic and Cooperation Relations
TELCOR	Telecommunications and Mail Services Regulatory Agency
UIP	Public Investment Unit
UNDP	United Nations Development Program
UTIP	Territorial Units for Public Investment
WB	World Bank
WFP	World Food Program

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I. Introduction

1. This report describes the progress made in implementing the Strengthened Growth and Poverty Reduction Strategy (SGPRS) since 2001. The strategy, which has the fundamental goal of halving the current level of extreme poverty by 2015, reinforces and accentuates the main elements noted in previous reports. A complete description of the 10 targets of the SGPRS and the intermediate indicators and the policies and programs designed to reach them was published in the government document “Strengthened Growth and Poverty Reduction Strategy.” The Boards of the International Monetary Fund (IMF), the World Bank (WB), and the Interamerican Development Bank (IDB) approved this strategy in September 2001. This report accompanies an agreement for a Poverty Reduction and Growth Facility (PRGF) made between the Government of Nicaragua and the IMF and a Poverty Reduction Support Credit (PRSC) from the WB.
2. Unlike other government reports which have only had data available from the ministries and some state institutions, this one is fortunate to also have included the Living Standards Measurement Survey (LSMS) of 2001, the third since 1993. The Demographic and Health Survey (DHS 2001) was also used and it provides very valuable data. The National Agricultural Census (CENAGRO 2001) – the first in more than a quarter century – was not used for this annual review. Nevertheless, it will be useful in the future on the issues of rural poverty and development. The bibliography lists some important studies, surveys, and reports that were used. There are three annexes: one with the matrix of policy and program actions related to the SGPRS, a second on targets and indicators and their analysis, and a third on the consultation process that began with the completion of SGPRS. In addition, there are two annexed tables on the portfolio of programs of the strategy.
3. Since the SGPRS was first drawn up, a series of important events have occurred that have affected the medium-term economic outlook, the political situation, and the efforts to constrain public spending. Not only has there been a costly and complicated process of municipal, national, and regional elections, but a financial crisis occurred, the cost of which had to be absorbed by the government. The economy has been affected by the further fall in the terms of trade and government revenues have dropped in real terms. As a result, Nicaragua now has the highest fiscal and current account deficits in Latin America and the level of international reserves is precarious.
4. The new government that took office on January 10, 2002, began a series of judicial investigations and proceedings related to acts of corruption. At the same time, a fiscal adjustment program was implemented to bring public spending under control and to increase revenues, whilst protecting social spending. The government seeks to realign its economic program and put it on a path of medium- and long-term sustainability consistent with the objectives of stability, economic growth, and poverty reduction, and will identify the required structural reforms shortly. This progress report has been presented to the representatives of the National Council for Economic and Social Planning (CONPES) and the international community.

II. Executive Summary

5. This Progress Report on the SGPRS gives details of the results achieved in 2001 and the first half of 2002 and highlights the efforts of the government in meeting the proposed targets and policy actions. It has not been an easy task in the context of a Nicaragua that is continuing to strengthen its democratic institutions and simultaneously respond to the enormous economic and social problems that confront it. To properly understand this progress and its shortcomings, the macroeconomic framework that prevailed in this period is presented, along with a look ahead in the medium term for 2003-2005.
6. 2001 was a difficult year, and although the economy grew by 3.3 percent, it did so within a framework of adverse domestic and foreign conditions that indicated that this growth rate could not be sustained. The political polarization during an election year put pressure on the level of spending and created uncertainty among investors. This year, the banking crisis continued and obliged the Central Bank of Nicaragua (BCN) to intervene and protect the savings of the public, thereby raising the level of domestic debt by 20.0 percentage points of Gross Domestic Product (GDP). Government revenues were less than expected by 1.5 percent of GDP, while spending was greater by 6.8 percent of GDP, causing the combined deficit of the public sector to be 45.0 percent higher than expected. Regarding the current account deficit, Nicaragua's terms of trade deteriorated with the price of coffee dropping to its lowest point in half a century.
7. Although 2002 is shaping up to be a year of low growth (1.0 percent) Nicaragua is aiming to a reduction in the overall deficit of the central government, dropping to around 13.0 percent of GDP compared to 20.0 percent in 2001. The government's proposals for budgetary reform and a broadening of the tax base were not approved by the National Assembly (AN), leaving a deficit of C\$608.9 million (Córdobas) that has still to be covered. The outlook for 2003-2005 is for a recovery to an average annual growth rate of 4.2 percent over the period, based on a greater influx of external resources, greater efficiency in public spending, and the favorable effects of a tax reform, better bank regulations and supervision, institutional strengthening and good governance.
8. There are still doubts as to whether that growth level will be sufficient to reduce poverty levels. All will depend upon the other components of the SGPRS that have been designed so that the poor will benefit more from future economic expansion. It is projected that poverty-related spending will account for an increasingly greater portion of GDP and that it will rise from 14.1 percent of GDP in 2001 to 15.6 percent in 2002 and then gradually increase during the 2003-2005 period, reaching almost 17.0 percent. The PRGF agreed on with the IMF will facilitate the inflow of external resources, bringing additional help to reach those targets.
9. A key source of increasing poverty spending will be the relief resulting from the initiative for Highly-Indebted Poor Countries (HIPC), therefore, it is expected that the targets proposed in the SGPRS can be met. The planned boost for spending will favor the Public Investment Program (PIP) related to the SGPRS, and it is expected to rise from US\$480.2 million in 2000-2001 to US\$779.4 million in 2003-2005, mainly in support of the first pillar of the strategy, broad-based economic growth, which will absorb more than 40.0 percent of those resources.

10. Everything indicates that we are on the right course. The 2001 LSMS notes that urban and rural poverty, as well as extreme urban and rural poverty, is less than it was in 1998 and 1993. These changes are more accentuated in rural areas, which is desirable since it is in the countryside where the highest levels of poverty are found. The progress in implementing policies and programs is also palpable in the other three pillars (investment in human capital, protection to vulnerable groups, and good governance), as well as in the crosscutting themes of environment, social equity, and decentralization.
11. There has also been very positive progress in 2002. It should be noted that the Educational Participation Law was passed, which is key for the process of decentralizing the educational system. It has been possible to increase teachers' salaries and there was increased enrollment in preschool and primary schools. In health, the General Law for Health was passed. This creates a normative model for the Ministry of Health (MINSA) and defines a healthcare model for the North and South Autonomous Atlantic Regions (RAAN and RAAS). A start was made on forming a social safety net that integrates related programs under the coordination of the Ministry of the Family (MIFAMILIA). The fight against corruption has been going further with the active participation of the Office of the Attorney General (PGR) that has resulted in concrete investigations and criminal charges being made over the misappropriation of public funds. Measures have also been taken to improve transparency (the Office of Public Ethics was created under the Presidency of the Republic), institutionality (a priority on the legislative agenda, organization of sectoral cabinets and institutional strengthening), and citizen participation.
12. The review of the proposed targets and what was achieved in 2001 indicates the following: in education, of the nine indicators that were set, five were achieved or surpassed, and actions are being undertaken that will improve the efficiency of the sector. In the health sector, thirteen intermediate indicators were set, of which eight have been achieved, some of these being surpassed, including the targets proposed for 2005. Regarding water and sanitation, four indicators were set and all were achieved.
13. In regard to decentralization, a Support System for Monitoring the Strategy (PASE) has been designed that goes from the departmental level down to municipal level and is based on the experience of the Program to Support the Implementation of the SGPRS (PAI). The Nicaraguan Institute for Municipal Affairs (INIFOM) has set up a fund for receiving municipal transfers and established a unified system for municipal planning, while the Emergency Social Investment Fund (FISE) has strengthened the processes of municipal public investment. In relation to the environment and ecological vulnerability, there is now a five-year strategic plan for managing water, forest, fishery, and mineral resources, and the the National System for Prevention, Mitigation, and Disaster Relief (SNPMAD) has been carrying out actions with communities to reduce their vulnerability.
14. In the management of public spending, a number of mechanisms and instruments have been strengthened such as the Supplementary Social Fund (FSS), the National System for Public Investment (SNIP), the Integrated System for Financial Management and Auditing (SIGFA), and the National System for Monitoring Indicators of Poverty (SINASIP). The new regulations for the FSS were approved. They establish a framework for channeling and registering the HIPC debt relief support and other resources for reducing poverty, functioning as a virtual fund. SNIP

now has a decree that defines the system for scheduling, evaluating, and following up public investments, ensuring that projects undergo technical and economic evaluation and the system has norms and procedures for decentralization. SIGFA has been implemented in 31 state institutions and agencies, a significant advance with respect to 2001. The design of SINASIP as a mechanism for monitoring the progress of the strategy in the areas of policy, programs, and indicators was completed.

15. Looking forward, a synthesis of what the government conceives as the strategy for its fight against corruption, the strengthening of the first pillar of the strategy, the fiscal reform, and the national education plan, is presented in the impact evaluation section of this document.
16. It is asserted that the fight against corruption is indispensable for creating an adequate environment for attracting local and foreign investment. In regards to economic growth, work is being done on a strategy for developing clusters to improve the perspectives for productivity and competitiveness. The strategy consists of promoting private and public investment towards the development of zones and towns with the potential for creating productive employment. Seven clusters have been initially identified: textiles and clothing; agribusiness and food processing; agro-industry for meat and dairy products; reforestation and wood products; fisheries and shrimp farming; tourism; and, energy.
17. There are still challenges that will have to be faced, among them: (a) improving coordination between the government and cooperation agencies in order to avoid duplication of efforts in some programs and projects; (b) increasing the government's execution capacity; (c) moving ahead with civil service reform; (d) strengthening the financial system; (e) consolidating the reform of the judiciary; (f) seeking greater efficiency in public spending; and (g) preventing new acts of corruption.
18. Finally, it should be noted that the implementation of the SGPRS has resulted in greater citizen's participation at local level and greater consultation over policies and programs, particularly through the CONPES and the National Council for Sustainable Development (CONADES). CONPES has been reorganized in order to increase the participation of civil society. Since 2001, both bodies have been pushing ahead with developing a long-term national strategy, that they expect to further enrich during 2003.

III. Economic Framework for the Medium Term

A. Performance of the economy, 2001-2002

19. Starting in 2001 during the broad-based consultations made on an interim strategy for reducing poverty, it was found that many of the participants, under the influence of a very generous concessional assistance, not only wanted to refocus the ambitious effort for the poor of Nicaragua, but also speed up these programs and expenditures. However, in mid-2001, it became clear that while poverty reduction was a priority, the external outlook and the fiscal position of the country necessitated an effort to reduce spending. As a result, there was a considerable reduction in the budget for investment and the changes that protected poverty-related spending were presented in the SGPRS published in August 2001.
20. Nevertheless, in spite of the economy growing at the expected rate (3.3 percent), Nicaragua's terms of trade did not improve. The price for coffee and other important export items fell to their lowest point in half a century. A number of banks were declared insolvent and the support from the BCN for depositors led to extraordinary increases in the domestic debt. The additional debt resulting from the liquidation of the insolvent banks (around US\$370.0 million) came on top of the obligations contracted to compensate those who had properties confiscated in the 1980s. By late 2001, the domestic public debt (excluding short-term obligations) amounted to US\$1.7 billion, more than half the country's GDP. Lastly, the polarization of the elections led to uncertainty among investors, an overrun of public spending, and an increase in the requirements of the Supreme Electoral Council (CSE). GDP grew by 3.3 percent as projected originally, but in per capita terms, it was the lowest since 1994. However, even this modest growth could not be sustained.
21. Central Government revenues in 2001 were less than expected by 1.5 percent of GDP because of lower sales of gasoline and diesel and the *de facto* reduction in fuel taxes in order to avoid a national transport strike. Expenditures were more than scheduled by 6.8 percent of GDP because of salary increases and the election expenses overruns. The primary deficit of the government came out at 5.7 percent of GDP higher than was scheduled. The Central Government was not the only public entity in deficit; the combined deficit of the public sector, which includes the BCN losses because of the banking crisis, was more than a fifth of GDP. That is 6.7 percent of GDP more than projected. As a result of the BCN credit expansion to the Central Government and a slight drop in the amount of net external funds, international reserves fell considerably (US\$170.0 millions).
22. The low prices for exports and the acceleration of imports caused by expanded public spending resulted in a current account deficit from 25.8 percent of GDP. Export earnings only covered a third of imports. Revenues from privatizations were only a third of what was expected.
23. In 2002, facing an adverse economic framework (expected GDP growth of 1.0 percent), the new administration adopted a program for greater rule-of-law, transparency, and fiscal discipline. It immediately cut public sector spending. There were fewer official trips abroad and fewer officials making them. The work hours of the government were reviewed and the purchase of new vehicles was prohibited. The salaries of top officials were consolidated, reduced, and made

public. Many investment projects were slowed down. Even more important, a number of audits and judicial inquiries revealed that a portion of the public spending had been poorly administered and that in other cases, fraud had been committed.

24. The President of the Republic presented two draft laws to the AN in order to bring order to public finances: one a budgetary reform that would adjust the spending approved by the AN during the previous government and the other with measures to expand the tax base in order to increase revenues. These two pieces of legislation were passed in April and August, respectively and, as a consequence the results were not as expected for the year 2002. It should be mentioned that there was unenthusiastic political support for these reforms in the NA.
25. Executive branch proposals were consistent with the target of reducing the overall deficit proposed by the government, to 13.0 percent of the GDP. Major changes were made to the 2002 budget in both current and capital spending, and particularly in the latter, which resulted in a reduction in total spending by 5.9 percent of GDP in relation to 2001. In addition, the government adopted taxation measures that resulted in an increase in revenues of 1.0 percent of GDP in relation to the preceding year, leading to a primary fiscal deficit reduction of 7.6 percent of GDP in relation to the previous year. (Table 1)

Table 1. Fiscal Indicators, 2000–2002

Items	2000	2001	2001	2002
	(observed)	(program)	(observed)	(program)
	(Percentage of GDP)			
Central Government				
Revenues	24.5	23.9	22.4	23.4
Current Expenditures	21.7	23.0	27.6	26.2
Capital Expenditures	16.7	12.5	14.7	10.2
Overall Deficit b/g	(13.8)	(11.6)	(20.0)	(13.0)
Primary Deficit b/g	(10.4)	(6.0)	(11.7)	(4.1)
Non-Financial Public Sector				
Overall Deficit b/g	(14.6)	(13.0)	(19.6)	(13.5)
Primary Deficit b/g	(11.0)	(7.3)	(11.2)	(4.5)
External Donations	7.3	7.5	7.3	7.3
Revenues from Privatization	4.8	4.5	1.5	0.7
Net Financing	2.5	(0.8)	10.9	5.4
Plus:				
Quasi-fiscal losses of the BCN	1.5	1.9	2.0	3.1
Overall Deficit of the Public Sector b/g	(16.1)	(14.9)	(21.6)	(16.5)
Primary Deficit of the Public Sector b/g	(12.5)	(9.0)	(11.9)	(5.3)

b/g: before grants

Source: BCN and MHCP

26. Capital expenditures by Central Government would bear most of the adjustment, dropping by 4.5 percentage points of GDP in relation to the previous year. Among the criteria used for reducing them has been the elimination of projects financed solely with treasury resources that had hitherto been financed with hurricane Mitch resources; the suspension of new projects either with unassured resources or at a preparatory stage; the suspension of projects with a political profile that were inherited from the previous administration; a reduction of resources for those projects that had recurrently showed a poor execution rate; and, the protection of projects related to the SGPRS. Primary current expenditures dropped by 2.0 percent of GDP. It should be mentioned that the payment of interest on the public debt of the Central Government increased by 0.6 percent of GDP.

27. Based on the results, the overall combined public sector deficit would fall from 21.6 percent of GDP in 2001 to 16.5 in 2002, and saving would grow from 4.6 percent to 7.0 percent of GDP, even though the quasifiscal losses would increase by 1.1 percent of GDP.
28. Unlike 2001, the financing of the fiscal deficit was based mainly on primary savings and external resources, avoiding financing from the BCN. While in 2001, BCN financing for the Central Government amounted to the equivalent of 8.0 percent of GDP, in 2002, the government transferred resources equivalent to 2.6 percent of GDP to the BCN. Primary savings improved by 3.1 percent of GDP and there was a slight reduction in external resources. It should be noted that liberated budget resources from HIPC debt relief, amounted to US\$136.2 million which went to sustain financing for poverty-related spending¹.
29. An important aspect of these results is that revenues increased in spite of the low growth of the economy, indicating that the tax base increased in line with what was projected. The effort made by the government to protect poverty-related spending is also important. While total spending of the Non-Financial Public Sector (SPNF) dropped by 13.6 percent in relation to 2001, poverty-related spending increased by 10.6 percent. In this context, capital expenditures on poverty-related spending increased by 9.7 percent over 2001 and current expenditures increased by 10.4 percent.
30. The government also introduced changes in the management of monetary policy that aim to offset the effect of the domestic debt issued in the operation to protect the public's deposits during the banking crisis. Income from the placement of new bonds would be less than the expenditure generated by the bonds about to mature. This would create a net effect in favor of the private sector and would reduce the balance of the domestic debt. BCN is going ahead with the liquidation of assets in the hands of the liquidation boards and no financing for the government would be considered.

B. Budgetary reform and broadening of the tax base

31. The objectives of the budget reform were: (a) adjust spending to the real levels of revenues which were affected by the economic recession and the lower income from privatizations and external sources; (b) establish the priorities of the new government; and, (c) make the budget consistent with the targets for international reserves, economic growth, and stability. This implied taking into account the effects of the domestic debt, mainly that which resulted from the bankruptcy of the banks and the precarious situation of the international reserves of BCN.
32. In relation to revenue measures, the draft legislation for broadening the tax base sought to: (a) bring in new taxpayers who were not registered in the system and reduce the number of taxpayers enjoying preferential fiscal treatment, such as exonerations, exemptions, and other loopholes; (b)

¹ The total HIPC relief based on total contractual service amounted to US\$332.5 million for the 2001-2002 period, but the impact on the budget is less due to a large part of the debt service wasn't paid. This impact was calculated as the difference between debt service paid before interim debt relief and the paid service after relief.

reduce tax evasion; and, (c) lay the basis for designing a tax reform that is structurally more realistic.

33. The proposals for reform, by tax category, were the following: (a) raise the General Sales Tax (IGV) for international air transport from 8.0 to 12.0 percent in a progressive manner and derogate the mechanism of zero-rate invoice sales; (b) for the Special Consumption Tax (IEC), the government proposed changing the point of application of the tax from the producer to the retailer as well as an elimination of duties reductions due to start in 2003; (c) the Income Tax (IR) would be applied to income from bank deposits owned by legal entities and lottery winnings, and the retention of IR increase from 5.0 to 10.0 percent for professional services; and, (d) derogate every exemption and exoneration for imports, except those granted by the Constitution.
34. The AN passed a part of the executive's proposals and incorporated others it found convenient. With respect to IGV, the AN approved a zero-rate for the basic shopping basket of goods as opposed to the request to apply the tax to 10 products of that basket. The changes introduced by the AN meant a reduction of C\$151.6 million in relation to what was proposed (0.4 percent of the GDP). Similarly, the government proposed a C\$214.4 million reduction in current expenditures and C\$444.9 million in capital expenditures, but the AN only approved C\$151.0 and C\$367.1 million, respectively. In all, the government proposed an adjustment of C\$1,430.9 million of which the AN only approved C\$822.0 million, leaving a gap of C\$608.9 million that had to be compensated by taking additional administrative and monetary measures.

C. Perspectives 2003-2005

35. The objectives of the government program aim to: (a) substantially reduce the structural vulnerability of fiscal policy that will allow a reduction of primary deficit of the public sector during the 2003-2005 period and reverse the negative trend for savings; (b) guarantee that the cost of the adjustment is not borne by the poor and instead increase spending to reduce poverty levels; and, (c) promote economic growth, eliminating distortions provoked by the present taxation system.
36. The perspectives for the next three years have been reviewed in light of recent domestic events and the persistence of adverse external conditions. The abrupt fall of the rate of growth of the economy in 2002, the future impact of the domestic debt, the outlook for the international coffee and petroleum markets, and the results of the fight against corruption will dominate the scene for the next years, at which time the election cycle of the country will again return. Nonetheless, the instruments of political economy are being adjusted in order to preserve stability and reverse the tendency of the economy in the first year of this period.
37. The agreement with the IMF and the WB will facilitate the influx of external resources for an annual average of US\$318.4 million while more efficient public spending and the effects of the scheduled tax reform will allow for more capital expenditures consistent with an average annual growth of 4.2 percent of GDP for the 2003-2005 period. Meanwhile, additional efforts are being made with the private sector to develop a production strategy that may encourage investment in tourism, industry, and agriculture.

38. The fiscal program seeks to reduce the primary fiscal deficit of the public sector to a level of 2.3 percent of GDP in 2005, which will mean an adjustment of 9.6 percent of GDP with respect to 2001. Similarly, the primary savings of the SPNF would rise from 5.3 percent of GDP in 2001 to 11.3 percent in 2005. To meet these targets, revenues will have to increase at an average annual rate of 2.1 percent and expenditures will have to be reduced at a rate of approximately 8.1 percent per year. The ingredients for achieving this are found in the initiative for tax reform agreed on with civil society and the political forces of the country, a reorganization of the state structure, greater transparency, and efficiency in public spending.
39. Public investment, which reached an average of 19.0 percent of GDP in the 1999-2001 period due to hurricane Mitch, will be reduced to more sustainable levels, down to an average of 12.7 percent for 2002-2005. The quality of public investment will improve through a policy to select projects with greater economic and social returns and the elimination of those that commit high coefficients of current expenditure. This process began in 2002, setting more rigid budgetary ceilings in line with the macroeconomic objectives, which obliged the executing institutions to be more selective, and reallocating resources to projects with greater impact.
40. The new government has defined a public investment policy that is more focused on the objectives of economic growth and poverty reduction. The government is selecting programs and projects using the criteria of employment generation, available external financing with a low national counterpart coefficient, low content of current expenditure, territorial location, and executive capacity of the state institutions. The new public investment strategy is aimed at abandoning the system of micro-projects in favor of larger-scale programs and at eliminating duplication and adopting a less bureaucratic managerial system. Equally important, the government seeks to bring more order to the external financing arrangements with the international community so that negotiation processes and the arrangement for resources is based on national priorities.
41. Meanwhile, alternative mechanisms for dealing with the domestic debt are being assessed by the government in order to attain a better long-term profile for the commitments contracted with the private sector. One alternative being explored is direct negotiation with the holders of certificates issued by BCN that consists in restructuring the time periods (maturity) and the interest rates at which they were originally placed. The government does not discard the possibility of getting financial support from the international community in order to clear up the more short-term debt and of obtaining technical assistance in order to develop the medium- and long-term capital market alongside the privatization of the pension funds. Nor does it discard the possibility of selling assets in order to honor the compensation bonds. Likewise, there would be a slowing down of the issuing of BCN certificates and government bonds. In the short-term, the government will cover maturing domestic debt with fiscal adjustments, privatization resources, recovery from bank assets and balance of payment support.
42. The balance of payments outlook will improve such that the current account deficit (excluding interest) will go from 25.8 percent of GDP in 2001 to 15.2 percent of GDP in 2005. The tax reform will have a great effect on the balance of trade, and the external debt relief, once the culmination point of the HIPC initiative is reached, will improve the net balance of payments position. It is important to point out that the government is moving ahead with an open trade

policy through trade agreements with different countries, including the customs union with Central America that will provide greater opportunities for national producers. The effects of the tax reform on foreign trade will also contribute to closing the trade gap.

Table 2. Basic Economic Indicators

	1995-1998	2001	2002	2003	2004	2005
			(Rate of growth)			
GDP, constant	4.6	3.3	1.0	3.0	4.5	5.0
GDP, real per capita	1.7	0.7	(1.6)	0.4	1.9	2.4
Accumulated inflation	12.3	4.7	6.0	6.0	4.0	4.0
			(Percentage of GDP)			
Deficit, balance of payment current account ^{1/} *	(28.0)	(25.8)	(26.0)	(21.2)	(16.0)	(15.2)
Overall deficit of the SPNF b/g	(9.1)	(19.6)	(13.5)	(10.0)	(5.9)	(4.2)
Primary deficit of the SPNF b/g ^{2/}	(4.7)	(11.2)	(4.5)	(2.2)	(2.5)	(1.7)
Primary savings of the SPNF	12.2	5.3	7.8	10.0	10.2	11.3
SPNF revenues	33.4	30.8	31.8	32.5	31.9	31.5
SPNF spending ^{1/}	42.1	42.0	36.3	34.7	34.4	33.2
Domestic savings*	(0.4)	(2.8)	(1.2)	3.0	9.1	11.7
Private	(3.9)	1.6	3.0	4.0	5.7	6.2
Public	3.5	(4.4)	(4.2)	(1.0)	3.4	5.5
External savings*	(31.0)	(33.6)	(28.5)	(24.8)	(20.0)	(19.0)
Domestic investment	29.3	30.8	27.3	27.8	29.1	30.7
Public	15.4	16.2**	12.3	12.2	12.9	13.0
Private	14.0	14.6	15.0	15.6	16.3	17.7
Public sector deficit b/g ^{3/}	(9.5)	(21.6)	(16.5)	(13.2)	(9.3)	(7.5)
Public sector primary deficit b/g	(4.6)	(11.9)	(5.3)	(2.8)	(3.2)	(2.3)
<u>International reserves</u>	1.9	2.3	2.2	2.4	2.5	2.9
Memorandum:						
GDP, US\$ millions	1,949.1	2,546.9	2,571.4	2,661.4	2,806.4	2,989.3

^{1/}: Excludes interest

^{2/}: Deficit of the non-financial public sector before grants, less interest

^{3/}: Includes quasi-fiscal losses of the BCN

^{4/}: Gross international reserves in months of imports of goods and services

* Calculated using IMF methodology

** Exclude net loans

Source: BCN and MHCP

43. With fiscal policy brought under control, BCN intends to increase its levels of international reserves by US\$80.0 million for the 2003-2005 period, maintaining a more prudent policy of placing certificates in line with the scheduled flow of external resources. At the end of the period, the level of reserves in terms of months of importation will be 2.9 compared to the average of 1.9 for the 1995-1998 period.

D. Economic growth and poverty reduction

44. With a less optimistic profile for economic growth as the one set in the SGPRS, the question is: will the expected growth in the coming years be enough to reduce poverty? To analyze this, data from the 2001 LSMS, the methodology of Ravallion M. and Datt G. (1991) and the POVCALC program developed by the WB were used.

45. The results presented in Table 3 show three illustrative scenarios. In preparing them, the same income distribution as the one in 2001 is maintained, varying the per capita GDP growth rates by half a percentage point. This exercise shows that to the extent that the per capita GDP increases, the proportion of the population in extreme poverty is reduced and the elasticity of the proportion of extreme poor with respect to changes in per capita income is 2.1 percent.
46. The scenarios also show that the proportion of the population in extreme poverty will not increase in 2004 – the date when the next LSMS will be available – and there may even be a major reduction in 2005 – the first target year -, especially if the per capita GDP growth rate were 2.0 percent. 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.

Table 3. Per Capita Growth Rates and Projections of Poverty, 2001-2005

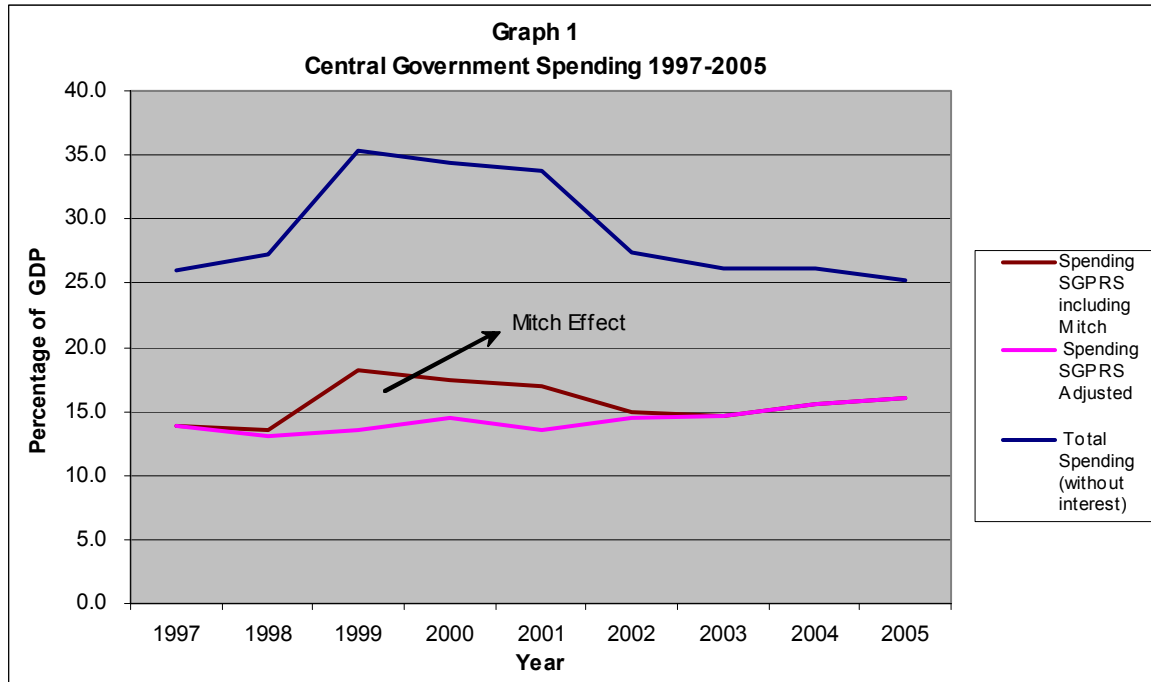
Indicator	2001	2002	2003	2004	2005
	(percent)				
Scenario 1					
Per capita growth	...	-1.70	1.00	1.00	1.00
Extreme poor	15.10	15.60	15.31	15.02	14.73
Scenario 2					
Per capita growth	...	-1.70	1.50	1.50	1.50
Extreme poor	15.10	15.60	15.17	14.73	14.30
Scenario 3					
Per capita growth	...	-1.70	2.00	2.00	2.00
Extreme poor	15.10	15.60	15.02	14.45	13.88

Source: SECEP, based on the 2001 LSMS

47. The SGPRS mentions a number of risks faced by the economy: natural, political, and external. The latter have already happened, affecting Nicaragua's terms of trade and therefore, the perspectives for growth in the short term. However, the PRGF would guarantee less of a decline in international cooperation than what could happen under other circumstances. The solid mandate given to the new government and its continuing high level of support from the population for its anti-corruption campaign seems to indicate a reduction in the political risks and greater long-term stability and institutionality, although in the short-run the contrary is true. Natural disasters can occur at any time and reducing their impact will require many years of effort, although this has already been begun in part with the SNPMAD.
48. Some issues make the macroeconomic program particularly risky. First, the economic results for 2001 left the country with low levels of international reserves and a higher domestic debt. Maneuvering room is extremely limited: any disaster, natural or otherwise, could have very devastating effects. Second, as shown by the lower expectations for growth, many Nicaraguans are convinced that future growth will depend on a transformation of the economy, from one producing basic items or goods to more diversified agricultural and industrial sectors, combined with a dynamic service sector, particularly tourism. This transformation – which will be dealt with later – will not be easy and postponing it would imply low economic growth and fewer possibilities for reducing poverty.

E. Evolution of spending on poverty

49. Poverty-related spending rose to unsustainable levels due to the reconstruction programs and direct aid to those affected by hurricane Mitch. In 1999, poverty-related spending reached a level of 19.0 percent of GDP and in 2001 and 2002, it was over 14.0 percent. This spending was substantially more than in 1997 and 1998. For an objective analysis, this report removes the Mitch effect in order to evaluate the sustainable path for spending on poverty, above all because international aid for this ran out starting in 2002, even that which fed the FSS.



50. Although the government has had to control its spending levels, it has been a clear policy to prioritize the programs in the SGPRS, while the total spending of the SPNF shows a decline by 2005, the contrary is true for poverty spending. This is possible due to the political will to reduce operational expenditures and to be more efficient in managing resources. The effort made by the government in the fight against corruption has brought about the development of mechanisms for transparency and budgetary control that have had a positive effect on revenue collection.

51. In 2001 and 2002, spending for the SPNF related to poverty reduction went from 14.1 to 15.6 percent of GDP and it will increase during the 2003-2005 period reaching 16.8 percent of GDP by 2005. These levels are higher than the historical reference level in 1997 of 15.3 percent. This means having a budgetary strategy to channel increasingly more resources to spending on poverty, even under the budgetary constraints imposed by the macroeconomic targets. For the 2003-2005 period, the government is trying to guarantee an average percentage of 47.8 of all its expenditures for spending on poverty, above the average of 40.0 percent for the 2001-2002 period. This means that in relation to 2001, poverty-related spending will go from 36.8 percent of total spending to over 50.0 percent in 2005 (Table 4).

52. It is important to mention regarding SGPRS that the Central Government average poverty-related spending for 2003-2005 will be 60.0 percent of total spending, which is lightly higher than the original strategy.
53. Following hurricane Mitch, there was a tendency to increase current expenditures on poverty given the increased basic needs of the population affected. This poverty related expending rose to an average of 29.5 percent of total current spending in 2001-2002. However, the government's strategy prioritises investment in human capital and in social infrastructure that will guarantee the supply of basic services and the sustainability of the SGPRS. The government intends to channel more resources to capital expenditures, going from 56.0 percent of total spending in 2001 to 74.0 percent in 2005.

Table 4. Disbursements for the Non-Financial Public Sector related to the SGPRS

	1997	2001	2002	2003	2004	2005
	(Percentage of GDP)					
TOTAL EXPENDITURES	35.5	41.6	36.3	34.7	34.4	33.2
Current ^{1/}	21	25.5	23.9	22.4	21.5	20.1
Capital ^{2/}	14.5	16.2	12.4	12.3	12.9	13.1
SPENDING SGPRS ^{3/}	14.7	14.1	15.6	15.8	16.3	16.8
Current	6.8	6.9	7.6	7.2	7	7
Domestic resources	6.8	6.9	7.6	7.2	7	7
Of which: HIPC relief	-	2	1.9	2.5	2.9	2.3
Capital	7.9	7.2	7.9	8.6	9.3	9.7
Domestic resources	1.1	1.5	1.6	1.9	2.5	2.7
Of which: HIPC relief	-	0.5	0.9	1.2	1.5	1.6
External resources	6.8	5.7	6.4	6.7	6.8	7
Spending SGPRS Central Government	13.4	13.6	14.4	14.7	15.5	16
Current	6.8	6.9	7.6	7.2	7	7
Domestic resources	6.8	6.9	7.6	7.2	7	7
Of which: HIPC relief	-	2	1.9	2.5	2.9	2.3
Capital	6.6	6.7	6.8	7.6	8.5	9
Domestic resources	1	1.5	1.5	1.8	2.4	2.7
Of which: HIPC relief	-	0.5	0.9	1.2	1.5	1.6
External resources	5.6	5.2	5.3	5.7	6.1	6.3
Spending SGPRS Autonomous Entities	1.3	0.5	1.1	1	0.8	0.7
Capital	1.3	0.5	1.1	1	0.8	0.7
Domestic resources	0.1	0	0.1	0.1	0.1	0.1
External resources	1.2	0.5	1	0.9	0.7	0.7
Financing SGPRS	14.6	14.1	15.6	15.8	16.3	16.8
Domestic resources	7.8	8.4	9.2	9.1	9.5	9.8
Of which: HIPC relief	-	2.5	2.8	3.7	4.4	3.9
External resources	6.8	5.7	6.4	6.7	6.8	7
	(Structure)					
SPNF:						
Spending SGPRS / Total spending	41.4	36.8	43.2	45.5	47.3	50.6
Spending SGPRS / Current expenditures	32.4	27.1	31.9	32.1	32.5	34.9
Spending SGPRS / Capital expenditures	54.5	56	65.6	69.9	71.9	74.1
Domestic resources / Spending SGPRS	53.1	59.5	59.1	57.7	58.3	58.2
Central Government:						
Spending SGPRS / Total spending	52.7	43.7	53	56.3	59.1	63.4
Spending SGPRS / Current expenditures	43.6	35.9	44.1	45.2	47	51.7
Spending SGPRS / Capital expenditures	67.3	56.5	68.5	73.4	75.1	77.3
Domestic resources / Spending SGPRS	58.4	61.5	63.1	61.1	60.8	60.6

^{1/}: Excludes interest

^{2/}: Excludes net loans

^{3/}: 2001 and 2002 do not include expenditures for 3.3 and 0.3 points of the GDP, respectively, due to the effects of Hurricane Mitch and of special programs and of support for health, education, and housing.

Source: SECEP

F. Financing for the SGPRS

54. Spending on the SGPRS is going through structural changes in relation to its sources of financing. To the extent that external resources show a declining trend, the domestic efforts of the government will be greater in order to maintain an increasing level of poverty-related spending in real terms during the 2002-2005 period. The fiscal adjustment that was made and the one foreseen over the coming three years will guarantee that a large part of the targets proposed in the SGPRS will be met. During this period, the proportion of domestic resources used in financing the SGPRS will be greater, going from 8.4 percent of GDP in 2001 to almost 10.0 percent in 2005. External resources will be an average of 6.7 percent of GDP during the 2002-2005 period. It should be mentioned that the debt relief coming from the HIPC initiative would represent an average of 23.3 percent of all sources of funding over that period.
55. Likewise, the HIPC relief has been directed to sustaining spending on the priority programs for poverty reduction identified in the strategy. Spending for the SGPRS with HIPC resources rose in 2001 to US\$63.4 million, or 2.5 percentage points of GDP. For the 2002-2005 period, this spending will represent an average of US\$103.1 million, or 3.7 percentage points of GDP. The main sectors being financed with the debt relief are health, education, and social and productive infrastructure (Table 5).
56. The norms and procedures for allocating, registering, executing, and following up the HIPC resources are in the Operative Regulations of the FSS-HIPC. Its Coordinating Council is made up by the ministers from the social sector and representatives of civil society and donors. FSS will enable the government to fulfill its responsibility for having a transparent mechanism for the management of the HIPC resources allocated to the priority programs and projects of the SGPRS. The Secretariat for Coordination and Strategy of the Presidency (SECEP) will develop follow up reports for all the resources financing the SGPRS, including the HIPC debt relief, along with SIGFA. These will be presented periodically to the public and the international community.
57. Table 5 shows the distribution of the interim debt relief received during the 2001-2002 period and the programs that have been considered as priorities for start-up or expansion during the 2003-2005 period. It is important to point out that almost all the programs detailed in the table are those set down in the SGPRS.

Table 5. Allocation of the HIPC relief resources

Item	2001	2002	2003	2004	2005
	(millions of US\$)				
TOTAL SPENDING	63.4	72.8	98.4	124.9	116.3
1. Primary rural healthcare (FSS)	-	0.7	1.3	1.6	1.5
2. Social Safety Net	0.7	0.8	0.7	0.8	0.8
3. More coverage of basic social services	57.6	61.2	79.1	98.3	87.7
Education	37.9	39.9	51.3	62.1	53.2
Health	14.4	13.0	20.1	26.3	23.8
Water and sanitation	2.0	1.5	2.0	2.8	3.3
Housing	1.0	0.7	0.4	0.4	0.4
Municipal infrastructure ^{1/}	2.2	6.2	5.3	6.7	7.0
4. Protection of vulnerable groups	3.4	5.6	6.8	8.1	6.0
5. Social Investment Fund (FISE)	1.6	4.0	4.0	3.5	4.4
6. Development of the Atlantic Coast	0.1	0.2	0.2	0.3	2.0
7. Implementation of the SGPRS	-	0.1	2.9	4.7	6.4
8. Support for production	-	0.2	3.4	7.6	7.5

^{1/}: Includes improvements to rural roads (paving stones) and transfers to municipalities

Source: SECEP

58. The first program refers to improving primary healthcare in health centers and posts in rural areas. The second program is the expansion of a successful pilot project that begun in 2000 that uses financial incentives to promote the attendance of students to school and the use of preventative healthcare programs in rural clinics (vaccines and prenatal care), as well as providing a budget for schools and health posts in specific areas.
59. Most of the funds freed up by the HIPC initiative have enabled the government to finance a program to increase the coverage of basic services in the areas of education, health, water and sanitation, housing, and municipal infrastructure. It also includes the paving of rural roads and direct transfers to municipal governments, as well as moving ahead with projects to protect vulnerable groups (children and youth at risk, the disabled, and the elderly).
60. There is also financial support for FISE, which invests in social infrastructure for groups living in extreme poverty. There is support as well for the local development program for the Atlantic Coast that is going ahead, albeit slowly due to problems of coordination. It aims to increase regional and municipal capacity to identify projects, land use and zoning, and better administer the region's natural resources.
61. Implementing the SGPRS, as stated in the document, is costly. A portion of the funds from the HIPC relief goes to developing and applying systems for follow up and evaluation, fostering greater rural participation in the programs, and building the capacity of SNIP. Lastly, and consistent with the first pillar of economic growth, funds are being applied to a program that support production and improve agricultural technology.

G. Public investment programs related to the SGPRS

62. Despite fiscal limitations, the investment program for the SGPRS is still ambitious. In 2001-2002, it amounted to US\$480.2 million in overall terms and will require approximately US\$779.4

million during the 2003-2005 period, or in other words, an average disbursement of US\$259.8 million a year during the 2001-2005 period compared with an annual average of US\$230 million that was estimated in the SGPRS document for the same period.

Table 6: Public Investment Program for the SGPRS 2001-2005

Item	Total for 5 years	2001	2002	2003	2004	2005	TOTAL
	(Structure)	(millions of US\$)					
TOTAL	100.0	268.4	211.8	228.3	260.7	290.4	1,259.7
Broad-based economic growth	43.2	93.6	91.9	103.9	119.4	135.9	544.6
Investment in human capital	24.9	78.4	57.6	55.3	59.7	62.6	313.7
Education	15.2	50.3	39.1	30.2	34.8	37.4	191.8
Health	7.6	25.5	16.8	17.8	15.9	20.1	96.0
Population and Nutrition	2.1	2.6	1.8	7.4	9.0	5.1	25.9
Social Protection	14.6	35.1	26.8	34.6	40.7	46.4	183.7
Good governance	0.9	0.9	3.2	1.9	2.2	2.6	10.8
Crosscutting themes	16.4	60.5	32.4	32.6	38.6	42.9	207.0
Environment and ecological vulnerability	5.3	19.3	10.9	9.5	11.8	15.0	66.5
Decentralization	11.1	41.2	21.4	23.1	26.8	27.9	140.4

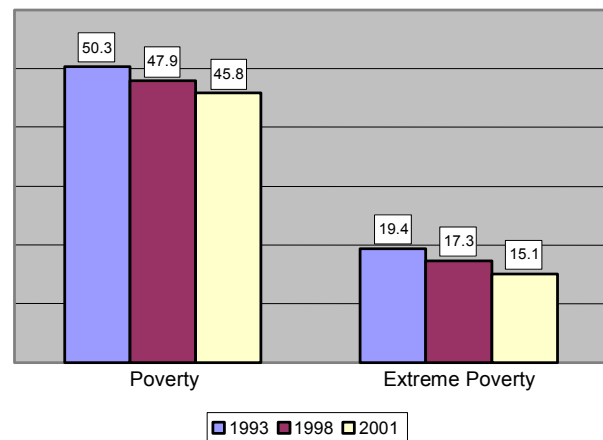
Source: SNIP-SECEP

63. About 44.0 percent of the investment programs for the SGPRS (US\$185.5 million executed in 2001-2002 and US\$359.2 million for the 2003-2005 period) is concentrated on the first pillar of economic growth. There are projects for agricultural technology, land zoning and ownership, rural electrification, and programs for the reactivation of agriculture developed by the Institute for Rural Development (IDR), as well as the projects for water supply in rural and marginal urban zones that are carried out by the Nicaraguan Water and Sewerage Company (ENACAL).
64. A quarter of the investment goes to programs in human capital, particularly education and health. During 2001-2002, a total of US\$136.0 million were spent on this pillar and it is estimated that US\$177.6 million will be disbursed during the 2003-2005 period. Some of the most important projects are in education, taking into consideration that improving the living conditions and productivity of the poorest sectors will depend on improving their access to a more relevant education. The projects in education aim to expand and improve the school infrastructure and training of teachers in rural areas. In health, the most important projects have to do with expanding coverage and raising the quality of the Primary Health Care System (APS). A vital program that is underway is the modernization of the health sector that includes strengthening the central administration capabilities and the promotion of the rational use of medical supplies.
65. Social protection is part of the program that has grown substantially with respect to what was set down in the SGPRS, representing 15.0 percent of the total investment in poverty (US\$61.9 million executed in 2001-2002 and US\$121.7 million estimated for the 2003-2005 period). The outstanding programs in this sector are the Social Safety Net (RPS) and the one to rehabilitate, expand, and equip social infrastructure to provide attention to vulnerable groups.

IV. Poverty Reduction

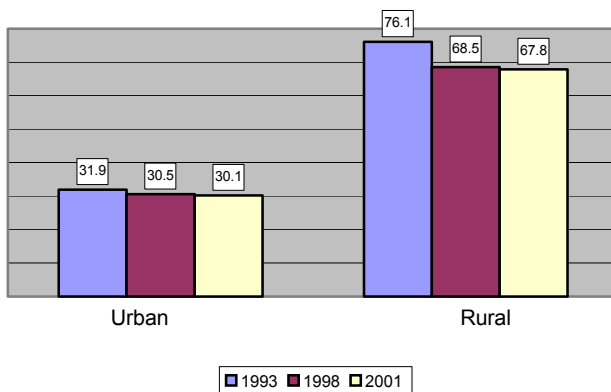
66. The need to develop a strategy to reduce poverty has evolved through a number of stages. The first was characterized by the democratic and institutional development of the country and the second emphasized economic reactivation and the rehabilitation of damaged infrastructure. In 1993, more than half of the Nicaraguans were living in poverty and close to 20.0 percent lived in extreme poverty. The per capita GDP in 1990 was only 45.0 percent of what it was in 1977. Nevertheless, many social indicators (e.g. illiteracy, drinking water and sanitation services) remained consistent with the income levels that existed in the 1970s. Further, the transition that Nicaragua has gone through, going from a centralized to a free market economy, was accompanied with declining crime rates, especially if compared with the averages for other countries in transition. Therefore, although with low per capita income, the poverty reduction strategy is similar to strategies applied in countries with medium incomes – putting emphasis on strong and broad-based economic growth, combined with broader and better systems for public social services – rather than in those countries with a per capita income comparable to that of Nicaragua, where emphasis is put on a subsistence strategy.

Graph 2
Poverty and Extreme Poverty
(Percentage)



67. The main target is to reduce the rate of extreme poverty by half by 2015. The other nine targets are related to improve the living conditions – particularly in the areas of health and education – for the population by the end of that year. A series of 33 intermediate indicators were selected because of their close relation to the targets of the strategy and because of the ease of measuring them periodically. The strategy had very encouraging results in 2001, the first year of implementation. These results can be analyzed, examining the situation of poverty in 2001 – that was the result of actions taken during the last year three years – and the performance of the intermediate indicators of the SGPRS. Since 1998, the year when the previous LSMS and DHS were taken, the real growth of the GDP was around 5.2 percent a year and 2.4 percent in per capita terms. A large part of the growth was due to the extraordinary influx of external resources for reconstruction after hurricane Mitch.

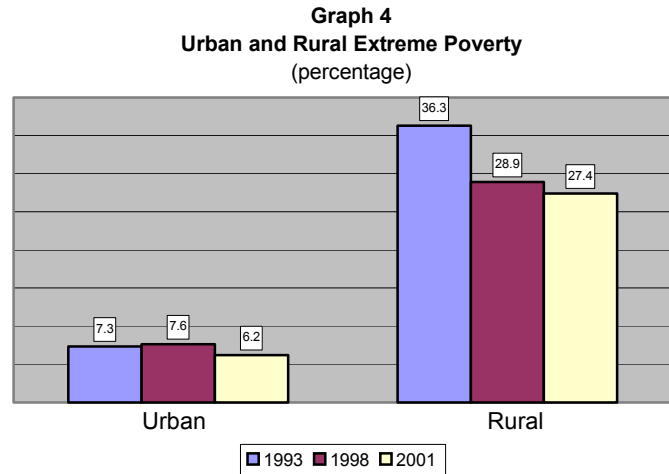
Graph 3
Urban and Rural Poverty
(Percentage)



68. The 2001 LSMS indicates that the percentage of persons living in poverty fell to 45.8 percent (Graph 2), and even the absolute number of persons living in poverty in rural areas dropped by 35,000. Urban poverty was reduced in percentage

terms; however, the number of persons living in poverty rose by 117,000. The percentage of persons in extreme poverty dropped 2.2 percentage points, going from 17.3 to 15.1 percent, bettering the 17.5 percent target set for 2005. This reduction is associated with post-Mitch resources. In urban areas, extreme poverty is 6.2 percent, a drop of 1.4 percentage points; in rural areas, it is 27.4 percent, a reduction of 1.5 percentage points, both compared to 1998.

69. More important still is the fact that not only has the percentage of poor persons been reduced, but the number of people living in extreme poverty also dropped by 50,000. Furthermore, the annual reduction implicit in the percentage of persons in extreme poverty seems to have accelerated when we compare the annual averages for reduction between the 1993-1998 and 1998-2001 periods. Reductions of extreme poverty in the future are assumed to depend on the rural-urban migration of poor people, as well as the economic growth that is to be achieved in urban and rural areas. Although the SGPRS contemplates helping the poor in dealing with both situations, the latter will be the one that presents the biggest challenge given the economic conditions in rural areas, and in particular, given the present international prices for many farm products.



V. Progress in Implementing Policies and Programs

70. Besides broad-based economic growth, the SGPRS has three other pillars – investment in human capital, protection of vulnerable groups, and good governance – and three crosscutting themes: environmental vulnerability, social equity, and decentralization of decision-making and services provision. The government proposed to take action in all these areas. Below is a presentation of the progress made in these policies and programs, details of which are in Annex I.

A. Pillar I: Broad-based economic growth

71. The government's efforts to sell off or lease certain public services has been successful in some cases and slow and conflictive in others. 49.0 percent of the shares of the telecommunications company were finally sold to a Honduran/Swedish consortium. The procedure for distributing or selling 10.0 percent of the shares to the workers has already been agreed upon and is underway and the remaining shares will be sold over the 2002-2003 period. The state-owned Nicaraguan Bank (BANIC) was closed and liquidated. Efforts to revise water tariffs have had fewer results (the election year led to certain delays) as did the concession of contracts for administering regional drinking water and sewage systems, although they have been bid for in four cities. Similarly, the privatization of the electricity generation plants, both thermal and hydroelectric, has suffered from different kinds of delays. Other related actions are taken up in the section on macroeconomics.

B. Pillar II: Investment in human capital

Education

72. During the first year of implementation of the SGPRS, the education policy centered on: (a) surpassing the enrollment level of previous years; (b) increasing the coefficient of retention; (c) upgrading the rural network of school infrastructure; and, (d) making progress on the institutional and legal framework for educational policy in the medium and long term. Of note in the education sector was the passing of the Educational Participation Law in February 2002, with which the decentralization process has been strengthened, encouraging citizen participation in the administrative, financial, and academic affairs of the study centers through the school councils. The National Education Plan was completed and it proposes greater harmonization between the three education subsystems, which will improve their quality, pertinence, and relevance.
73. There were investments in infrastructure and the school construction and rehabilitation program surpassed the targets in 2001. By the first half of 2002, 449 primary education classrooms had been built or rehabilitated and there were activities aimed at improving the efficient use of human and administrative resources. The School Map is almost finished and it will become a planning instrument for improving the distribution of infrastructure at the national level.
74. In early 2002, teachers' salaries were raised by 28.0 percent and the curriculum of teacher training institutions was revised including those that prepare bilingual education teachers. In 2002, preschool enrolment increased by 8.3 percent and primary education enrolment rose by 6.4 percent over the year before. There was more delivery of texts and materials in rural communities and children of preschool or primary school age continued to receive food rations.
75. Nicaragua has been preselected to benefit from the Education For All (EFA) initiative of the WB. This program will allow to expand coverage and improve education quality. It has two models, the first one, has the objective of ensuring that all children, especially those from poor families, complete primary education before 13 years of age and the second one is for implementing a scholarship program.

Health, nutrition, and population

76. The government has prioritized resolving short-term problems and the design of a policy for integral healthcare. Measures have been taken to further the reform of the healthcare sector, among them the passing of the General Law for Health in March 2002 that defines the normative role of MINSA and allows for, among other things, the autonomous regions of the Atlantic Coast to design their own healthcare model, according to their needs; the development of a plan for human resources; the improvement of the basic list of medicines; the participation of civil society in the National Health Commission that was activated in September 2002; and, the reinforcement of hospitals' autonomy. A start has been made on drafting the 2003-2007 national healthcare policy.

77. The vaccination campaigns continued during the 2001-2002 period, keeping common childhood illnesses under control and preventing the return of already-eliminated diseases. Nevertheless, it was not possible to expand coverage because of budgetary constraints for materials and supplies, mainly in 2002.
78. There was an increase in investment in infrastructure – construction, rehabilitation, repair, and replacement – of healthcare units and in equipping the national emergency system and the rural health centers. Priority was given to the preventative approach over the curative approach through programs and projects to improve the health practices of families and communities. With family planning, efforts have been made to cover the unmet demand for services, above all in the 15 to 24 year old age range. For more vulnerable groups, the Fund for Safe Maternity and Childhood is being implemented. It aims to provide integral care to pregnant women and children living in remote areas.
79. In nutrition, a new preventative program is being carried out through the community health and nutrition program that is in its pilot phase. It is based on encouraging changes in behavior in the household and the community in order to prevent chronic malnutrition among children from 0 to 2 years of age.

C. Pillar III: Protection of vulnerable groups

80. In 2002, a start was made on formulating the National Policy for Social Protection, which will define the strategic lines and the institutional framework to protect vulnerable groups. It includes the definition of the social risks and vulnerabilities of the population and aims to promote sustainable actions, based on the mobilization of the physical and human assets of the target group.
81. MIFAMILIA was ratified as the guiding and normative entity to provide care and attention to vulnerable groups and it has begun a process of institutional strengthening, spending rationalization, forming a network of social protection programs, and restructuring the program of the World Food Program (WFP) in Nicaragua. The net will be comprised of the Program for Integral Attention for Nicaraguan Children (PAININ), the Program for Integral Attention for Children at High Social Risk (PAINAR) – the latter the result of reorganizing small projects into one program – and the projects with the WFP. The first phase of the RPS and the PAININ was completed with satisfactory results. The second phase of the RPS has financing from the IDB, the WB, and the Central American Bank for Economic Integration (BCIE), and the PAININ has resources from the IDB. With this, coverage is being expanded and there are more beneficiaries of these programs. Because of the coffee crisis, broad-based care has had to be provided to about 2,000 peasant families, putting priority on children under five years of age.

D. Pillar IV: Good governance

82. The government has recognized the importance of good governance in creating an environment that stimulates private investment and economic growth. The main objective is to reduce the causes and manifestations of corruption through preventative actions and policies, the development of norms, and institutional strengthening. It is also extremely important to broaden

the mechanisms for citizen participation that effectively link civil society into the solution of this problem.

The fight against corruption

83. The Office of the Attorney General, in representation of the executive branch of government has investigated irregularities found in some state institutions related to the misappropriation of public funds. Charges have been presented through the competent authorities of the judiciary, some people have been sentenced, and others are on trial. As a result, steps have been taken to request that parliamentary immunity be stripped from some deputies, among them the past President of the Republic. The new directorate of the AN formed a commission to analyze these requests. Judicial proceedings have begun against those presumed responsible for the frauds which bankrupted several private banks.
84. This struggle has had the support of up to 95.0 percent of the population (Cid Gallup, July 2002). Private sector leaders and organizations of civil society have formed citizen movements to promote campaigns to denounce corruption and to support the fight against it. The donor community has publicly expressed its political backing and has supported the creation of an anti-corruption fund.

Transparency

85. The Office of Public Ethics (OEP) was created in the Presidency, merging the activities of prior control, integrity, transparency, and efficiency. A Code of Ethics and a Basic Manual for the Civil Servant were published and about 3,000 officials have been given training. The Law for Probity was passed in July 2002. Officials of the executive branch who are subject to presenting declarations of probity have met this requirement on entering their posts. The salaries of the top public officials were reduced, consolidated, and publicized.
86. The instruments for improving controls over government spending were strengthened, for example, the implementation of the SIGFA was speeded up. A new System for State Purchases and Contracts is being implemented in seven institutions and a national consultation is being conducted with the private and public sectors on this theme. The outcome will be a situation analysis and a proposal for reform of the General Law and Regulations for State Contracts. All government expenditures and sources of income are clearly stated in the Annual National Budget.

Institutionality

87. The executive branch presented the AN with its legislative agenda in late January 2002. It reflected the commitments of the government. Since that time, the following laws have been passed: Educational Participation Law, Health General Law, Reform of the Penal Code Law, Reforms to the State Contracts Law, Probity Law, and Reform to the Pensions Law, among others.
88. The government cabinet was organized in five sectors: production and competitiveness, economy and finances, social, infrastructure, and governance and security. The Technical Secretariat

(SETEC) became the Secretariat for Coordination and Strategy of the Presidency, broadening its role. The Secretariat for Social Action (SAS) was discontinued and two new secretariats were created: one for Central American Integration and another one for Youth Affairs. Representatives of the private sector are now part of the board of directors of autonomous entities.

89. The anti-personnel mines in storage were destroyed and the mine clearance of rural areas continues. The National Plan Against Terrorism and Related Crimes was drafted in compliance with the Central American Plan for Integral Cooperation to Prevent and Counteract Terrorism and Related Crimes.
90. The Judiciary continues with its program of institutional strengthening and moved ahead with the approval of the Law for Reforms and Additions to the Penal Code, also began to implement the Administrative Contentious Law and is designing a workplan from the recommendations made by the Presidential Commission for Reform of the Judiciary. The electoral branch of government made progress with the issuing of identity cards to citizens and organized the national elections in 2001 and the regional elections in 2002. In addition, CONPES is preparing a proposal for reforms to the judiciary and the electoral branch.
91. In 2001, the Office of the Controller General (CGR) carried out 351 audits, which as of March 2002 affected 132 functionaries. Draft legislation is being prepared to modify the Organic Law of the CGR and a modernization program was contracted with the IDB for US\$6.0 million to strengthen its function, investigative mechanisms, and human and technological infrastructure. The Norms for Governmental Audits of the State (NAGUN) have been drawn up and published and are now in effect. Governmental auditing will be integrated into the financial administration process and the internal auditing units will be strengthened.

Citizen's participation

92. Citizen's participation has been recognized as a fundamental factor for strengthening the democratic process and different sectors of society are being incorporated into public policy formulation and decision-making. Different opportunities for reaching consensus, participation, and consultation are being developed at national, departmental, and municipal levels. The President has held direct talks with political parties, lawmakers, mayors, civic organizations, business organizations, labor unions, and various working tables have been established.
93. CONPES has been strengthened and broadened with the inclusion of new participants from civil society (Autonomous Regions of the Atlantic) and notables. During this period, CONPES has reviewed and analyzed the recommendations from the Presidential Commission for the Reform of the Judiciary and the regulations for the Law for Autonomy of the Atlantic Coast and it has drafted a strategy for the fight against corruption and begun a social audit in 11 municipalities of the PAI Program. It put forward recommendations for the draft of the Annual Budget Law for 2002, its later reform, and did the same for 2003. More recently, CONPES has begun to review the proposals for constitutional reforms of the judiciary and electoral branches.

E. Crosscutting themes

Decentralization

94. The National Policy for Decentralization and Local Development was approved in December 2001 and is in a process of consultation at national level. The process of municipal strengthening has continued and is allowing greater municipal participation in public affairs and decision-making for policies and programs. INIFOM began the institutionalization of its programs executed with international financing, established a municipal fund for transfers from public resources and donations, and designed a unified system for municipal planning in order to norm and regulate the activities of public and private institutions around this topic. FISE has begun to decentralize and is reinforcing municipal public investment procedures in nine municipalities.
95. Based on the experience of PAI – being executed in 11 municipalities – and on the recently-finalized proposal for a national policy for decentralization and local development, a system for coordination, monitoring, and evaluation of the decentralization process at the regional, departmental, and municipal level was designed. It is known as the Program of Support to Follow Up the Strategy (PASE). Its central elements are the linkages between state institutions at the national level, citizen participation in the follow up of the SGPRS, and the strengthening of procedures to encourage dialogue on local development issues between the state and civil society. This program designed has received support from the international community, particularly the Department for International Development of the United Kingdom (DFID) and the United Nations Development Program (UNDP). Like the policy for decentralization, it is presently in a process of national consultation with local authorities and civil society organizations.

Environment and ecological vulnerability

96. Hurricane Mitch once again exposed Nicaragua's vulnerability to natural disasters and so measures have been adopted to reduce the risks and prevent environmental degradation. Among the targets of the SGPRS is to implement a strategy for sustainable development by 2005 through the Nicaragua's Environmental Plan (PANIC) that was approved in 2001. In terms of progress, the Ministry of Environment and Natural Resources (MARENA), in coordination with the Ministry of Development, Industry, and Trade (MIFIC) and the Ministry of Agriculture and Forestry (MAGFOR), started in 2001 to develop a five-year action plan for water, forest, fishery, and mineral resources. In addition, 12 environmental management units have been established in the public sector and 35 at the municipal level. Environmental plans for each of the municipalities in the country were drafted and put through a consultation process.
97. The approval of the Policy for Land Use Planning in September 2001 and of its norms and criteria in February 2002, will contribute to prevent future natural disasters or to have the country better prepared to cope with them. The SNPMAD has also begun community education programs and activities to reduce vulnerability to natural disasters. The main activities in the 2001-2002 period include, for example, the prevention of forest fires in the pine forests of Nueva Segovia that are affected by the pine weevil, the consolidation of the municipal committees of the system in 124 municipalities, prioritizing the 30 identified as most vulnerable, and support for a revision of the Construction Code. The guidelines for National Policies and Strategy for

Environmental Education will contribute to raising the awareness of the population about environmental vulnerabilities.

98. The National Strategy for Biodiversity has been presented and a draft of the Law for Biodiversity has been made. In 2001, the Regulations for the National Fund for the Environment (FNA) and the National Office for Clean Development (ONDL) were made official. The National Policy for Cleaner Production is being drafted, as are the plans for Action for Climatic Change and Desertification and the conceptual framework for decentralized and participatory environmental management. The National Policy for Water Resources was approved in December 2001.

F. Challenges in implementing the SGPRS

99. The basic condition for ensuring economic growth is that it will be necessary to maintain political stability and the progress made in good governance. Though the SGPRS has been a guide for the new government, there are still some challenges that will warrant attention, among them: (a) improving coordination between the government and the international community; (b) improving the management of public spending; (c) making progress in sector reforms; and (d) supporting the appropriation of the SGPRS by the different levels of government and by society.
100. Last June, the first forum for coordination between the cooperation community and the government was held. A document was presented describing the conceptual framework and the mechanisms for improving that coordination. Coming out of this forum, sector working tables were created that are linked to the cabinets. These still have to prioritize their actions and work out their agenda for work. There are duplications of efforts and additional work needs to be done inside the government to prioritize and order the allocation and use of resources, jointly with the cooperation community. Work is being done to improve linkages between the Secretariat for Foreign Cooperation (SREC) of Ministry of Foreign Affairs (MINREX) and SECEP.
101. Efforts to strengthen the SNIP will have to continue with the drafting of the operative regulations so that the institutions, society, and the cooperation community know about the investment and budgeting processes. It will be necessary to review the evaluations of the most important portfolios, with a priority on rural development and health. The recommendations from these evaluations will be included in the drafting of future budgets. Though some resistance is anticipated from some sectors, an appeal for flexibility will be made to the international community in order to modify projects that are underway, if possible, or to program future assistance better.
102. Progress with reforms has been slow. It is necessary to prioritize these actions, follow them up, and make them part of cabinets' agenda. Establishing a professional civil service is still a challenge; the ministries of the social area have weaknesses, as does the financial system, and judicial reform has a long way to finish. The difficulty in replacing the Superintendent of Pensions and the revision of some proposals for reforms to social security have set these programs back by at least a year.
103. Although there has been broad consultation about the SGPRS, it is very important to continue publicizing information about the implementation process. The government recognizes that the

appropriation of the SGPRS is an ongoing process that needs to be reinforced. The PAI is providing some experiences, and it is expected that PASE will assist.

VI. Intermediate Targets and Indicators

A. Targets to 2005 and to 2015

104. The seven international targets for development for 2005 and 2015 are as follows: (a) reduce extreme poverty by 50.0 percent; (b) reduce infant mortality and among children under 5 by 66.0 percent; (c) reduce maternal mortality by 75.0 percent; (d) universal primary education; (e) ensure access to reproductive services through the healthcare services for all individuals of the appropriate age; (f) have a strategy for sustainable development underway by 2005; and, (g) eliminate gender disparities in primary and secondary education by 2005. The SGPRS includes the first six since the last target has already been met.
105. Based on the poverty analysis and the strategic guidelines, eight more indicators were added for 2005. Among them are: increased access to water and sanitation services in urban and rural areas; lower rate of illiteracy; and, reduced chronic malnutrition. It should be mentioned that not all these targets can be measured annually since the sources are the LSMS and the DHS. Table 7 contains the international targets for 2005 and 2015 and the progress to 2001.

Table 7. Progress in Meeting the International Targets

International target	Base for international targets ^{1/}	1998	2001	Target 2005	Target 2015
			(percent)		
• 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 ^{2/}	81.1	83.4	90.0 ^{3/}
• 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%	72.0	50.0	40.0	37.0	24.0
• Reduce maternal mortality rate by 75%	160.0	148.0	125.0	129.0	40.0

^{1/}: 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.

^{2/}: The figure for the net rate of primary schooling is from 1999.

^{3/}: Nicaragua set this target at 90%.

Source: SECEP

106. Four of the five targets for 2005 have been surpassed. The challenge in the future will be to sustain this progress. Table 8 shows the targets measured in 2001 and their evolution between 1993 and 2001.

Table 8. Meeting International Targets from 1993 to 2001

International target	Percent change		
	1993-1998	1998-2001	1993-2001
Reduce extreme poverty by 50%	(10.8)	(12.7)	(22.2)
Increase net rate of primary schooling to 100%	0.0	8.0	7.5
Reduce infant mortality by 66%	(31.0)	(22.5)	(46.5)
Reduce maternal mortality of children under 5 by 66%	(30.6)	(20.0)	(44.4)
Reduce maternal mortality by 75%	(7.5)	(15.5)	(22.0)

Source: Based on LSMS, DHS, and MECD

Extreme poverty

107. From 1998 to 2001, there was a 12.7 percent reduction of extreme poverty, dropping to a level of 15.1 percent (Table 7). In 2001, the target set for 2005 for reducing extreme poverty was surpassed and future reductions will depend on the economic growth rate.

Infant mortality and among children under 5 years of age

108. From 1998 to 2001, infant mortality dropped from 40 to 31 for every 1,000 live births, an improvement of 22.5 percent. The challenge is to sustain the progress with this indicator. The target for 2015 is to reduce infant mortality by 66.0 percent of what it was in 1994. From 1994 to date, the rate has dropped by 46.5 percent, and so we are well on the way to meeting the 2015 target.

109. From 1998 to 2001, mortality among children under 5 years of age dropped from 50 to 40 for every 1,000 live births, an improvement of 20.0 percent. The reduction of infant mortality influenced the lowering of this rate. From 1994 to date, it has been possible to reduce this rate by 44.0 percent and the tendency is towards achieving the 66.0 percent reduction by 2015.

Maternal mortality

110. Maternal mortality has been reduced from 148 to 125 for every 100,000 live births from 1998 to 2001, an improvement of 15.5 percent. This positive trend should be viewed with caution since in order to maintain it, MINSA will have to make greater efforts, above all in rural areas.

B. Intermediate indicators

111. The SGPRS has 33 intermediate indicators. Of these, four do not have targets for 2001, in particular those referring to the approval of three important environmental laws linked to sustainable development (biodiversity, forestry development, and fisheries) that are on the agenda for 2002. The table below lists the 29 indicators that were measured for 2001, as established in the SGPRS. Annex II-A contains a matrix of targets, objectives, and indicators and Annex II-B has an analysis of the intermediate indicators.

Table 9. SGPRS Indicators – Targets for 2001 and Current Results

Indicator (percentage)	Base year 1999	Target 2001	Current 2001	Meeting target in percents ^{3/}
1. Central Government spending on Poverty		50.0	48.7 ^{4/}	97.0
2. Growth of the GDP	7.4	3.0	3.3	110.0
3. Net Rate of Primary Schooling	75.0	77.9	81.1	104.0
4. Rate of Passing the Third Grade in Rural Schools	76.6	78.6	83.1	105.0
5. Students who finish primary school in six years	32.0	36.0	34.3	95.0
6. Implement National System for Academic Evaluation	...	In effect	Delayed	0.0
7. Net rate of Preschool Schooling	26.0	28.0	26.0	93.0
8. Multi-grade Rural Schools with Six Grades	29.0	37.0	35.3	95.0
9. Construction or repair of primary school classrooms, annually	977	400	723	180.0
10. Institutional Births	47.0	54.6	50.4	92.0
11. Prenatal Care	71.6	80.6	70.2	87.0
12. Early Detection of Pregnancy (prenatal care in the first trimester of the pregnancy)	31.9	37.7	32.2	85.0
Vaccination Coverage				
13. 1 dose of BCG	99.0	99.0	98.1	99.0
14. 3 doses of antipolio	91.0	91.0	92.6	101.0
15. 3 doses 5-in-1 (pentavalent)	7.0	90.0	91.8	102.0
16. Antipolio Vaccine in children from 12-23 months ^{1/}	83.8	92.5	85.7	93.0
17. Incidence of Diarrhea in children under 5 years ^{1/}	21.9	19.0	24.8	70.0
18. Incidence of Respiratory Infections, children under 5 ^{1/}	27.3	24.0	23.7	99.0
19. Unmet Demand for Family Planning Services for Women with a partner between 15 and 19 years old ^{2/}	27.1	26.1	19.8	131.0
20. Unmet Demand for Family Planning Methods for Women with a partner between 20 and 24 years old ^{2/}	19.7	18.9	17.0	110.0
21. Access to Reproductive Health Services for Women of Childbearing Age	21.0	22.0	24.5	111.0
22. Nicaragua's Environmental Plan	...	Approved	Approved	100.0
23. Chronic malnutrition among children under 5 years ^{1/}	19.9	17.9	17.8	99.0
24. National Coverage of Drinking Water	66.5	69.5	70.0	100.0
25. Access to Safe Water in Rural Settlements	39.0	45.8	46.0	100.0
26. National Access to Sewage Services ^{1/}	84.1	85.0	86.2	101.0
27. Access to Sewage Services in Urban Settlements	33.6	34.9	37.0	106.0
28. Illiteracy Rate (older than 10 years) ^{1/}	19.0	18.5	18.7	99.0
29. Average Number of Years in School, Children from 10 to 19 years old ^{1/}	4.6	4.8	4.9	102.0

Notes: When not mentioned, the sources for these indicators are the line ministries.

1/: The source for this indicator is the LSMS, with base year 1998 instead of 1999.

2/: The source of this information is the DHS, with base year 1998 instead of 1999.

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

4/: Includes spending on poverty linked to Mitch.

Source: SECEP

112. For 2001, of the 29 intermediate indicators, 20 were met and 9 were not. Of the latter, five show a positive tendency, being better than the base year; two (coverage of prenatal care and incidence of diarrhea) are slightly below the level of the base year and the other two (net rate of preschool schooling and early detection of pregnancy) remained static. This means that greater efforts will have to be made to improve these four indicators. MECD and MINSa managed to meet more than half of the indicators while ENACAL met the proposed targets.

Education

113. MECD set nine intermediate indicators, of which five were met. The surpassing of the net rate of primary schooling and the rate of passing the third grade are considered as major successes since in recent years, the figures for these were static or showing only slight improvement. It should be mentioned that the increased enrollment is distributed among all the poor groups of the population, both rural and urban. The ambitious program to build, repair, and replace schools, combined with a number of new incentives for teachers and parents helped in surpassing the before mentioned indicators. Although it did not manage to meet the target for multi-grade rural schools offering six grades of primary education, the improvement in this indicator is considerable given that in rural areas there are lower rates of primary school enrolment. Prior to the SGPRS, MECD did not measure this indicator systematically.
114. The target to have students complete primary education in six years was not met. Nonetheless, MECD is taking a number of initiatives to improve the efficiency of the sector: model schools on the Autonomous Regions of the Atlantic, incentives for teachers, flexible and automatic promotion.
115. With the elections in 2001, schools were used as voting stations, and this delayed the first national test of academic achievement in primary schools, and so this commitment was not met. It has been rescheduled for the end of the current school year. Moreover, given that preschool teachers are volunteers from the communities and a great many of them participated in the electoral process, this may explain the low enrolment levels. Nevertheless, the last LSMS shows that the net rate for preschool schooling has improved.
116. The target for reducing the illiteracy rate was met. The 2001 LSMS shows that illiteracy rate among youths between 15 and 24 years of age dropped by almost one percentage point compared to 1998, and it is expected that in a coming measurement of the overall illiteracy rate, the figure will be still much lower. This is backed by the progress in the rate for primary schooling, third grade promotion rates, and adult education programs.

Health

117. MINSA set thirteen intermediate indicators for 2001, of which eight were met. The indicators for family planning were met with regard to the 2005 targets as a result of the successful sexual and reproductive health programs pushed forward by MINSA and NGOs. This is an important progress because of the link between high fertility rates and poverty². The DHS shows that from 1998 to 2001, the percentage of young women between 15 and 19 years of age who were already mothers fell from 23.0 to 21.0 percent, and first pregnancies dropped from 4.8 to 4.1 percent.
118. There was a major improvement in the reduction of chronic malnutrition among children under 5 years of age. This indicator was bogged down for more than a decade and the improvement is

² The analysis of determining factors for poverty made while drafting the SGPRS showed that the factors that determine the probability of being poor are: level of household assets, particularly education and land, number of dependents, and participation in the workforce.

particularly encouraging, despite the high levels of poverty in the north region. This advance is in part due to the efforts of two health and nutrition programs that have improved the monitoring of growth and development in infants. Although these programs do not have national coverage, they both have a component for promoting behavioral change, which is expected to improve this indicator even more.

119. MINSA indicators for institutional births, prenatal care, and early detection of pregnancy were not met. There are more institutional births than there were in the base year and the improvements made in rural areas are encouraging. The prenatal care indicator is slightly down as compared to the base year. Nevertheless, both the LSMS and the DHS show the contrary. The indicator for early detection of pregnancy remained static. MINSA is putting special emphasis on these indicators.
120. Three of the four indicators for immunization were met even though MINSA ran into difficulties in medicine purchase and distribution processes, particularly in late 2001 and early 2002. The projected increase in antipolio vaccine coverage for children 12 to 23 months of age was not met. This may have to do with a cutback in the mobilization expenditures by MINSA in 2001, directly affecting field visits. Since then, appropriate actions have been taken in this regard.
121. The two most common causes of death among children under 5 years of age are respiratory infections and diarrhea, and it is important to reduce the rates of these illnesses. The former were reduced and the latter increased. With diarrhea, there was a higher percentage of those affected to seek medical help, and this may be attributed to better access to information. It is possible that the mothers are reporting more cases, which could alter the indicator. In this respect, MINSA is taking additional measures, including greater efforts to prevent the diseases most prevalent among children.
122. Media reports of a medicine shortage in 2001 possibly induced the population not to go seek services at health units. These experiences indicate an even greater need to both strengthen the capacity of MINSA in planning procurements of pharmaceutical and non-pharmaceutical products and to speed up the reforms to the system, as contemplated in the recently-approved legislation.

Water and sanitation

123. For 2001, ENACAL set and met all four indicators. Nonetheless, there are still disparities in access to water between the different regions of the country. Major discrepancies are found in rural areas where investments are costly because of the population dispersion. Better use of water is of particular importance for the sector, though not always reflected in improved health indicators. Despite greater access to water, there is a greater incidence of reports of children with diarrhea. This may be explained by, among other causes, improper household hygiene because of low family education levels. Work is being done to change this. FISE is increasing investment in rural water supplies over the next five years.

VII. Management of Public Spending

124. The government has made major progress in the management of public spending, which is evident in a more transparent formulation of the budget, which is accessible to the public, and in the application of more efficient mechanisms for registering, following up, and reflecting sources of financing.

A. Supplementary Social Fund – FSS, registering of the HIPC debt relief

125. FSS has been reinforced as a mechanism that establishes the norms and procedures for the allocation, registering, execution, and follow up of the resources that come from the HIPC debt relief initiative and from donations and loans for poverty reduction. It is the responsibility of the government to have a transparent mechanism for the management, control, and follow up of the resources allocated to the programs and projects prioritized in the SGPRS. In September 2002, its Operative Regulations were reformed in consultation with donors. Its Coordinating Council, comprising top-level officials, was expanded by means of a presidential decree and now includes MAGFOR, MIFAMILIA, and a representative of CONPES.

126. The FSS receives support from the different bodies of the government that have specific responsibilities for the resources freed up by the HIPC initiative – allocation of capital expenditures and current expenditures, budgetary control and follow up, and follow up of the performance indicators. Support in this exercise comes from BCN, SECEP through SNIP, and SINASIP and Ministry of Finance (MHCP) through the norms for budgetary execution and SIGFA. SECEP will report on the follow up of all the funds, including the HIPC relief and the rest of the spending allocated for poverty reduction. These efforts aim to consolidate the mechanism of the single treasury account and its classification as poverty or non-poverty-related spending.

127. Other progress made on the commitments assumed within the framework of the SGPRS has been the financing with treasury resources – coming from the interim debt relief – of certain programs included in the FSS, which until 2000 had been financed exclusively with external resources, such as the program of incentives for teachers and the strengthening of rural primary healthcare.

B. National System for Public Investments - SNIP

128. In matters of public investment, there was major progress in 2001. In July 2001, a presidential decree was issued to establish the administrative norms for SNIP. These norms define the system for scheduling, evaluating, and following up investments. It also ensures that the projects receive technical and economic evaluation, are in line with the national policies and strategies for economic and social growth, from a medium to long-term perspective.

129. Further progress was achieved with the improvements made to the information system of the projects bank, which has been disaggregated at the municipal level. Its single form system has facilitated the impact evaluation of projects using an indicator system. As a result, the physical indicators for 72.0 percent of the investment projects were incorporated in the 2002 PIP, and in

the 2003 PIP, that figure will be 80.0 percent. A challenge for SNIP is to continue to improve these results.

130. In the formulation of the 2002 and 2003 PIP, the resources made available from the interim HIPC debt relief were able to be allocated at the project, institution, sector, and sub-sector level, as suggested in the WB's Public Expenditure Review. SNIP has a web page (www.snip.gob.ni) where one can access documents and general information about public investment and projects. This promotes transparency and the dissemination of information.
131. As part of the decentralization of public investment, the design for the Territorial Units for Public Investment (UTIPs) was finalized. This will facilitate the decentralization process at the departmental and municipal levels. The UTIPs are slated to begin in four departments (Rivas, Jinotega, Boaco, and León) and in the South Autonomous Region of the Atlantic (RAAS). A manual for systematizing and setting norms for pre-investment at the municipal level was developed.
132. The participation of civil society in the process of formulating the PIP has been facilitated and publicized in collaboration with CONPES. Some of its recommendations were incorporated into the 2003 budget proposal. CONPES members participated in the annual workshop for the formulation of the 2003 PIP with state institutions, to understand the procedures and limitations in the PIP formulation. There will be a repeat of an exercise of accompaniment that began in 2001 with the NGO FUNDEMOS³ to hold departmental workshops on the procedures and content of the PIP with mayors, municipal and departmental leaders.
133. A new requisite has been agreed with foreign donors regarding requests for fresh external resources in that there will be a prior technical appraisal from the Public Investment Unit (UIP) in order to verify that the technical norms for formulation of projects are met and that government strategies and priorities are being complied with. This was established and formalized with the SREC of MINREX. This will allow for better planning of the five-year public investment program and of keeping it in line with the macroeconomic program.
134. Over the next few months, the UIP will be preparing the strategic plan for public investment, the operative regulations, the policy for public investment, and a training program in the formulation and evaluation of projects for the sectoral investment units.

C. Integrated System for Financial Management and Auditing – SIGFA

135. SIGFA, more than a networked information system, is a change in the way to administer public funds. The system has made it possible to modify the procedures for annual budget formulation and the accounting discipline in the institutions and to strengthen the internal audit units. This modernization includes the paying of the payroll, suppliers and executing electronic transfers. A major training program has been carried out for this. Up to 2001, SIGFA was only functioning in MHCP and three projects. As of 2002, 31 state institutions and agencies are implementing it, among them: CGR, NA, the Supreme Court of Justice (CSJ), CSE, and all the ministries and decentralized entities. This has enabled the 2002 budget to be managed through the SIGFA in

³ FUNDEMOS is an NGO that promote citizen participation, among other things.

real time. The interactive budget and its updates will shortly be accessible to the public at large via the Internet; however, security aspects are currently holding up publication of a webpage.

136. MHCP has considerably reduced the time required for presenting financial and budgetary information with the integration of the budgeting, accounting, and treasury subsystems. This now permits the monthly closing and conciliation of account statements with the budget. For example, the accounting and budgetary closing for 2002 will be finalized in the first fifteen days of 2003. Furthermore, SIGFA facilitated the creation of the unit for public credit that is integrated as another vital subsystem for registering, following up, and controlling public debt.
137. SIGFA allows for discerning and monitoring the flow of resources from HIPC debt relief within the budget as regards to current and capital expenditures and the investment portfolio of the SGPRS. To strengthen the control and integration of the project implementation units, SIGFA-PRO was developed. It is a system for project administration that meets the requirements regarding form and content set by WB and IDB. This has been implemented in five projects and its use will be extended.
138. The single account is integrated into SIGFA as part of the treasury subsystem and its creation has allowed for a reduction in the number of treasury accounts in the BCN from 900 to 150, facilitating control of the flow of resources, improving the liquidity of the treasury, and facilitating information on the availability of resources. Despite these achievements, there are still many accounts in private banks, mainly donations made through projects that are still not registered in the single account, but progress is being made on this. The institutionalization of the use of the single account by all projects, regardless of funding source, is a process that requires the decided support of the donor community to promote responsibility and transparency. The single account through SIGFA enables the opening of specific accounts, according to what any cooperation agency requires, facilitating the following up of the resources and the rendering of accounts. For example, an account can be opened with an easily identifiable name like “Norway-donation-MINSA”, which allows for integrating the donation into the budget and having it audited by CGR. Updated financial reports are delivered to the source as required.
139. There is now a computerized connection between SIGFA and SNIP that facilitated the formulation and analysis of the 2003 budget, reduced costs and efforts in preparing it and ensuring it remained in line with the macroeconomic framework and the SGPRS. For example, the 2003 budget for MINSA was formulated and will be executed in a decentralized manner by the 53 operative units (hospitals and Local Systems for Integral Healthcare – SILAIS).
140. There was progress made in institutional coordination with the installation of workstations in the CGR in order to audit the budget and carry out audits of the system. In November 2002, copies of the software for municipalities will be given to INIFOM and the Municipality of Managua (ALMA).

D. National System for Monitoring of Poverty Indicators – SINASIP

141. During the 2001-2002 period and as part of the follow up to the SGPRS, the government has evaluated a number of indicators to do with the overall and sectoral targets agreed on for reducing

poverty levels. The design of SINASIP was finalized in September 2002. Its objective is to monitor the progress of the strategy in the area of policies, programs, and indicators. It will serve as a tool for focusing actions, identifying delays and problems, and for corrective measures.

142. SINASIP has four components: an institutional and technical framework that facilitates inter-institutional coordination; a monitoring plan that establishes the methodology and timetable for gathering and analyzing data; a plan for dissemination and consultation; and a mechanism for coordination with the cooperation community that facilitates access to the information. Two workshops have been held, one in 2001 and another in October 2002, with the participation of the institutions of the system that generate, process and analyze information, together with the final users. Its information system is being designed and equipment acquired. This system will have a web page.

E. Evaluations of programs and projects

143. In the chapter on implementation, follow up, and impact evaluation of the SGPRS, it was reported that there would be a selection of programs subject to evaluation. Though there are various kinds of sectoral program evaluations, these are not always independent or of good quality. The baseline requirement is being established, as well as independent evaluations and incorporation of recommendations for new programs.
144. Preliminary analyses of the programs for health, education, social protection, and rural development have been made (A review of Selected Programs in Nicaragua's PRSP Portfolio, May 2001) and the WB document Public Expenditure Review goes further into this. Both recommend making evaluations of the models for healthcare services and the rural development programs in order to improve the policies and intervention models so that spending is more efficient. The evaluation of the rural development portfolio was made in 2001. Another two evaluations, health and nutrition, are scheduled for late 2002 and early 2003, respectively. Below is a brief summary.

Rural development

145. The evaluation of the rural development portfolio made in the last quarter of 2001 gathered information about the selection and number of beneficiaries and geographic location of the main projects. It concluded that there was no follow-up mechanism, no application of cost-effective models and no impact evaluations. A model for intervention based on the allocation of resources through a competitive and more transparent mechanism is being designed. Another challenge is to strengthen the institutionality of the productive sector.
146. CENAGRO – the first in more than a quarter century – was taken in 2001. It gathered information about the structure of the agriculture sector, in particular the number of activities; size, tenancy, and use of the land; legal status; practices in farming and livestock raising; existence of animals and technology; technical assistance; use of machinery and equipment; access to credit; and, exports; all of these at the national, departmental, and municipal levels. This will make it possible to formulate economic policies and programs in order to give an impetus to the productivity and competitiveness of the sector.

Education

147. The analysis of MECD portfolio focused on four programs: (a) the Project for Basic Education (BASE) has allowed for a high level of student and community participation; (b) the Integral Program for School Nutrition (PINE) has increased school enrolment; (c) the Second Project for Basic Education (APRENDE II) has increased the availability of school textbooks and preschool enrolment; and, (d) the Program for Support to the Educative Sector in Nicaragua (ASEN), financed by the European Union (EU) that ended in April 2002, increased the rate of retention in school and met its target for infrastructure by 100.0 percent.

Health

148. The analysis of MINSA portfolio found that there are seven programs financing activities of the APS, with different costs and scopes. For example, in some cases the programs are concentrated in the same SILAIS, and having seven programs with different funding sources makes it difficult to coordinate and provide follow up. The impact of the models for APS will be assessed, particularly in terms of coverage, quality, and cost-effectiveness. This will allow for rationalization and better allocation of resources. In November, the firm will be selected for the evaluation that should conclude in March 2003 and which should include recommendations for the 2004 budget.

Nutrition

149. There will be an evaluation of the pilot community program for health and nutrition that is promoting changes in dietary behavior in the households of 63 communities in eight municipalities in the departments of Madriz, Masaya, and Nueva Segovia. The activities of this program are within the strategic guidelines for nutrition of the SGPRS. An evaluation is necessary in order to determine whether this new model for nutrition based on prevention will be effective, since there are different modalities for providing care that have not managed to reduce the levels of malnutrition. The firms that are participating in this bidding process are preparing their proposals for the selection to be made in December.

Social protection

150. Evaluations were made of two social protection programs: PAININ and RPS. In both, the impact of the programs on the beneficiary population was analyzed, as was the targeting method used. There was an operative analysis of their execution units and in both cases, the results were highly satisfactory. The evaluations were done by independent international firms with vast experience in the field of impact evaluations of social programs.

VIII. Impact Evaluation

151. There have been great advances during the first year of implementation of the SGPRS. However, the mechanisms and instruments needed to evaluate the impact of the policies set in the matrix of policy actions are not completely developed. This fact makes it difficult to produce an

analysis of great reach as required by the methodology of the WB set forth in the “User’s Guide for Poverty and Social Impact Analysis” (PSIA) document. During the next months a work plan will be prepared in order to make a more complete impact evaluation. The government believes that once the first year of implementation of the PRGF has passed it will be in a position to make a PSIA using as inputs what will transpire in the Consultative Group meeting which will take place in February 2003, the deepening of the tax reform and the implementation of the multiannual budget.

152. This section analyses in a general manner the channels through which some policies will have a great social, political and economical impact. The strengthening of the first pillar - broad based economic growth - through a production strategy based on the development of clusters and an increase in competitiveness, the plan to fight corruption, the implementation of a national education plan and the fiscal reform have been selected. The development of these policies in the medium and long term will give results which will be evaluated in due time.

A. Strengthening the pillar of economic growth: development of clusters

153. In the debate on economic policies, the government has recently included a microeconomic vision, promoting a policy of developing clusters and greater efficiency of public institutions and private investment to reinforce the perspectives for economic growth. A cluster is defined as a group of related firms and institutions in the areas of production and services, interconnected and in a geographical proximity to one another in a field of business, united by complementarities and common aspects.
154. The strategy consists of promoting private investment and directing public investment towards the development of intermediate regions and towns with the potential to create productive employment and generate income, establishing a socioeconomic relationship between a community and a business cluster, and increasing the links with the market for goods, labor, land, financial capital, technological services, technical assistance, transport, and communications.
155. Recent studies have shown that Nicaragua has areas with a great economic potential that require targeted investments to create poles of growth capable of bringing about a resurgence of local economies. They also reflect that there are very poor zones in terms of climatic conditions, soils, and natural resources where some of the poorest but important population centers are located. The zones with high potential, having a certain degree of artisanal development, lack organization and inter-sector integration and have little access to financing. Their production is mainly for domestic consumption. These zones could be developed under the cluster strategy, and the burden of subsidies caused by providing public services to zones with little potential could be reduced substantially if the conditions and incentives are created that would have an influence on migratory flows. Nevertheless, the idea is that for populations that do not want to relocate, the government will implement programs to buffer the negative effects of this strategy.
156. Seven clusters have been initially identified that would make it possible to increase export production and employment and would reduce poverty: (a) textiles and clothing manufacture; (b) agribusiness and food processing; (c) agro-industry of meat and dairy products; (d) reforestation and wood products; (f) fishing and fish and shrimp farming; (g) tourism; and, (h) energy.

157. The government is coordinating with private enterprise to identify problems and propose solutions for the formulation of the strategy for each of the different sectors. Working commissions have been set up in the areas of light manufacture, tourism, specialty coffees, and a good business environment. Other commissions for forestry, meat, fisheries, and agri-business are about to be set up.
158. It will be important to attract foreign investment and technology to develop the targeted economic activities. The government is trying to create an appropriate climate, by creating clear ground rules – fighting corruption, strengthening state institutions, respecting private property – as well as taking action to lower the costs of production and commercialization – upgrading productive infrastructure, reducing transaction costs, developing a capital market, privatizing public services, and negotiating free trade agreements. To this effect, top-level government-private sector commissions have been established.
159. The chain of impacts identified for the clusters are the following: (a) economies of scale; (b) creation and grouping together of small and medium businesses around the clusters; (c) opportunities for the financial system; (d) access to technology; (e) organized access to the domestic and foreign markets; (f) reduction of production and commercialization costs; (g) increased productivity; (h) increased employment and salaries; (i) increased profitability of businesses; (j) increased asset value; (k) increased tax base; and, (l) improved quality of life for the population.
160. The main risks of the cluster strategy are: (a) incorrect identification of the activities to be developed; (b) no coordination between government, private enterprise, and international community to direct resources to the prioritized sectors; (c) vulnerability to natural disasters; (d) continuity of political support for the strategy; and, (e) poor distribution of resources between urban and rural areas.

B. The fight against corruption

161. For the reforms in the economic sphere to be effective, it is necessary to have judicial, legislative, electoral, control, and administrative institutions that are modern, efficient, credible, and inspired by democratic values. To support the clusters and allow the market to send the correct signals to the economic agents at large, it is necessary to have clear ground rules. For these reasons, the government has decided to undertake a fight against corruption as part of institutional improvement. The serious problems of the domestic debt and the fiscal unsustainability of the country are due to public and private corruption. The cost incurred by the government because of recent fraudulent actions in the financial system that led to the failure of a number of banks and the policy of paying compensation for the confiscation of properties in the 1980s represents more than 60.0 percent of GDP.
162. The fight against corruption, besides its ethical component, has an economic and political justification since there is abundant evidence that governmental corruption reduces foreign investment and economic growth and it goes against the nation's model of representative democracy. Studies by international bodies indicate that a successful process of governance and

fight against poverty should include improved monitoring of the budget, a strengthened judiciary, the elimination of discretionary powers of public officials, and the strengthening of CGR.

163. The government is implementing a strategy to fight corruption in both the public and private sectors. The main elements of the strategy are: (a) strengthening state institutions ; (b) promoting ethical and moral values at all levels of the educative system; (c) developing modern systems for monitoring and auditing public spending; (d) establishing clear and obligatory procedures for rendering accounts in all the programs and projects executed by the state; (e) strengthening links with civil society and their participation in budgetary decision-making; (f) developing mechanisms and procedures for awarding and allocating state resources; (g) reforming CGR Law; (h) strengthening the Superintendency of Banks and Other Financial Institutions (SBIF); (i) reforming the Superintendency of Pensions Law; (j) passing the Civil Service Law; (k) giving more autonomy to the BCN; (l) passing the Information Access Law; and (m) passing the Citizen's Participation Law.
164. The program against corruption has the following impacts: (a) attractive investment climate; (b) public investment directed at the priorities of the country; (c) international competitiveness; (d) independent powers of state; (e) fiscal sustainability; (f) economic growth; (g) more employment; (h) higher income; (i) higher revenue collection; (j) better health, education, and housing. In brief, a better living standard for the population and the rule of law.
165. The government feels that the implementation of this strategy has potential risks and costs if the process takes too long and produces few results. These risks are associated with: (a) low political support; (b) inadequate international support; (c) social confrontation; (d) economic recession; and, (e) weakening of the democratic process. To the extent that corruption spreads in a generalized way in the state institutions and the private sector, the risks and expected costs tend to be higher, consequently, this process is not only an obligation of the government, but of all Nicaraguans.

C. National education plan and basic education

166. Nowadays, there is recognition that investing in education leads to the accumulation of human capital, which is necessary for economic, social, and political development. Education, especially basic education, “also contributes to reducing poverty, increasing the productivity of the poor, reducing the fertility rate, and improving health, providing people with knowledge, skills, and abilities that will enable them to participate in society and economic affairs.” (WB, 1995).
167. The government has drafted a National Education Plan through a broad consulting process with civil society and representatives from the three educative subsystems. The main objectives are: (a) coverage and equity of education; (b) quality and relevance of what is taught; (c) innovation, science, and technology; (d) dignified and ongoing training of teachers; and, (e) decentralized educative management.
168. For its implementation, the basic education plan uses two models for decentralization supported by the Educational Participation Law. Municipal decentralization consists of the transfer of resources and decision-making capacity through the creation of municipal educative councils that

will have an influence on defining curricula and will oversee the running of education in their jurisdiction. On the other hand, school autonomy implies the participatory co-management of parents, teachers, administrators, and students in the teaching and adjusting of the national curricula to the local setting. An important element considered is the development of the educative potential of the teachers. In this respect, the plan includes policies for salaries, incentives, benefits, and initial and ongoing training to create optimal working conditions and benefits, making this profession an attractive one. In addition, the government is contemplating functional literacy programs for adults over 15 years of age throughout the country.

169. The expected impacts of the National Education Plan over the medium and long term are: (a) universal basic education; (b) better quality of life for teachers; (c) lower rates of illiteracy; (d) better levels of health; (e) productivity and competitiveness of the country; (f) skilled workforce; (g) moral and ethical values; (h) reduced corruption; (i) reduced poverty; (j) reduced migratory flows; and, (k) economic growth.
170. Some of the risks are linked to the following aspects: (a) financial; (b) formation of skilled human resources at the desired pace; (c) acceptance of the action plan by the population; (d) political support; (e) international support; (f) low economic growth; (g) lack of linkage to modern knowledge and new developments; and, (h) discontinuation of original plans.

D. Fiscal reform

171. The sustainability of fiscal policy over the medium and long term, which would help economic development and the objectives of the strategy for economic growth and poverty reduction, not only depends on the initiatives to solve the problem of the public debt, but also on solving structural problems in the current taxation system and carrying out major changes in the allocation of scarce public resources. Studies by the government show that the tax structure is seriously damaged by the high level of protection granted to a number of sectors of the economy an inefficiency in public spending. This coincides with studies made by IMF, WB and IDB.
172. It has been shown that because of the effects of tax exoneration and other loopholes, each year the government fails to receive an amount equivalent to around 10.0 percent of GDP (equivalent to US\$250 million) if actual revenue collection is compared with potential revenue collection. There is a lot of rigidity on the spending side that avoids a better allocation of resources. More than 20.0 percent of the budget for spending is committed by constitutional law and more than 70.0 percent of that is current expenditure, which reflects a large state bureaucracy.
173. The government is beginning a consultation process to propose a far-reaching tax reform, which in the context to support and encourage production would have as objectives: (a) making progress to tax neutrality and substantially reducing exonerations; (b) defining mechanisms for reimbursement of IGV to exporters; (c) broadening the tax base, not only by eliminating exonerations, but also by incorporating sectors that do not pay taxes; (d) seeking administrative simplicity; (e) avoiding the concentration of taxes in few sectors; (f) eliminating the discretionary elements in their application; and, (g) giving clear signals to the private sector by promoting fairer competition. Additionally, the government will take actions to improve tax administration.

174. The considered effects of this reform are: in the short term – (a) increased production costs of some goods and services; (b) reduced activity of some sectors; (c) readjustment of relative prices; (d) increased revenues collection; and (e) less tax evasion. In the long term: - (a) increased export production; (b) increased economic base; (c) sustainable increase of revenue collection; (d) lower tax rates to the taxpayer; and, (e) having a tax burden comparable with the country’s main trade partners.
175. In the short term, the scope of the tax reform is limited by the Constitution and by the reserve of some interested sector to maintain the status quo. This shows that considerable political support will be required in the future in order to bring about a constitutional reform to overturn some laws that only have benefited specific sectors. This consensus will only be able to move forward to the extent that the government can demonstrate the benefits of its reform and the cost incurred by maintaining the same taxation structure.
176. The government will support subsidies for specific sectors that for some social or economic reason warrant temporary support for their development. For difficult cases, the government will study mechanisms for the gradual application of specific measures.
177. As part of the fiscal reform an institutional state reform will be proposed consisting of a functional review of each entity, an evaluation of how consistent they are with the prioritized economic and social policies and programs. This reform will include all branches of government. The main objectives of the reform proposal are: (a) adjust the size of the state to the economic capacity of the country; (b) reduce the social cost of maintaining a highly bureaucratic state; (c) avoid excessive state intervention in the marketplace; (d) facilitate development of the private sector; (e) achieve greater efficiency in public spending; and, (f) generate savings to attend priorities of the social sector.
178. The immediate effects of downsizing the state are: (a) increased unemployment; (b) increased public spending as a result of severance pay and labor benefits; and, (c) less income for social security. In the medium term, it is expected to: (a) increase public savings; (b) improve the efficiency of public spending; (c) increase social spending; (e) improve public services; and, (f) reduce current expenditures.
179. The government recognizes that downsizing the state is not enough to achieve greater effectiveness in public spending; it is necessary to make major changes in the policy for public investment and current expenditures. Along this line, the government is seeking to adopt a public investment policy based on the economic potentials of the regions of the country instead of using the poverty map exclusively. Regarding current expenditures, the policy of transfers to different sectors of the economy and within the state itself, shall be revised, to develop a more selective policy that will render positive results to society.

IX. Consultation Process

180. The consultation process for the SGPRS continues to be strengthened. The strategy was among the key themes in the national elections and the political parties alluded to figures, programs, and targets during their campaigns and debates. The severity of the problem of poverty and the recent

achievements were mentioned, but in any case, it was recognized that the SGPRS represents a general framework for action.

181. The SGPRS was presented to the elected lawmakers to the AN for the 2002-2007 period. The government has continued holding workshops on the SGPRS with different institutions, particularly the social sectors. For example, there have been workshops with the departmental delegates of MECD, SILAIS directors of MINSA, and international NGOs working in the health sector. SNIP has held workshops on public investment linked to the SGPRS and its decentralization with different institutions and sectors of society in the departments. There is also continued direct discussion with different sectors of society such as, universities, business associations like COSEP, the Catholic Bishops Conference, organizations of civil society such as the Civil Coordinating Group, international cooperation agencies, and specific requests from different sectors. A complete and an illustrated version of the SGPRS have been widely distributed and has been available at the web site.
182. The presidency has initiated a number of permanent work tables with different sectors of civil society, political parties, private sector and municipal majors, among others. The production, distribution, and consumption commission of the AN held its first forum on production with the support of the executive and the direct participation of MIFIC, MAGFOR, and all the different productive sectors with co-sponsorship from the UNDP, IICA, DFID, and DANIDA in order to reach consensus on a work plan between the public and private sectors.
183. CONPES, as an economic and social advisory council for the President, has been reorganized to broaden the participation of civil society, and includes ten notables appointed by the president. Its commissions were reduced to four – Economic/Social, Production, Labor, and Governance – and its work plan is oriented towards formulating recommendations to exercise an influence on policy decision-making. CONPES is providing follow up to the SGPRS, is informed of the process with IMF and the formulation of the Budget 2003. It also participates with the local development commissions that will make the social audit in the 11 municipalities of the PAI to improve appropriation and local work plans.
184. Equally important are the consultation processes led by CONADES, which was created in 1997 as a national response to the Environmental Summit in Rio. The grassroots consultation process has made CONADES a participant in Nicaragua's development efforts. While CONADES maintains a non-political stance, its direct forums (14 last year) held in the departments have made it possible to know about many of the problems faced by Nicaraguans. While CONADES has provided inputs to decrees and draft legislation to do with sustainable development – water, fisheries, mines, and forestry – it has also become a resource for influencing actions in areas like civil service reform, equal rights for women and indigenous groups, judicial reform, and decentralization, among others.
185. CONADES and CONPES developed a “Vision of Nation” that was published a little after the elections in 2001. This document came out of a series of national, departmental, and local consultations. The formulation and development of an agenda is still pending.

MATRIX OF POLICY AND PROGRAM ACTIONS

PILLAR 1: Broad-based economic growth						
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status	
Macroeconomic Aspects						
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	MACROECONOMIC POLICIES				
		FISCAL POLICY <ul style="list-style-type: none"> • Rationalize public investment programs • Increase poverty-related outlays to 63.5% of budget 	Ongoing	DGIP	PRGF-supported	
		<ul style="list-style-type: none"> • PRUDENT MONETARY FOREIGN BORROWING POLICIES 	2005	MHCP	48.7 % in 2001	
	Continue the transformation towards a market economy		STRUCTURAL REFORMS			
			PUBLIC SECTOR <ul style="list-style-type: none"> • Implement SNIP decree • Approve and implement civil service law 	Under execution	DGIP	Decree being implemented
			<ul style="list-style-type: none"> • Approve and implement civil service law 	Oct. 2001	MHCP/ CERAP	Delayed
			PRIVATIZATION AND PUBLIC SECTOR TARIFFS			
			ENITEL <ul style="list-style-type: none"> • Sell 40% of ENITEL assets • Offer remaining shares for sale 	2001	ENITEL/ TELCOR	Sold Oct. 2001
			ENACAL <ul style="list-style-type: none"> • Continue adjusting water and sewerage tariffs until marginal costs are fully recovered • 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. 	2002-2003	ENITEL/ TELCOR	Delayed
			ENACAL <ul style="list-style-type: none"> • Continue adjusting water and sewerage tariffs until marginal costs are fully recovered • 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. 	2001-2002	ENACAL/ INAA	Partially done
ENEL <ul style="list-style-type: none"> • Privatize thermal generating plants • Privatize hydroelectric generating plant 	2001	ENACAL/ INAA	Leon and Chinandega now being bid; Matagalpa and Jinotega starting process			
ENAP <ul style="list-style-type: none"> • Privatize thermal generating plants • Privatize hydroelectric generating plant 	2001-2002	ENEL	Partially sold			
ENAP <ul style="list-style-type: none"> • Offer long-term concession to private investors for operation of major public port facilities (Corinto, Potosí, and San Juan del Sur). 	2001-2002	ENEL	Delayed			
BANIC <ul style="list-style-type: none"> • Offer long-term concession to private investors for operation of major public port facilities (Corinto, Potosí, and San Juan del Sur). • Approval of law authorizing sale of the remaining government shares in BANIC. 	2003-2005	ENAP	In process			
				Presidency	BANIC closed; portfolio being liquidated	

PILLAR 1: Broad-based economic growth					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
		<p>STRENGTHENING OF THE FINANCIAL SYSTEM</p> <ul style="list-style-type: none"> • Implement prudential norms of capital adequacy, credit risk assessment, provisioning, and on-lending limits to related parties • Implement plan to strengthen superintendency of banks and the supervision process • Approval of revised prudential norms on asset-risk classification and provisioning, along the lines recommended by the World Bank • Modifications of the criminal code to update the definition of financial crimes: Submission to the Assembly and approval • Finalize the current first cycle of on-site assisted inspections, design and implement strengthening program where weaknesses have been found • 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 • 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 • 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. • Complete review of supervisory practices and undertake, with the assistance of the IFI's and foreign supervisors, compliance assessments of the Basle core principles 	<p>Sept. 2001</p> <p>2001-2002</p> <p>Sept. 2001</p> <p>July 2001</p> <p>Sept. 2001</p> <p>Nov. 2001</p> <p>Dec. 2001</p> <p>Under exec.</p> <p>Jan. 2002</p>	<p>SBIF</p> <p>SBIF</p> <p>SBIF</p> <p>Government</p> <p>SBIF</p> <p>SBIF</p> <p>SBIF</p> <p>SBIF</p> <p>SBIF</p>	<p>Underway</p> <p>Underway</p> <p>Done</p> <p>Done</p> <p>Done</p> <p>First cycle complete; second completed Oct 2002, pending strengthening program</p> <p>Delayed</p> <p>Done May 2002, but NIC used instead of GAAP</p> <p>Pending; to complete by end 2002</p>

PILLAR 1: Broad-based economic growth					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
		SOCIAL SECURITY <ul style="list-style-type: none"> Award contracts to private pension fund managers Introduce the new system of funded individual accounts Restructure and streamline the Nicaraguan Social Security Institute (INSS) Approval of laws to strengthen framework for developing a domestic capital market: <ul style="list-style-type: none"> Capital market Law Insurance Law Establish and make operational the supervision agency of private pension fund managers 	Oct. 2001 Oct. 2001 Sept. 2001 Oct. 2001 Oct. 2001 Sept. 2001	CREPEN, SECEP CREPEN, SECEP CREPEN, SECEP BCN SBIF CREPEN, SECEP	Delayed Delayed In process Final draft concluded, pending review by Presidency Underway
Sectoral Aspects					
Improve the framework for incentives and competitiveness in the rural sector	Correct distortions that still persist in the market	RURAL SECTOR <ul style="list-style-type: none"> Expedite 1.5% refund of exported value to producers Fiscal incentives for agricultural capital goods and inputs 	Jun. 2005 ...	MHCP MIFIC/MHCP	To be revised in Tax Reform Law Expires Dec. 2002
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 Develop agro-industry and promote non-agricultural rural productive activities Exploit internal and external market opportunities	LAND MARKET <ul style="list-style-type: none"> Modernize the cadastral system and property registry, and regularize property titles, including titling, conflict resolution, documentation legitimizing and land demarcation: Pilot in 3 departments (Madriz, Estelí and Chinandega) plus 12 indigenous communities of the Atlantic Coast and Bosawás In the rest the national territory Conduct study on lands market; design land policies based on study Approval of law for demarcating indigenous lands Demarcate and title lands of the indigenous communities of the Atlantic Coast and Bosawás 	2005 2009 Sept. 2001 ... 2001	MHCP MAGFOR Presidency / AN INETER/MHCP	Delayed one year. Program begins Sept. 2002 Stopped until land use planning project begins (2003) Draft being debated with indigenous group Delayed; depends on legislative approval

PILLAR 1: Broad-based economic growth						
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status	
	Increase rural productivity in the long run	FINANCIAL AND AGRICULTURAL SERVICES <ul style="list-style-type: none"> Implement: <ul style="list-style-type: none"> 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 Establish, strengthen rural financial intermediaries 	Underway	IDR, FCR, MAGFOR	Underway, in first phase	
			Underway	Presidency/SBIF	Two banks (one ex-NGO) now making microcredits; legislation that SBIF norms the microfinance firms in Assembly	
			Underway	MAGFOR, INPYME, IDR, FCR	Underway	
			Develop norms, regulate and encourage marketing of certified seeds	Underway	MAGFOR	Expanded into "pound for pound" program to give modern seeds to farmers
			Coordinate with other institutions and civil society rational and environment-friendly uses of insecticides	Underway	MAGFOR	Underway
			Viability analysis of private agricultural insurance	2001	MAGFOR, MHCP, Presidency	Study underway by private sector
			Prepare status reports and monitor country's food situation	Underway	MAGFOR	Situational bulletins now being published
			Implement program that guarantees the Atlantic Coast's food security through production, marketing, and post-harvest storage programs	2001-2002	FSS-FISE	Program being reviewed
			COMMERCIALIZATION <ul style="list-style-type: none"> Provide training on commercial negotiations, creation of agri-businesses, and market intelligence 	Underway	MAGFOR/MIFIC	Delayed
			Support basic grains commercialization processes	Underway	MAGFOR	Underway; 46 projects now approved
		Support the transformation of selected primary products and their sale in domestic and export markets	Underway	IDR	Underway	
		Implement: <ul style="list-style-type: none"> Actions stemming from tri-national agreement between Nicaragua, El Salvador, and Guatemala in regards to agriculture Program to promote development of new technologies for storing and processing food on farms. 	Underway	MAGFOR, MIFIC, INTA	Underway	

PILLAR 1: Broad-based economic growth					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
		<p>INFRASTRUCTURE</p> <ul style="list-style-type: none"> Implement programs for: <ul style="list-style-type: none"> Rural electrification Energization of rural areas Energy efficiency Dendroenergy evaluation Master plan for rural electrification Expand paving stone program 	<p>2000-2001 2000-2002 Under formulation 2000-2001</p> <p>2001-2005</p> <p>2000-2001</p>	<p>CNE CNE CNE CNE</p> <p>CNE</p> <p>MTI</p>	<p>Underway Delayed one year Dropped Training underway with Brazilian assistance</p> <p>Surveys and studies underway</p> <p>360 Km underway</p>
Increase rate of technological progress in agriculture	Increase rural productivity in the long run	<p>RURAL EXTENSION WORK, DIVERSIFICATION, AND INSTITUTIONAL STRENGTHENING</p> <ul style="list-style-type: none"> Create, through participatory processes, capacity for planning in rural communities through advice, technical assistance, and training Strengthen the institutional capabilities of MAGFOR, INATEC, INTA, the Foundation for Technological Development (FUNICA) and IDR Improve coordination among institutions supporting development of rural sector Implement the National Program of Technology and Technical Agricultural Education with the following components: <ul style="list-style-type: none"> Institutional Strengthening Investigation and technical transference Training and education Creation and implementation of FUNICA Agricultural information system Increase farm-level yields and diversification through technology transfers, validations, and improvement of existing technologies Implement national irrigation program Develop Participatory Micro-Planning (MPP) methodology and implement local projects identified by this methodology in the Atlantic Coast 	<p>Underway</p> <p>2001-2004</p> <p>2000-2004</p> <p>2001-2004</p> <p>Underway</p> <p>Underway</p> <p>2000-2001</p>	<p>IDR</p> <p>MAGFOR, INATEC, INTA, FDT, IDR, FUNICA</p> <p>MAGFOR, IDR</p> <p>MAGFOR, INTA, INATEC</p> <p>IDR, other agencies, and NGOs</p> <p>MAGFOR/ private banks</p> <p>FSS-FISE</p>	<p>Underway</p> <p>Underway</p> <p>Underway</p> <p>Underway</p> <p>Underway through a series of projects (e.g., PRODES)</p> <p>Underway</p> <p>Underway</p>

PILLAR 1: Broad-based economic growth					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
Develop small and medium enterprises in accord with their potential, strengthening their institutional framework	Promote employment in the urban sector	NON-RURAL PRODUCTIVE SECTOR <ul style="list-style-type: none"> Implement projects for science and technology, fishing, seafood farming, tanneries, dairy processing, handicrafts, and mining 	2001-2004	MIFIC	Underway; specific projects and Tech. Institute for small producers being developed
	Strengthen institutional framework and improve inter-institutional coordination in the sector	<ul style="list-style-type: none"> Modernize regulatory framework Improve coordination of NGOs, local governments, and the central government to further enhance assistance to small and medium enterprises Implement projects that: <ul style="list-style-type: none"> Support and promote small and medium enterprises Train small and medium enterprise personnel Strengthen coordinating mechanisms Extend credit to small and medium enterprises Extend technical assistance to small and medium enterprises 	2001-2005 2001-2002 Underway Underway 2001-2002 Underway Underway	MIFIC MIFIC, NGOs MIFIC MIFIC MIFIC MIFIC	Underway Framework published, coordinating body established All underway
Develop clusters in tourism, coffee, textiles and clothing manufacture, and milk derivatives	Increase productivity in other sectors	GENERAL			
		<ul style="list-style-type: none"> Develop framework and medium and long term action plans for each strategic cluster 	Dec. 2001	MIFIC/PNC	Underway but specific clusters still incipient
		<ul style="list-style-type: none"> Prepare operations plan for 2002 	Dec. 2001	MIFIC/PNC	Plan completed
		TOURISM			
		<ul style="list-style-type: none"> Update analysis of tourism sector 	Underway	INCAE	Done
		<ul style="list-style-type: none"> Design program for certification of sustainable tourism 	2001-2004	INTUR/PNC	Norms developed; certification underway
		COFFEE			
		<ul style="list-style-type: none"> Support development of the coffee sector: <ul style="list-style-type: none"> Diagnostic of small and medium coffee businesses Implement special plan of support to the coffee sector 	Underway	MAGFOR, MIFIC	Underway; working in a relief plan to palliate crisis generated by decreasing prices
		TEXTILE-CLOTHING			
		<ul style="list-style-type: none"> Prepare proposal for development of the sector Promote the WRAP certification program (Worldwide Responsible Apparel Production Program) 	2001 May 2001	PNC PNC	Delayed; Sept. 2002 Underway
MILK PRODUCTS					
Accelerate development of milk industry, emphasizing quality, storage and marketing of milk products	Underway	IDR, PNC, CANISLAC	Beginning		
ATTRACTION OF INVESTMENT AND EXPORT PROMOTION					
<ul style="list-style-type: none"> Collaborate in analysis of projects that foster exports and attract new investment 	Jul. 2001-2004	CEI	Delayed		
PORTS					
<ul style="list-style-type: none"> Draw up simplified and streamlined port regulations 	Underway	PNC/MIFIC	Draft still in Ministry		

PILLAR 1: Broad-based economic growth					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
Expand provision of safe water and sanitation in rural areas	Increase coverage of safe water and sanitation in rural areas.	<p>SOCIAL INFRASTRUCTURE</p> <p>WATER AND SANITATION</p> <ul style="list-style-type: none"> Set new rates and revised subsidies for extremely poor neighborhoods Implement water and sanitation project for marginal sectors of Managua Implement comprehensive water and sanitation programs plus training: <ul style="list-style-type: none"> Potable water in rural high-density areas Matagalpa and Jinotega Nueva Guinea Partial transfers and training programs (latrines, training in preventive health, water chlorination) Improve systems for gathering, transporting, and treating solid wastes in 40 municipalities across the country 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 	<p>June 2001</p> <p>2001</p> <p>Underway</p> <p>Underway</p> <p>2000-2004</p> <p>2001-2004</p> <p>2001-2004</p>	<p>ENACAL</p> <p>ENACAL</p> <p>ENACAL/ FISE</p> <p>ENACAL ENACAL MINSAL/FISE</p> <p>INIFOM</p> <p>INIFOM</p>	<p>Underway</p> <p>Underway first phase</p> <p>Underway</p> <p>Underway Done Underway</p> <p>Underway, 21 municipalities</p> <p>Underway</p>
		<ul style="list-style-type: none"> Implement program to provide information about sustainable water usage and associated costs: "Nicaraguan Initiative for Care and Rehabilitation of the Environment" 	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>HOUSING</p> <ul style="list-style-type: none"> 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 <p>Plan to close BAVINIC</p> <ul style="list-style-type: none"> Implement community-assisted housing reconstruction programs Construction of floor and roof for 100,000 houses Reconstruct damaged houses and build emergency shelters for those affected by hurricane Mitch. Provide 15,000 annual targeted subsidies to fill unsatisfied housing needs from low-income sectors 	<p>Jun. 2001</p> <p>Jun. 2001</p> <p>2001-2003</p> <p>2000-2004</p> <p>2000-2005</p> <p>2000-2004</p>	<p>INVUR</p> <p>INVUR</p> <p>SECEP, ENEL, ENACAL, INIFOM</p> <p>INVUR</p> <p>INVUR, SAS</p> <p>INVUR</p>	<p>Organic law approved, implemented on June 2002. FOSOV's regulation in preparation</p> <p>Underway</p> <p>Underway</p> <p>Underway</p> <p>Suspended</p> <p>Delayed to begin in 2003</p>
Develop and regulate the private financing of housing	Increase the supply of financial resources for housing projects	<ul style="list-style-type: none"> Promote the development of private mortgage market 	Under formulation	INVUR	Delayed

PILLAR 2: Investment in human capital					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
Education					
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	<ul style="list-style-type: none"> Implement pilot project for preschool education during vacations Design plans to: Increase double shifts Expand multigrade schools in rural areas Incorporate classrooms with community support (community primary) Rehabilitate, replace, and/or build over 6,000 primary classrooms Expand program for functional illiteracy Make a situation analysis of coverage at the municipal level and define strategies and financial requirements and develop physical facilities master plan Build homes for teachers in rural areas 	2001 Being formulated 2000-2005 2001 2001-2002 Underway	MECD MECD MECD, FISE, PRRAC MECD, PAEBANIC MECD MECD, ASEN, APRENDE, PRRAC	Dropped; too costly Double shifts now 80%; other components delayed 5,089 classrooms until semester I 2002 Underway Beginning ASEN and COREA done; APRENDE and PRRAC Underway
Improve the quality of education	Improve the quality of education by improving relevance and pertinence of teaching	<ul style="list-style-type: none"> Give primary teachers incentives linked to performance 14,000 teachers 18,000 teachers Improve initial and ongoing training for teachers (including the Atlantic Coast) Expand textbooks and educational materials distribution by 2% a year Generalize primary school standards Reform secondary education Reform elementary bilingual intercultural education Modernize tertiary education Strengthen plan for flagship schools Provide scholarships in teacher training schools Reinforce multi-grade schools Implement comprehensive supervision strategies to education programs in the Atlantic Coast 	2001 2002 2000-2003 2000-2003 2001 2001 2001 2001-2004 Underway Underway Underway 2000-2001	MECD FSS-MECD SIMEN, FOREBICA, ASEN, BASE, APRENDE MECD, FOREBICA, APRENDE MECD MECD FOREIBCA, MECD, BASE CNU, MHCP MECD MECD MECD FSS-MECD	Done Underway Underway Underway Done Underway Expanded; underway Underway Underway Underway Underway Operative plan being prepared

PILLAR 2: Investment in human capital					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
School decentralization	Improve participation of families and communities	<ul style="list-style-type: none"> Implement training plan for the School Directive Councils, parents, and school principals Expand school autonomy by 100% 	2000-2003	MECD	Underway
			2001	MECD	Underway
	Improve financial efficiency and transparency	<ul style="list-style-type: none"> Pass Law for Participation in Education 	2001	MECD/AN	Law and regulation approved
Modernize the sector	Implement model for provision of education, in which the central level fulfils the role of setting norms and supervising	<ul style="list-style-type: none"> Design and implement: National System for Institutional and Academic Evaluation 	2002	MECD	Underway
		<ul style="list-style-type: none"> Integrated Financial Management System (Local SIGFA) 	2001-2002	MECD	Underway
		<ul style="list-style-type: none"> Finalize design of the National Education Plan 	2001	MECD	Done, published late 2001
Health					
Improve coverage and quality of reproductive health services for women of childbearing age and integral attention for children and adolescents	Reduce maternal mortality rate to 129/100,000 l.b.; infant mortality rate to 32/1,000 l.b.; under five mortality rate to 37/1,000 l.b.; as well as the rate of occurrence of transmissible diseases 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	<ul style="list-style-type: none"> 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 	2000-2002	MINSA	Underway
		<ul style="list-style-type: none"> Repair the primary network, equipment, furnishings, health centers and posts (7 on the Atlantic Coast) 	2000-2002	MINSA/FISE	Underway
		<ul style="list-style-type: none"> Repair hospitals in RAAN, RAAS, and Río San Juan 	2001	MINSA	Delayed
		<ul style="list-style-type: none"> 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) 	2000-2003	MINSA FSS-FISE	Adopted and functioning
		<ul style="list-style-type: none"> Get a functional community reference and counter-reference system underway in order to improve follow-up to patient care in 12 municipalities of 6 SILAIS 	2001	MINSA	Underway
		<ul style="list-style-type: none"> Evaluate seven main health care projects to choose one, simplified model for future emphasis 	2002-2003	SECEP	Begun
		<ul style="list-style-type: none"> Strengthen comprehensive healthcare system for children (Strategic Plan for Comprehensive Attention to Diseases Prevalent during Infancy – AIEPI): Provide vaccines, medicines, and inputs for immunization program and for comprehensive attention to women and children 	2001	MINSA	Underway
			2002-2003	MINSA	Underway
		<ul style="list-style-type: none"> Implement model for comprehensive reproductive health care services 	2001	MINSA	Delayed to begin late 2002
		<ul style="list-style-type: none"> Support for organizing reproductive health services and work with adolescents in 40 municipalities 	2001-2003	MINSA FSS-FISE	Underway
		<ul style="list-style-type: none"> Conduct study to expand benefits coverage in INSS health services 	2000-2001	INSS	Done

PILLAR 2: Investment in human capital					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
		<ul style="list-style-type: none"> Implement pilot project to introduce tele-medicine on the Atlantic Coast 	2001-2002	FSS-MINSA	Beginning definition of regulations
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"> Support maternal mortality monitoring system 	2000-2003	MINSA	Software updated and being implemented in 6 SILAIS
		<ul style="list-style-type: none"> Prevent and control epidemics through monitoring, control, basic sanitation and epidemiological investigation 	2001-2003	MINSA	Underway
		<ul style="list-style-type: none"> Design and disseminate educational, informational, and communications campaigns to promote healthy lifestyles 	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"> Approval of General Law for Health 	2001	AN, MINSA	Approved March 2002
		<ul style="list-style-type: none"> Design National Health Plan and basic package of health services 	2001	MINSA	Begun
		<ul style="list-style-type: none"> Develop human resource policy for the sector, allocating staff according to need 	2002	MINSA	Policy done
		<ul style="list-style-type: none"> Further hospital autonomy program 	2000-2003	MINSA	Proceeding, but slowly
Nutrition					
Foster preventive approaches to malnutrition	Reduce under five chronic malnutrition to 16% in 2004 from 19.9% in 1998 Promote prevention of malnutrition by means of measures in the household and the community	<ul style="list-style-type: none"> 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 	2001	MINSA	Underway
		<ul style="list-style-type: none"> 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 	Apr.-Dec. 2001	MINSA	Underway
		<ul style="list-style-type: none"> Revise the topics and include in primary school health education curricula, and adult literacy programs topics on malnutrition prevention 	2001-2002	MECD	Delayed
		<ul style="list-style-type: none"> 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 	2002	MINSA	Begun
		<ul style="list-style-type: none"> Evaluate the pilot project "Comprehensive Attention to Community Children" and draw applicable lessons for other projects 	June 2002	MINSA	Underway
Population					
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 Foster responsible patterns of conduct in vulnerable groups' families	<ul style="list-style-type: none"> Provide basic package of social services including preventive, basic, emergency, and reproductive healthcare services with emphasis on women and adolescents 	Dec. 2001	MINSA	Under formulation to begin in 2003
		<ul style="list-style-type: none"> Finish work plan for the implementation of the National Population Policy 	Dec. 2001	MINSA/ National Commission on Population	Delayed
		<ul style="list-style-type: none"> Support the adaptation of obstetric emergency norms. Evaluation of care and proposals for adolescents' services 	2001-2003	MINSA	Norms published; being applied in 6 SILAIS

PILLAR 2: Investment in human capital					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status

PILLAR 3: Protection of vulnerable groups					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
Modernize the institutional framework	Improve legislative framework and strengthen institutional capacity	IMPROVE LEGISLATIVE FRAMEWORK			
		<ul style="list-style-type: none"> Pass new Adoption Law; issue regulations to enforce the law 	2002	MIFAMILIA, National Assembly	Law passed Apr. 2001; regulations being prepared
		<ul style="list-style-type: none"> Develop new Family Code 	2002-2005	MIFAMILIA	Draft legislation now being reviewed
		INSTITUTIONAL STRENGTHENING			
		<ul style="list-style-type: none"> After diagnosis, restructure and reinforce MIFAMILIA 	2002-2003	MIFAMILIA	Underway
		<ul style="list-style-type: none"> Implement programs to strengthen organizations that formulate, coordinate, follow up, and evaluate social and economic policies directed at extremely poor and vulnerable groups 	2001-2002	MIFAMILIA, SECEP, FISE	Delayed one year; begins late 2002
		DEVELOP SOCIAL PROTECTION STRATEGY BASED ON PROGRAM EXPERIENCE			
<ul style="list-style-type: none"> Analysis of plans, programs, and projects directed at vulnerable groups and their implementation delivery mechanisms, and cost/effectiveness evaluation 	Underway	SECEP, All sectors	Underway		
<ul style="list-style-type: none"> Identify vulnerable groups' profile by region and analyze critical social risks to improve the effectiveness of programs aimed at children, the elderly, the handicapped, and adolescent mothers 	2001	SECEP	Started		
<ul style="list-style-type: none"> Design effective service delivery mechanisms promoting behavioral changes of the extreme poor and vulnerable groups 	Underway	SECEP/FISE, MIFAMILIA	Underway phase II		
Improve condition of poorest		IMPROVEMENT OF PRODUCTIVE CAPACITY OF THE EXTREMELY POOR			
		<ul style="list-style-type: none"> Implement Integrated Program for Poor Urban Neighborhoods 	2001-2003	FISE-SECEP	Delayed
		<ul style="list-style-type: none"> 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) 	Underway	MAGFOR, INTA	Affected areas Program underway; post Mitch program done.
<ul style="list-style-type: none"> Programs to fight women's poverty (women and credit program; women's garden economy with technology and credit-in-kind) 	Underway	INIM, INTA	Underway		

PILLAR 3: Protection of vulnerable groups					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
		HUMAN CAPITAL PROTECTION			
		<ul style="list-style-type: none"> Implement strategic plan to increase health coverage among formal and informal sector workers 	Underway	INSS	Almost done
		<ul style="list-style-type: none"> Assistance to groups facing nutritional and educational risk: <ul style="list-style-type: none"> School Lunch Program for 300,000 children. Increase coverage of integral attention of children 0-6 years (PAININ). Implement programs to fight extreme rural poverty (Social Safety Network). 	2001-2005 2001-2003 2000-2002	MIFAMILIA MIFAMILIA FSS, MIFAMILIA, MECD, MINSА	Underway Underway Pilot phase underway; 2 nd phase begins November 2002
		<ul style="list-style-type: none"> Healthy Schools Program 	Under formulation	MECD, MINSА, ENACAL	Signed collaboration agreement; underway in 17 schools
		<ul style="list-style-type: none"> Implement program to assist handicapped children: <ul style="list-style-type: none"> Special education program to assist 3,900 children (teachers' training, promoting handicapped children's participation, promotion of diversity). Rehabilitation by the community (Smile operation). 	Underway Underway	MECD MIFAMILIA	Underway Being implemented in 7 municipalities
		<ul style="list-style-type: none"> Programs to protect working children 	Underway	MIFAMILIA	Underway
		<ul style="list-style-type: none"> Protection of minors under high-risk conditions (delinquency and abandonment): <ul style="list-style-type: none"> Protection for 600 stoplight children Protection for 350 children under risk due to drug use and sexual abuse Attention to 790 inhalant children 	Underway 2000-2001 Underway	MIFAMILIA MIFAMILIA MIFAMILIA, Casa Alianza	Underway Underway Underway
		<ul style="list-style-type: none"> Comprehensive development plan for the prevention of juvenile delinquency 	2002	Secretariat of Youth	Underway
		<ul style="list-style-type: none"> Protection centers for abandoned children 	Underway	MIFAMILIA	Underway
		<ul style="list-style-type: none"> Fight Against Drugs: <ul style="list-style-type: none"> Approval and negotiation of Plan to Fight Drugs 	Underway	CNLD, MINGOB	Done
		<ul style="list-style-type: none"> Implement antidrugs campaigns in primary, secondary schools and communities 	Underway	MECD, CNLD, PN, MIFAMILIA, MINSА, NGO's	Underway
		<ul style="list-style-type: none"> Prevention plan against drugs in the Atlantic Coast 	August 2001	Regional Autonomous Councils for Fight Against Drugs	Underway

PILLAR 3: Protection of vulnerable groups					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
Strengthen community participation and social solidarity	Foster the sustainability of the interventions	<ul style="list-style-type: none"> Implement programs for the elderly Attention program for senior citizens Feasibility study on increasing coverage for the elderly Development of community capacities Foster homes program 	Underway	MIFAMILIA	Underway
			New program phase under design	INSS	Done; program begun
			Underway	MIFAMILIA	Underway

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	<p>TRANSPARENCY</p> <ul style="list-style-type: none"> Establish and implement a system for public sector procurement and contracting: Sign contract for private inspection Sign contract for administrative support Diagnosis of Law 323 State Contracts Approve Law on access to information: Ensure that all domestic receipts (revenue and transfers) of the public sector entities are recorded at the Treasury (cuenta única) Increase share of Treasury revenues and transfers registered in the SIGFA integrated system for financial management and auditing: In the Ministries of Treasury and Public Credit, Transport, Agriculture, Education, and Health In all other entities of the Central Government Strengthening of the Comptroller's Office: Introduce and implement a system of internal controls in 50 percent of the public sector Develop auditing norms Design and start a system of management and supervision of audits Design and start a training program 	June 2001 Sept. 2001 June 2002	SECEP/MHCP	Signed Sept. 2002 Signed August 2002 In process
			Dec. 2001	CNI/AN	Draft sent to legal office of Presidency
			2001-2002	MHCP	Underway
			Dec. 2001	MHCP	Done
			Dec. 2002		...
			July 2001	CGR	Delayed
			2001	CGR	Approved and published Jan. 2002
			July 2001	CGR	Began 2002
			April 2001	CGR	Done; underway

PILLAR 4: Governance					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
		JUDICIAL REFORM <ul style="list-style-type: none"> Approve the laws to reform the judicial process: New Penal Code New law on penal procedures Implement a technical strengthening program to put these laws into practice Implement the recently-approved Law on Administrative Dispute Settlement Implement program for institutional strengthening (technical and professional) in judicial matters 	June 2001 Oct. 2001 June 2001 Sep. 2001 2001-2003	AN CSJ CSJ CSJ	Reform passed; some clauses vetoed Approved Nov. 2001 Underway Training begun; Tribunal still not established Begun
		PROPERTY RIGHTS <ul style="list-style-type: none"> Monitor quantitative targets on property claims solved, and urban and rural property titles issued Approve law on public registries 	2001-2002 July 2001	MHCP CSJ	Underway Delayed
		ADDITIONAL ACTIONS ON GOVERNANCE <ul style="list-style-type: none"> Implementation of National Integrity Plan Institutional strengthening of the National Integrity Committee Design a program to promote a culture of transparency and integrity Design and implement an educational campaign on human rights for the army and police Strengthen the Attorney General's Office for Human Rights and the Special Attorney Offices for the protection of children, women, and indigenous communities. Approval of law: On family patrimony On probity and moral integrity of civil officials and employees 	Underway 2001 June 2001 Underway Underway 2000 2001	CNI CNI CNI PDH PDH	Underway Begun Done august 2001 Underway Underway; but focused only on three groups With National Assembly Approved July 16, 2002
		PARTICIPATION <ul style="list-style-type: none"> Design coordination mechanisms to monitor the strategy (Government, CONPES, and donor community) Strengthen the National Council for Social and Economic Planning Activate sectoral commissions 	Underway 2000-2001 ...	SECEP CONPES CONPES	Done Done Done

CROSS-CUTTING THEMES: Environment and ecological vulnerability					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
Environmental restoration and sustainable production processes	Reduce environmental degradation	<ul style="list-style-type: none"> Implement and monitor the Environmental Policy and Action Plan (PANic) 	2001-2005	MARENA	Underway, pilot plan done
	Promote the ecological restoration of productive areas	<ul style="list-style-type: none"> Prepare: <ul style="list-style-type: none"> Strategy for Biodiversity Biodiversity Law National Strategy for Sustainable Development Approval of laws on: <ul style="list-style-type: none"> Water resources Fisheries Mining Strengthen environmental units to consolidate the National System for Environmental Administration Approve National Environmental Fund regulation 	2001-2005	MARENA	Done; being implemented
			2001-2002	MARENA/AN	Draft with Presidency
			2001-2002	MARENA/CONADES	Vision agreed and published; agenda being prepared
			2001-2002	MIFIC/AN	Delayed; draft being prepared
			2001-2002	MIFIC/AN	Draft with National Assembly
			2001-2002	MIFIC/AN	Approved
			2001-2005	MARENA	12 units established in Govt.; 35 in municipalities
			2001-2002	MARENA/AN	Done, pending board designation to start operations
			Management and conservation of forests	Promote sustainable management and biodiversity	<ul style="list-style-type: none"> Approval of the Forestry Development Law	2001-2002	MAGFOR/AN	Draft Law with National Assembly
Offer environmental services	<ul style="list-style-type: none"> Conservation of forest ecosystems 	Underway		MARENA	Underway Phase II
	<ul style="list-style-type: none"> Enter the international compensation market for carbon sequestration 	2001-2005		MARENA	Underway
Promote productive forest development	<ul style="list-style-type: none"> Implement project for: <ul style="list-style-type: none"> Reforestation and management Wood processing, by-products, and commercialization Promote sustainable forest investment Promote technological change in the forestry industry Support small farmers' forest activities in Nueva Segovia Promote sustainable production practices and adequate management of natural resources 	2001-2004	MAGFOR-INAFOR	Under formulation	
		2001-2004	MIFIC	Studies begun	
		Underway	MAGFOR	Underway	
		Underway	MAGFOR	Underway	
		Underway	INAFOR	Underway	
		Underway	IDR	Underway	
		Underway			

CROSS-CUTTING THEMES: Environment and ecological vulnerability					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
Strengthen local and institutional environmental management	Increase local level management capacity	<ul style="list-style-type: none"> Implement: <ul style="list-style-type: none"> Program for institutional strengthening and interinstitutional coordination National prevention system on real-time Strengthen municipal environmental commissions and local capabilities 	2001-2002	INETER	Without financing
			2001-2003	INETER	Underway
			2001-2005	MARENA	Underway, 107 commissions operating
	Risk reduction	<ul style="list-style-type: none"> Modernize early warning systems 	Underway	INETER	15 stations established and equipped
		<ul style="list-style-type: none"> Prepare: <ul style="list-style-type: none"> Map of geological and dangerous zones in the vicinity of the Telica, Cerro Negro, and Momotombo volcanoes National geological map at 1:50,000 scale, and cartographic mapping of risks due to natural phenomena 	Underway	INETER	Done
			2001-2005	INETER	Done
		<ul style="list-style-type: none"> Expand geographical information system for mapping of natural threats 	2001-2004	INETER	Underway
		<ul style="list-style-type: none"> Install: <ul style="list-style-type: none"> 25 telemetric meteorological stations in dry productive vulnerable zones 15 telemetric hydrometry stations in flood risk areas 8 seismic stations National tsunami warning center 	Underway	INETER	10 done; 15 more underway
			Underway	INETER	8 done in 2002 and 7 to be done in 2003
			2001-2002	INETER	Done.
			2001-2002	INETER	Underway
		<ul style="list-style-type: none"> Equipping of the accelerograph network with telemetric accessories 	2001-2004	INETER	10 stations equipped
		<ul style="list-style-type: none"> Organize The Disaster Operation Center (COE) 	2001-2002	ESS, Civil Defense	Underway
		<ul style="list-style-type: none"> Formulate National Emergencies Plan 	2002-2003	ESS	Being prepared
		<ul style="list-style-type: none"> Implement rehabilitation project in area around Casitas volcano 	2000-2004	MAGFOR	Done
			2001-2003	INETER	Underway
Develop culture of social responsibility	<ul style="list-style-type: none"> Develop a national environmental information system (SINIA) 	2001-2003	MARENA	Underway	
	<ul style="list-style-type: none"> Design and implement education and information campaigns for the population 	2001-2003	MARENA	Underway	
Incorporate the demographic dimension into territorial planning	Land use and planning	<ul style="list-style-type: none"> Elaborate, approve and implement norms and criteria for land-use planning 	2001	MARENA / INETER	Regulations done, being implemented in pilot area selected (Boaco's municipalities)

CROSS-CUTTING THEMES: Environment and ecological vulnerability					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
		<ul style="list-style-type: none"> • Make maps showing potential land uses 	2001-2004	INETER/ MAGFOR	Under negotiation
		<ul style="list-style-type: none"> • Elaborate plans to rationalize land use in prioritized territories / municipalities 	2001-2005	Municipalities, Reg. Govt.	Underway
		<ul style="list-style-type: none"> • Implementation of local environment plans 	2001-2005	Municipalities, MARENA	53 municipalities have plans, 42 implemented
		<ul style="list-style-type: none"> • Initiate improvement or urban settlements 	Under formulation	SECEP/FISE	Under formulation

CROSS-CUTTING THEMES: Social equity					
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"> • Promote follow-up of international conventions: Female, children and adolescents • Design plan to promote sexual equality in salaries, in the public and private sector 	2001 2001	INIM INIM	Underway
	Prevent, sanction, and eradicate abuse and mistreatment of women and children	<ul style="list-style-type: none"> • Guarantee the continued functioning of Women's Commissariats 40 women centers National Plan Against Domestic Violence • Approve the regulations of the Children and Adolescents Code 	2001-2004 2001 2001	INIM, PN, Civil Society INIM MIFAMILIA, CNA	Underway Completed Being reviewed by MIFAMILIA

CROSS-CUTTING THEMES: Decentralization					
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"> • Define national policy and strategy on decentralization 	Dec. 2001	CSD	Approved may 2002, now in consultation process
	Consolidate decentralization policies towards local governments	<ul style="list-style-type: none"> • Advance implementation of decentralization strategy 	2002-2003	Sectors	Delayed
		<ul style="list-style-type: none"> • Implement program to develop and strengthen the technical capabilities of municipal administrations 	2001-2004	INIFOM	Underway
	Develop local administrative and fiscal capacities	<ul style="list-style-type: none"> • Implement the institutional strengthening of INIFOM 	2001-2002	INIFOM	Underway

CROSS-CUTTING THEMES: Decentralization					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
	Improve local governance	<ul style="list-style-type: none"> Approve law on: Municipal administrative career and civil service 	2001	AN, INIFOM, AMUNIC	Draft with National Assembly
	Promote civil society participation in public investment administration	<ul style="list-style-type: none"> National comprehensive cadastre incorporating municipal cadastres Prepare and approve amendments to Law of Municipalities Harmonize municipal public investment systems with SNIP Issue regulation of the Law for the Autonomy of the Atlantic Coast 	2001	INIFOM	Draft with Presidency
			2000-2001	AN	With Assembly
			2001	INIFOM, SECEP	Underway
			2001	Presidency.	Under review

SUPPORTING ACTIONS: Targeting, monitoring, and evaluation of impact					
Guidelines	Objectives	Policy actions	Originally scheduled execution	Executor	Status
Targeting					
Target vulnerable groups	Increase the efficiency of programs by directing efforts at the appropriate groups	<ul style="list-style-type: none"> Establish targets by municipality, vulnerable groups and families using Poverty Map 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 Cost efficiency evaluation of targeting mechanisms of the Social Safety Net Program 	2001	All sectors	Underway
			2001	SECEP/SNIP	Underway
			2001-2002	SECEP	Underway
Monitoring and evaluation of impact					
Program monitoring and evaluation of impacts	Availability of timely information for decision making	<ul style="list-style-type: none"> Design a monitoring and impact evaluation system for information and decision making 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, DHS 2003) Publication of results (central government, local governments, civil society, donors) Institutional strengthening for monitoring and evaluation 	Underway	SECEP	Completed
			Annual	All sectors	Underway
			Under formulation	SECEP	Underway
			Underway	All sectors	
			Underway	All sectors	Progress reports published
			2001	All sectors	Project underway

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	2002	2003	2004	2005	International Targets Year 2015
According to poverty line methodology, 47.9% of Nicaraguan's population are poor and 17.3% are extremely poor. In the rural area the incidence of poverty is higher, 68.5% of population are 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 ^{1/}	...	49.6	51.2	50.0	48.7	53.1	56.1	59.2	63.5	Reduce extreme poverty by 50% by 2015 with respect to 1995
			Projected rate of growth of real GDP	7.4	4.3	5.8	3.0	3.3	1.0	3.0	4.5	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 enrolment 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	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	80.6	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	40.0	42.0	44.0	
			Put into effect academic achievement measuring system, and make first evaluation in math and spanish in 2001 for 3rd and 6 th grade	...	...		Done	Delayed	...	...	...	...
			Annual increase of 1.0 percentage point in the net pre-school enrolment rate during 2000-2005	26.0	27.0	27.0	28.0	26.0	29.0	30.0	31.0	32.0	
			Increase to one half the percent of rural multigrade schools offering 6 th grade by 2005	29.0	33.0	30.7	37.0	35.3	41.0	44.0	47.0	50.0	

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	2002	2003	2004	2005	International Targets Year 2015
			Construct and replace 2630 elementary school classrooms during 2001-2005 ^{2/}	977	860	1404	400	723	490	540	600	600	
Nicaragua's maternal mortality (148 per 1,000 live births) is high. The high incidence of pregnancies among teenagers and short intervals between pregnancies increases the risks and contributes to higher mortality rates.	Reduction in maternal mortality rate	Reduce maternal mortality rate to 129 per one-hundred-thousand live births from 148 per one-hundred-thousand born alive in 1999	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) ^{3/}	47.0	52.4	50.6	54.6	50.4	55.9	57.2	59.4	61.7	Reduce maternal mortality rate by 3/4 by 2015 with respect to 1994
			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) ^{3/}	71.6	78.6	75.2	80.6	70.2	81.4	82.2	84.3	86.5	
			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) ^{3/}	31.9	35.9	33.6	37.7	32.2	38.9	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	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.	Reduction in infant and children under 5 mortality rates	Reduce infant mortality rate to 32 per thousand live births from 40 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	99.0	99.0	99.0	
			3 d. antipolio	91.0	91.0	93.5	91.0	92.6	92.0	93.0	94.0	94.5	
			3 d. 5-in-1	7.0 ^{4/}	90.0	68.5	90.0	91.8	91.0	92.0	93.0	94.0	
		Reduce mortality in children under five to 37 per thousand live births from 50 per thousand live	Increase polio immunization coverage (3 doses) for children 12 to 23 months (measured by LSMS) from 83.8% in 1998 to 94% in 2004 ^{5/}	83.8 (1998)	...	...	92.5	85.7	...	...	94.0	...	
			Reduce the incidence of diarrhea in children under 5 to 16.2% by 2004 ^{5/} from 21.9% in 1998 ^{6/}	21.9 (1998)	...	...	19.0	24.8	...	...	16.2	...	

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	2002	2003	2004	2005	International Targets Year 2015
		births in 1998	Reduce the incidence of acute respiratory infections in children under 5 to 21% by 2004 ^{5/} from 27.3% in 1998	27.3 (1998)	24.0	23.7	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 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.	Access to reproductive healthcare services	Reduce to 24.8% ^{7/} the unsatisfied demand for family planning among women with partners in the 15-19 age group from 27.1% in 1998	Reduce to 26.1% in 2001 and 24.8% in 2005 ^{7/} 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	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 ^{7/} 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	...	...	...	18.0
			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) ^{8/ 3/}	21.0	21.0	22.7	22.0	24.5	22.0	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	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	Have a sustainable development strategy implemented by year 2005
			Approve the Forestry and Development Law	...	...	...	...	...	Approved	...	...	...
			Approve the Fisheries Law	...	...	...	...	...	Approved	...	...	...
			Approve the Biodiversity Law	...	...	...	...	...	Approved	...	...	...

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	2002	2003	2004	2005	International Targets Year 2015
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 ^{5/} 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	...	....	16.0	....	Reduce chronic malnutrition to 7% by 2015 ^{9/}
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 ^{7/}	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	70.0	71.0	72.4	73.9	75.4	Increase to 100% national water coverage ^{9/}
			Annual average increase of 2.4 percentage points in access to safe water in rural dispersed areas during 2000-2005 ^{10/}	39.0	41.6	41.1	45.8	46.0	48.2	50.5	52.6	53.5	
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 ^{5/ 11/} Increase access to sewerage in urban areas to 44.1% from 33.6% in 1999 ^{8/}	Increase national access to sanitation by 4 percentage points during 2000-2004 ^{11/}	84.1 (1998)	...	...	85.0	86.2	...	...	88.0	...	Increase to 95% national access to sanitation ^{9/}
			Annual increase of 1.7 percentage point in share of urban population with access to sewerage ^{12/}	33.6	35.8	34.9	34.9	37.0	35.8	37.4	40.3	44.1	
19% of Nicaragua's population over 10 years old is	Reduce illiteracy rate	Reduce illiteracy rate to 16% by	Decrease illiteracy rate by 3 percentage point by 2004 as measured by LSMS ^{5/}	19.0 (1998)	...	...	18.5	18.7	...	...	16.0	...	Decrease illiteracy rates to 10% ^{9/}

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	2002	2003	2004	2005	International Targets Year 2015
illiterate and illiteracy rate among extreme poor is 41% .		2004 from 19% from 1998 ^{5/}	Increase mean years of schooling among the 10-19 age group to 5.0 years in 2004 ^{5/} from 4.6 years in 1998	4.6 (1998)	...	...	4.8	4.9	...	...	5.0	...	

^{1/} These indicators will be define ahead.

^{2/} This indicator includes only elementary school classrooms constructed, rehabilitated and/or replaced.

^{3/} 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.

^{4/} The low 1999 coverage stems from a shift from 3 dosage DPT to a 5 dosage approach in that year.

^{5/} Measured by Living Standard Measurement Survey (LSMS) scheduled for 2001 and 2004.

^{6/} Achieving these levels is partly dependent on the increase of water and sanitation services.

^{7/} Measured by Demographic and Health Survey (DHS) 2001 and 2005.

^{8/} 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.

^{9/} National target.

^{10/} 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.

^{11/} Sanitation includes sewerage and latrines.

^{12/} 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.

Analysis of Intermediate Indicators for the SGPRS

1. Nicaragua has three measurements of the LSMS from 1993, 1998, and 2001 and two measurements of the ENDESA from 1998 and 2001. These surveys are tools that contribute to analyzing the evolution and causes of poverty and of the targets and indicators for the SGPRS. Seven of the indicators and targets selected in the SGPRS come from the LSMS and two come from the ENDESA. The reason why indicators from both surveys are used in the intermediate indicators and targets of the SGPRS is that during their selection, the institutions did not have a reliable annual measurement of that indicator.
2. These surveys report on indicators that the ministries do not measure annually and they complement the information from the institution. They serve to analyze the behavior of the different poverty groups – poor, extreme poor, and non-poor – and they are broken down by region and department.
3. One element of the progress in the follow up is that MINSA has set the targets for the SGPRS at the SILAIS level for the last two years, including them in their annual programming and budgeting. These were prepared with the participation of the municipal delegates. The MECD is working on setting targets by department and it has developed a school map for this. For 2003, it has set targets for some indicators for the SGPRS in the rural areas and the municipalities with severe levels of poverty. Likewise, ENACAL is considering setting targets by department for 2003.
4. Using the information from the surveys, a brief analysis of some of the intermediate indicators is presented.

Education

Preschool Attendance

5. Although the indicator for the net rate of preschool attendance was not met, the 2001 LSMS shows an increase in preschool attendance among children from 4 to 6 years of age. Attendance of children in the Infant Development Centers (CDIs) increased by 0.3% to 2.3% because of the programs designed to encourage the participation of the communities in the early education of children. These data are not gathered in the MECD statistics.

Years of schooling, between 10 and 19 years of age

6. The years of schooling are the average number of years in school. This indicator shows improvement, going from 4.6 to 4.9 years. There has been greater improvement between 1998 and 2001 than there was between 1993 and 1998. Although rural areas continue to have lower levels of schooling, all rural regions had an improvement over this latter period, which was not the case in the urban areas.

Health

Institutional births

7. The LSMS shows that between 1998 and 2001, institutional births increased very slightly, although it is possible that this indicator is static. In the rural Pacific region, they increased from

64.5% to 71.3%, in the rural Atlantic region from 21.7% to 32.7%, and the urban Atlantic region from 64.8% to 68%. There is still much to do in the Atlantic region to improve the equity of healthcare services, considering that the maternal mortality rate in that region is among the highest in the country.

Prenatal care

8. Although MINSA figures show a decline in this indicator between 1999 and 2001, the 2001 LSMS indicates that there was an increase from 80.7% to 88.6% between 1998 and 2001. The biggest increase was among the extreme poor, particularly the extreme rural poor. In the rural Atlantic, it went from 46.7% to 61.7%. The increase in rural areas is particularly important because these areas have more cases of maternal mortality. The ENDESA figures also confirm that prenatal care increased over the same period. There was an increase for 5.4 to 5.6 in the number of prenatal care sessions attended by pregnant women.

Incidence of respiratory ailments among children under 5 years of age

9. This indicator has shown improvement nationally and the greatest reductions happened in three regions: rural Atlantic from 29.9% to 16.9%; central urban from 30% to 17.6%; and, urban Atlantic from 29.4% to 22%. This indicator worsened slightly in the rural Pacific and rural central.

Incidence of diarrhea among children under 5 years of age

10. The target for reducing the incidence of diarrhea among children under 5 years of age was not met. Both the ENDESA and the LSMS show a slight decline for this indicator. Since this illness is one of the most common causes of death among children under 1 year of age, MINSA is undertaking actions to encourage families to get medical check ups or to go to a nurse when their children suffer from diarrhea. Of the children who had diarrhea, the rate for medical consultations was 9 percentage points higher than it was in 1998. In the case of the extreme poor, consultations went up by 15 percentage points. This increase is important since home remedies are commonly used to treat diarrhea, which are not always the most appropriate. In addition, it is a positive development that exclusive breastfeeding for the first three months of a child's life increased from 29.5% to 39.3% between 1998 and 2001.

Chronic malnutrition among children under 5 years of age

11. From 1998 to 2001, this indicator showed improvement, moreso in the rural Pacific where it dropped from 19.9% to 14%. There was a deterioration however in the rural central region, the indicator rising from 28.4% to 30.8% and in the Atlantic, rising from 23.5% to 25.4%. The biggest improvement was among children from 24 to 59 months of age. MINSA will have to improve follow up in monitoring child growth and development and to continue with measures to change inappropriate household customs.

Vaccine coverage

12. The indicators for vaccine coverage for children under 1 year of age have improved. However, the ENDESA figures show that the percentage of children receiving the complete regime (all vaccines: BCG, three anti-polio, three DPT and measles) who are 12 to 23 months of age has dropped from 72% to 63%. This finding is consistent with the drop in anti-polio vaccines for children of the same age, according to the LSMS. Although this indicator of the complete regime

is not included as an indicator for the SGPRS, it is important to monitor its progress. Having a complete regime at the age of 12 to 23 months is the most critical indicator to meet in regards to immunization coverage because it measures whether the vaccine was administered at the opportune age.

Fertility and Family Planning

13. The overall fertility rate dropped from 3.6 to 3.2 children per woman. In rural areas, poor women with less education are those with the highest fertility rate. Fertility rate among adolescents also dropped; however, at the age of 19, 45% of young women had already been pregnant once. The use of family planning methods increased by almost 9 percentage points. As is to be expected, in the poorest departments of the country, the use of family planning methods is lowest and high fertility rates persist.

The Consultation Process

1. The government has continued to implement the SGPRS and has given more emphasis to the discussion of policy actions with different sectors of society. Within the government, there have been meetings and workshops to improve information flow, evaluation, and analysis, and inter-institutional coordination.
2. Since 1999, CONPES has been the Government of Nicaragua's body for consultation. Its function is to advise the president on a wide variety of issues related to public policies. In Annex I of the SGPRS, there is a detailed description of the legal groundings of CONPES, its structure, members, and activities. This annex updates the changes in CONPES since July 2001 and gives details of the work of another consultative body, CONADES.
3. CONPES participated in the preparation of the 2002 budget and its later adjustment, as it did for the 2003 budget. The budget commission analyzed and proposed recommendations that were considered by the executive branch of government. In early 2002, there was a change in the composition and approach of CONPES. All representatives from the government, nationally and regionally, were excluded by presidential decree,
4. CONPES was restructured to broaden the representation of civil society. It went from 28 members to 54, among them 10 notables who were appointed by the president. The number of representatives from labor and business were increased to eight from each sector. The autonomous regions of the Atlantic now have four representatives from civil society. The Association of Municipalities (AMUNIC) has three representatives, one each from the central, north, and Pacific regions. The associations for women, youth, professionals, private universities, and cultural organizations have one representative each. The notables include professionals, experts, former government ministers, and citizens with an exemplary record.
5. The number of commissions was reduced to four: Governance, Economic/Social, Production, and Labor. They do specific work in sub-commissions. The autonomy of CONPES as a consultative body has increased and the executive branch uses it as a base of support and contact with civil society. The ministers of the government are required to make regular presentations of their policies and programs to CONPES. Some municipal leaders are also asking for the opportunity to make presentations to the CONPES commissions. The executive secretary has been promoted in rank with the functions of council coordinator and reports directly to the president. The coordinators of the commissions, along with another four members, make up the council's directorate.
6. The commissions have responsibilities that they share with the sub-commissions. For example, the Economic/Social Commission has the sub-commissions for budget, investment, and follow up of the SGPRS. It has also set up another to provide follow up on the government's negotiations with the IMF. Other commissions look at issues to do with labor, production, and governance.
7. CONPES has discussed the annual reports of its activities and its plenary sessions are open to others and are covered by the press. With the SECEP, a start has been made on reviewing the

progress of the poverty programs. CONPES has been strengthened with the signing of technical cooperation agreements with the economic and social councils of Spain and France.

8. Another consultative body is CONADES. It was established in 1997 as the government response to the International Conference on Environment and Development in Rio de Janeiro. CONADES is a member of the Central American Alliance for Sustainable Development (ALIDES) and works closely with other similar councils in the area. A presidential decree established council membership as follows: ministers and governmental agencies, deputies from the NA, representatives of the Supreme Court, the Electoral Council, and the municipalities (AMUNIC), and from different groups: indigenous peoples, gender, youth, environment, private sector, industrialists, farmers, ranchers, professionals, associations for development, the autonomous regions of the Atlantic, the media, religious groups, and universities. It seeks a broad consensus, particularly through direct consultations held throughout the country.
9. CONADES has mainly been assigned the theme of the environment. While CONPES has developed more top-down consultation, CONADES has tried to consult from the bottom up, starting at the local level. Much of its work has been done through forums at the departmental level. These forums (14) have resulted in demands for better governance, evaluation and rendering of accounts, particularly local ones, among others. It has served to support the decentralization processes, facilitating participation and training at the municipal level.
10. CONADES has pushed forward legislative processes for women's participation in the government workforce and it made contributions to the draft legislation for mines, forestry, fisheries, and citizen participation. It helped design the PANIC and aided in the reform of the environmental curriculum for schools, as well as the policy for territorial zoning.
11. In 2001, both CONADES and CONPES worked in coordination to develop a "Vision of Nation". This document was the result of a long process of consultations about what the majority of Nicaraguans wish the country to be in the future. The Vision of Nation was published shortly before the elections. The two councils will work in the future on drafting the Agenda for the Nation, which is expected to help the new Government.

Plenary Sessions of the CONPES

Session	Date	Matters of Themes Discussed
2001		
38	July 20	Recommendations for the SGPRS
39	August 24	Minimum wage, coffee crisis, and the National Plan for Education
40	August 31	Execution of the 2001 Budget and scheduling 2002
41	October 11	Recommendations for the 2002 budget
42	October 19	Vision of Nation
43	October 30	Recommendations for the National Environmental Plan, PANIC
44	November 12	Recommendations on foreign aid and debt and migration
2002		
47	March 15	Regulations for, and organization of commissions
48	April 21	Report from the President on the first 100 days in office

49	May 9	Vision and mission of the government
50	May 13	Reforms to the Budget Law 2002
51	May 22	Report Presidential Legal Commission and analysis of the Supreme Court of Justice
52	May 28	Approval of internal regulations
53	June 17	Approval of candidates for CSJ magistrates, recommendations to the reform of the 2002 Budget Law, recommendations to draft Law for the Civil Service and Administrative Career
54, 55	July 22, 31	Recommendations for Tax Reform
56	August 15	Report on first six months of Government
58	September 23	Presentation of Country Strategy to the IDB

Sessions of the CONPES Commissions

Commissions	Date	Matters or Themes Discussed
Cooperation and foreign debt	July to November 2001	HIPC, foreign and domestic debt
Environment	October 2001	Cooperation agreement with the Environment Commission of the NA
Economic/ Social	July to December 2001	Policy on rates for public services, UNDP Human Development Report,, SIGFA, Program on AIDS, review of results of the SGPRS
Budget	July to December 2001	Budget 2002
Economic/ Social	March to September 2002	IMF Program, work plan and monitoring of SGPRS, FOGADE, Budget 2003, PASE and Tax Reform, coffee crisis, private sector
Governance	March to September 2002	Report from CORNAP, candidates for CSJ magistrates, Atlantic Autonomous Regions, Law for Citizen Participation, anti-corruption agenda, and matters of governance
Production	August 2001 to September 2002	Policy for prices, salaries, and investment; rates for electricity and coffee crisis
Labor	July 2001 to September 2002	Migration, reform of the Labor Code, report from the Human Rights Ombudsman

Annexed Table 1: SGPRS Program Portfolio (consolidated)

Item	2001	2002	2003	2004	2005	TOTAL
	(millions of US dollars)					
TOTAL	268.4	211.8	228.3	260.7	290.4	1,259.7
Pillars	207.9	179.4	195.7	222.1	247.5	1,052.7
1. Broad-based economic growth	93.6	91.9	103.9	119.4	135.9	544.6
2. Investment in human capital	78.4	57.6	55.3	59.7	62.6	313.7
Education	50.3	39.1	30.2	34.8	37.4	191.8
Health	25.5	16.8	17.8	15.9	20.1	96.0
Nutrition	0.8	1.6	4.9	5.0	0.0	12.3
Population	1.8	0.2	2.5	4.0	5.1	13.6
3. Protection of vulnerable groups	35.1	26.8	34.6	40.7	46.4	183.7
4. Governance	0.9	3.2	1.9	2.2	2.6	10.8
Crosscutting themes	60.5	32.4	32.6	38.6	42.9	207.0
1. Environment and ecological vulnerability	19.3	10.9	9.5	11.8	15.0	66.5
2. Decentralization	41.2	21.4	23.1	26.8	27.9	140.4

Source: SNIP-SECEP

Annexed Table 2: SGPRS Program Portfolio (Continued)

Item	2001	2002	2003	2004	2005	Total
	(millions of US dollars)					
3. Protection of vulnerable groups	35.1	26.8	34.6	40.7	46.4	183.7
Modernize the institutional framework	2.5	2.5	3.9	1.8	3.2	14.0
Modernize the institutional framework	2.5	2.5	3.9	1.8	3.2	14.0
Improve quality, targeting, and coverage	32.5	24.3	29.9	38.1	42.5	167.3
Improve productive capacity of vulnerable groups	7.5	3.1	10.7	13.0	12.7	46.9
Social Infrastructure for vulnerable groups	5.0	2.6	2.5	0.8	2.7	13.7
Protection of human capital, children and adolescents	16.0	17.7	15.2	17.1	20.2	86.2
Supplementary Social Fund	4.0	0.9	1.6	7.2	6.9	20.6
Strengthen community participation and social solidarity	0.1	0.0	0.7	0.8	0.7	2.3
Integral Attention for disabled persons	0.0	0.0	0.6	0.6	0.7	1.9
Development of community capacities	0.1	0.0	0.2	0.2	0.0	0.4
4. Good Governance	0.9	3.2	1.9	2.2	2.6	10.8
Strengthen institutionality	0.9	3.2	1.9	2.2	2.6	10.8
Strengthen Transparency	0.7	2.6	1.5	1.1	1.7	7.6
Promote Additional Measures for Governance	0.1	0.5	0.5	1.1	0.9	3.2
B. Crosscutting Themes	60.5	32.4	32.6	38.6	42.9	207.0
1. Environment and ecological vulnerability	19.3	10.9	9.5	11.8	15.0	66.5
Restore Environment	1.3	1.5	1.4	1.8	2.8	8.8
Manage and Conserve Forests	8.0	4.1	4.7	5.2	7.1	29.0
Recover and Protect Watersheds and Other Sources of Water	0.4	0.3	0.3	0.6	0.5	2.1
Strengthen Institutional Management	9.4	4.9	3.0	4.2	4.4	25.9
Make Progress with Territorial Zoning	0.1	0.2	0.1	0.1	0.2	0.7
2. Decentralization	41.2	21.4	23.1	26.8	27.9	140.4
Municipal Infrastructure	11.5	13.7	15.6	15.9	15.0	71.8
Municipal Affairs	1.8	0.9	0.2	1.7	3.0	7.6
Municipal Development	27.9	6.8	7.2	9.2	9.8	61.0

Source: SNIP-SECEP

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