



# A Strengthened Growth and Poverty Reduction Strategy

Government of Nicaragua

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## ABBREVIATIONS AND ACRONYMS

|          |  |
|----------|--|
| ACDI     | Canadian Agency for International Development                  |
| ASDI     | Swedish International Development Agency                       |
| AECI     | Spanish International Cooperation                              |
| AN       | National Assembly  |
| AMUNIC   | Association of Nicaraguan Municipalities                       |
| AMCHAM   | American-Nicaraguan Chamber of Commerce                        |
| ANC      | National Conservative Action Party                             |
| APN      | Nicaraguan Journalists' Association                            |
| ASEN     | Supporting the Nicaraguan Education System Project             |
| ASOBANP  | Nicaraguan Private Banking Association                         |
| BANADES  | National Development Bank                                      |
| BANIC    | Nicaraguan Bank  |
| BASE     | Basic Education Program  |
| BAVINIC  | Nicaragua Housing Bank   |
| BCIE     | Central American Bank for Economic Integration                 |
| BCN      | Central Bank of Nicaragua                                      |
| CANTUR   | Chamber of Tourism   |
| CATIE    | Research and Educational Center for Tropical Agriculture       |
| CAUS     | Labor Action and Unity Center                                  |
| CBI      | Caribbean Basin Initiative                                     |
| CCER     | Civic Coordinating Group for the Emergency and Reconstruction  |
| CCN      | Nicaraguan Christian Way Party                                 |
| CED      | Center of Education for Democracy                              |
| CEI      | Center for the Promotion of Exports and Investments            |
| CERAP    | Committee for the Reform of Public Administration              |
| CGR      | Comptroller General's Office                                   |
| CIASS    | Interagency Support Commission for the Health Sector           |
| CIVITAS  | A Civil Society coordinating group                             |
| CNA      | Children and Adolescents' Code                                 |
| CNE      | National Energy Commission or National Education Council       |
| CNI      | National Integrity Committee                                   |
| CNLD     | National Council for the Fight Against Drugs                   |
| CNS      | National Health Council  |
| CNT      | National Workers' Congress                                     |
| CNU      | National Universities' Council                                 |
| CODE     | Emergency Operation Center                                     |
| CONADES  | National Council for Sustainable Development                   |
| CONATRAM | National Transport Commission                                  |
| CONPES   | National Council for Social and Economic Planning              |
| CORNAP   | Public sector holding company                                  |
| COSEP    | Superior Council for Private Enterprise                        |
| COSUDE   | Swiss Agency for Development and Cooperation                   |
| COSUP    | Superior Council of Private Universities                       |
| CPT      | Permanent Workers' Congress                                    |
| CREPEN   | Pension Reforms Commission                                     |
| CRS      | Catholic Relief Services                                       |
| CSD      | Sectoral Commission for Decentralization                       |
| CSE      | Supreme Electoral Council                                      |
| CSJ      | Supreme Court of Justice                                       |
| CSO      | Civil Society Organizations                                    |
| DANIDA   | Danish Development Assistance                                  |
| DFID     | Department for International Development of The United Kingdom |
| DGA      | Customs Department   |
| DGI      | Tax Revenue Department   |

|          |  |
|----------|--|
| DGIP     | Public Investments Department  |
| DHS      | Demographic and Health Surveys                                       |
| ENABAS   | National Food Grains Marketing Company                               |
| ENACAL   | National Water and Sewerage Company                                  |
| ENAP     | National Ports Administration Company                                |
| ENEL     | National Electricity Company   |
| ENITEL   | National Telephone Company   |
| ESAF     | Enhanced Structural Adjustment Facility                              |
| EU       | European Union   |
| FAO      | Food and Agriculture Organization                                    |
| FCR      | Rural Credit Fund  |
| FEMA     | Federal Emergency Management Administration                          |
| FES      | Social Emergency Fund  |
| FIDA     | International Agricultural Development Fund                          |
| FINIDA   | Finnish International Development Agency                             |
| FISE     | Emergency Social Investment Fund                                     |
| FNT      | National Workers' Front  |
| FODIEN   | Fund for the Development of the Electricity Sector                   |
| FONMAT   | Fund for Safe Motherhood and Childhood                               |
| FOREBICA | Bilingual and Intercultural Education Program for the Atlantic Coast |
| FOSOVI   | Social Housing Fund  |
| FSLN     | Sandinista National Liberation Front                                 |
| FSS      | Supplementary Social Fund  |
| FUNDEMOS | Democracy Support Group  |
| FUNICA   | Foundation for Technological Development in Agriculture and Forestry |
| FY       | Fiscal Year  |
| GDP      | Gross Domestic Product   |
| GGG      | Good Governance Group  |
| GTZ      | German Cooperation Agency  |
| HIPC     | Highly Indebted Poor Countries                                       |
| I-PRSP   | Interim Poverty Reduction Strategy Paper                             |
| IBRD     | International Bank for Reconstruction and Development (WB)           |
| IDA      | International Development Association                                |
| IDB      | Interamerican Development Bank                                       |
| IDR      | Rural Development Institute  |
| IFAD     | International Fund for Agricultural Development                      |
| IFPRI    | International Food Policy Research Group                             |
| IMF      | International Monetary Fund  |
| INAA     | Water and Sewerage Regulatory Institute                              |
| INAFOR   | National Forestry Institute  |
| INATEC   | National Technological Institute                                     |
| INCAE    | Central America Institute for Business Administration                |
| INDE     | Development Institute of the private sector                          |
| INE      | Energy Regulatory Institute  |
| INEC     | National Statistics and Census Institute                             |
| 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                                    |
| INTECNA  | National Technical Institute   |
| INTUR    | Tourism Institute  |
| INVUR    | Urban and Rural Housing Institute                                    |
| IPEA     | Institute for Economic Research and Analysis-Brazil                  |
| JCOP     | Community Development Boards   |

|           |   |
|-----------|---|
| KFW       | Financial Agency of the German Government   |
| LSMS      | Living Standards Measurement Surveys  |
| MAGFOR    | Ministry of Agriculture and Forestry  |
| MARENA    | Ministry of the Environment and Natural Resources                                       |
| MCN       | Nicaraguan Community Movement   |
| 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   |
| MIGOB     | Ministry of Government Affairs  |
| MINREX    | Ministry of Foreign Affairs   |
| MINSA     | Ministry of Health  |
| MITRAB    | Ministry of Labor   |
| MRS       | Sandinista Renovation Movement  |
| MTI       | Ministry of Transport and Infrastructure  |
| NGOs      | Non-Governmental Organizations  |
| NORAD     | Norwegian Agency for Development Cooperation  |
| NTB       | Non-Tariff Barriers   |
| OAS       | Organization of American States   |
| OECD-DAC  | Organization for Economic Cooperation and Development, Development Assistance Committee |
| OIT       | International Labor Organization  |
| OPEC      | Organization of Petroleum Exporting Countries   |
| OOT       | Territorial Rationalization Office  |
| OXFAM     | International non-governmental development organization                                 |
| PAEBANIC  | Adult Basic Education Program   |
| PAHO      | Pan American Health Organization  |
| PAI       | Program for the Implementation of the Growth and Poverty Reduction Strategy             |
| PALI      | Neo-Liberal Party   |
| PANic     | Nicaragua Environmental Policy and Action Plan  |
| PCN       | Nicaraguan Conservative Party   |
| PDH       | Attorney General's Office for Human Rights  |
| PETRONIC  | The government-owned oil company  |
| PGJ       | Attorney General's Office   |
| PHC       | Primary Health Care   |
| PIP       | Public Investment Program   |
| PLC       | Constitutionalist Liberal Party   |
| PLI       | Independent Liberal Party   |
| PLIUN     | Liberal Party for National Unity  |
| PLN       | National Liberal Party  |
| PN        | National Police   |
| PNC       | National Program for Competitiveness  |
| PRANAFP   | National Program for the Analysis and Formulation of Public Policy                      |
| PREEICA   | Regional Program of Electrical Energy for the Central American Isthmus                  |
| PRGF      | Poverty Reduction and Growth Facility   |
| PRN       | Nicaraguan Resistance Party   |
| PROCAFOR  | Pine Forest Sustainable Development Project   |
| PRODES    | Social and Economic Development Project   |
| PROFOR    | Sustainable Forestry Development Project  |
| PRONAL    | National Project Party  |
| PROTIERRA | Rural Municipalities Project  |
| PRRAC     | Reconstruction Program for Central America  |
| PRSP      | Poverty Reduction Strategy Paper  |
| PSC       | Social Christian Party  |
| PYMES     | Small and Medium Enterprises  |

|         |  |
|---------|--|
| RAAN    | Northern Atlantic Autonomous Region                                |
| RAAS    | Southern Atlantic Autonomous Region                                |
| SAS     | Social Action Secretariat  |
| SBIF    | Superintendency of Banks and Financial Institutions                |
| SES     | Executive Secretariat of the SNPMAD System                         |
| SETEC   | Technical Secretariat of the Presidency                            |
| SGPRS   | Strengthened Growth and Poverty Reduction Strategy                 |
| SIDA    | Swedish International Development Agency                           |
| SIGFA   | Integrated System for Financial Management and Auditing            |
| SIG-FSS | Management Information System-Supplementary Social Fund            |
| SILAIS  | System of Local Health Care 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 Investments                              |
| SNPMAD  | National System for the Prevention, Mitigation and Disaster Relief |
| SNV     | Dutch Cooperation Service  |
| SPRS    | Strengthened Poverty Reduction Strategy                            |
| TELCOR  | Telecommunications and Mail Services Regulatory Agency             |
| UBN     | Unsatisfied Basic Needs  |
| UCA     | Central American University  |
| UCRESEP | Coordinating Unit for the Reform of the Public Sector              |
| UK      | United Kingdom   |
| UNAG    | National Union of Agriculture and Cattle Breeders                  |
| UNDP    | United Nations Development Program                                 |
| UNESCO  | United Nations Educational, Scientific and Cultural Organization   |
| UNFPA   | United Nations Population Fund                                     |
| UNICA   | Catholic University  |
| UNICEF  | United Nations Children's Fund                                     |
| UPANIC  | Nicaragua Farmers Association                                      |
| UPN     | Nicaraguan Journalists' Union                                      |
| UPOLI   | Polytechnic University   |
| USAID   | United States Agency for International Development                 |
| USDA    | United States Department of Agriculture                            |
| VAT     | Value Added Tax  |
| WB      | World Bank   |
| WFP     | World Food Program   |



## **PREFACE**

### **TRANSITION FROM THE I-PRSP TO THE SGPRS**

1. This paper, the Strengthened Growth and Poverty Reduction Strategy (SGPRS), is a revised version of an earlier paper dated August 2000, that served as an Interim Poverty Reduction Strategy Paper (I-PRSP) for the International Monetary Fund and World Bank as they considered Nicaragua's participation in the HIPC program. This revision, will guide our nation as we fully implement the 2001-2005 program. The prior paper was not only discussed in detail with CONPES and many other groups and individuals in Nicaragua, it was also reviewed by the multinational and bilateral agencies assisting Nicaragua's development. Fund and Bank staff noted that the consultation process and the I-PRSP exceeded those expected for an interim PRSP.
  
2. For this revised document, particularly useful comments were received during local consultations made by the government and CONPES in nine different departments in November-December 2000 and March-April 2001. These, and sixteen focus groups held with urban and rural poor in eight other departments, provided a wealth of feedback that will ensure a more effective implementation of the program. These regional, and further national consultations developed by the NGOs were assisted by publications of I-PRSP summaries. The present document will also be summarized and widely circulated to all Nicaragua's municipalities. A new program to expand this local consultation process is also underway. The European Union, UNDP, FAO, BCIE, and bilateral aid agencies, particularly those of Austria, Germany, Sweden, Norway, Switzerland, and the United States, also provided comments on the I-PRSP. The boards of the World Bank and IMF provided some very useful advice, as did their staff.
  
3. The local consultation process highlighted several key elements, amongst which was the conviction that the implementation phase of the strategy must fully incorporate regional characteristics. The process also revealed high levels of local social capital and enthusiastic participation in numerous development-oriented initiatives, and underlined the importance of having a national reference such as the SGPRS for local guidance. Circulation and discussion of the central government's municipal investment portfolio was highly appreciated by local leaders, and was accepted as the starting point for a "bottom-up" approach to the formulation of future public investment. Local leaders demanded civil society participation, as well as better coordination between municipal, departmental and central government authorities in the implementation of the strategy. This is a key challenge, addressed by a new program and developed with the IDB, to strengthen coordination among multisectoral institutions, civil society, and governmental bodies. The formal consultative institution, CONPES, has provided a flow of analyses and recommendations on public policy, thanks to continued technical assistance and the inclusion of additional members, particularly from municipal organizations. Most importantly, the proposed law to ensure greater citizen participation was introduced into the National Assembly.
  
4. The public investment portfolio presented in the I-PRSP has been reduced and improved. The classification and the analysis of the investment portfolio and its relationship to the goals and the pillars of the SGPRS are being improved, as better information flows from the National System of Public Investment (SNIP) with World Bank support. A new decree will improve SNIP's structure, classification and information standards, so that the information system is better-linked to the overall national economic program and its implementation and evaluation.

The decree creates a new decentralized structure, which will encourage a decentralized and “bottom-up” approach in the formulation of the central government investment portfolio in the future. A public expenditure review with World Bank support is being undertaken to better prioritize and coordinate public investment. An improved and leaner investment program consistent with macroeconomic constraints, goals and targets of the strategy has been developed, which responds to the many recommendations offered in this respect.

5. The proposed FSS/HIPC fund was revised and a new decree issued to incorporate its members and to formalize its procedures. The expanded fund will coordinate, strategically plan and follow-up the actions of line ministries and autonomous institutions, which will implement the different programs to be financed by debt relief resources. Its coordinating committee now includes representatives of civil society and the donor community as well as government ministers. Consistent with the recommendations of the international community, two new programs were included for financing; one for rural development and one for small and medium-sized enterprises. A management information system has been developed, as well as a detailed process to implement and follow-up the programs financed by the FSS/HIPC fund.

6. The macroeconomic section has been improved and made consistent with the government medium-term economic program which ensures the consistency of the SGPRS and its proposed outlays with the nation’s expected fiscal resources. This new program reflects the constraints of adverse terms of trade and a likely reduction in expected foreign resources from the international community. These constraints have forced an unfortunate reduction in the level of projected economic growth, and slippage in the extreme poverty reduction target for 2005, as well as in some other goals and intermediate indicators in the I-PRSP. In this context, some intermediate indicators were costed, combining determinant analysis and pragmatism which have confirmed the fiscal feasibility of the program. Poverty-related expenditures have been carefully defined (Annex VI) to ensure consistent evaluation.

7. Performance indicators have been reviewed and in some cases changed. Besides the impact of slower economic growth, the indicators reflect revisions based on further consultations with the sectors, and evaluations of recent performance. In particular, workshops were conducted in the health sector to set local targets and indicators consistent with the national goals. An improved draft health law has been presented to the National Assembly after a process of consultation with sectoral representatives and the international community. A civil service reform law was also presented to the National Assembly; it will be key to the sustainability of the SGPRS.

8. To strengthen and better sustain our growth strategy, a research agenda has been developed with the support of the World Bank, to generate more detailed policy positions on a number of relevant issues. This agenda includes a reassessment of the macroeconomic environment, an analysis of the net effective rate of protection in key productive sectors, strategies for the development of small and medium-size businesses, support for the ongoing competitiveness program, and an evaluation of agricultural policies. One result will be a strengthened strategy for development of the broader rural economy. Nicaragua’s foreign trade reforms have also been described more fully in the SGPRS. Disappointing efforts to privatize some key public utilities have led to revised approaches and reschedulings. Some examples of NGO programs have been included, and further legislation (including the 2001 budget) considered by the National

Assembly and passed.

9. The social safety net program discussion has been improved. The development of a social protection policy, supported by an analysis of the vulnerabilities of the poor and the relationship of the different programs with those vulnerabilities has already started with World Bank and IDB support. Preliminary results are being evaluated especially with a view to the reformulation of programs under execution for next years' budget. One result has been the recent design of two major projects aimed at assisting extremely poor children. The safety net system is now closer to reality.

10. Environmental education in primary schools is already underway and the environmental education law approved. Classes now include the analysis and evaluation of the impact that humans have on the environment, including disaster management and prevention for which MECD has an administrative unit. The National Education Plan has been approved after a lengthy consultation process and will soon be operational. The Environmental Policy and Action Plan was finalized, also after broad-based consultations, and a newly-strengthened National System for the Prevention, Mitigation and Disaster Relief is now operational.

11. The monitoring and evaluation process has been further developed, and some statistical studies -- particularly the LSMS -- have been brought forward. For monitoring of intermediate indicators, SINASIP was designed with the IDB. Important information will be provided by the recently completed-agricultural census, the first in 27 years. The matrix of policy actions, Annex V, has been revised, updated and simplified to provide the government and civil society better guidance for following up the many commitments made in the consultation process. The revised policy action matrix reflects a political process of discussion and the inclusion of many points of view.

12. The implementation of the SGPRS has begun. The strategy was key to developing the 2001 budget. The programs introduced in the budget as well as major commitments made for 2001, are based on the agreements and goals and targets established in the SGPRS. As the government readjusted its capital expenditures this year, the protection of poverty-related outlays was crucial in determining spending priorities. Development of the SGPRS led to many new programs, reforms, legislation, and institution-building initiatives that are now underway. To ensure better coordination among the donors, the Technical Secretariat of the Presidency and the Ministry of Foreign Affairs are working together to guarantee that future international cooperation will be in line with SGPRS priorities. The Good Governance Group, through the UNDP, has agreed to support a program to facilitate the coordination of foreign cooperation with the government during the implementation of the SGPRS. A program for the implementation of the poverty reduction strategy (PAI) at local level, which includes support for multisectoral institutional work, civil society participation and local investment projects, was formulated with the IDB. A number of "new generation" programs are being negotiated within the framework of the SGPRS, and the European Union's new five-year cooperation plan for Nicaragua is in line with the priorities of the SGPRS. Thus, while the strategy was taking effect as early as 2000, by January 2001 it was formally and enthusiastically underway.

13. The government would like to thank all those, within and outside of Nicaragua, who took time to read and comment on the interim paper. The improvements in our strategy, as well as the

revisions and updates to the I-PRSP were prompted by their advice.

## EXECUTIVE SUMMARY

1. Nicaragua's Strengthened Growth and Poverty Reduction Strategy (SGPRS) reflects years of studies, hard-earned experience, and a deepening consultative process. Much of the government's -- indeed the nation's -- poverty strategy, as well as the legal, institutional, and managerial complements to it, have long been demarcated; this paper describes how they were strengthened. The richness of the agreed elements and the many decisions taken -- on reforms, on structural actions, on program/project priorities -- make our program a most complex one. Part of the complexity stems from the broad consultative process adopted over the past few years to develop the strategy, but much of it comes from an awareness throughout Nicaragua that virtually all our problems of poverty are intertwined in a tight network of issues, and the best way to address them is in a totally integrated manner.
2. Nicaragua's severe poverty stems from structural elements, plus a series of traumas in the 1980's caused by mistaken economic policies, and aggravated by a civil war. The result was a record bout of hyperinflation, major declines in exports, output, incomes, and national assets, and -- during 1987-1990 -- a virtual economic collapse. By 1990, Nicaraguans had the same per capita income they had in the 1960s; the nation's physical infrastructure was virtually destroyed, and the social fabric that weaves a society together had been torn apart. Nicaragua began the slow and painful process of reconstruction.
3. The first few years of the nineties were devoted to the restoration of peace, development of representative democracy, abatement of hyperinflation, and the transition of a command economy to one based on a private sector and open markets. State firms were sold, the government -- particularly the military -- was greatly downsized, and most product and factor markets freed. These efforts were supported by generous flows of external assistance, both technical and financial, from a wide variety of multilateral, bilateral, and other donors. After a pause, real GDP growth reemerged in 1994 and has accelerated since, in spite of a series of hurricanes, earthquakes, and droughts. Nevertheless, Nicaragua's economy still remains at levels well below those of the late 1970's, and it remains the second poorest country in the hemisphere.
4. The economic collapse impoverished many Nicaraguans. By 1993, just over half the population fell below the poverty threshold, and even after the economic recovery began, by 1998 almost 48 percent of Nicaragua's citizens remained in poverty; 17.3 percent in extreme poverty -- their consumption of calories was below the minimum required to sustain a healthy life. Almost 70 percent of rural residents are poor; 29 percent are extremely poor. Urban poverty is also widespread, particularly outside the fast-recovering capital city of Managua; over 30 percent of urban residents are poor, although less than 8 percent are extremely poor. But Nicaragua has evidence that broad-based growth reduces poverty. Between 1993-1998, detailed surveys show that rural poverty was significantly reduced by a strong agricultural recovery. Managua's poverty levels also declined with the expansion of private services. Nevertheless, in some areas -- particularly the Atlantic Coast and smaller cities -- poverty levels worsened. While a new survey, soon to be undertaken, may show further declines in poverty, all Nicaraguans are convinced that reducing the country's poverty remains the major challenge for this new decade.

5. What causes Nicaragua's poverty? Living Standard Measurement Surveys (LSMS) conducted in 1993 and 1998 shed considerable light on the problem. The most fundamental cause is the economic collapse of the 1980's, and the most fundamental response is continued broadly-based economic recovery. Another cause of the poor's low income and productivity is their limited access to employment and infrastructure. Over a fifth of the poor remain unemployed, almost twice the national average. Underemployment is even worse -- a third of the poor are underemployed; one out of two poor females is underemployed. And the poor have limited access to public infrastructure and services. Their access to safe water, to electricity, sanitation, and even roads is usually half or less the access levels of the non-poor. Like many Nicaraguans, the poor face great uncertainty over their property rights, but they are less able to defend these rights.

6. There is also a strong social dimension to Nicaragua's poverty, partly caused by the limited education, health and other basic services provided to the poor. The country's adolescent fertility rates are among the highest in Latin America, but they are even higher for the poor, who have less access to family planning and suffer far greater reproductive risks. Despite some encouraging improvements, almost 30 percent of the poor are illiterate; they average just over 3 years of schooling, less than half the national average. The extremely poor do worse; they average just over two years of schooling. Both are less than the time required to obtain basic literacy, let alone the skills required for a modernizing economy. Extremely poor children get sick more frequently than the non-poor, and they have less access to doctors; not surprisingly, over 30 percent of poor children, and 40 percent of extremely poor children are malnourished.

7. Nicaragua's poor are also extremely vulnerable. Nicaragua is frequently affected by major natural disasters --hurricanes, earthquakes, volcanic eruptions, droughts, fires, and floods. Its narrow and fragile export base makes it vulnerable to terms of trade shocks. The poor are particularly affected by these events. Indeed, surveys of the poor themselves indicate their stolid resignation in the face of their poverty, inadequate governmental support, and the inevitability of disasters. Poverty, for them, is a vicious circle with little chance of escape. Particularly vulnerable, of course, are Nicaragua's handicapped and disabled, since the prostrate economy can provide them little succor; they depend more on relatives and their community. But violence towards women and other family members often shreds that security as well. Finally, the indigenous inhabitants of the country, particularly along the Atlantic Coast, remain among the nation's poorest. Past political and economic measures left them marginalized. The magnitude of recent disasters and the extent of the poor's vulnerability means only the government can develop the institutions and programs to provide them with stronger social protection mechanisms.

8. Relieving this state of impoverishment has been a major concern for all Nicaraguans, and their government, for the past decade. While understandably immersed in the issues of transition from socialism to free markets, from a nation at war to one at peace, the Chamorro administration began the important structural reforms and economic recovery that has benefited some of the poor, as well as the creation of institutions to support poverty reduction. Nicaragua's social and rural funds have proven to be both well-managed and responsive. The present government, soon after its inauguration, initiated a dual-track process to address poverty reduction more directly. First was a process of wide consultation within and outside government, among political parties, and among civil society -- the business community,

religious leaders, labor unions, NGOs, community organizations -- and the donor community that has proven so supportive of the nation's efforts. The second approach was an early decision to first supplement, and then virtually replace, the recovery program's emphasis on economic reforms and rehabilitation and expansion of economic infrastructure with a growing focus on agriculture-based growth and expansion of key social services; both increasingly directed towards the rural poor. While disasters such as hurricane Mitch have delayed this shift, continued efforts to refocus governmental activities from the provision of productive services -- that can be assumed by a more vibrant private sector -- towards more basic public goods and services now permits this strategy to be strengthened.

9. As the consultative process demonstrated its worth, both civil society and the government believed it could be both deepened and formalized. In early 1999, the President created a National Council for Social and Economic Planning (CONPES), composed of all interested Nicaraguan groups -- business, labor, academic, political parties, key ministries and regional governments, and NGOs -- to advise the government on a wide array of economic issues. During more than three dozen plenary meetings and 200-odd committee meetings, CONPES members have analyzed and made recommendations on a wide variety of poverty issues. Indeed, CONPES has become the major vehicle to strengthen the poverty reduction strategy; this Strengthened Growth and Poverty Reduction Strategy (SGPRS) reflects many of its inputs and recommendations. But the consultative process did not stop with CONPES. The ministries of health, education, and the environment have held a series of meetings with a wide variety of both program beneficiaries and sectoral experts. These are leading to health, education, and environmental strategies, plans and programs more responsive to the poor; many of them now underway. The interim version of this paper was published and widely disseminated. Summaries of the total program as well as central government investment plans at regional level were discussed at CONPES level and with CONPES support in nine departments -- eight of these among the poorest ones -- and with sixteen urban and rural focus groups of the poor. Ongoing consultations with municipal representatives are programmed, as well as a monitoring system to incorporate their results. It is this rich consultative process that makes the government confident that the SGPRS outlined in this paper is a strategy that the country, not just one government, will support over the coming years -- an issue reiterated during the consultation process. Furthermore, two confederations of NGOs developed complementary consultation processes, which also provided inputs to the strategy and contributed to generate a sense of ownership.

10. The initial consultations led to decisions on the principles and pillars required to guide both the development of the SGPRS and the implementation of the strategy. The agreed guiding principles are: (a) a continued *modernization of the state* to increase both its focus and efficiency in providing services to the poor; (b) a complementary promotion of *greater equity* by increasing the access of the poor to the benefits of growth, with special emphasis on rural communities, women, indigenous groups, and residents of the Atlantic Coast; (c) more *transparency* through improved public administration systems, laws and procedures, and *accountability* through participatory processes that include targeted communities, beneficiaries, and local leaders; and (d) a *broader participation* of all members of Nicaraguan society in the SGPRS. The strategy is based on four agreed pillars as well as three cross-cutting themes reflecting the overall goals of our society. All are interconnected, and most of the government actions in one area will provide

significant synergy to the rest. Chapter V details the pillars and themes, but some of the most important objectives and actions are listed below.

11. The first pillar, broad-based economic growth and structural reform, will require rapid GDP growth over the next five years in an environment of price stability. Unfortunately, the country's adverse terms of trade, electoral uncertainty, and declining external assistance lead to a realistic average annual growth projection of only 4.2 percent (1.6 percent per capita) for 2001-2005, although growth thereafter should accelerate. Urban services, light industry and export zones should grow rapidly in the future, encouraged by a solid macroeconomic framework, close dialogue with the business community, and democratic processes as well as many SGPRS measures. The poverty strategy however, will emphasize agricultural expansion, an expansion that will directly address rural poverty. This will require major efforts to improve the productivity of rural workers, as well as generate off-farm employment in small towns and rural areas. A series of actions will support overall growth. These include continued prudent and coherent fiscal and monetary policies, privatization of electricity, telephone, water, and port services, continued strengthening of the financial system, a reformed pension system, more secure land titling and ownership, and modernization of regulatory frameworks. Specific actions to encourage agricultural expansion include rural infrastructure improvements (particularly roads, water, and housing), programs to improve the agricultural technology of the poor, demand-driven funds for poor farmers, the provision of telephone, electricity and water services for rural areas not attractive to private providers, and a wide array of marketing, training, and standardization programs. A series of studies, designed to both deepen and accelerate growth of the productive sectors, will be undertaken as well.

12. The second pillar, investment in the human capital of the poor, has obvious links to the first. It entails a major improvement in the coverage, quality, and integration of public education, health, nutrition, and family services, mostly in rural areas. New and rehabilitated schools, scholarships for the most-at-risk primary and vocational students, and double shifts in some schools should not only increase educational coverage, but also reduce drop-out rates. A more relevant educational curriculum focused on the productive, personal, and lifestyle skills required of rural residents, combined with better-trained teachers should improve the poor's productivity and their lives. More and better-staffed and equipped rural health posts and centers, focusing on integrated services (reproductive health; obstetric, pre and post-natal care; child vaccination; nutrition) for poor women, children, and adolescents will improve the health of the poor. This will be reinforced by community and parent-based efforts to disseminate information on preventive health and nutrition aimed at changing traditional attitudes that often exposes the poor to greater health risks.

13. The third pillar, better protection for vulnerable groups -- defined as those affected by natural disasters, and those with physical or family problems -- will require a short-term increase in their access to public services, specially for the women who head households, who bear the responsibility of their families' welfare. Innovative programs are linking direct financial incentives to more intensive education and health outreach schemes for the poor, building on local solidarity and the social capital of parents and community leaders. A sustained approach will require strengthening relevant public institutions and developing a greater understanding of the poor's vulnerabilities. This will permit better targeting and consolidation of the many programs and projects now underway or being proposed. Finally, there will be a steady transfer



of some responsibilities to civil society organizations and local governments, where the responsiveness and understanding of these vulnerable groups, and the social bonds they have to others, is strongest.

14. The final pillar, good governance and institutional development, will initially require new legislation -- laws to improve access to government information, laws to extend modern governmental procurement practices throughout the public sector, laws to standardize the national and local civil service, laws to modernize the penal code, judicial procedures and the Comptroller's General Office, laws to modernize many productive sectors, and laws to improve land registries. At the same time, major efforts to train judges, regulators, and other public servants must be complemented by overhauling obsolete procedures and even institutions. The ultimate result will be a transparent, honest government, that can also use the tools of modern technology more effectively to assist Nicaragua's poor.

15. Three cross-cutting themes -- the nation's environmental vulnerability, greater social equity, and the need to decentralize decision making and service delivery -- will also be addressed. The policies and programs required to reduce the country's ecological vulnerability have been integrated into a five-year plan, PANic, published and ratified by the Presidency in February. The plan establishes clear environmental principles, priorities, and actions. Its implementation will include new legislation, improved procedures and coordination between institutions, and a risk reduction system. Social equity will be addressed by facilitating equal access for women, children and adolescents to political, economic, cultural and social institutions, reducing the violence so many of them endure, and guaranteeing the rights and opportunities of indigenous groups. Finally, decentralization of the educational and health systems to make them more responsive to the poor will be accompanied by a steady transfer of responsibilities to local governments and communities. New fiscal systems, standardized monitoring schemes, and abundant training to greatly strengthen municipal management will be required for this last effort to succeed. Special emphasis, of course, will be given to the Atlantic Coast region, where so many inhabitants are extremely poor.

16. Measuring the progress of the SGPRS, evaluating its impact, and adjusting programs and projects to better address poverty problems are key elements of the strategy. Chapter IV lists nine specific poverty targets the nation will meet by 2005. Virtually all of them are linked directly to improving education and health service delivery and access to related public services. The targets place great emphasis on reducing high mortality rates and focus particularly on women and children. Most are measurable by direct and intermediate indicators, although CONPES and the government have developed a major program to monitor results directly with the beneficiaries in a growing group of municipalities where full implementation will be piloted with IDB's support. A review is now underway of the targeting mechanisms and the scope of existing programs, and their consistency with the proposed indicators and pillars. This is being carried out with the assistance of IDB and the World Bank. The implementation of the strategy includes the decentralization of project formulation with municipal authorities and civil society participation, consistent with the demands of the local consultation process and CONPES recommendations.

17. The SGPRS is not simply a series of governmental actions and reforms. It includes a major improvement in the targeting and expansion of fiscal resources directed towards the poor.

Programs and projects linked to the SPRS will total some US\$1.1 billion in capital spending during 2001-2005. This program, supported by foreign donors, will finance much of the expanded and improved public services targeted at poor, encourage private investment in broad - mostly rural -- areas of the economy, and underpin the institution-building, decentralization, and modernization required for success in poverty reduction. When all the government's poverty-related outlays are estimated, their impact is even greater. They rise from about half of government outlays in 2000 (excluding debt service) to over 62 percent in 2005. This is equivalent to almost 15.1 percent of GDP.

18. This program, however, could not be financed were it not for the expected HIPC debt relief of about US\$100 million yearly after 2001. The government has transformed the Supplementary Social Fund (FSS), originally designed as a "bridge" until HIPC relief arrived, into a "virtual" HIPC fund, which will monitor and report on the progress of the highest priority SGPRS programs. The FSS already has sophisticated management information systems and well-developed procedures to monitor and evaluate the programs it implements. The revised FSS procedures include CONPES and donors' representatives on its Council, and will issue periodic reports to both.

## **I. THE CONSULTATION PROCESS AND GOVERNMENT COMMITMENT**

1. Following a decade of major war-related social and economic dislocation, Nicaragua initiated a slow and painful process of reconstruction and transformation in 1990, aimed at achieving a more open society with broad-based representation. During the past decade major strides were made towards the establishment of a true representative democracy with transparent and fair elections at national, regional and municipal levels. This has been accompanied by a growing and deepening consultation process on many aspects of public policy. This chapter explains how the process of consultation has evolved to formulate the poverty reduction strategy, and describes a program to continue deepening this process. Annex I contains a detailed account of participants, meetings, and recommendations; the latter based on the August 2000, Interim Poverty Reduction Strategy Paper (I-PRSP).

### **A. Background on previous processes**

2. Given the near collapse of the economy in the 1980's, the issue of poverty reduction has long been a primary and widely-shared concern in Nicaragua. So has a desire for participatory consultation by democratic governments. These consultations were usually held with the private sector, political parties, the church, and NGOs as well as with donors and international organizations, particularly when preparing for the various Consultative Group meetings.

3. As early as 1997, the present government initiated an intensive consultation process with political parties, the business community, labor unions, churches, universities, professional associations, women's movements, and community organizations to galvanize broad support for its policies. A number of agreements led to the development and passage of major reforms. In 1998, the government initiated a series of workshops on health reform at local health care centres (SILAIS) and hospitals. Participants included citizens, labor unions, NGOs, universities, the private sector, the National Health Council and donors. A new national education strategy was also developed with inputs from teachers, parents, students, university professors and churches' representatives, at national and local levels. The Environmental Policy and Action Plan, PANic, was completed, published and ratified in February by the President after an even more intensive series of consultations at municipal and departmental levels and with indigenous communities. Indeed, many Nicaraguan agencies now consult widely before taking important actions whether in the formulation of, or the implementation of legislation, programs and policies.

4. The Consultative Group meetings have also proven to be useful in expanding the participation process. More than three years ago, at Geneva, the government underlined the growing national consensus that rural development and social sector improvements were the keys to the country's progress. This initial approach has developed -- thanks to contributions by donors and many Nicaraguans -- into the present, more comprehensive poverty strategy and provided the opportunity for a participatory dialogue and consensus building.

5. In the aftermath of hurricane Mitch in late 1998, the government organized a presidential commission composed of six consultative councils to assess the resulting damage, identify the immediate needs of the affected population, and develop a workable plan for reconstruction. The councils met and worked closely with citizens, national and international experts and organizations to develop specific policy recommendations. These were presented to the

international community in Washington in late 1998, and Stockholm in May 1999. The recommendations stemming from the Stockholm Agreements were embodied in a document, “One Nation, Many Voices” presented in Washington in May 2000. This document also assessed the remaining challenges and needs identified through a broad consultative process including members of government, civil society, donors and international organizations.

## **B. Development of the SGPRS process**

6. The present formulation of a practical and transparent Strengthened Growth and Poverty Reduction Strategy (SGPRS) has benefited from these previous consultation processes. Nevertheless, the earlier approaches, while both useful and appreciated, led to demands for more government feedback, a wider interaction among all consulted, and a more formal consultation mechanism. In response the government created the National Council for Social and Economic Planning (CONPES) in 1999. Its legal base is the national constitution. The Council has a mandate to advise the president of Nicaragua on the formulation and evaluation of social and economic programs and policies, oversee these programs, make recommendations on the composition of the annual public budget, and facilitate consultations of national interest. In addition, CONPES leads most internal dialogues and follows up both the commitments of Consultative Group meetings, the poverty strategy (Annex I) and other public policy issues such as the national budget.

7. The social and economic ministries led the effort to prepare and adjust a coherent and comprehensive poverty program, with the technical assistance of the Technical Secretariat of the Presidency (SETEC), the Central Bank of Nicaragua (BCN), the Ministry of Finance (MHCP), and the Ministry of Foreign Affairs (MINREX). CONPES and its Institutional Development and Social Commissions, coordinate civil society participation, with technical and financial assistance from the United Nations Development Program (UNDP), the Interamerican Development Bank (IDB), and the United Kingdom’s Department for International Development (DFID). Also, there have been many other presentations, provision of documents, meetings, workshops and seminars related to the SGPRS and the participatory process, which have shed additional light on the problem from the perspective of the general public, the business community, and the poor.

8. Because CONPES’ membership represents a wide array of institutions and groups within and outside government, including leaders of private sector associations, NGOs, labor unions, political parties, academic groups, regional governments of the Atlantic coast and community organizations, it is particularly well-suited to convey specific recommendations to improve the poverty strategy. Thus, CONPES will continue to serve as an active channel of communication with civil society and other groups. The government also consulted closely with representatives of bilateral donor and multilateral organizations in Nicaragua to discuss ideas and receive feedback while formulating the Strengthened Growth and Poverty Reduction Strategy (SGPRS). Many of these organizations provided valuable assistance in the form of technical and logistical support<sup>1</sup>. All these institutions, both domestic and foreign, have played a pivotal role in reaching

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<sup>1</sup> Particularly useful have been the Living Standard Measurement Surveys (LSMS) in 1993 and 1998, financed by a number of multilateral and bilateral donors, as well as a recent World Bank poverty assessment.

a better understanding of the main issues and in reflecting the views and concerns of civil society.

9. In its initial stages the Strengthened Growth and Poverty Reduction Strategy (SGPRS) discussion was conducted at three levels: (1) within the government, through meetings of the economic and social ministries and deliberations with technical staff of autonomous agencies. Other workshops included the municipalities, departmental secretaries and regional governments of the Atlantic Regions; (2) as previously noted, with the civil society mainly through CONPES; and (3) discussions with representatives of bilateral donors and multilateral organizations. During the first stage of the discussions, the government focused on the causes and possible solutions to alleviate poverty. In addition, discussions included local development organizations, NGOs, the National Council for Sustainable Development (CONADES) and the media. Most of the recommendations were published in a prior report to facilitate their evaluation and maintain a proper record of the process<sup>2</sup>.

10. In the second stage, the government attempted to set specific targets, identify and match programs with resources, and consider a participatory system for the monitoring and evaluation of the programs. To facilitate and improve analysis and recommendations, technical assistance has been available through a committee made up of the government, civil society and donors. The government, with assistance from the World Bank and input from the different ministries, then identified and prioritized the programs for inclusion in the FY 2001 budget. The main product of this effort was the August 2000, I-PRSP that explained the strategy. This paper and a summary of it has been widely circulated throughout Nicaragua, and used as a basis for further international, national, and local consultations that included the target groups. The I-PRSP was evaluated by the IMF and the World Bank as part of the documentation presented to reach the HIPC decision point in December of 2000.

### **C. The strengthened process**

11. The consultative process, while extensive and useful, has been costly. To review and adjust its strategy Nicaragua needs continuing technical and financial support, especially to implement detailed qualitative and quantitative assessments of poverty and to undertake the appropriate monitoring mechanisms. To help in these endeavors, a National Program for the Analysis and Formulation of Public Policy (PRANAFP) was developed, with assistance from UNDP, to provide technical support to CONPES and the consultation process. This helped the production and analysis of relevant information and facilitated the formulation of recommendations on poverty-related strategies. CONPES has organized workshops on the consultation process and its recommendations, on the annual budget, the environment, fiscal and monetary policies, social and economic policies, free trade agreements and has requested specific government institutions to appear before its assembly.

12. While the I-PRSP was developed with intensive national and sectoral consultations, and was based on detailed studies of the poor as well as their attitudes, it was clear to all -- the Government, CONPES, many NGOs, and donors -- that there was a crucial need to deepen the consultation process by including local communities and representatives of the target groups

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<sup>2</sup> “Estrategia Reforzada de Reducción de la Pobreza”, May 18, 2000, Government of Nicaragua, Annex VII.

more directly in the process. This required a very different, and more costly approach. Summaries of the I-PRSP, local (departmental and municipal) breakdowns of the SPRS expenditures were required, as was the effective participation of local governmental, business, and community leaders and the poor themselves. With the technical and financial support of the UK and UNDP an effective consultative approach (called PROCONSULTA) was designed. Consultations were held during November 2000-April 2001 with local leaders in nine departmental towns, eight of them classified as suffering severe or high poverty.

13. These sessions were supported by selected departmental secretariats of the government, as well as the government coordinators of RAAN and RAAS, and included local leaders (particularly municipal mayors), the churches, local and international NGOs, foreign cooperation representatives, producers (big, medium and small), social service organizations, labor unions, students, professionals, women (30% of participants) and representatives from government institutions in each local territory. Subsequently, with the assistance of expert facilitators, sixteen focus groups of extremely poor participants and grass roots provided a series of reactions and insights that will guide SGPRS implementation. In addition, civil society organizations developed their own, complementary consultation processes. Representation in these focus groups was 57% rural, 43% urban and 54% women.

14. From February to April 2001, a national NGO -- FUNDEMOS-- with government support held a series of local workshops to discuss the local programs and projects of the SGPRS, as well as ways to improve local decision-making in the process. The CCER, a confederation of NGOs also completed a more comprehensive analysis of the SGPRS -- reviewing policies and programs in all regions of the country over the same period. With assistance from government institutions and donors four municipalities in northern Leon -- Santa Rosa del Peñon, El Jicaral, El Sauce and Achuapa -- have developed a poverty reduction strategy through a comprehensive local consultation process over the last year. All these groups have freely shared information and experiences with the national government.

15. The next step will be to encourage local inputs into SGPRS implementation. Less technical summaries of the PRSP are being prepared. Over a span of 30 months, work plans will be developed by each municipality based on a full knowledge of SGPRS programs and projects, incorporating community preferences and local experience. These will guide national, regional, and municipal decisions and actions, as well as provide guidance on the overall strategy and its progress. A pilot program, financed by the IDB, will emphasize institutional strengthening and coordination for multisectoral implementation of poverty-related demand-driven investments at local level. It will also support civil society participation in social audit initiatives and the monitoring and evaluation system of the pilot program. The lessons derived from a selected group of municipalities will guide the adoption of best practices for the strategy implementation at national level.

16. Many other comments were received on the I-PRSP. CONPES commissions and plenary sessions commented; so did many NGOs and other groups. The World Bank and IMF staff and Boards made a wealth of suggestions, as did the European Union, UNDP, FAO, BCIE, and many bilateral aid agencies, particularly those of Switzerland, Austria, Germany, Sweden, Norway, and the United States. Most of their comments, as well as those of local leaders and target group

representatives, are listed in Annex I. All were considered, and as the preface indicates, led to an improved strategy document.

## **II. POVERTY PROFILE**

### **A. Basis of analysis and measurement methodologies**

17. In contrast to many countries, Nicaragua's collection of systematic information on poverty indicators is fairly recent. Until the last decade, there was no systematic follow-up of selected groups or households over time. It is therefore difficult to trace changes in income patterns. The first efforts in this direction include the Living Standards Measurement Surveys (LSMS) of 1993 and 1998, which underpin the present analysis. Also, the population census (1995) and a recent health survey (1998) shed some light on poverty issues. A new living standard measurement survey will be conducted with preliminary data published in October. Further surveys will be made in 2001, and every three years. Also, the population census of 1995 and the most recent DHS in 1998 shed some light on poverty issues. A recent analysis conducted by the World Bank identifies and ranks the perceived human welfare vulnerabilities of the population, drawing on the findings of the Nicaragua Qualitative Poverty Study (2000). It quantifies indicators associated with those risks using data from the 1998 LSMS and other sources. The first agricultural census in 27 years was recently completed and full data dissemination will be made by year-end. This information will facilitate fine-tuning of the country's growth strategy and help raise rural incomes.

18. Poverty is a multidimensional problem, but its most common definition is in terms of unacceptably low levels of income and consumption. In addition, poverty is often associated with unsatisfied basic needs, high vulnerability to exogenous events, and lack of economic opportunities. There are several methods for estimating poverty, including the unsatisfied basic needs (UBN) criteria, income distribution patterns, and poverty indices based on consumption aggregates.

19. The UBN has been used in Nicaragua to derive poverty coefficients based on a selected group of indicators, such as access to sanitation services, educational attainment of the head of the household, dependency level, and others. According to this method, households with only one unsatisfied need are classified as poor; those with two or more unsatisfied needs are considered extremely poor. The UBN is an important indicator of poverty level, but it is susceptible to overestimation bias. This tends to inflate UBN-targeted poverty programs and erode the value and effectiveness of resources available for the really poor.

20. The income distribution method ranks households on the basis of their relative income levels, which facilitates the determination of poverty thresholds. However, this index is also subject to some bias. There is a tendency for surveyed households not to report all earned income and to leave out income in-kind (e.g., crops grown and consumed by households).

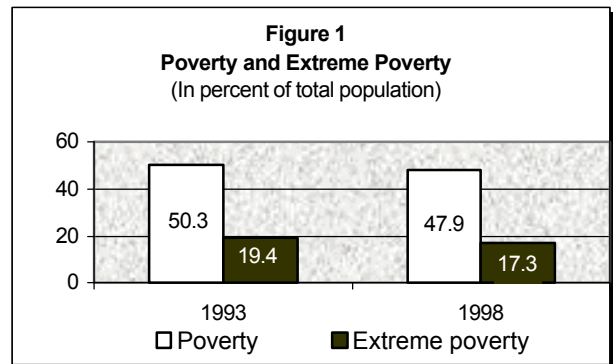
21. The third index of poverty measurement is based on relative levels of consumption. The poverty line is estimated by the annual per capita expenditure needed to consume minimum daily

caloric requirements and acquire basic goods such as clothing, shelter, and transportation<sup>3</sup>. The extreme poverty line is defined as the annual per capita expenditure on food needed to cover a minimum daily caloric intake, which in Nicaragua is 2,226 calories. This is the method used for poverty analysis in this document.

22. It should be remembered, however, that all poverty indices refer to 1998, three years ago. Since 1998, real per capita GDP grew more than 8 percent, open unemployment fell significantly, and many social services were expanded and improved. Nevertheless, most developing countries have important lags in publishing detailed poverty data, so Nicaragua's data are roughly comparable to that of other countries.

### B. The situation and evolution of poverty

23. Nicaragua is one of the poorest countries in Latin America. Its per capita GNP is only one third of the regional average. Of thirty-three Latin American countries, Nicaragua is the poorest after Haiti<sup>4</sup>. Based on the consumption index, almost one half (47.9 percent) of Nicaragua's population were poor in 1998. This is equivalent to 2.3 million people, of which 830,000 (17.3 percent) were extremely poor. Measured by the UBN method, poverty affects 72.6 percent of the population, and extreme poverty 44.7 percent. Measured by the income distribution method, overall poverty was 60.0 percent and extreme poverty was 33.5 percent. Although the incidence of poverty remained high in 1998, there was a small reduction compared to 1993. Based on relative levels of consumption, poverty fell by 2.4 percentage points (see Figure 1), whereas the share of extreme poverty fell by 2.1 points. However, in spite of the relative decline in poverty, the absolute number of both the poor and the extremely poor rose in 1998 with respect to 1993.

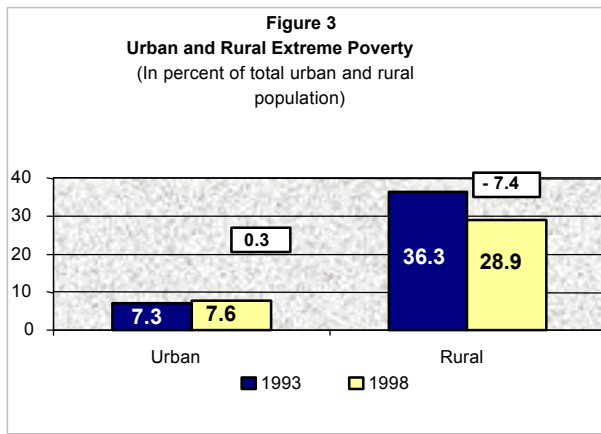
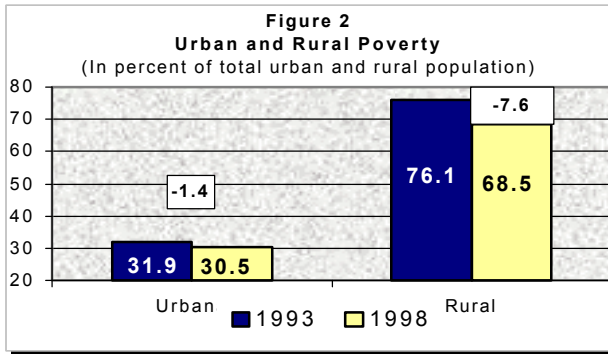


24. **Poverty by regions.** The results of the 1993 and 1998 surveys show significant regional differences in the incidence, intensity and evolution of poverty. In relative terms, poverty and extreme poverty remained overwhelmingly rural (see Figures 2 and 3). Two out of every three people in rural areas were poor, compared to one of three in urban areas. Annex IV of the SGPRS includes a national extreme poverty map, which, along with detailed tables of data, clearly shows the municipalities where extreme poverty is concentrated. Although rural areas showed a high incidence of poverty and extreme poverty in 1998, they experienced the biggest decline compared to 1993, with the exception of the rural Atlantic, where extreme poverty increased significantly. By contrast, poverty increased in the urban areas of the Pacific and the Atlantic, except in the capital city of Managua (see Table 1).

<sup>3</sup> The Poverty line is US\$402.05 yearly amount of per capita consumption; the extreme per capita consumption poverty level is US\$212.22 yearly.

<sup>4</sup> On a purchasing power parity basis. In fact, Nicaragua is *poorer* than Haiti if per capita nominal GDP numbers are used.





also show significant gaps. Nevertheless, between 1993 and 1998 there was a notable reduction in the national poverty gap. In 1998, the poor had to increase their level of expenditures by 18 percent to reach the poverty line, compared to 22 percent in 1993 (see Table 2). The major reductions in the depth of poverty occurred in rural areas, particularly in the Central region, which shows the highest number of poor households. On the other hand, the households in the urban Pacific and Atlantic regions experienced a substantial decline in welfare. The decline in the Pacific region was partly due to the economic crisis, particularly in León and Chinandega, caused by the collapse of cotton production and the lack of development of equivalent profitable alternatives. In the Atlantic region problems of access, population dispersion and lack of investment contributed to this poor outcome.

**28. Effects of Hurricane Mitch.** In 1999, the National Institute of Statistics and Census (INEC) resurveyed areas affected by hurricane Mitch. Overall, the survey found no significant change in poverty levels. Poverty and extreme poverty increased slightly in the Central region, but the Pacific rural regions experienced a slight improvement in the overall and extreme incidence of poverty. Although these results point to a small adverse impact in the short run, the extent of the hurricane's damage to infrastructure and other productive capital is generating further medium term costs.

25. The reduction of rural poverty stemmed mainly from the recovery of agriculture, which grew at an annual real rate of 7 percent during 1993-1998. Favorable export prices, especially for coffee and sugar, contributed to the output expansion. The production of basic grain and other staples, including non-cash crops, also rose significantly during this period.

26. The lowest incidence of poverty was in Managua, where only two out of every ten people are poor. The economic recovery and expansion of its service sectors, particularly finance and commerce, contributed to a notable reduction in poverty compared to 1993.

27. Rural areas have not only the highest share of poor households, but also the greatest poverty gap<sup>5</sup>. The Atlantic Coast has the greatest poverty gap, with 37 percent; the Central and Pacific regions

<sup>5</sup> The poverty gap is defined as the percentage increase in consumption needed to reach the poverty threshold.

**Table 1. Evolution of poverty**

|                     | Extreme Poverty            |      |        | Poverty                    |      |        |
|---------------------|----------------------------|------|--------|----------------------------|------|--------|
|                     | 1993                       | 1998 | Change | 1993                       | 1998 | Change |
|                     | (In percent of population) |      |        | (In percent of population) |      |        |
| <b>National</b>     | 19.4                       | 17.3 | -2.1   | 50.3                       | 47.9 | -2.4   |
| <b>Urban</b>        | 7.3                        | 7.6  | +0.3   | 31.9                       | 30.5 | -1.4   |
| <b>Rural</b>        | 36.3                       | 28.9 | -7.4   | 76.1                       | 68.5 | -7.6   |
| <b>Managua</b>      | 5.1                        | 3.1  | -2.0   | 29.9                       | 18.5 | -11.4  |
| <b>Pacific</b>      |                            |      |        |                            |      |        |
| Urban <sup>1/</sup> | 6.4                        | 9.8  | +3.5   | 28.1                       | 39.6 | +11.5  |
| Rural               | 31.6                       | 24.1 | -7.5   | 70.7                       | 67.1 | -3.6   |
| <b>Central</b>      |                            |      |        |                            |      |        |
| Urban               | 15.3                       | 12.2 | -3.1   | 49.2                       | 39.4 | -9.8   |
| Rural               | 47.6                       | 32.7 | -14.9  | 84.7                       | 74.0 | -10.7  |
| <b>Atlantic</b>     |                            |      |        |                            |      |        |
| Urban               | 7.9                        | 17.0 | +9.1   | 35.5                       | 44.4 | +8.9   |
| Rural               | 30.3                       | 41.4 | 11.1   | 83.6                       | 79.3 | -4.3   |

Source: INEC/LSMS 1993 and 1998

1/ Excluding Managua

**Table 2. Poverty gap and its evolution**

|                     | 1993         | 1998 | Change |
|---------------------|--------------|------|--------|
|                     | (In percent) |      |        |
| <b>National</b>     | 21.8         | 18.3 | -3.5   |
| <b>Urban</b>        | 10.9         | 9.9  | -1.0   |
| <b>Rural</b>        | 37.1         | 28.3 | -8.8   |
| <b>Managua</b>      | 9.5          | 5.1  | -4.4   |
| <b>Pacific</b>      |              |      |        |
| Urban <sup>1/</sup> | 9.4          | 12.6 | +3.2   |
| Rural               | 32.3         | 26.0 | -6.3   |
| <b>Central</b>      |              |      |        |
| Urban               | 19.4         | 14.3 | -5.1   |
| Rural               | 45.3         | 30.9 | -14.4  |
| <b>Atlantic</b>     |              |      |        |
| Urban               | 12.1         | 17.5 | +5.4   |
| Rural               | 35.9         | 37.3 | +1.4   |

Source: INEC/LSMS 1993 and 1998

1/ Excluding Managua

29. **Inequality in income distribution and consumption.** Nicaragua, like much of Latin America, has a high degree of inequality in income distribution. Nicaragua ranks among the top quartile of countries in the world with the highest income disparity, but its Gini coefficient of 50.0, measured by income, is close to the (very unequal) Latin American average of 50.8. The richest 10 percent of the country have an average income nineteen times larger than that of the poorest 40 percent. Moreover, the richest 10 percent receive 45 percent of the country's total income, while the poorest 40 percent receive only 10 percent.

30. The inequality of consumption also remained high in 1998. The Gini coefficient, measured by consumption, equals the Latin American average of 45.2. This reveals the great disparity between the consumption of the richest and the poorest. The richest 20 percent consume 51.3 percent of the country's total consumption, whereas the poorest 20 percent only consume 5.3

percent. The disparity in rural areas is slightly lower than in urban areas. In urban areas the richest 20 percent have a level of consumption more than nine times higher than the poorest 20 percent; this difference falls to less than seven times in rural areas (Table 3).

**Table 3. Consumption distribution (Quintiles)**

| Aggregate Consumption | In percent of total aggregate consumption |      |      |      |      | Ratios of quintiles consumption shares |       |       |       |       |
|-----------------------|---|------|------|------|------|--|-------|-------|-------|-------|
|                       | Q1  | Q2   | Q3   | Q4   | Q5   | Q2/Q1                                  | Q3/Q2 | Q4/Q3 | Q5/Q4 | Q5/Q1 |
| Urban                 | 5.6                                       | 9.9  | 13.8 | 20.1 | 50.5 | 1.8                                    | 1.4   | 1.5   | 2.5   | 9.0   |
| Rural                 | 6.8                                       | 11.3 | 15.3 | 22.1 | 44.4 | 1.7                                    | 1.4   | 1.4   | 2.0   | 6.6   |
| National              | 5.3                                       | 9.3  | 13.9 | 20.2 | 51.3 | 1.7                                    | 1.5   | 1.5   | 2.5   | 9.6   |

Source: INEC/LSMS 1998

### C. The economic dimensions of poverty

31. While the circumstances of the poor are diverse in scope and nature, there are certain common elements that can be directly associated with poverty in Nicaragua. They can be divided into economic and social dimensions.

**32. High unemployment and underemployment rates, especially among women.** Although it has now fallen to about 10 percent, the overall unemployment rate in Nicaragua, according to the 1998 survey, was 12 percent. However, the rate was higher among poor households, reaching a high of 21 percent among extremely poor women. Even worse was underemployment, particularly among poor females of which one out of two was underemployed; this also suggests that being employed is not sufficient to avoid poverty. Visible underemployment (defined as jobs offering fewer than 40 hours a week) was one third of total employment. The regions with the highest visible underemployment rates were Managua and the rural Pacific.

**33. Uncertain property rights.** Many Nicaraguans face uncertain property rights; the poor face even more uncertainty. Statistical information on property ownership is deficient, disperse, and unreliable. About four fifths of Nicaragua's land is unregistered while much of that registered is incorrectly done. The registry systems themselves are obsolete, extremely slow, overly bureaucratic, and arbitrary. The few land titles issued have been emitted under widely different systems. While data on the poor's property are thus quite limited, they often bring up their uncertain ownership as a major issue. It affects their pattern of family life, production potential and even location. And the poor, of course, are the least able to defend themselves when property disputes arise.

**34. Low access to public infrastructure and services.** The available data also show unequal access to basic infrastructure services between urban and rural areas. About 35 percent of the overall population still lacked potable water and 16 percent had no access to safe water. The percentages among the extremely poor households in rural areas were considerably higher (77 percent lacked potable water<sup>6</sup> and 40 percent lacked safe water). In addition, about a third of the

<sup>6</sup> Potable water is defined as piped water inside the house, outside the house and from a public standpipe. Safe water is defined as potable water plus water from a public or private well.

poor had no access to latrines, 57 percent had no access to electricity, and 94 percent used only firewood for cooking. Access to main roads varied between urban and rural areas. In 1998, 18 percent of urban non-poor households reported improved access versus 8 percent who reported worse, whereas 13 percent of the extremely poor in rural areas reported improved access versus 11 percent who reported worse.

#### **D. Human capital and poverty**

35. The poor suffer, as well, from both limited access to, and very low levels of, social services. This often reinforces adverse social and cultural patterns.

36. **High fertility rates and demographic dependency.** Nicaragua's high rate of population growth is even higher among the poor. Adolescent fertility rates are the highest in Latin America and represent an increasing share of all births. By age 19, almost half of all women have experienced at least one pregnancy. Poor women are less able to plan families; they have less access to information on family planning and face higher reproductive risks. The poorest households comprise more people (6.7-7.7) than non-poor households (4.7) and have almost twice the number of dependents (people under age 16) per adult.

37. **Low educational attainment and low access and quality of education services, particularly in rural areas.** As expected, there is a strong correlation between poverty and low educational attainment. Between 1993 and 1998, the overall illiteracy rate fell from 23 to 19 percent, while in rural areas illiteracy fell from 38 to 30 percent. Despite this positive trend, almost 40 percent of the extremely poor remain illiterate. About half of the school-aged children (6-18 years) of the extremely poor do not attend school, compared with only 16 percent for their non-poor counterparts. Poor and extremely poor people average only 3.1 and 2.3 years of education respectively, half the national average and well below the threshold of four years needed to acquire functional literacy and mathematical skills. More than half the children who abandon school do so for economic reasons. The effectiveness of basic public education, particularly for the poor, is affected adversely by high numbers of non-certified teachers, poor physical conditions in over half the primary classrooms (in 1998), and a chronic shortage of teaching materials. This partly explains the high repetition and drop-out rates, especially in rural areas where these problems are most acute.

38. **Low quality and difficult access to health services.** On average, the extremely poor must travel three times the distance, and spend three times as much time, to reach health facilities as non-poor households. Extremely poor children report illness with 50 percent greater frequency than non-poor children, and when sick they have half the access to doctors of the non-poor. In addition, one third of extremely poor women receive no prenatal care and one half deliver their babies without benefit of institutional facilities. In consequence, they are only half as likely as non-poor women to be attended by doctors when giving birth.

39. **Malnutrition.** There is a strong link between poverty and malnutrition. Over 30 percent of poor children and almost 40 percent of extremely poor children were malnourished, compared to 12 percent of non-poor children. Poor children under 5 are particularly affected by chronic malnutrition (resulting in varying degrees of stunting). Among extremely poor children, 36 percent are affected. Although on an overall basis the surveys indicate that chronic malnutrition

had declined since 1993, it increased by 45 percent among the urban poor and 30 percent among the extremely poor by 1998. The worst levels of chronic malnutrition were reported in the north and central parts of Nicaragua, where nearly half the extremely poor children suffered from this condition.

### **E. Vulnerability and marginality**

40. The poor face multiple risks and sources of vulnerability. This section presents an overview of the most common.

41. **High vulnerability to natural disasters.** Partly because of its geographical location, Nicaragua is affected by various natural calamities. Volcanic eruptions, hurricanes, earthquakes, droughts, fires, and floods are common periodic occurrences, which produce ecological deterioration and major destruction of property and infrastructure. While these calamities often have an adverse impact on the overall economy, recent catastrophes (El Niño, hurricane Mitch, La Niña, earthquake in Masaya) have shown that the poor are much more likely to be adversely affected than the non-poor. Because of inadequate construction, their dwellings are particularly vulnerable; and when affected, they have insufficient savings to address the emergencies. Public assistance rarely compensates them for the resulting losses and dislocation. They are forced to reduce already inadequate levels of consumption. These disasters affect the poor's productivity and incomes. The collapse in employment caused by some disasters often forces the poor to emigrate in search of employment or to engage in illegal activities.

42. **Household Vulnerabilities.** A recent analysis of poor households' perceived vulnerabilities, based on the LSMS and a qualitative poverty study reveals that their main risks are low food consumption and hunger. Low income is considered a distant second to low food consumption, and it is associated with factors specific to the poor's position in the labor market (limited demand for unskilled labor for the urban poor; lack of access to productive resources, especially land, for the rural poor). Lack of access to housing and basic services follow as perceived risks, as well as exposure to natural disasters. Last, but not least, civil and domestic violence and lack of trust in formal organizations, added to social exclusion, reveal an additional range of perceived risks, which demand new types of responses.

43. **Lack of information and opportunities.** The poor have limited access to the media and often lack information to facilitate access to labor markets or social assistance provided by the government or humanitarian organizations. Moreover, the poor have little knowledge of relevant laws, rules, and procedures, which limits their access to the justice system and official assistance facilities.

44. **Family violence and street and countryside insecurity.** Domestic violence is a primary source of social violence, which ends up increasing the need for more public expenditures. Nicaragua exhibits an unfortunately high incidence of domestic violence. According to the Demographic and Health Survey (DHS98), 29 percent of women report having suffered some kind of physical or sexual abuse through their life span; of these 60 percent report having been victims of violence when their children were present, and 40 percent during pregnancy. While there are no specific statistics indicating how violence and crime affect the different segments of

the population, it is likely that the highest incidence occurs among poor urban women and among the least educated. Unfortunately, most of these occurrences remain unreported.

45. **Gender inequality.** Nicaragua's girls have equal access to education; indeed, in the primary schools girls outnumber boys because the latter are taken out of school to help with work. Nevertheless, women have fewer employment opportunities than men, and suffer other types of discrimination. Overall, women's income is 20 percent lower than men's, although this gap narrows in the case of the best-educated women. Early maternity, prevalent among the poorest women, further reduces women's opportunities. The most common risks that poor women face are prostitution and sexual and physical abuse. Early pregnancy as well limits their personal and economic prospects. The poorest communities usually lack formal structures to protect women.

46. **Ethnic groups.** Nicaragua's ethnic and indigenous groups (e.g., Miskitos, Mayagnas, Ramas, Creoles), which live mainly on the Atlantic Coast, are among the poorest in the country. These groups are often excluded from the social benefits enjoyed by others and from the main political and economic processes that affect the country. Ensuring that poverty among these groups is alleviated, while preserving their ancestral culture and traditions, presents a special challenge.

47. **The handicapped and the disabled.** According to some studies the disabled are more vulnerable than the rest of the population. They are more affected by health problems, but only 3 percent of them receive specialized health care. The disabled also have little access to specialized educational services. Exclusion for many disabled starts early in life at home, since many parents of disabled children prefer not to send them to school.

48. **The elderly.** In Nicaragua the elderly are traditionally cared for by their families. However, the elderly in poverty have little or no access to formal mechanisms of support. Many of them work beyond normal retirement age and are often forced into indigency.

49. **Some less pressing problems.** Nicaragua, however, has avoided some severe problems usually encountered in nations with such low per capita incomes. For example, the incidence of child labor in Nicaragua is lower (11 percent) than in most other similar nations. However, child labor is more frequent among boys than among girls and is higher in rural areas where 27 percent of boys work. While the authorities continue to keep a sharp eye on AIDs, Nicaragua has so far exhibited surprisingly low levels of HIV infection; 11 per 100,000 adults in 1999, just over one hundredth of one percent, about one third the Central America average. Nevertheless, while not the urgent priority of so many other countries, AIDs incidence will be carefully watched.

## **F. Poverty from the poor's point of view**

50. In early 2000, the World Bank undertook a qualitative study on poverty to complement the findings of the 1993 and 1998 quantitative surveys. According to this study, the poor have their own conception of what it means to be poor. From their standpoint, being poor means lacking access to the social benefits enjoyed by the non-poor. It also means a lack of economic and political power to influence decision-making processes that affect their lives. The poor regard material, financial, educational, and natural endowments as the main determinants of welfare. In all areas interviewed, the main factors identified as contributing to a poor quality of life include

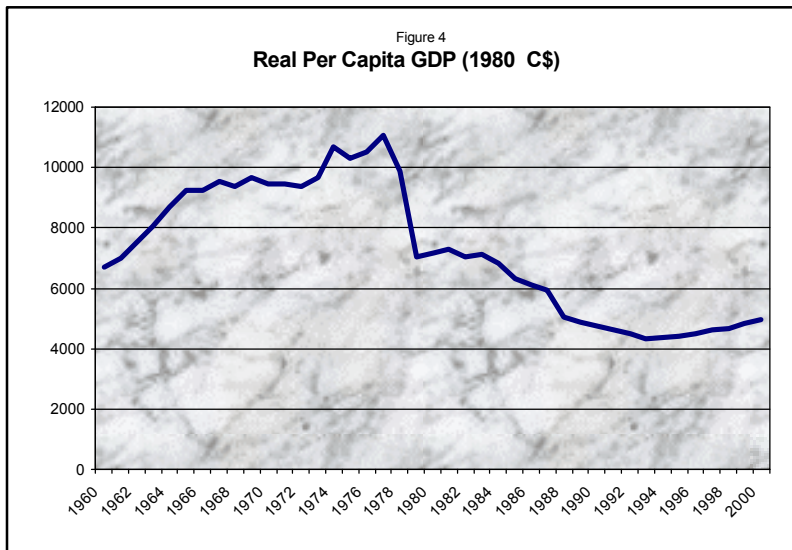
inadequate food, poor housing, low income, land tenancy limitations, few employment opportunities, and lack of access to formal systems of finance.

51. One of the salient perceptions is a sense of despair and resignation. The poor believe that poverty is a vicious circle from which they cannot escape since it is inherited and perpetuated through generations. The poor believe that their limited human capital increases their vulnerabilities to economic shocks and crisis. In general the poor distrust public institutions, which are often considered corrupt and non-responsive. They are well aware that there is a major disparity between their own access and non-poor access to health services, such as preventive care, and that such differences contribute significantly to their higher mortality rates. The poor also know that a low educational attainment increases the probabilities of being poor, and they believe there is unequal access to education. Although they are conscious of the costs associated with sending their children to work, they do so to cover their most basic and urgent short-run needs.

### III. BACKGROUND ON POLICIES AND STRATEGIES AND THEIR IMPACT ON POVERTY

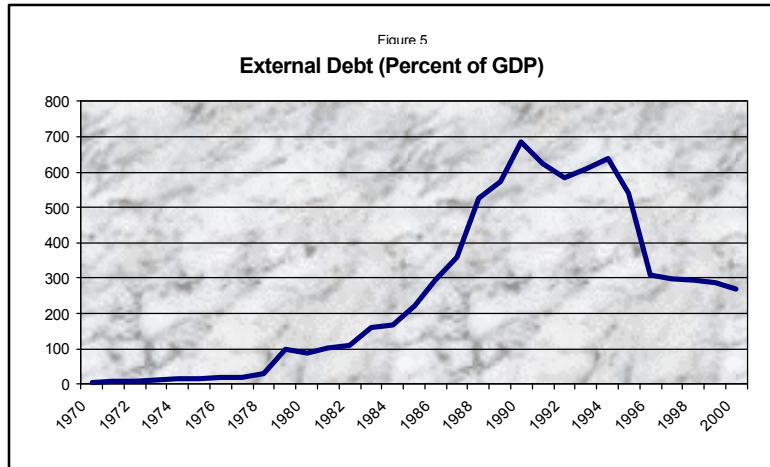
#### A. Some important economic and social facts of the last thirty years

52. Poverty in Nicaragua is the cumulative result of past mistaken economic policies and severe political turbulence. The different approaches to macroeconomic management since the 1960s have taken the country through periods of high economic growth, but also through prolonged and costly economic and social crises. Throughout this period however, noninflationary and solid economic growth proved the most reliable instrument to reduce poverty.



53. During 1960-1977, prudent macroeconomic policies produced an extraordinary growth performance (Figure 4). Fiscal discipline, monetary stability, stable exchange rates, congruent monetary and credit policies, a modern and well-administered financial system, and relatively low levels of external indebtedness forged a framework of economic discipline that fostered a stable environment and encouraged both domestic and foreign

investment. This framework was strengthened by favorable international conditions and buoyant markets favouring growth in coffee and cotton production.



plus private capital inflows, kept external indebtedness relatively low (Figure 5).

54. As a result, the economy grew at an average annual rate of 6.4 percent. Per capita GDP grew at 3.1 percent per year, domestic inflation rates were close to international levels, balance of payment deficits were moderate and exports rose in response to growing industrial, agricultural and livestock output levels and strong foreign demand. Current savings by the government (an annual average of 3.8 percent of GDP)

55. By contrast, the major disruption associated with civil war in the 1980's complicated macroeconomic management and resulted in a major misallocation of resources. This, coupled with political instability, led to a collapse in output and one of the worse episodes of hyperinflation in Latin America. During 1984-1989, GDP fell by a yearly average of 3.6 percent and the rate of inflation reached a peak of 33,000 percent in 1988, while per capita income fell to 1960s levels. This collapse is the most important cause of Nicaragua's current high poverty levels. If the country had continued to grow at the same pace as in 1960-77, it would probably have three times today's per capita income, with health, education, and employment levels closer to those of its neighbors.

56. Despite the introduction of preferential exchange and interest rates, excessive public expenditures (50 percent of GDP in 1986) and credit levels (54.1 percent of GDP in 1987), real aggregate demand dropped dramatically in the 1980's. *Ad hoc* and hasty transfers of productive land -- with the resulting uncertainty, clouded ownership, and legal chaos it produced -- led to disinvestment and major drops in agricultural production. At the same time, the foreign debt grew to unprecedented levels, reaching US\$ 8.5 billion in 1988, almost seven times greater than the country's GDP and the level of the foreign debt at the end of 1978. By 1990, the foreign debt reached US\$10.7 billion. Due to the collapse of economic activity, poverty levels increased very sharply.

57. During 1990-2000, Nicaragua's macroeconomic performance improved substantially. Backed with IMF support (including a standby agreement in September 1991 and two ESAF agreements in June 1994, and March 1998) a strong structural reform program was launched which brought inflation under control and renewed economic growth. With the help of appropriate monetary, fiscal, and exchange rate policies, inflationary pressures quickly abated. Nonetheless, in spite of liberalization, higher government savings, programmed reductions in import tariffs, and a 50 percent reduction in external debt, the fragile economy was slow to react. This was partly due to unresolved property disputes. However, positive economic growth re-emerged in 1994, and thereafter the economy has grown at an average annual rate of 4.8 percent. Even with the impact of hurricane Mitch, the economy was able to grow at a 5.2 percent yearly rate between 1997 and 2000, causing per capita income to increase by 2 percent yearly (Annex



Table 1), and the open unemployment rate to drop from 17 percent in 1994 to below 10 percent in 2000.

## **B. Strategies and policies in the 1990's**

58. In the first half of the 1990's, Nicaragua devoted major efforts to the restoration of peace and the abatement of hyperinflation. Many urgent structural reforms were required to transform a command economy into a market-driven one. These had a cost, but ultimately promoted economic growth. They were accompanied by a greater degree of attention to legal issues and the social sectors beginning in 1994. Nicaragua deepened its reform efforts from 1997 onwards to further hasten economic recovery and reduce unemployment and poverty. Annex II has details and dates of some key measures.

59. **Public sector reform.** The reforms of the public sector undertaken in the last ten years have contributed significantly to the country's poverty reduction strategy. The downsizing of the state has strengthened fiscal policy implementation. Public expenditures were cut by reducing the army by over three-quarters, the privatization of 351 government-owned businesses, which accounted for almost 30 percent of GDP, the implementation of voluntary retirement programs for public employees, and execution of the law on organization of the Executive Branch approved in 1998 by the National Assembly. This law reduced the number of ministries from 15 to 12, and the number of decentralized institutions from 25 to 22. Defense outlays alone fell from about 14 percent of GDP in the 1980's to less than 3 percent in the last few years. As a result of these policies, public sector employment was reduced from 290,000 employees (24 percent of the economically active population) in 1990 to 80,000 in 2000.

60. The government also began a program to privatize public utilities. Accordingly, it separated the operational and regulatory activities of these entities, and tightened their budgets in order to attain financial sustainability. In 1995, the government created regulatory institutions for telecommunications and energy, and two years later it did the same for water and sewerage. It revised the structure of public utility rates, and made gradual adjustments in order to recover long-run marginal costs. During 1997-1998, the National Assembly approved a number of laws to permit private sector participation in the generation and distribution of electricity, privatize the government telephone company (ENITEL) and liberalize the exploration and sale of hydrocarbons. During 1999 and 2000 the government privatized energy distribution. It leased 80% of the basic grain storage capacity of the National Grain Foods Marketing Company (ENABAS), and it leased Puerto Cabezas, a port in the Atlantic. The government-owned oil company (PETRONIC) was also leased to the private sector.

61. The tax system was revised with a view to broadening the taxation base and lowering top tax rates, so as to simplify the system and reduce administrative costs. The 1997 Tax Law dropped a number of low-yielding taxes, reduced the number of exemptions, and eliminated (often-abused) export bonuses as an incentive for non-traditional exports, replacing them with a 1.5 percent draw-back on exports.

62. **Financial sector reforms.** During the 1990's the financial system, an important source of the past inflation, underwent a major transformation. In 1991, the first private bank was reopened, and there are now 7 private banks operating. Also in 1991, the Superintendency of

Banks (SBIF) was reestablished, and the Central Bank initiated a reform process in order to recover the autonomy it had lost in the 1980's. Ceilings on interest rates were abolished, reserve requirements restored, and laws mandating Central Bank financing of the fiscal deficit and state banks abolished.

63. During 1997-1998, the government liquidated its largest bank, the National Development Bank (BANADES), and the insurance market was opened to the private sector. In 1999 the majority of shares of Banco Nicaragüense (BANIC) were sold to private investors. These transactions, while salutary for a growing private banking system, left the government with the bad debts of these banks. The rapid growth of private banks, however, led to some abuses. In 2000, two major private banks undergoing financial distress were intervened and their assets sold to other banks. One more had to be absorbed in 2001. The Superintendency of Banks also approved plans to recapitalize some other weak banks. Throughout, the assets of private depositors were fully protected by the government. However, in December 2000, the National Assembly approved a banking deposit insurance law, which will relieve the government from further financing of such losses. This law will not be enacted until 2002.

64. **Trade and price reforms.** Liberalization of foreign trade was one reform with a substantial impact on the Nicaraguan economy. The abolition of government-owned export trading monopolies encouraged private production for export. The extensive and perverse price control mechanisms set up during the 1980's were also abolished, and many state firms with monopolies were privatized. The government supported these reforms with a more realistic exchange rate and lower import tariffs. The highest nominal import tariff rate was reduced from 60 percent to 10 percent in 2000. The arithmetic average of the nation's tariffs (excluding Central America) dropped as well, from 19.6 percent in mid-1994 to almost 5 percent by late 2000. A temporary 5 percent tariff surcharge -- stemming from conversion of an NTB in 1997 -- has been phased down to less than 1 percent, and a proposal to legally abolish it will be presented to the Assembly soon.

65. Accompanying this general tariff reduction was a determined effort to free trade with the country's major trading partners. Trade within Central America is now almost free (5 sensitive products are excluded), and Nicaragua has the most liberal trade regime as it continues negotiations to create a Central American Customs Union, hopefully by 2002. A free trade agreement with Mexico was ratified in 1997, and much bilateral trade is now free. The remaining restrictions will be phased out by 2008. Free trade agreements with Chile and the Dominican Republic were negotiated in 2000 and will likely be ratified this year. Another is under negotiation with Canada, and Central America is negotiating as a unit a similar agreement with Panama this year. Finally, Nicaragua has taken full advantage of the recent decision by the United States to expand clothing imports allowed under the Caribbean Basin Initiative.

66. **Pension reforms.** In 1999, the government began a comprehensive reform of the pension system, a system reduced to a crude pay-as-you-go fund by prior hyperinflation. A new system of privately-funded individual retirement accounts administered by the private sector will be introduced. In April 1999, the pension and health insurance sub-systems were separated; in 2000, the National Assembly approved a law for reform of the social security system, and application of the new system has begun. This reform will strengthen not only the pension system but likely increase national savings and deepen financial markets over the long term.

**67. Public administration reforms and property rights.** The government has begun to strengthen both the judicial system and the enforcement of property rights. In 1992-1993, it established the Office of Territorial Rationalization (OOT) and the Office of Indemnifications to resolve pending property disputes. In 1997, the National Assembly approved a new property law that facilitated the settlement of a backlog of property conflicts, and in 2000 special courts were created to mediate in property problem resolutions. Unfortunately, these measures are still insufficient and there remains a further agenda to fully address the severe problem of undefined land ownership, which requires dealing with registry, cadastre and legalization issues in general. The government has also improved the transparency of public administration through creation of a single treasury account and an Integrated System for Financial Management and Auditing (SIGFA). In 1999, a law regulating public sector procurement and contracting was approved, as was a new penal code and an administrative dispute settlement law.

68. As a result of these major, and difficult, reforms the economy responded positively. Although stagnating until 1993, real GDP growth averaged almost 4.7 percent yearly during 1994-2000. This increased growth has laid the foundations for further expansion which in turn is expected to produce a drop in Nicaragua's poverty levels.

**69. Poverty reduction strategies.** Before 1990, Nicaragua did not really have a comprehensive poverty reduction strategy. The social programs implemented in the 1980's were not accompanied by the necessary structural changes to render them sustainable, as they were based on the redistribution of existing income and property rather than on the growth of output and income. In the first half of the 1990's Nicaragua emphasized economic reactivation to lower extremely high unemployment and poverty levels. Since then, a comprehensive and increasingly consistent poverty reduction strategy has been evolving. A variety of social funds designed to direct resources to the poor have been created and successfully used in the past decade. Rural and municipal institutes have also successfully expanded their support for the poor. As this process progressed over the past few years a more integrated and strengthened program -- based on solid data and detailed analyses -- has evolved with strong local and foreign participation. It is described in detail in chapter VI.

### **C. Obstacles to higher economic growth, macro and microeconomic aspects**

**70. The fiscal deficit and the external debt.** Two significant impediments to sound fiscal and macroeconomic management, are the high level of the fiscal deficit and the servicing of the public debt. Partly as a consequence of the reconstruction effort after hurricane Mitch, the deficit, before grants, increased to 14 percent of GDP in 2000 (after grants it was less than half that level, but still unsustainable). In spite of generous debt relief by many donors, the debt remained at about three times GDP, and the servicing of the public debt reached almost 8 percent of GDP. The high level of public expenditures (47 percent of GDP) was directly reflected in the external current account deficit. These imbalances are a source of vulnerability and a hindrance to stable and dynamic economic growth as half gross current fiscal savings for 2000 (9.8 percent of GDP) were earmarked for interest payments on the debt. On the other hand, 38 percent of external loan disbursements went to amortization of the external debt in 2000. The debt service, unless relieved by HIPC action, will be much higher after 2001, when temporary relief granted after Hurricane Mitch ends.

**71. The fragility of the banking system.** As recent banking difficulties have shown, Nicaragua's private banking sector still needs strengthening. Its rapid growth has been overseen by the Superintendency of Banks (SBIF), which has rapidly developed and enforced prudential norms to guarantee the quality of the loan portfolio. In spite of this effort, a few banks encountered management and portfolio problems last year and had to be intervened. It is clear that the SBIF will require further strengthening. So will the banks. They face high administrative costs, must accelerate their recapitalization, and have an over-concentration of branches in a few major urban centers. Their deposit structure remains mostly short-term, which inhibits their capacity to provide medium and long-term financing. The economic and political conditions in the country still adversely affect risk perceptions, which make it difficult to stimulate long-term savings to support the medium and longer-term credit usually required by the productive sectors. Underdeveloped capital markets also constitute an obstacle to growth. On the demand side, producers argue that the current limitations on collateral guarantees are the single most important reason why they are not eligible for credit.

**72. Weak property rights.** The uncertainty surrounding property rights is one of the main factors inhibiting development of a market for land and other productive assets, as well as investment in, and the diversification of, the rural economy. The land confiscations of the 1980's and land distribution commitments made during the peace agreements in the 1990's obfuscate property rights in the countryside. In addition, the absence of modern land registration and titling, property surveys and legalization processes, has abetted illegal land transactions, aggravating the situation further. Moreover, uncertain land tenure provides little incentive for private investment and restricts access to institutional credit since untitled land cannot be used as collateral.

**73. Technological aspects.** At present, the agricultural, livestock, and even industrial sectors face serious problems of low productivity and a lack of adequate quality control. Traditional agriculture is dominated by often illiterate farmers using centuries-old, environmentally unsustainable practices. Poor transport and other infrastructure retard productivity. Moreover, the poor quality and lack of quality control of Nicaraguan products makes it difficult for domestic producers to compete in other than raw commodity markets. A major improvement in technology is needed, as well as job training programs, if productivity levels are to increase to make the economy sufficiently competitive in international markets.

**74. The state of human capital.** Human capital in Nicaragua has been affected adversely by three factors: lack of investment, emigration of the most skilled and educated, and some deterioration in the social fabric partly related to the protracted civil war. Obviously, the poor qualifications of the labor force in general, coupled to equally poor technology, affect production adversely and lower the earning capacity of workers. In these circumstances, it is clear that major efforts must be made to improve both basic and technical education to enhance worker's know-how, particularly for the poor who remain among the most uneducated and untrained. Annual indicators show that about 800,000 children (over 15 percent of the national population) are not in school. Of those that start the first grade, only 36 percent finish primary school (9 percent in rural areas). Less than half of those that make it to the first year of secondary school will graduate. Moreover, among the secondary school graduates proceeding to a university

education, there is an excessive preference for the liberal arts while there are shortages of hard science majors and a lack of vocational technical training in general.

75. Poor health also affects labor productivity and well-being. Malnutrition, and the high incidence of stunting it brings, affects the physical capacity of the labor force. Endemic diarrhoea and other maladies, mostly from limited access to potable water and poor health practices, also affect labor productivity.

76. **Infrastructure problems.** Lack of investment and poor physical infrastructure maintenance during the 1980's, deterioration due to war, and the effects of natural disasters made Nicaragua's infrastructure one of the most deficient in Latin America. Since then, many primary roads and bridges have been rebuilt, as have many schools, clinics, and urban infrastructure, although much remains to be done. Moreover, substantial amounts of private capital are needed to rehabilitate electricity generation, telecommunications infrastructure, and ports. These deficiencies translate into higher production costs for the private sector. The privatization of public utilities is in progress, but the expected capacity expansions will most likely occur only in the medium term.

77. **Vulnerability and shocks.** Because of its geographical and geological nature location Nicaragua has historically been vulnerable to natural disasters that have caused substantial damage to the ecology and seriously affected agricultural production (hurricanes, droughts, fires, diseases, and floods). They have also resulted in major destruction of housing, infrastructure, and manufacturing facilities (earthquakes). In addition, the Nicaraguan economy has been affected by other exogenous factors such as wide and frequent movements in its terms of trade, especially drops in the price of its main exports such as coffee and cotton and hikes in oil prices. This occurred again in 2000/2001. This affects investment levels and growth, while seriously disrupting production and stable macroeconomic management, thus highlighting the need for more diversification of the economy. Moreover, the eastward advance of the agricultural frontier has intensified ecological damage, also increasing vulnerability.

78. **Public expenditure and its efficiency.** During the 1990's, public sector imbalances narrowed significantly from the unsustainable and inflationary levels of the 1980's. The government was able to control expenditures while implementing structural changes in favor of the social sectors. Public savings increased, and the financing of deficits relied on donations and concessional external financing, which permitted a major reduction in inflation. Nevertheless, expenditures by the non-financial public sector still averaged 40 percent of GDP during the 1990's, and the fiscal deficit averaged 10 percent of GDP. The reduction of the deficit was also interrupted by hurricane Mitch, which forced the government to step up capital expenditures to 20.7 percent of GDP in 1999.

79. Despite these recent setbacks, there was a significant restructuring of public expenditures in the 1990's. Current expenditures decreased from 35 percent of GDP in the 1980's to 27 percent in the 1990's, while public investment increased from 8 percent of GDP in the 1980's to 13 percent in the 1990's. As defense outlays and transfers to state enterprise fell, government social expenditures, as a share of GDP, rose from around 10 percent at the beginning of the 1990's to almost 17 percent in 1999-2000, and in per capita terms from US\$45 per capita in the early 1990's to almost US\$80 per capita in 1999-2000.

80. In spite of an improved distribution of public expenditures, their overall efficiency remains low and the social ministries remain weak. The high proportion of GDP spent by the public sector on social services has not resulted in improved services for many of the country's poor. There are operational difficulties in the targeting of project beneficiaries and vulnerable groups, inadequate monitoring mechanisms to measure project impact, and bureaucratic inefficiencies, all of which hinder the effectiveness of those expenditures for social and economic purposes.

#### IV. GOALS AND INTERMEDIATE INDICATORS

81. The consultative process has produced ten national goals with fourteen specific national targets and a number of indicators for the SGPRS. A system of monitoring and evaluation of the targets and their intermediate indicators will provide measurable information of progress. It will also serve as an early warning system to identify possible delays or obstacles, in order to facilitate the timely adoption of corrective actions. The government has adopted targets based on the characteristics of Nicaragua's poverty profile, and is keenly aware of the importance of monitoring the implementation of the program as well as intermediate indicators, particularly since many of the projects and programs of the SGPRS are interdependent.

##### **A. International development goals and the setting of goals and indicators for Nicaragua**

82. The goals, targets and intermediate indicators selected are the result of participatory consultation, analyses of salient characteristics and needs of the poor, determinant analysis, an assessment of public sector implementation capacity and budgetary constraints, a review of country commitments made in the context of United Nations conferences, and interaction with some donors. Therefore, virtually all the long-term targets aim at meeting those set out as objectives by the OECD-DAC for the year 2015, supplemented by additional goals and targets resulting from domestic consultations and reflecting specific country characteristics and needs.

83. The government's prime objective is to at least halve the extreme poverty rate by the year 2015. Other long-term targets include reducing by two-thirds the infant mortality rate and mortality of children under 5 years, reducing maternal mortality rates by three quarters, providing primary education to 90 percent of school age children, ensuring access to reproductive healthcare services to all interested people of appropriate age by 2015, and implementing a sustainable development strategy by the year 2005. In addition, other long-term targets are to reduce chronic malnutrition to 7 percent, to increase potable water service coverage to 100 percent, to increase sanitation coverage to 95 percent, and reduce the illiteracy rate to 10 percent; all by 2015.

84. For the purposes of selecting and quantifying targets and their associated indicators, the government followed an iterative process that involved identifying the most quantifiable problems characteristic of poverty and establishing targets to address them. The selection process was a joint effort, with civil society, line ministries, and expert advice. The 14 targets chosen reflect a decision to focus on results, on Nicaragua's mothers and youth, and on targets closely linked to governmental programs. A number of other variables were also selected as intermediate indicators for monitoring purposes and appear in Table 4.

**Table 4. Matrix of goals, targets and intermediate indicators**

| National Goals  | National Targets Year 2005  | Intermediate Indicators  | 1999 | 2000 | 2001 | 2002       | 2003 | 2004 | 2005 | International Targets Year 2015                                |
|---|---|--|------|------|------|------------|------|------|------|--|
| <b>Poverty reduction</b>                              | Reduce extreme poverty by 17.5%   | Increase government spending on poverty-related outlays to 63.3% from 53% of budget by year 2005 <sup>1/</sup>   | ...  | 53.0 | 53.4 | 55.7       | 60.7 | 60.7 | 63.3 | Reduce extreme poverty by 50% by 2015 with respect to 1995     |
|   |   | Projected rate of growth of real GDP.  | 7.4  | 4.3  | 3.0  | 3.7        | 4.5  | 5.0  | 5.0  |  |
| <b>Raising primary education access to 90 percent</b> | Increase net primary enrolment rate to 83.4% from 75% in 1999   | Annual average increase of 1.4 percentage points in the net primary enrolment rate   | 75.0 | 76.4 | 77.9 | 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 | 78.6 | 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 | 36.0 | 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 6th grade                                 | ...  | ...  | Done | ...        | ...  | ...  | ...  |  |
|   |   | Annual increase of 1.0 percentage point in the net pre-school enrolment rate during 2000-2005  | 26.0 | 27.0 | 28.0 | 29.0       | 30.0 | 31.0 | 32.0 |  |
|   |   | Increase to one half the percent of rural multigrade schools offering 6 <sup>th</sup> grade by 2005  | 29.0 | 33.0 | 37.0 | 41.0       | 44.0 | 47.0 | 50.0 |  |
|   |   | Construct and replace 2,630 elementary school classrooms during 2001-2005  | 977  | 860  | 400  | 490        | 540  | 600  | 600  |  |
| <b>Reduction in maternal mortality rate</b>           | Reduce maternal mortality rate to 129 per one-hundred-thousand live births from 148 per one-hundred-thousand born alive in 1999 | Increase to almost 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) | 47.0 | 52.4 | 54.6 | 55.9       | 57.2 | 59.4 | 61.7 | Reduce maternal mortality rate by 3/4 by 2015 compared to 1994 |
|   |   | Increase to 86% the coverage of prenatal care for pregnant women from 71.6% in 1999 (an annual average increase of 3,800 prenatal controls during 2000-2005)       | 71.6 | 78.6 | 80.6 | 81.4       | 82.2 | 84.3 | 86.5 |  |
|   |   | Increase to almost 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)  | 31.9 | 35.9 | 37.7 | 38.9       | 40.1 | 41.9 | 43.8 |  |
|   |   | Introduce an education program on population in public schools as well as a nonformal program by 2002.   | ...  | ...  | ...  | Introduced | Done | ...  | ...  |  |

| National Goals  | National Targets Year 2005  | Intermediate Indicators  | 1999                              | 2000                 | 2001                 | 2002                 | 2003                 | 2004                 | 2005                 | International Targets Year 2015   |
|---|---|--|-----------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|---|
| <b>Reduction in infant and children under 5 mortality rates</b> | Reduce infant mortality rate to 32 per thousand live births from 40 per thousand in 1998  | Increase immunization coverage (%) for children under 1 year<br>1 d. of BCG<br>3 d. antipolio<br>3 d. 5-in-1   | 99.0<br>91.0<br>7.0 <sup>4/</sup> | 99.0<br>91.0<br>90.0 | 99.0<br>91.0<br>90.0 | 99.0<br>92.0<br>91.0 | 99.0<br>93.0<br>92.0 | 99.0<br>94.0<br>93.0 | 99.0<br>94.5<br>94.0 | Reduce infant and under five mortality rates by 2/3 by 2015 with respect to 1994                      |
|   |   | Increase polio immunization (3 doses) coverage for children under 5 years (measured by survey) from 83.8% in 1998 to 94% in 2004 <sup>2/</sup>                         | 83.8<br>(1998)                    | ...                  | 92.5                 | ...                  | ...                  | 94.0                 | ...                  |   |
|   | Reduce the incidence of diarrhoea in children under 5 to 16.0% by 2004 <sup>2/</sup> from 20.8% in 1998 <sup>3/</sup>   | 21.9<br>(1998)   | ...                               | 19.0                 | ...                  | ...                  | 16.2                 | ...                  |                      |   |
|   | Reduce the incidence of acute respiratory infections in children under 5 to 20.8% by 2004 <sup>2/</sup> from 27.3% in 1998  | 27.3<br>(1998)   | ...                               | 24.0                 | ...                  | ...                  | 20.8                 | ...                  |                      |   |
| <b>Access to reproductive healthcare services</b>               | Reduce to 24.8% <sup>4/</sup> 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 <sup>7/</sup> the unsatisfied demand for family planning among women with partners in the 15-19 age group from 27.1% in 1998 | 27.1<br>(1998)                    | ...                  | 26.1                 | ...                  | ...                  | ...                  | 24.8                 | Provide access to reproductive health care services for all interested individuals of appropriate age |
|   |   | Reduce to 18.9% in 2001 and 18% in 2005 <sup>7/</sup> the unsatisfied demand for family planning among women with partners in the 20-24 age group from 19.7% in 1998   | 19.7<br>(1998)                    | ...                  | 18.9                 | ...                  | ...                  | ...                  | 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) <sup>5/</sup> | 21.0   | 21.0                              | 22.0                 | 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.  | ...  | ...                               | ...                  | Introduced           | Done                 | ...                  | ...                  |                      |   |
| <b>Implement National Strategy for Sustainable Development</b>  | Have the National Strategy for Sustainable Development implemented by 2005  | Published and implemented environmental policy and action plan   | ...                               | ...                  | 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             | ...                  | ...                  | ...                  |   |



| National Goals                       | National Targets Year 2005   | Intermediate Indicators  | 1999        | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | International Targets Year 2015                             |
|--------------------------------------|--|--|-------------|------|------|------|------|------|------|---|
| <b>Reduce chronic malnutrition</b>   | Reduce chronic malnutrition in children under 5 to 16% in 2004 <sup>2/</sup> from 19.9% in 1998  | Reduce chronic malnutrition in children under 5 to 17.9% in 2001 and 16% in 2004 from 19.9% in 1998                              | 19.9 (1998) | ...  | 17.9 | ...  | ...  | 16.0 | ...  | Reduce chronic malnutrition to 7% by 2015 <sup>6/</sup>     |
| <b>Increase access to water</b>      | Increase national coverage of water to 75.4% from 66.5% in 1999<br><br>Increase access to safe water and sanitation in rural dispersed areas to 53.5% from 39% in 1999 <sup>7/</sup> | Increase national potable water coverage by 1.4 percentage points per year during 2000-2005                                      | 66.5        | 68.1 | 69.5 | 71.0 | 72.4 | 73.9 | 75.4 | Increase to 100% national water coverage <sup>6/</sup>      |
|                                      |  | Annual average increase of 2.4 percentage points in access to safe water in rural dispersed areas during 2000-2005 <sup>7/</sup> | 39.0        | 41.6 | 45.8 | 48.2 | 50.5 | 52.6 | 53.5 |   |
| <b>Increase access to sanitation</b> | Increase national access to sanitation to 88% in 2004 from 84.1% in 1998 <sup>2/</sup><br><br>Increase access to sewerage in urban areas to 44.1% from 33.6% in 1999 <sup>8/</sup>   | Increase national access to sanitation by 4 percentage points during 2000-2004   | 84.1 (1998) | ...  | 85.0 | ...  | ...  | 88.0 | ...  | Increase to 95% national access to sanitation <sup>6/</sup> |
|                                      |  | Annual average increase of 1.7 percentage point in share of urban population with access to sewerage <sup>8/</sup>               | 33.6        | 35.8 | 34.9 | 35.8 | 37.4 | 40.3 | 44.1 |   |
| <b>Reduce illiteracy rate</b>        | Reduce illiteracy rate to 16% by 2004 from 19% from 1998 <sup>2/</sup>   | Decrease illiteracy rate by 3 percentage point by 2004 as measured by LSMS <sup>2/</sup>   |             |      |      |      |      |      |      | Decrease illiteracy rates to 10% <sup>6/</sup>              |
|                                      |  | Increase mean years of schooling among the 10-19 age group to 5.0 years in 2004 <sup>2/</sup> from 4.6 years in 1998             | 19 (1998)   | ...  | 18.5 | ...  | ...  | 16.0 | ...  |   |
|                                      |  |  | 4.6 (1998)  | ...  | ...  | 4.8  | ...  | 5.0  | ...  |   |

Source: Annex III

<sup>1/</sup> Poverty-related expenditures are defined in Annex VI.

<sup>2/</sup> Measured by Living Standard Measurement Survey (LSMS) 2001 and 2004.

<sup>3/</sup> Achieving these levels is partly dependent on the increase of water and sanitation services.

<sup>4/</sup> Measured by Demographic and Health Survey (DHS) 2001 and 2005.

<sup>5/</sup> Increasing the share of women of childbearing age accessing reproductive healthcare services to 25% 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 crosses two national goals: (1) reduce maternal mortality rate; and (2) increase access to reproductive healthcare services.

<sup>6/</sup> National target.

<sup>7/</sup> Increasing access to safe water and sanitation in rural dispersed areas is an intermediate indicator which crosses four national goals: (1) reduce infant mortality rate; (2) reduce mortality of children under five; (3) increase access to water; and (4) increase access to sanitation.

<sup>8/</sup> Increasing access to sewerage in urban population is an intermediate indicator, which crosses three national goals: (1) reduce infant mortality rate; (2) reduce mortality rate of children under five; and (3) increase access to sanitation.

85. Some detailed analyses yielded preliminary estimates of the marginal impact that various determinants have on some poverty outcomes and targets selected as part of the SGPRS. Nevertheless, rigorous examination indicated the “fit” between these determinants (possible

indicators) and goals was less clear than first expected, so the indicators were only partially chosen by taking into account determinant analysis; pragmatism proved as useful a criterion. Nevertheless, work in SNIP and a draft report by the World Bank have helped to more closely link government programs and projects to the chosen indicators. Moreover, the authorities, with IDB technical assistance, are developing a system (SINASIP) to more accurately monitor and report the chosen intermediate indicators.

### **B. Targets and intermediate indicators**

86. The targets are five-year targets, and for monitoring purposes a set of related indicators were selected. These indicators will be part of a new management information system; some will be reviewed annually, but others must await LSMS planned for 2001 and 2004. The different line ministries will produce the data for the indicators, the key to monitoring and evaluation of progress in reducing poverty. A description of each target and the indicators linked to it follows.

**87. Target 1: Reduce extreme poverty by 17.5 percent by the year 2005.** Given the high incidence of poverty, top priority has been assigned to the reduction of extreme poverty that affected 17.3 percent of the population in 1998. Specifically, the government wants to reduce the share of people in extreme poverty to 14.3 percent by the year 2005, and to 9.5% by 2015. While sensitivity analysis indicates that a 2 percent yearly increase in per capita consumption growth alone could reduce extreme poverty by more than that, projected consumption growth is less, so social programs will be crucial for this result.

88. Intermediate indicators for this target include: (1) the rate of growth of GDP; which is targeted to increase at an average annual rate of 4.2 percent during 2001-2005; (2) the share of central government expenditures on poverty-related outlays, which is targeted to rise from 50 percent to 62 percent of total government expenditure excluding debt service during 2000-2005; and (3) some social indicators with annual periodicity such as access to primary education, access to potable water, and immunization coverage.

**89. Target 2: Increase the net primary school enrolment rate from 75 percent to 83.4 percent by the year 2005.** At present the net primary school<sup>7</sup> enrolment rate, 75 percent, has been stagnant for the last decade, and is well below the regional average of 90 percent. Current projections indicate that this trend may not change in the long term unless major shifts in policies and resources are undertaken.

90. In view of this, the government intends to raise the net primary enrolment rate to 83.4 percent by the year 2005, and achieve parity (90 percent net enrolment rate) with the rest of the region by the year 2015. Intermediate indicators for this goal during the 2000-2005 period include raising by 1 percentage point per year the number of children finishing third grade in rural areas, raising by two percentage points per year the number of children who finish primary school in six years, making an academic achievement measuring system operational by the year 2001, and continuing to ensure gender equality in access to schools. Other indicators to monitor include increased pre-school coverage, increasing to 50 percent the number of rural multi-grade schools offering 6<sup>th</sup> grade, and the number of classrooms constructed and replaced annually.

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<sup>7</sup> Primary school includes grades 1-6<sup>th</sup>

**91. Target 3: Reduce the maternal mortality rate from 148 to 129 per 100,000 live births by the year 2005.** The government intends to reduce maternal mortality by three quarters by 2015. Achievement of the 2005 target will require an increase in the share of women giving births in hospitals and clinics (an annual average increase of 3,700 births a year), and ensuring that a rising share of pregnant women receive prenatal care (an annual average increase of 3,800 controls a year), as well as an increased number of early prenatal care services (an annual average increase of 3,400 a year).

**92. Target 4: Reduce the infant mortality rate from 40 to 32 per 1,000 live births by 2005 and Target 5: Reduce mortality of children under five years of age from 50 to 37 per 1,000 live births by the year 2005.** Nicaragua's mortality rates for infants and children under five years old are the highest in Central America. The government intends to lower these two rates to 19 and 24 respectively by the year 2015. Consistent with these aims, the immunization coverage for infants and children under five will be increased. The incidence of diarrhoea and acute respiratory infections will be monitored. Further intermediate indicators affecting the population's health include the share of rural households with access to safe water and sanitation and the share of urban households with access to sewerage; these will be monitored by the water sector as we measure progress towards target 10.

**93. Target 6: Reduce to 24.8 percent by 2005 the unsatisfied demand for family planning among women with partners in the 15-19 age groups from 27.1 percent in 1998 and Target 7: Reduce to 18 percent by 2005 the unsatisfied demand for family planning among women with partners in the 20-24 age group from 19.7 percent in 1998.** The fertility rates of adolescents in Nicaragua are one of the highest in Latin America. Access to family planning has increased from 49 percent in 1993 to 60 percent in 1998<sup>8</sup>. DHS planned for 2001 and 2005 should identify progress in the reduction of unsatisfied demand for family planning among the 15-19 and 20-24 groups. To accomplish the goal of making available reproductive healthcare services to all individuals by 2015, the government intends to increase the share of women of child bearing age accessing reproductive services to 23% by 2005 from 21% in 1999 (an annual average increase of 14,000 women of child bearing age).

**94. Target 8: Implementation of a strategy for sustainable environmental development by the year 2005.** Due to natural disasters, an inadequate regulatory framework, and an irrational exploitation of natural resources, environmental deterioration and deforestation have set in on a large scale in Nicaragua. At present, deforestation runs at a rate of 100,000 hectares per year.

95. The government's Environmental Policy and Action Plan (PANic) is part of a broader strategy aimed at reducing the overall ecological vulnerability in Nicaragua for 2000-2005. This plan is the cornerstone of a national strategy for sustainable development, which will focus on the implementation of policies and public investments to ensure a more rational use of natural resources. The President approved the strategy in February 2001, and its implementation has begun.

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<sup>8</sup> Note that these goals and indicators were developed in a consensual manner, and that no indicator refers to usage of family planning instruments.

96. **Target 9: Reduce chronic malnutrition in children under 5 from 19.9 in 1998 to 17.9 percent by 2001, to 16 percent by 2004 and to 7 percent by 2015.** In Nicaragua, almost 20 percent of children under five are affected by chronic malnutrition. LSMS, planned for 2001 and 2004, should identify progress, although the authorities are considering the use of spot nutrition surveys as well.

97. **Target 10: Between 1999 and 2005, increase the national coverage of access to water to 75.4 percent from 66.5 percent and Target 11: Increase access to safe water and sanitation in rural, dispersed areas to 53.5 percent from 39 percent by 2005. Target 12: Increase the national access to sanitation to 88 percent from 84 percent in 1998. Target 13: Increase access to sewerage in urban areas to 44.1 percent from 33.6 percent.** Compared to its neighbors, Nicaragua has the second lowest access to potable, or safe, water and the lowest access to sanitation services. The provision of potable water and basic sanitation would reduce water-borne diseases, and is an essential complement to the health and nutrition interventions under the poverty reduction strategy. The government plans to continue improving and expanding water systems and sanitation services in urban areas and, with the help of FISE, to accelerate the expansion of water services and sewerage in dispersed rural communities. The government intends to increase access to water at a rate of 1.4 percentage points per year during the period, to increase national access to sanitation by 4 percentage points by 2004, and to increase access to safe water and sanitation in dispersed rural areas at a rate of 2.4 percentage points per year and to sewerage in urban populations at a rate of 1.7 percentage points per year.

98. **Target 14: Reduce the illiteracy rate to 16 percent by 2004 from 19 percent in 1998, and to 10 percent in 2015.** High illiteracy rates, especially in rural areas, reduce the impact of both productive and health programs; literacy is one goal that positively affects almost all others. The indicators to be monitored will be the reduction of the illiteracy rate by 3 percentage point by 2004 as measured by the LSMS. The mean years of schooling among the 10-19 age group will be increased from 4.6 years in 1998 to 5 years in 2004.

## V. STRENGTHENED GROWTH AND POVERTY REDUCTION POLICIES

### A. Overview

99. During 1999-2001 Nicaragua strongly reinforced its poverty reduction effort. This Strengthened Growth and Poverty Reduction Strategy (SGPRS) reflects five improvements on previous efforts. First, it is far better focused on poverty and its reduction. Second, it is based on much more detailed data and analyses of poverty. Third, it incorporates very specific and quantifiable targets. Fourth, it is based on a broad and intense dialogue with all sectors of Nicaraguan society and foreign donors. Finally, it includes an effort to systematically monitor and evaluate the progress of the strategy with ongoing wide participation.

100. The SGPRS rests on four pillars: broad-based economic growth with an emphasis on productive employment generation and rural development; greater and better investment in the human capital of the poor; better protection for vulnerable populations; and the strengthening of institutions and good governance. These four pillars are intertwined with three cross-cutting

themes also essential for the SGPRS: a reduction in environmental degradation and ecological vulnerability, an increase in equity, and further decentralization.

### **B. The principles underlying the strengthened growth and poverty reduction strategy**

101. The SGPRS is underpinned by four guiding principles: (a) continued *modernization of the State* in order to increase the impact of social expenditures by allocating a bigger share of the budget to social programs and projects targeted at the poor, and improving their cost-effectiveness; (b) greater promotion of *equity* by increasing access of the poor to the benefits of growth, with special attention to rural communities, women, indigenous groups, and the inhabitants of the Atlantic Coast; (c) more *transparency* through improved public administration systems, laws and procedures, *and accountability* through participatory processes that include targeted communities, beneficiaries and local leaders; and (d) *broader participation* by all members of society in the definition, implementation, and follow-up of the SGPRS. The main actors in this venture are the poor themselves, organizations and representatives of civil society -- particularly CONPES, NGOs, churches, universities, producers' organizations, and unions -- the State, including the Legislative Branch, the Supreme Court, local and autonomous governments -- and the donors who, in addition to their financial and technical help provide valuable assistance in coordinating interventions to mitigate poverty.

### **C. First pillar: broad-based economic growth and structural reform**

102. Labor-intensive, broad-based economic growth, is perhaps the most important pillar of the SGPRS. This pillar rests on the implementation of a macroeconomic program of continued stabilization and structural reform, including privatization of government-owned utilities, actions aimed at modernizing the rural economy, fostering small and medium businesses, the development of the Atlantic Coast, and the promotion of strategic productive clusters. This pillar will clearly depend on an aggressive private sector response. Ultimately, it is the private, not the public, sector which will directly generate productive jobs, increased incomes and wealth in Nicaragua.

103. As the World Bank has noted, the economic collapse in the 1980's was the single most important cause of Nicaragua's present level of poverty; economic growth -- broadly shared, stable and sustainable growth -- will be vital to reduce it<sup>9</sup>. Indeed, using the results of the LSMS, growth simulations indicate that if per capita consumption could grow in the future at a real rate of 3 percent, the proportion of Nicaraguans in extreme poverty by 2015 would be only 6 percent; if it grew by 5 percent, it would be only 3 percent. In the event, even with the need to increase national savings and to adjust to more modest growth expectations, much of the expected halving in the numbers of the extreme poor will come from economic expansion. While the sale of public assets and the fiscal resources freed by debt relief will be useful in the next few years in financing a strong poverty reduction effort, the major increases in education and health budgets, the expanded commitments on the environment, the expansion of productive assistance to the rural poor, can only be sustained if financed from the growth dividend.

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<sup>9</sup> "Nicaragua: Poverty Assessment", 20488-NI, June 2000.

104. Like that of most countries, Nicaragua's future economic expansion will likely be led by some vibrant urban services -- tourism, banking, commerce, and communications. A stable political and economic environment has already led to the construction of a half-dozen new, major hotels in Managua. The banking and commercial systems still have a lot of potential for growth and development, as does the nation's tourist capacity. All three should soon accelerate, particularly as the present recessionary tendencies end and banks recover from their acute distress of last year. Much of the SGPRS will assist this expansion; macroeconomic stability, better infrastructure, improved education and health services, more transparent governance, and strengthened legislation and institutions will all encourage a private, market-driven response. Nevertheless, the country's poverty level will require a special effort to ensure that the rural economy, where Nicaragua's poorest are concentrated, expands as well.

105. The SGPRS thus places strong emphasis on the development of rural areas, not only because of their higher incidence of poverty but because of their continued potential for growth with their abundant, if underemployed, factor endowments. Moreover, agriculture and small and medium businesses have great potential for reducing unemployment and underemployment because they are labor-intensive. The strategy will seek to improve the incentives for rural development through the elimination of price and cost distortions faced by farmers, improvement in the operation of rural factor markets, increased investments in rural infrastructure, the implementation of demand-driven programs aimed at small and medium-sized producers with growth potential, and the promotion of improved production technologies. The last will be crucial. Once at the vanguard of agricultural productivity in Central America, Nicaragua has lost its competitive edge in many export and food crops. Moreover, its land frontier is fast closing. Future agricultural (and export) growth must come from productivity gains; a key focus of the SGPRS effort.

106. The government has already reduced protection on industrial goods, eliminated tariffs on imports of inputs and capital goods used in agriculture, and instituted a 1.5 percent tax refund on the value of exports. Notwithstanding these actions, an anti-export bias still persists; a bias that weighs down much of Nicaragua's agriculture and many services. This will be further reduced as the free trade agreements with Mexico, Canada, Panama, and the Dominican Republic are implemented, and a lower Central America common tariff takes effect once negotiations are completed.

107. More private investment requires more secure property rights. Accordingly, the government is modernizing and accelerating the operations of land-registry and titling systems and developing non-acquisitive mechanisms for accessing additional land for small farmers. Private producers need greater access to credit. To encourage this, the government is revising bank regulations to widen credit access, formalize non-conventional financial organizations, and improve the operations of its own rural credit funds.

108. Rural infrastructure is still inadequate. Better and more rural roads will lower the costs of inputs and raise sale prices to farmers while easing the delivery of health and education services. Rural electricity and telecommunications coverage will be expanded. Increased rural access to safe water, sanitation, the processing and safe disposal of solid wastes and better housing is crucial for enhancing both the productivity and well-being of the rural population.

109. The LSMS results show expanded nonagricultural employment in rural areas will also be vital to reduce poverty. The generation of employment and income by small businesses, particularly in towns close to urban areas, is thus another lynchpin in the strategy to broaden the benefits of economic growth. Accordingly, in recent years the Ministry of Development, Industry and Trade (MIFIC) and the National Institute for Small and Medium Enterprises (INPYME) have jointly developed a strategy to foster small businesses' competitiveness, employment, and exports. The government will also implement the Central American presidents' agreed plan to improve competitiveness. Supported by the business community, it will promote growth in four strategic clusters with high growth potential: tourism, coffee, textiles and clothing, and forestry products. Three of these will have a major impact on rural economic activity.

110. The government recognizes that this pillar requires strengthening in terms of research, policy and implementation capacity. A research agenda has been developed by the government coordinated by SETEC with the support of the World Bank to generate more detailed policy positions on a number of relevant issues. This agenda includes a reassessment of the macroeconomic environment, an analysis of the net effective rate of protection in key productive sectors, a detailed strategy for the development of small and medium businesses, an operational strategy to support the ongoing government program on competitiveness, and an evaluation of agricultural policies and a strengthened strategy for the development of the rural economy. The last will generate proposals to favor agricultural as well as nonagricultural activities.

111. Greatest attention will be given to the Atlantic Coast, where poverty is the most intense. The government's efforts will be targeted on improving the productivity, nutrition and living conditions of the poor and extremely poor; the demarcation of indigenous lands; improving the region's transportation and communication network; and addressing the drug problems of the area.

#### **D. Second pillar: greater and better investment in human capital**

112. The second pillar consists of increasing the investment in the human capital of the poor to enhance their productivity, income and welfare. These investments will focus on basic and vocational education, preventive health care at the primary level, child nutrition, and strengthening population policy. These actions will be complemented by programs to improve living conditions in poor communities with the provision of water, sanitation and improved housing.

113. During the first half of the nineties, the government's efforts emphasized the provision of primary rural education and health services. At the same time, structural reforms expanded coverage and improved the quality of these services within the framework of a market economy. These reforms, including decentralization processes, were continued during the second half of the decade. In both sectors, the government has invested significant resources to rehabilitate health and school facilities, especially in needy rural areas. The present government made a conscious decision to concentrate in the near term on two key actions; the structural reform of social services and expanding their coverage. Equity and poverty targeting, were the key factors in expanding quantitative coverage of water, health, and education services, as well as the legal and institutional reforms required to modernize these systems. While qualitative improvements

in these services are already underway, the SGPRS will give much greater priority to them once the expanded coverage is initiated.

114. **Sector Reforms.** Structural reforms in the social services will be vital. As in most countries, Nicaragua's governmental institutions in the social sectors evolved as direct service providers. The Ministry of Health was responsible for the operations of virtually all public health institutions and programs. The Ministry of Education not only established the curriculum and guidelines for schools, it was also responsible for operating them as well. Most programs were nationally focussed, as were salary scales, work schedules, and staffing standards. By the early 1990's, it became clear that the centralized social ministries had neither the sophisticated management information systems and culture required to directly operate the already-stressed health and education networks, nor the agility to adapt them to the tremendous variations encountered in each different region.

115. The economic collapse of the 1980's added another dimension to the challenge of improving social services provision -- Nicaragua's poverty severely restricts its budgetary resources. Nicaragua spends almost 12 percent of its GDP on public health and education, compared to a Latin American average of 7 percent. In Central America, only Costa Rica spends a higher percentage of its GDP on these sectors. Nevertheless, Nicaragua can only afford US\$5 per preschool student, and just over US\$50 for each primary student. These, and teachers salaries, are extremely low even for Central America. This severe, and very fundamental, budgetary constraint has forced the government to limit its social budget and to look instead for operational efficiency gains.

116. In the early 1990's, the government began to shift to a different model, which would direct the operations of the central ministries more towards policy and normative decisions, while leaving the direct provision of services to decentralized entities, be they schools, hospitals, clinics, municipalities, or regional programs. This policy seems the only one consistent with the desperate fiscal situation, the need for local support and flexibility, and the extremely weak central ministries. This decentralized approach, however, will require a quantum improvement in the social sector database and management information systems, as well as capacity to link both together promptly if it is to succeed. All social ministries will thus have improvements in their information systems as part of the SGPRS.

117. As early as 1993, some education decision-making was transferred to local councils. Soon thereafter, a series of government schools were granted autonomy. By the end of this year, the authorities expect that virtually all public secondary schools will be autonomous. Legislation has been presented to the National Assembly to strengthen the schools' autonomy process. Legal changes however, are only the beginning of a difficult process. Some studies have shown that school decentralization has produced only limited results, partly because of the lack of knowledge of parents and school administrators of the new standards and procedures expected of the autonomous schools. In response, the government is providing additional training for local administrators, teachers and parents. Moreover, while the decentralization process will provide local authorities with the capability to develop new salary structures, the national authorities are providing them with funds to link performance to incremental pay raises. By 2002, 18,000 teachers will work under this new system.



118. As the educational system becomes more decentralized, it will need a different managerial structure. A year ago, the government, along with representatives of parents, NGOs, teachers, intellectuals, public and private universities, INATEC, and the CNE, developed the National Education Plan. This is a new strategic plan that, among other things, aims to better articulate the various educational subsystems with the productive pattern and economic development of the country. It is now developing the operational document that will prioritize the costs and actions that stem from the agreed strategy.

119. Health reform is also underway, if at a more moderate pace. A program to grant more autonomy to hospitals and clinics has begun, and it will continue over the next few years. Legislation has been presented to the Assembly to strengthen the Health Ministry's role as facilitator, regulator, and promoter of a variety of health services. This will permit the ministry to focus its direct programs on the poor -- via public and private health providers -- while increasingly leaving the provision of health services for more fortunate Nicaraguans to the private sector. As in many countries, this reform has encountered resistance, and it will take time to establish its framework and implementation procedures.

120. These institutional reforms will be crucial to the success of the SGPRS human capital pillar. Not only do they modernize state institutions, they focus the nation's scarce resources on the poor. The managerial agility required to combine a series of key interventions -- be they health education in schools, nutrition education in rural health posts, or reproductive healthcare services in municipalities -- can best be found in decentralized entities. Equally important, local entities can best apply incremental resources (NGOs, volunteers, parental support) to social programs. And they have proven to be far more accountable and responsive to the needs of the beneficiaries, particularly the poor. When local entities fail, solutions are often promptly made; revising or changing poorly performing national systems has proven far more difficult.

121. **Education.** The education strategy includes three additional goals: expand coverage of basic education, improve the relevance of all education, and modernize the sector while improving and deepening the school decentralization process.

122. The expanded coverage requires new preschool approaches, double shifts in some rural schools, construction and replacement of a significant number of classrooms and vocational centers, as well as utilizing existing community infrastructure for schools. Direct support for rural (mostly poor) students will also be increased. The number and availability of free texts has been increased; this year 330,000 rural students received a free package of supplementary scholastic material. Scholarships for rural students in the fourth through sixth grades (where dropout rates are highest) as well as for some vocational students will reduce the high opportunity costs faced by rural parents when considering continuing their children's education.

123. Improvement in educational relevancy requires revision of the elementary curricula to ensure the inclusion of topics such as health, nutrition, population and environmental education. A comprehensive reform of secondary education is also underway. The overall objective is to modernize the curricula to better link them with technical and post-secondary education. The curricula of elementary teacher training institutions will also be reformed. Relevant in-service training programs for teachers are already underway; they will be improved and expanded. For the Atlantic Coast the curriculum and teaching strategies are being revised to make it more

relevant to local needs. It will include elements of the local, regional and national cultures, the use of native language in instruction, as well as emphasis in achieving proficiency in the Spanish language, as prescribed by law.

124. In the area of technical education, a series of studies will be conducted to analyze its responsiveness to the needs of the students and the demands of the private sector. The end product will be a new model of technical education. With support from the IDB, a project to reform tertiary education has already begun. Accreditation and relevancy are some of the issues that will be stressed.

125. **Health.** In spite of improved indicators, the health system is still plagued by misallocation of its limited resources, inadequate management, and poor services. Besides the vital sectoral reforms as part of the modernization process, the health strategy focuses on increased coverage and quality of services for women, children, and adolescents, as well as promotion of behavioral changes at the household level.

126. The expanded coverage will focus particularly on primary health care, where the poorest sectors of the population have the greatest need for health services. The main targets for the coverage and quality enhancement are thus women of reproductive age, adolescents and children. Women in Nicaragua have traditionally been the key to family health and education; thus their health and education is a vital variable in improving family welfare<sup>10</sup>. As the World Bank has noted, the *system* or *strategy* is not so much at fault as poor implementation. Better management practices and new ways to provide services in remote areas will be the keys to success in this area. Complementing this will be alternative systems for purchasing and distributing medication, the creation of “maternal houses” to improve access of women with obstetric risk to clinics and hospitals, and a targeted process for demand driven support for health services.

127. New and rehabilitated (and better-equipped) health centers will be provided for rural areas with the highest levels of maternal and infant mortality rates and illnesses. For the immediate future, nine new health posts and two hospitals will be rehabilitated on the Atlantic Coast, as well as one in Río San Juan, the poorest areas in the country (see Extreme Poverty Map, Annex IV). To ensure the expanded centers improve services, a package of basic services to be provided by all primary centers is being developed and will be tested in eight SILAIS next year. Once tested, it will be revised and required of all SILAIS within three years.

128. The effectiveness of this effort will also depend on a better integration of reproductive healthcare services into the primary health clinics, health posts, and programs. Primary health care will be combined with family planning methods, basic and emergency obstetric care, improved nutritional services for expectant mothers, more and better prenatal care, more institutional births, and better treatment for common childhood illnesses. Other important initiatives include a better system for referring patients to the secondary level and expanded provision of vaccines and other similar medication.

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<sup>10</sup> Quantitative work also shows a major determining factor of child education and health is the literacy and education level of the mother.

129. One key to better health for the poor is to change behavioral partners. Prior assistance efforts were often wasted because of perverse or poor behavioral responses. Food distribution programs did not lead to better nutrition; better access to potable water did not improve child health when farm animals shared this access. Programs of education on hygiene and nutrition issues will thus be developed at the community and household level. As noted, the Education Ministry will assist in placing these into appropriate educational curricula. Parallel activities will provide more and better health information to policy makers in communities, and support municipal programs that emphasize better waste disposal practices and the importance of prenatal care.

130. **Nutrition.** Nicaragua's high levels of child malnutrition continue despite major investments in nutrition programs. Unfortunately, previous efforts focused on food distribution, not on the causes of malnutrition. Some of the determinants of malnutrition include low income, high incidence of diarrhoea, limited education of the mother, lack of safe water, overcrowded housing, and the spacing of births. The new strategy, focused on preventive measures and the chronic malnutrition problems of children under two years of age, will be immediately directed at the household level and communities. Nevertheless, besides nutrition programs *per se* discussed below, there are many other activities that will have a major impact on family (and child) nutrition. Particularly important will be projects to help small farmers, food production projects, better credit access, and training, extension, and technology efforts, discussed under pillar I. Thus, over the medium term, the broader nutrition focus will be on improving inter-institutional coordination to address the problem in a more sustained manner.

131. The nutrition strategy will particularly stress family and community actions and programs to encourage healthy diets, hygiene, preventive health, and child and maternal care. Specific activities will concentrate on monitoring the physical development of children under age 2 and preventing setbacks. Good childcare practices will be promoted, infants will be weighed periodically, and iron supplements distributed to expectant and nursing mothers. Fortifying sugar with vitamin A, flour with iron, and salt with iodine all have distinct positive effects on mortality and specific nutrition deficiencies. The government will thus ensure that fortified foods have these required supplements, particularly in areas where malnutrition predominates.

132. In the medium term, the government will improve inter-institutional coordination on nutrition issues. The focus will be to use an array of methods to promote better preventive health care practices -- elementary school curricula changes, functional literacy programs, and promotion of better hygienic practices -- while simultaneously improving the coverage and quality of health services and the provision of safe water.

133. **Population.** Nicaragua's high rate of population growth (2.8 percent) has taxed the country's capacity to provide social services and limits many families' capacities to escape poverty. The National Population Policy emphasized two fundamental demographic challenges: to ensure the transition to lower birth rates includes the poor, especially adolescents, and to link demographic changes to better strategies of land use.

134. Although the demographic transition has already started, the decrease of fertility rates has been mostly among the non-poor. The rural, extremely poor areas have the highest fertility rates. The average number of children per woman, the percentage of mothers under 15, and the average

number of children under 15 among the poor are twice those of the non-poor. The difference among planned and unplanned children for the poorest quintile is 1.9 children, while in the richest quintile it is 0.2 children. The problem is particularly acute among the adolescent poor. Cultural patterns of early fertility, high school drop-out rates, abuse of women, and limited options in the job market result in poor adolescents having particularly high rates of early pregnancy.

135. As noted earlier, reproductive healthcare services will be integrated into primary healthcare services. The integrated approach aims to improve family planning, reduce mortality rates, and strengthen the basic social fabric. Key to the second is better basic health services, including family planning, for women and adolescents, increased coverage of basic and emergency obstetric services, nutritional improvements, and expanded access to safe water and basic sanitation. A further objective would be to change behavioral patterns within families and amongst vulnerable groups. The goal would be to reduce the violence and family disintegration that go typically hand-in-hand with economic crises. Formal and non-formal education programs will be undertaken, the latter with the participation of NGOs, community leaders and municipalities, to encourage self-esteem, responsible paternity and maternity, and family unity. Activities to prevent or penalize family violence and assist victims will also be developed.

#### **E. Third pillar: better protection for vulnerable groups**

136. Improved social services, however, may not be sufficient to assist Nicaragua's extremely poor; as noted earlier, they often lack information on or the means to access these services. And a spirit of resignation further deters their access. Moreover, Nicaragua's many natural disasters perpetuate poverty. Crises of different kinds reduce the poor's welfare, particularly their food intake, increase school drop-outs, and often require the sale of the few assets the poor have. Special protection must also be afforded to youngsters (especially children under five years of age) and other particularly vulnerable groups, such as abused women and children, the disabled and the aged.

137. The long-run goal of the government is to ensure that society's most vulnerable groups have the same -- if not favored -- access to social and developmental programs as the rest of the nation. While the many reforms now begun should help in attaining this future equity, it will also require further institutional and fiscal efforts to ensure public sector focus remains strong on its most vulnerable citizens, especially as their minority status is accentuated. But these efforts will take time. In the meantime the authorities, with IDB technical and financial support, have developed some new programs designed to immediately provide assistance to the most vulnerable. These more immediate efforts will assist young (up to age 6) children and extremely poor households by enhancing their effective demand for, and access to, basic social services, while encouraging behavioral changes that will increase the impact of such services. These programs, targeted at the extremely poor, will provide incentives to parents for school attendance and child care, medical checkups and vaccinations for their children. Provision of services through private organizations and the creation of local committees to follow-up the implementation of these programs should strengthen local capabilities to build and sustain social protection efforts.

138. If these new programs, which only began recently, attain expectations they will, over the medium term, permit a consolidation and rationalization of the many smaller programs, often donor-supported, which are currently targeted at the most vulnerable. Therefore, the many different types of assistance delivered by the government and others to vulnerable groups are being evaluated with pilot assessments in selected neighborhoods. Using this information, the medium-term goal will be to move towards a consolidation of the local grant programs; expanding the effective demand (and use) by the poor for improved public services, while leaving their supply to line agencies and local, decentralized service providers.

139. As part of its longer-term strategy, the government is strengthening the public institutions responsible for social safety nets, such as the Ministry of the Family, and rationalizing the institutional roles of the multiple entities involved in providing services to vulnerable groups. The capacity to identify the truly poor and vulnerable, so as to better target these groups, also needs strengthening. Work is also being done to differentiate between transfers the government should make unconditionally, such as for poor households facing generalized crises, and more targeted interventions to relieve those vulnerable groups undergoing temporary reversals. Clear income and exit mechanisms for social protection programs are being designed, so that support and capacity-building go hand-in-hand when a crisis affects the poor, avoiding regression to paternalism and dependency. Future efforts will then be directed towards programs to better predict some disasters (earthquakes, hurricanes, droughts) and to ameliorate their impact more effectively.

140. Finally, the institutional capabilities of local governments and communities will be improved to reduce vulnerability and strengthen social bonds at local level. Traditionally, Nicaraguan safety nets have been rooted in informal family, religious, and community institutions. Public support for these institutions, best provided at the local level, may well be vital to expand their capacity during disasters.

#### **F. Fourth pillar: good governance and institutional development**

141. Good governance is essential for stimulating economic growth and furthering poverty eradication. Transparent, clear rules combined with an independent, able judiciary provide an appropriate climate to attract private investment. Moreover, when combined with participatory processes, they lead to better services for the poor since they respond more effectively to their needs. The end of the armed conflict and the attainment of peace was the single most important element in Nicaragua's establishment of democracy. It now has a democratic system of participatory, accountable government, which respects the constitution and human rights. In the past decade, the participation of civil society in public affairs has been increasing, most grass roots organizations, NGOs, and labor unions have been strengthened, many property disputes resolved, decentralization of the state administration has begun, and freedom of expression prevails. Nevertheless, the nation's governmental structures and procedures, judicial independence and the rule of law all need strengthening.

142. Further improving the nation's governance and institutions will require consolidation of the rule of law and major institutional strengthening, greater transparency and efficiency in public expenditures, institutionalization of a culture of integrity, and promotion of democracy

through an expanding decentralization, participation of civil society and respect for human rights.

143. Consolidating Nicaragua's democracy will require continued efforts to develop independent, efficient and effective democratic institutions. The National Assembly, the judiciary, Comptroller General's Office, and many ministries and agencies must have better-trained staff, more transparent procedures, and modern material support. A better administration of law and justice will require more modern commercial and civil laws, as well as a professional, responsive civil service.

144. Judicial and quasi-judicial institutions, while improving, will need further strengthening. Resolution of property claims and land titling will be accelerated, as will the operations of cadastres and registries. Public defenders will be improving access of the poor to the legal system. Judges need more training, more equipment, streamlined procedures, and time to develop a culture of judicial integrity and prestige.

145. Good governance involves transparent and timely information on public expenditures, so the government is improving the transparency of all its financial operations. Integrated financial management systems will be providing reliable and timely information on the management of central government finances as well as the Treasury cash accounts.

146. The government efforts to fight corruption and strengthen ethical values is embodied in a plan developed by the National Integrity Committee in 1999 as a joint effort of civil society and the state. This provides the basis for a comprehensive legal framework on integrity through the revision of existing and drafting of new legislation, as well as the strengthening of the National Assembly, the judiciary and the Comptroller General's Office so as to ensure their effectiveness and independence. Some laws to that end have already been approved, others are under consideration by the National Assembly. Particularly important will be laws and actions to professionalize and demarcate the accountability and functions of the civil service.

147. As noted earlier, the participation of civil society in government affairs is being promoted through CONPES. The participation of civil society in public affairs will be further strengthened through legislation to codify the participation of citizens in governmental processes. Finally, offices for the defense of human rights and the public defenders for the protection of children, women and indigenous populations will be further reinforced.

### **G. Cross-cutting themes**

148. **Environmental Vulnerability.** Nicaragua has made significant progress in understanding its environmental problems. In the future it must address them more effectively. The frequent recurrence of natural disasters and the mismanagement of our natural resources have increased ecological risk factors, and resulted in greater environmental deterioration and vulnerability. Hurricane Mitch exposed national deficiencies in confronting major disasters and the extreme burden they place on our population, particularly the poor.

149. Notwithstanding the reduction in areas under natural forests and the ecological deterioration stemming from human encroachment and natural phenomena, Nicaragua still has

substantial natural resource potential for improving living standards and attacking poverty. Timely actions to reduce ecological vulnerability, however, will be adopted and undertaken. These actions entail the establishment of better policies, institutional changes and specific projects and programs to protect natural resources and the environment.

150. The plans to reduce ecological vulnerability are laid out in Nicaragua's Environmental Policy and Action Plan 2000-2005 (PANic), coordinated by the Ministry of the Environment and Natural Resources (MARENA) after broad consultations within the government and with civil society. The PANic -- approved on February 23, 2001 by Presidential Decree No. 25-2001 -- not only clarifies the environmental goals of the nation, it outlines 16 areas where the government will take environmental action. These include promoting a sustainable development model, harmonizing legislation that affects the environment, developing a national environmental information system, promoting environmental education, developing ways to charge for pollution costs and ensuring public projects use environmental parameters to measure their benefits and costs. Specific action priorities are listed in six areas: water, forestry, soils, refuse (solid and liquid waste), environmental education, and institutional coordination. An environmental map with critical environmental areas has been developed. Although most departments include some critical environmental areas, highest priority will be given to Jinotega, New Segovia, the North Atlantic Region (RAAN), Chinandega, Estelí, and Matagalpa.

151. Environmental action however, was not deferred while the plan was being prepared. Laws to improve the treatment of wastes, modernize mining, forest, and fishing legislation, and conserve biodiversity are being considered and prepared. Within a few years, the nation will have a modern, legal framework to address many of its environmental issues. The government has prioritized the rehabilitation of the most vulnerable water basins, and has developed a program for better watershed management. Corrective action is being taken to rehabilitate river basins and to promote reforestation, soil conservation, and crop diversification by small farmers. A better legal and institutional framework for local environmental and natural resources management is also being prepared; thereafter municipal environmental activities will be encouraged to foster more responsible practices.

152. In spite of these efforts, future, major national disasters are likely. The government is strengthening its capabilities in risk reduction and management and will prepare a geographic information system to map natural threats, develop early alert systems, produce geological and warning maps, and improve its monitoring of volcanoes and areas vulnerable to landslides. These activities, combined with public education and better spatial planning, will likely improve land-use patterns in fragile rural areas that have hitherto been one of the causes behind a deterioration in the nation's environment.

153. **Social equity.** Virtually all of the SGPRS will encourage increased social equity. Better education, health, and nutrition for the poor, as well as improved a stronger control over their reproductive health services will all go far to reduce the large gaps in welfare. Programs targeting the especially vulnerable will provide some elements of social justice so necessary to their full incorporation into Nicaraguan society. Expanded water and sewerage coverage will ensure the poor join the many other citizens that enjoy these key services. The support of the social safety net for the extreme poor will also expand their access to education and health services. Nevertheless, the wide consultations undertaken as the SGPRS was developed revealed

that important groups of citizens might not benefit from these targeted efforts without special programs -- some indigenous groups, orphans, the handicapped, and abused women.

154. Part of the specific social equity strategy will be to review legislation affecting indigenous groups, the children and adolescents code, the adoption law, and others. These reviews are likely to lead to important draft legislation to improve the rights and equity of these groups. The second part of the strategy will be the development of action plans, given the complexity and interconnection among the many programs needed to assist the beneficiaries. In particular, national plans to improve opportunities for men and women, another to assist rural women, and a third to reduce domestic violence will be prepared over the next few years. Finally, some institutions -- particularly the National Women's Institute and centers for adolescents at risk -- will be strengthened.

155. **Decentralization.** Decentralization is an integral part of Nicaragua's modernization and reform process. Local governments and entities have proven far more responsive to the needs of the poor as the success of funds supporting locally initiated projects (e.g., FISE) prove. Municipal governments will therefore play an active role in opening spaces at local level for participation and inclusion, particularly of the poor, inducing important behavioral changes, and encouraging the sharing of responsibilities. This implies a process of continued strengthening of local governments.

156. The strategy takes into account three basic principles: flexibility, gradualism and good governance. The government plans to strengthen the municipalities through development of better financing systems, improving their planning capabilities, and better monitoring and evaluation of their performance. SNIP will be assisting many municipalities as they improve their project preparation and planning capacity. The new environmental commitments as well as those for planning and preparing municipal investments will require personnel, fiscal support systems, and improved local tax collection and fiscal procedures.

157. The decentralization efforts with expected major impacts will be the improved decentralization process in education and continued decentralization of the health sector. In transportation, the transfer to local control, regulation and management of public transportation will continue as will that of lake and river ports.

## VI. ECONOMIC PROSPECTS AND THE SGPRS IN THE MEDIUM TERM

### A. General Aspects

158. This chapter outlines the medium-term macroeconomic framework, including the fiscal effort necessary to sustain the SGPRS, the level of public spending for the next five years compatible with the strategy and the possible use of the external debt relief associated with the HIPC initiative. The chapter also describes structural, institutional and other important reforms linked to the goals and projects that the government intends to implement in the next five years, with the help of multilateral and bilateral donors. This medium-term vision has been shared with the International Monetary Fund and the World Bank.



159. This framework will be updated to incorporate macroeconomic and structural policies of the new government that will take office in January 2002, in the context of a program that would be supported by a new three-year PRGF arrangement. The degree to which the goals and programs of the SGPRS will be attained will depend upon the continued flow of resources from the donor community and the success of the fiscal effort. However, additional resources may be required to face unforeseen circumstances and not place at risk, or disrupt, the process of implementation of the SGPRS. Debt relief under the HIPC initiative, which is heading towards completion point, will be shortly linked to pending structural reforms, the implementation of the strategy and ongoing fiscal and monetary discipline.

## **B. Macroeconomic framework**

160. The fall in coffee prices, increase in oil prices, the financial crisis following the failure of several banks, and the adverse effects on agriculture of “El Niño” and “La Niña” led to a slowdown of real output growth, from 7.4 percent in 1999 to 4.3 percent in 2000. GDP growth is expected to decelerate to 3 percent in 2001.

161. In addition, the extraordinary international assistance that materialized following hurricane Mitch has declined considerably, and official international reserves were significantly reduced as a result of the operations by the Central Bank to deal with several intervened banks and the deterioration in the terms of trade. The buoyancy of fiscal revenue has also diminished with the slowdown in overall economic activity. Moreover, the HIPC debt relief and income from privatization were delayed due to greater-than-anticipated complexities of the process. This has led to a review of economic and social targets, and consideration of a tighter fiscal program than initially envisaged.

162. In order to mitigate the negative effects that the aforementioned events will have on the SGPRS, the government will: a) reallocate outlays toward programs associated with poverty reduction; b) increase public savings; c) improve the selection of investment projects and programs, favoring those with a higher level of social impact; and d) increase the degree of participation of civil society at government and municipal level in the implementation of the SGPRS.

163. It is estimated that economic growth will begin to accelerate by the year 2002, and will reach 5 percent by the years 2004-2005. Inflation is expected to drop from a rate of 10 percent in 2000 to 4 percent in 2005. The main sources of this economic growth would be a renewed drive to increase exports and more dynamic private investment. To this end, the government aims to revitalize the agricultural sector and to foster private investments by completing its privatization program and increasing availability of long-term resources coming from the private pension funds. The primary sector will grow at an average annual rate of 6 percent, industry at 4 percent and the construction sector at 7.5 percent annually. These are the sectors that will determine the growth of the economy during the upcoming 2002-2005 period. The projections also show that the deficit in the current account of the balance of payments will be reduced from a third of GDP in 2000 to below one fifth of GDP in 2005 as a result of an increase in exports and a drop of imports to sustainable pre-Hurricane Mitch levels. Furthermore, the reduction in the external debt related with the HIPC initiative will contribute significantly to a betterment of the balance of payments.

164. The attainment of the growth objectives assumes that during the 2001-2005 period total investment will remain at about one third of GDP, which is comparable to the historical investment levels registered during the 1995-98 period. As public investment is expected to fall, performance will hinge on an increase in private investment from 19.4 per cent of GDP in 2001 to 23.7 percent in 2005. These levels of investment will require a continuous increase in the level of national savings in order to offset the expected decline in external savings and to sustain economic growth (Table 5).

165. Prudent management of public sector finances is absolutely vital to attain macroeconomic objectives and the goals set forth in the SGPRS. The non-financial public sector operations (after grants) are projected to be in about equilibrium in 2002, and are expected to turn into a surplus equilibrium to 2.3 percentage points of GDP on average during the period of 2003-2005.

166. Government revenue will remain close to one third of GDP during the 2001-2005 period, primarily reflecting the broadening of the tax base. The profile of the revenue is consistent with the cost requirements set forth in the SGPRS programs, and implies a moderate reversal of the declining trend (in relation to GDP) observed during the last three years. It is estimated that a tax reform could generate additional revenue in the range of 1.5 to 2.5 percentage points of GDP per annum. While table 5 incorporates the most favorable estimate for this reform, measures identified so far would yield about 1.5 percent of GDP and need to be approved by the National Assembly. Additional tax measures that could be considered will require actions covering two legislative periods. A recent IMF study (March 2000) estimates that tax exonerations alone lower revenues by close to 10 percent of GDP. However, most of these exonerations are granted by the constitution.

167. Public expenditure reached unsustainable levels of close to 50 percent of GDP in 1999, due to the extraordinary amounts of external aid received for the post-Hurricane Mitch reconstruction and the increased rate of execution of some investment programs. This will be reduced to 37 percent of GDP in the 2004-2005 period. The recurrent expenditure will be adjusted to 27 percent of GDP during this period, which is two percentage points of GDP below the 2001 level. Capital expenditure however, will be reduced to half of 1999 levels, and after 2002 will be close to 10 percent of GDP as it was during the pre-Mitch 1995-1998 years. This reduction in public expenditure will not have an adverse effect on the SGPRS, in part due to the elimination of public investment in the utilities that are to be privatized, and in part due to increased expenditure on the portfolio of high-impact social programs. The projections indicate that the funds the government will spend on the SGPRS will be above the historical pre-Mitch level. An average public expenditure of 38 percent of GDP during 2002-2005 is consistent with stability, economic growth and poverty reduction objectives, even though external aid is projected to decline by half as a percentage of GDP.

168. With respect to the recent bank interventions, the interest cost of the resulting increase in domestic public debt is estimated at about 3 percent of GDP annually. The strategy envisages decisive actions to recover assets (to reduce the amount of liabilities of the Central Bank), the extension of the maturity of zero-coupon cash bonds in order to spread out the cash financial cost and the generation of higher savings to offset these costs.

169. While public expenditure is being reduced, resources will be better focussed on programs related to poverty reduction and the efficiency of public expenditures will be improved. This process will be facilitated by the application of the law of Public Contracts, the full implementation of the Integrated System of Financial Management and Audits (SIGFA) by all government institutions, and the establishment and pursuit of priorities derived from the Poverty Map and the inputs from the international community and the civil society.

**Table 5. Basic economic indicators**

|  | 1995-1998        | 1999    | 2000    | 2001    | 2002    | 2003    | 2004    | 2005    |
|--|------------------|---------|---------|---------|---------|---------|---------|---------|
|  | (Growth rates)   |         |         |         |         |         |         |         |
| Real GDP   | 4.6              | 7.4     | 4.3     | 3.0     | 3.7     | 4.5     | 5.0     | 5.0     |
| Per capita GDP                                     | 1.7              | 4.6     | 1.5     | 0.4     | 1.1     | 1.9     | 2.4     | 2.4     |
| Period inflation                                   | 12.2             | 7.2     | 9.9     | 8.0     | 6.0     | 5.0     | 4.0     | 4.0     |
|  | (Percent of GDP) |         |         |         |         |         |         |         |
| BOP current account deficit                        | (35.9)           | (46.5)  | (33.3)  | (28.1)  | (26.8)  | (25.7)  | (23.4)  | (22.0)  |
| Non financial public sector deficit (after grants) | (2.5)            | (5.3)   | (6.7)   | (3.7)   | (0.8)   | 1.5     | 2.3     | 3.0     |
| Primary balance <sup>1/</sup>                      | (4.7)            | (9.2)   | (9.4)   | (5.5)   | (4.5)   | (1.7)   | 0.0     | 0.5     |
| Non financial public sector revenues               | 33.4             | 35.7    | 33.0    | 32.7    | 30.5    | 31.4    | 31.8    | 32.9    |
| Non financial public sector expenditures           | 42.1             | 49.7    | 47.0    | 43.8    | 40.9    | 39.1    | 37.3    | 37.4    |
| Savings  | 33.3             | 50.4    | 39.7    | 33.5    | 33.2    | 33.7    | 33.6    | 34.0    |
| Domestic   | (2.7)            | 3.9     | 6.4     | 5.4     | 6.5     | 7.9     | 10.2    | 12.0    |
| External   | 35.9             | 46.5    | 33.3    | 28.1    | 26.8    | 25.7    | 23.4    | 22.0    |
| Investment   | 33.3             | 50.4    | 39.7    | 33.5    | 33.2    | 33.7    | 33.6    | 34.0    |
| Public   | 15.0             | 20.7    | 19.2    | 14.1    | 13.0    | 12.1    | 10.9    | 10.2    |
| Private  | 18.3             | 29.7    | 20.6    | 19.4    | 20.2    | 21.6    | 22.7    | 23.7    |
| International reserves <sup>2/</sup>               | 3.3              | 3.0     | 3.1     | 3.7     | 3.8     | 3.9     | 3.8     | 3.7     |
| Memorandum:  |                  |         |         |         |         |         |         |         |
| GDP, US\$ millions                                 | 1,949.5          | 2,212.2 | 2,398.2 | 2,521.7 | 2,649.2 | 2,793.9 | 2,960.8 | 3,139.1 |

<sup>1/</sup>: Non financial public sector deficit before grants excluding interest

<sup>2/</sup>: Reservas internacionales brutas en meses de importaciones de bienes y servicios

Source: BCN

170. These projections are particularly sensitive to a variety of factors. The domestic impediments to sustained higher growth, reviewed in Chapter III, will be addressed and removed by implementing the SGPRS. However, there exist several exogenous factors that could affect economic and social progress in Nicaragua. The projections are particularly sensitive to climatic factors, political developments, and the external environment. Exports, investment and economic growth could be stimulated by a positive change in the terms of trade, a better macroeconomic performance and even more so through the elimination of the pending debt and the deepening of commercial liberalization. Such developments would result in a greater than expected inflow of private capital. Currently the terms of trade are unfavourable, and the projections assume only a gradual betterment. It is expected that external aid flows will slow significantly, but the Plan Puebla-Panama could heighten expectations once it is in operation. In conclusion, despite the possibility of disasters which can cause economic shocks, there is a reasonable probability that the economic climate, both domestic and foreign, will be better than assumed in the projections.

### C. Financing the SGPRS

171. The government's poverty strategy, of course, is far more than a series of project outlays; it includes a better focus of *all* expenditures on the poor. To better guide fiscal decisions, government expenditures have been divided into those directed towards the poor, and other public expenditures. Even though the government must adjust its expenditures due to macroeconomic constraints, poverty-related outlays will likely remain stable at an average of 14.2 percent of GDP in the 2002-2005 period. To this end the government intends to increase the share of recurrent and capital expenditures to finance SGPRS projects and programs from 50

percent of total government outlays in 2001 to 62 percent in 2005 (see Table 6 and Annex VI for definitions). Of the total capital expenditures, about 70 percent will be directed to poverty-related outlays over the next five years as infrastructure reconstruction outlays are replaced with poverty-related investments. By 2005, almost one seventh of Nicaraguan GDP will be spent on programs focused on poverty reduction.

172. The financing of the SGPRS will come from domestic fiscal resources, foreign grants and loans and the HIPC initiative debt relief. On average the government will finance more than 60 percent of the poverty-related outlays with its own resources (70 percent by the end of the period). This is equivalent to approximately 9 percent of GDP a year for the period 2001-2005.

**Table 6. Central Government Outlays related to the SGPRS**

|   | 1997             | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|------------------|------|------|------|------|------|------|
|   | (Percent of GDP) |      |      |      |      |      |      |
| Total outlays 1/                        | 26.6             | 34.9 | 29.8 | 26.6 | 24.7 | 23.3 | 23.8 |
| Current 1/                              | 15.6             | 18.1 | 17.3 | 15.7 | 14.7 | 14.3 | 15.3 |
| Capital                                 | 11.0             | 16.8 | 12.5 | 10.9 | 10.0 | 9.0  | 8.5  |
| SGPRS outlays                           | 13.9             | 17.3 | 14.9 | 14.4 | 13.7 | 14.0 | 14.8 |
| Current                                 | 6.8              | 7.8  | 7.3  | 7.3  | 6.8  | 7.0  | 7.7  |
| Capital                                 | 7.1              | 9.5  | 7.6  | 7.1  | 6.9  | 7.0  | 7.1  |
| SGPRS financing                         | 13.9             | 17.3 | 14.9 | 14.4 | 13.7 | 14.0 | 14.8 |
| Internal sources                        | 8.0              | 10.2 | 9.2  | 9.2  | 8.8  | 9.6  | 10.4 |
| External sources                        | 5.9              | 7.1  | 5.7  | 5.2  | 4.9  | 4.4  | 4.4  |
|   | (Structure)      |      |      |      |      |      |      |
| SGPRS outlays / Total outlays           | 52.3             | 49.6 | 50.0 | 54.2 | 55.5 | 60.0 | 62.1 |
| Current SGPRS outlays / Current outlays | 43.6             | 43.1 | 42.2 | 46.5 | 46.3 | 49.0 | 50.3 |
| Capital SGPRS outlays / Capital outlays | 64.5             | 56.5 | 60.7 | 65.2 | 69.0 | 77.6 | 83.3 |
| Internal resources / SGPRS outlays      | 57.6             | 59.0 | 62.0 | 63.7 | 63.9 | 68.8 | 70.1 |

1/ Excluding interest

Sources: SETEC

173. Since the completion point of the HIPC initiative would be reached in the year 2003, it is particularly important that Nicaragua carry through negotiations that guarantee the interim debt relief with the multilateral donors for the years 2001 and 2002, so that the interim relief is received in the amounts stipulated in the decision point document. It is necessary to obtain this debt relief in order for the SGPRS to be a success.

174. To ensure the HIPC relief is well-spent, and spent not only on the poor but on the country's best and most carefully-targeted programs, the government transformed the FSS into a "virtual fund" that will use the HIPC debt relief by applying the budgetary resources freed to ten of the SGPRS's highest priority programs. A decree passed in December 2000 expands the FSS Coordinating Council to include representatives of CONPES and the Minister of Agriculture<sup>11</sup> and expands its responsibilities to include HIPC-related programs in the SGPRS. The enlarged Council, which also includes the Ministries of Finance, Presidency, Education, Health, and donor representatives, will determine the SGPRS programs included in the annual FSS budget (actually the national budget's line items for saved foreign interest and amortization payments). The progress of these programs will be checked quarterly, and adjustments made within them to ensure most of the budget is executed yearly.

<sup>11</sup> Because FSS will continue to administer already agreed programs, its name was not changed for legal reasons.

175. To ensure timely monitoring and careful evaluation, the FSS Council will have a small unit which will receive the quarterly progress reports of the executing agencies and consolidate reports for the Council, the public, and international community. Annual audits on all FSS programs, as well as a full report on project progress will be made. Operating regulations to this effect will be issued by the Council before 2002.

176. The table below shows the expected distribution of the funds from the debt relief over 2002/2005 and the key programs that would be started or expanded with financing through the reformed FSS.

**Table 7. Allocation of HIPC funds**

|  | 2002   | 2005       |
|--|--|------------|
|  | (In percent of total HIPC debt service relief) |            |
| Total HIPC debt service relief                                 | <b>100</b>                                     | <b>100</b> |
| 1. Incentives and Decentralization Education Program of FSS    | 5  | 5          |
| 2. Basic Equipment and Supplies Health Program of FSS          | 5  | 5          |
| 3. Social Safety Net Program                                   | 14   | 15         |
| 4. Increased coverage of social services in key municipalities | 38   | 31         |
| 5. Development of Atlantic Coast                               | 5  | 10         |
| 6. Implementation of SGPRS                                     | 2  | 2          |
| 7. Social Investment Fund (FISE III)                           | 1  | 1          |
| 8. Urban poverty reduction                                     | 10   | 10         |
| 9. Rural Development Driven Fund                               | 10   | 10         |
| 10. Small and Medium Size Business Development Fund            | 10   | 10         |

177. The ten “**second-generation**” programs that would be financed within the newly-revised FSS framework have been developed based on prior experience and interaction with donors. Most are demand-driven, and all have rigorous monitoring and evaluation systems. The FSS charter, would ensure that the program financed will always be directly poverty-related.

178. The first program is one to extend and strengthen school autonomy while improving teacher retention and attendance in rural areas; key to the major structural reform in the education sector. The second program will provide the operational funds for rural health posts and centers, ensuring adequate staff salaries as well as funds for maintenance, dissemination programs, equipment and material. The third program, a social safety net, will be developed by expanding a successful pilot program. It uses financial incentives to encourage student school attendance and family use of the preventive programs of rural health clinics (e.g., vaccination, prenatal care) and provides budget support for schools and health posts in targeted areas.

179. The funds released by HIPC will also permit the government to finance an integrated program to increase the coverage of key public services in the areas of education, health, nutrition, sanitation, water and sewage, housing and electricity. This program would have proceeded much more slowly were it not for the additionality of HIPC funds. A new program for the Atlantic Coast will strengthen local governments’ institutional capacities, improve their

ability to identify development projects, plan land use, manage natural resources, and strengthen the regional offices of the education and health ministries.

180. Implementation of the total SGPRS will be costly. Monitoring and evaluation systems must be developed and applied, greater rural participation in the program encouraged, and SNIP's capacity strengthened as well as that of some monitoring units in line ministries and NGOs. But most of the funds for SGPRS support will be used to pilot further innovative ideas stemming from the evaluation of ongoing programs. FISE, Nicaragua's emergency social investment fund, is one of Central America's best-run social funds. This program will invest in social infrastructure in areas that have pockets of intense poverty not normally attended by FISE, guided by the poverty map. A new program, targeted to poor urban areas, will soon begin. It will finance day-care centers, special attention for children and adolescents at risk, informal vocational training, and selected small income-generation programs. An infrastructure component would improve the water, drainage and sewerage, roads, garbage collection, *inter alia* in poor urban areas. All components would respond to specific community demands based on neighborhood consultation.

181. Additionally, to foster broad-based economic growth, funds for rural development, and a fund for the development of small and medium business initiatives will complement the social emphasis of the other proposed programs. The rural demand-driven fund will support local communities to invest in a broad menu of selected areas, especially rural productive infrastructure, capacity building, and technological innovation. The small and medium size business fund will support training, technology and financing of these businesses in rural and urban areas.

#### **D. Structural and other major reforms**

182. Creating a climate conducive to economic growth will depend on a series of structural reforms, most of them underway, to ensure that the private sector expands as expected and that the state is more focused on providing basic social services. Other major actions, while not of a structural nature, will ensure that these services along with the growing regulatory and social protection responsibilities of the state, are concentrated even more on the poor. Annexes II and V detail all the recent and proposed actions incorporated in the SGPRS, but a selective description of the most important follows.

- The Assembly passed three key laws in 1999; modern banking and bank supervision laws, and a law to strengthen and to increase the autonomy of the Central Bank. These transformed the legislative base of the nation's financial system. The Superintendent of Banks and Financial Institutions, also being strengthened, is issuing a series of norms based on the new legislation which will be finalized in September 2001. In particular, these norms will affect the tightening of loan classification, noncompliance penalties, shareholder responsibilities, and distress resolution. All of this is in compliance with the best accounting methods and the Basle accords. Moreover, the Assembly also recently passed legislation to develop and fund a new deposit insurance scheme. The FOGADE (deposit insurance fund) is scheduled to become operational in August 2002.

- In the near term, the Assembly will be concluding its consideration of a draft law to establish a national career civil service. SIGFA, a system that unifies and standardizes financial practices and information, is being extended to three ministries this year and by 2002 should cover all ministries. SIGFA, and the use of a “single fiscal account”, have not only improved fiscal management, they have also enhanced the transparency of government operations.
- Governmental decentralization will require new legislation. A municipal budgetary law, which established standards for budgets, fiscal accounting, and relative outlays (including salaries) by municipalities was passed in December 2000. Another law will be presented to the Assembly this year to establish a municipal civil service. Budgeted transfers to the municipalities rose over 26 percent in 2001, more than three times the 1999 level.

183. The creation of a capable and stable civil service and better fiscal management will be important, but so will the tools of management control they will be handling. The national system of public investments (SNIP), for example, has given the economic policy-makers a tool to ensure that capital programs and projects are well-designed and increasingly focused on the poor. Efforts also have been made to strengthen SNIP’s capacity to evaluate projects from a social perspective. SNIP’s mandate is being strengthened and expanded by a decree that will be issued shortly.

184. Targeting the social programs, on behalf of the government agencies, will require not only continued privatization (and enhanced regulatory capacity), it will require the authorities to focus a greater proportion of limited funds on the provision of utility services for the poor:

- An October 2000 attempt to privatize the telephone company produced purchase offers well below the “reserve price” required by the privatization law. The legislation has been modified since, a number of international firms have been pre-qualified for the sale, and the government expects to sell the management and control of the company to a private operator within a few months. Equally important will be the sale of key thermal-powered generation plants and a hydroelectricity plant, which will be auctioned off in the next two months.
- After tariff revisions, management contracts for the operation of two major urban water systems will be signed this year; others will follow in 2002. In addition a concession was recently signed to lease and manage the port at Puerto Cabezas; and further offers of concessions for major ports are being prepared. Also, programs are now under consideration to expand rural electrification, telephony and water/sewerage in areas unattractive to private investors.
- The housing bank BAVINIC will be dissolved and its portfolio sold. A new housing institute that will replace the housing bank will oversee a program of 15,000 annual targeted construction subsidies for the poor (not including the houses to be built for those left destitute by hurricane Mitch).
- The National Assembly has already approved a major change in the pension system. This permits workers under 43 years of age to establish individual accounts managed by approved private administrators. The Assembly also approved legislation that will create a supervisory authority for these new pension funds and their administrators. This authority will be

completely operational in the next few months. This reform, combined with a restructuring of the Social Security Institute, will permit the government to target its direct pension support towards lower-paid workers and the poor. It should also have a major effect on capital markets, creating longer-term financial instruments, increasing national savings, and deepening equity markets.

185. These actions will require major strengthening of existing and new regulatory agencies. These agencies can also be useful in directing private efforts towards the poor. Banking legislation to expand the Superintendent's umbrella over financial institutions now operating as rural credit cooperatives and financial NGOs, would also expand access to rural credit.

186. Major actions will also be undertaken to improve the human capital of the poor:

- School decentralization will continue; by the end of this year all secondary schools will be autonomous. A new law to encourage parental participation in education, under consideration by the Assembly, is scheduled to be passed this year.
- Key improvements in quality and relevance of education are underway. Environmental issues have been added to the curricula of all schools particularly in secondary schools, under recent legislation that mandates this. Secondary education will be reformed, and vocational and tertiary education transformed to better respond to the nation's needs for trained human resources. Primary education standards have now been fully established and disseminated to all schools. The development of secondary standards is now underway.
- A program to grant more autonomy to hospitals and clinics will also continue apace. Legislation is now under consideration by the Assembly to strengthen the Health Ministry's role as facilitator, regulator, and promoter of health service delivery. This will permit the ministry to focus its direct programs for the poor; increasingly leaving health service provision for more fortunate Nicaraguans to the private sector.
- Primary teachers are now receiving incentive pay supplements linked to their performance; by next year, 18,000 of them will be covered by this system. By then a program to provide rural teachers with housing should be well underway. Moreover, 330,000 rural primary students have received free scholastic material this year and the government will expand their access to books by 2 percent a year.

187. These changes, important as they are, will not be the sole instruments to reduce Nicaragua's poverty. Equally important will be some programs and projects listed in a later section of this chapter. Most important will be the work of dedicated education and health workers over the next few decades.

### **E. Better governance and institutional building**

188. The creation of a modern, efficient and transparent state is still a work-in-progress. The future agenda is daunting, but more than a half century of authoritarian governments has left a vacuum to be filled:



- Institutional transparency will be enhanced. The recently-passed law for public procurement and contracts is now being implemented. A major effort is now underway to develop a standardized, modern procurement system consistent with the law. Purchasing agents throughout the public sector will soon be undergoing special training and an inspection system to monitor purchases is being developed.
- A strong, autonomous Comptroller General Office (CGO) will be vital to enhanced governmental transparency. The CGO is now implementing an ambitious institutional strengthening program supported by the IDB and bilateral donors. A law to strengthen the autonomy of the CGO has been approved by the National Assembly.
- The Assembly will also soon consider a draft law to provide access to virtually all public documents. To ensure full coverage of the published fiscal data, all ministries are now recording their consolidated receipts and outlays (e.g., revenues and outlays from licenses, fees, fines) in the single fiscal account and reporting them in a standard format. Finally, to improve accountability, a new law establishing the performance expected of all public servants will be sent to the Assembly this year.
- Nicaragua's nascent judicial system will require a modern legislative base. Legislation to clearly define the powers and responsibilities of public prosecutors was recently approved by the Assembly. The National Assembly also approved, in concept, a new penal code and will soon deal with specific details that will include the definition of financial crimes. This will in turn define penal and civil responsibilities of the officials and shareholders of financial institutions. The National Assembly has drafted the new code on penal procedures, which will be voted upon next year. The legislative reforms are being accompanied by a series of programs to train, equip, and strengthen the judicial system.
- The Environmental Policy and Action Plan (PANic) was approved last February. As noted earlier, this will serve as a detailed guide for integrating policy reforms and programs across a wide sectoral spectrum to address Nicaragua's long-ignored environmental problems. A National System for the Prevention, Mitigation and Disaster Relief (SNPMAD) is now beginning operations with World Bank financing, and many specific programs for the system are being developed.
- Modern legislation will also be required to ensure the environmental sustainability of the productive sectors of the economy. A proposed mining law is now being considered by the Assembly. Fishing, forestry, and water legislation have been drawn up and will also be considered by the Assembly over the next year or so. A law to protect the nation's biodiversity is being drafted. And a new system of arbitration tribunals to settle land disputes has been put in place and is now fully operational. This complements an accelerated land registration/cadastre modernization program.

189. But legislation and plans are only the beginning. In many cases those ministries and agencies that administer them must be institutionally strengthened and their staff better-trained. Two examples, forestry and social protection, underline the challenge. In forestry, the Agriculture and Forestry Ministry (MAGFOR) must work closely with the new environmental

ministry, MARENA, to undertake reforestation programs, promote sustainable forestry practices, encourage the creation of indigenous forestry firms and practices, approve and monitor the operations of commercial firms, and develop special programs for specific areas -- for ecotourism, for wetlands on the Atlantic, and for drier areas in the north. To manage all these operations effectively will require years of training, external support, and adjustments. New legal and institutional frameworks must be complemented by stronger social protection systems. The decentralization process, key to a responsive safety net, is complex and will take time to take effect. Management information systems, institution-building, and projects directed to this end, will remain a near-term governmental priority for this pillar.

#### **F. Programs by strategic components and sectors**

190. For the past three years, the government has been improving its capacity to generate and execute programs and projects that have been increasingly directed toward poverty-reduction goals. Since the SGPRS is designed to improve human as well as physical capital and reduce the vulnerability of the poor, it will be supplemented with a substantial amount of recurrent expenditures as well. Indeed, Nicaragua must continue to focus its recurrent outlays on some key activities if it is to meet its poverty goals, consistent with the trend already established before hurricane Mitch. This can only be undertaken if a substantial portion of the asset sale receipts, all of the savings from future debt relief, virtually all of the fiscal growth dividend, and continued external assistance is directed to the poverty effort. The latter, of course, has been crucial to Nicaragua's recovery so far, and the government would like to acknowledge the strong and continued support of so many multilateral and bilateral donors.

191. The nation owes an equal debt to the many NGOs that have been providing so much assistance to many poor Nicaraguans. For obvious reasons, their many useful and important programs cannot be included in the SGPRS, which is linked to performance targets. Nevertheless, some mention of specific NGOs, and their work, will be useful to understand their impact. The National Youth Commission, established by law and chaired by the First Lady, includes not only ministries involved with youth, but international and non-governmental organizations. Some NGOs linked to this Commission are Save the Children affiliates from Norway, Canada, Sweden, and the United States. The last and largest, had a portfolio of US\$8 million that it administered during 2000. Its projects varied from food security to disaster relief, infant survival, rural roads, and basic water sanitation services in many poor communities in the departments of León and Chinandega. Save the Children USA uses the Poverty Map for some of its targeting, and concentrates its efforts on supplementing or assisting governmental programs, but always ensuring that children benefit. Its financing comes from USAID, American donors, the Nicaraguan government, and even some private firms (e.g., BellSouth).

192. Catholic Relief Services (CRS) is another major NGO that concentrates on poorer municipalities in Nicaragua's northwest (mostly Jinotega, Nueva Segovia, Estelí, Chinandega, and Matagalpa). It too uses the extreme poverty map for targeting, but emphasizes only four themes; sustainable agricultural practices -- particularly by 12,000 small farmers on hillside areas -- maternal/child health, microfinance, and civil society development. Most of its health activities emphasize health promoters to encourage the poor to use better health practices as well as available public services. The microfinance projects support "community banks" with over 14,000 clients. Most of its programs are executed by local Caritas groups, NGOs, or community

associations. Its impact is relatively major, with 40 staff and a program of US\$7.5 million annually since hurricane Mitch. While almost half of its funding comes from private, foreign donations, USAID, the World Food Program, and the EU also support its activities.

193. Even when these private -- and donor-financed -- activities are excluded, the government's SGPRS program is ambitious; it will require outlays of about US\$1.1 billion for the years 2001-2005, or US\$230 million yearly, of which US\$100 million will be earmarked for compliance with the selected indicators (see Table 8 and Annex Table 3). While this PRSP cannot describe in detail the multitude of projects and programs included in the SGPRS, a summary of some of the key, major programs and projects is provided. For clarity, the portfolio has been grouped in the table below into the four pillars and cross-cutting themes of the SGPRS.

**Table 8. Public investment program SGPRS, 2001-2005**

|                                 | <b>Total 5 years</b> | <b>2001</b>     | <b>2002</b>  | <b>2003</b>  | <b>2004</b>  | <b>2005</b>  |
|---------------------------------|----------------------|-----------------|--------------|--------------|--------------|--------------|
|                                 | (percent)            | (US\$ millions) |              |              |              |              |
| <b>Total</b>                    | <b>100.0</b>         | <b>218.5</b>    | <b>217.0</b> | <b>223.3</b> | <b>238.5</b> | <b>252.0</b> |
| <b>Economic growth</b>          | <b>42.3</b>          | <b>81.0</b>     | <b>96.0</b>  | <b>99.7</b>  | <b>102.6</b> | <b>106.3</b> |
| <b>Human capital investment</b> | <b>33.4</b>          | <b>72.0</b>     | <b>75.8</b>  | <b>72.3</b>  | <b>79.3</b>  | <b>84.6</b>  |
| Education                       | 22.3                 | 50.4            | 52.2         | 49.2         | 50.8         | 53.2         |
| Health                          | 10.5                 | 19.9            | 22.0         | 22.1         | 27.3         | 29.8         |
| Population and nutrition        | 0.6                  | 1.7             | 1.5          | 0.9          | 1.2          | 1.6          |
| <b>Social protection</b>        | <b>10.1</b>          | <b>29.9</b>     | <b>19.2</b>  | <b>21.3</b>  | <b>22.1</b>  | <b>23.2</b>  |
| <b>Governance</b>               | <b>1.2</b>           | <b>2.6</b>      | <b>2.8</b>   | <b>2.7</b>   | <b>2.9</b>   | <b>3.1</b>   |
| <b>Cross-cutting themes</b>     | <b>13.0</b>          | <b>33.0</b>     | <b>23.2</b>  | <b>27.3</b>  | <b>31.6</b>  | <b>34.8</b>  |
| Environment                     | 4.2                  | 16.2            | 6.3          | 5.7          | 8.7          | 11.6         |
| Decentralization                | 8.8                  | 16.8            | 16.9         | 21.6         | 22.9         | 23.2         |

Source: Annex table 3

194. Nicaragua's recent agricultural expansion will have to be sustained. Its land and labor extensive approach is now reaching the limits of both; further expansion must be based on more intensive use of land, of labor, and of technology. The latter is key. Only with increasing agricultural productivity can the incomes of the three quarters of the poor who depend on agriculture be raised. Clearly, the expanded educational coverage, the revised and more relevant curricula, more secure land titling, and better health will have major impacts on agricultural productivity. But the government also has some more direct programs. A project costing US\$37.6 million, the first phase of a 15-year program worth US\$150 million, will strengthen the process of developing and carrying out systems of research, dissemination, and training required to transform the technological capacity of Nicaragua's small (and mostly poor) farmers. Its purpose is to increase agricultural productivity and the family income of 110,000 small and medium-scale farmers through the generation/enhancement of an efficient, demand-driven, agricultural technology knowledge and innovation system. This program is being financed by the World Bank, COSUDE and IFAD, and will be executed with the participation of the private sector.

195. This will be complemented by a US\$107.2 million program for the recovery of the productive infrastructure in rural areas, executed by the Ministry of Transport and Infrastructure, the National Commission of Energy and the Rural Development Institute, an institution focusing

on poorer rural areas. In addition, a program of US\$32.8 million is contemplated for enhancing the competitiveness of small and medium-size farms producing staple grains and other agricultural goods by supporting (i) training, management and technology transfers; (ii) a more rational use of resources; (iii) greater access to product and input markets by small and medium-size producers; and (iv) an improvement in production processes and the quality of final products. This program is being supported by the IDB. While of a lesser priority, programs targeted to commercial farmers will also be underway. After all, the most important source of increased welfare for the rural poor has been wage employment; this income doubled between 1993-1998 while agricultural self-employment declined by a third. A US\$86.1 million program for livestock and traditional agricultural extension/rural development will focus on fostering commercial agriculture and livestock for small and medium-size producers.

196. The rural property regularization program aims at improving the process of review and issuance of land titles, through the modernization of the register and cadastre system, therefore ensuring that compliance with all legal requirements are observed. It will facilitate access by farmers to funding and stimulate investment in their legalized properties. The lack of transparency in titling and ownership has been a major impediment to increased production in the agricultural sector. This program is presently under preparation with the support of the World Bank; its total cost will be almost US\$40 million.

197. No legislation, no decree, will have as much effect on improving the provision of health service to the poor as well-designed, integrated and aggressive programs. One major program worth US\$90.0 million will expand the coverage and quality of the rural health system, providing everything from staff training to medicine; from vehicles and communication equipment to the expansion and rehabilitation of health posts and centers. The target would be primarily poor, rural areas. The goal will be to improve maternal/infant and adolescent care provided by the primary health network. Another important program of US\$31.1 million is for the modernization of the health sector. This includes institutional strengthening at the central level and the promotion of the rational use of medicines. A smaller program of US\$5.5 million is for the dissemination of information and assistance on family planning and better health and sanitation practices to avoid contagious diseases. A US\$40.2 million project would bring potable water and better sewage disposal systems to 500,000 residents in rural areas. Another US\$148.5 million project would bring the same services to marginal urban and rural areas.

198. Some of the most important programs will be in education. Improving the productivity, health, nutrition, and social defenses of the poor will depend on improving their access to a more relevant education. The specific actions and reforms to expand the coverage, improve the relevance and quality, modernize, and enhance direct participation in education will be supported by some major new programs. One, for almost US\$144.2 million, will greatly expand the number of new and rehabilitated schools, as well as their equipment. Improved educational quality will be enhanced by a US\$28.4 million program emphasizing support for the reforms mentioned in chapter V; teacher training, a stronger emphasis on basic education in rural areas, and bilingual education on the Atlantic Coast. These programs will partly incorporate the many intersectoral links that will make rural students more prepared for future work, health, and environmental challenges. Another US\$3.3 million project will focus on adolescents, greatly expanding practical technical training in the country. Finally, a US\$15.2 million program will

assist the modernization of the sector, emphasizing capacity-building in the municipalities, and better coordination between education and other central ministries.

199. Social protection is a rapidly-growing part of the program. Nicaragua's social fund, FISE, has been among the most successful, and best-administered and targeted. FISE now has ample financing, but it emphasizes mostly rural social infrastructure. The need now is for well-targeted increases in operational programs. This is being temporarily provided by a new Supplementary Social Fund (FSS) established by the presidency. The FSS is providing support for the expansion of education and health programs in areas of extreme poverty assisted by FISE and the ministries of health and education. The fund currently targets the extremely poor, providing supplementary current resources to raise outlays, particularly in rural areas, to about US\$56 per student and US\$19 per capita for health services. It was designed as a "bridge" until fiscal relief from debt reduction takes effect. Another US\$30.0 million innovative program will address the high opportunity costs the poor face in sending their children to school, and attempt to change traditional attitudes. Rural poor children will receive scholarships to attend primary school, and the transport and other costs incurred by the poor to take children and adolescents for health care, will be reimbursed through the program. Now entering its second phase with a three and a half year budget of US\$27.8 million, a program for the attention of children aged 0-6 years will help create and strengthen community-parent relations, while contracting civil society organizations as direct providers. An important program of US\$26.9 millions is the rehabilitation, expansion and the provision of equipment for social infrastructure directed at vulnerable groups. This project also includes a housing component, as well as youth centers for abandoned minors and adolescents living in risky situations. A smaller program will also direct additional resources towards extremely poor people, particularly the elderly and the sick.

200. In the area of governance, implementation of the new Law for Public Purchases and Contracts will require training for purchasing agents, development of procedures for procurement, and new inspection systems. This program, supported by the IDB and other donors, will cost US\$22.5 million.

201. In the cross-cutting issue of decentralization, the World Bank, UNDP, and bilateral donors such as Switzerland, Denmark, and others will support the government strategy to improve the capacity of rural municipalities to maintain and prepare expansion programs for local public infrastructure, improve the delivery of municipal services, and promote environmental management at the local level through a municipal environmental fund and better environmental information. By integrating poverty and environmental management concerns and addressing them within the unifying institutional framework of municipal development, the decentralization strategy is also consistent with the regional environmental strategy. Among the programs in this area, the second rural municipal development project financed by the World Bank will spend US\$12.5 million in municipal strengthening, investments and the environment.

202. The program for environment and alleviation of vulnerability is broad-based and has three major objectives: (i) management and conservation of renewable resources; (ii) financial support for sustainable development; and (iii) the rationalization of land use and restoration of vulnerable watersheds. Funding for the program will be supplemented with some innovative mechanisms, such as debt-for-nature swaps. The cost of the program is estimated to be about US\$48.5 million.

### G. Costing of goals

203. While the consistency of the fiscal projections with the SGPRS program implies it is fiscally feasible, there is another, if somewhat limited, way to view the cost of the SGPRS program. Some of the intermediate indicators linked to SGPRS goals can be viewed individually as well as quantitatively measured. Indeed, many indicators were chosen because they can be readily measured. Within this subset of indicators, there is another subset; those where the attainment can be fiscally costed. With the assistance of the World Bank we have attempted to measure the fiscal cost of meeting this selected group of indicators by the year 2005.

**Table 9. Total cost of meeting selected indicators**

|                                   | Base<br>2000   | Est. Yearly Amts.<br>2001-2004 | Est.<br>2005 | Total<br>2001-2005 |
|-----------------------------------|----------------|--------------------------------|--------------|--------------------|
|                                   | (US\$ million) |                                |              |                    |
| Education                         | 45.0           | 46.7                           | 51.0         | 237.7              |
| Preschool                         | 0.6            | 0.7                            | 0.8          | 3.6                |
| Primary                           | 31.9           | 35.6                           | 39.9         | 182.3              |
| New schoolrooms                   | 12.1           | 8.4                            | 8.4          | 42.1               |
| Functional literacy program       | 0.4            | 1.9                            | 1.9          | 9.7                |
| Health                            | 4.1            | 4.6                            | 5.3          | 27.9               |
| Reproductive health care          | 0.4            | 0.5                            | 0.6          | 3.0                |
| Birth costs                       | 0.8            | 0.9                            | 1.1          | 5.7                |
| Prenatal care                     | 0.2            | 0.2                            | 0.3          | 1.5                |
| Acute resp. infection             | 0.2            | 0.2                            | 0.2          | 1.1                |
| Diarrhoea                         | 0.4            | 0.3                            | 0.4          | 2.1                |
| Vaccinations                      | 2.1            | 2.4                            | 2.7          | 14.3               |
| Potable water and sewerage        | 55.7           | 47.2                           | 51.4         | 240.3              |
| Recurrent costs                   |                |                                |              |                    |
| As percent of budget              | 6.8            | 7.4 <sup>i</sup>               | 7.5          | 7.6                |
| Capital costs                     |                |                                |              |                    |
| As percent of total capital costs | 16.8           | 19.3                           | 22.4         | 20.1               |
| <b>Total costs</b>                | <b>104.7</b>   | <b>98.5</b>                    | <b>107.7</b> | <b>505.7</b>       |

Source: SETEC working paper, "Costo de Cumplir con Indicadores Selectos".

204. The selected indicators, the coverage expansion and the annual cost of meeting the expansion, are indicated in Table 9. Since many of the chosen indicators are for health and education services, there are important aspects to consider in such a costing exercise. First, the fiscal costs are very much linked to unit costs chosen for the exercise. In most cases, particularly in education, historic costs have been chosen, and they may not reflect the rise in costs required to improve quality or geographical coverage. In health, innovative preventive programs have been used for unit costing, but it may be difficult to apply the same efficiencies as these programs are expanded across the nation. Secondly, the unit cost approach implies that no other service is provided by a health unit. This is an optimistic assumption, since health centers must provide a gamut of services that will affect both their costs and the well-being of their clients. Third, Nicaragua's social ministries are institutionally weak. Equally important to meeting the social indicators (and the nation's goals) will be sectoral reforms and aggressive institutional strengthening. Finally, in spite of our best efforts to quantitatively link programs and indicators, this effort remains a first approximation. More roads do not necessarily reduce traffic congestion

over time, and some welfare programs have not reduced poverty. Indicators and programs will be evaluated critically and revised as their consistency with goal attainment is studied.

205. With these important cautions, some conclusions can be drawn. The overall cost of meeting these key indicators is calculated at about US\$100 million a year; about equal to the debt relief from the HIPC exercise. Secondly, the cost of the (mostly preventive) health programs is quite low; about US\$5 million yearly; only 5 percent of the 2000 health budget. In education, however, the annual recurrent cost of meeting the selected indicator would be about \$36 million, compared to a 2000 recurrent budget of about US\$65 million. Although the education budget includes secondary, university, technical, and some sporting activities, the share of preschool, primary and literacy programs seems both appropriate and sustainable. Equally important, over three-quarters of the fiscal costs, particularly the education, water, and sanitation capital costs, are within programs already agreed with donors.

## **VII. IMPLEMENTATION, MONITORING AND EVALUATION OF IMPACT**

206. A participatory implementation, monitoring and evaluation system is an important component of the SGPRS. In this context, to support the implementation and monitoring of the SGPRS, programs were negotiated with the IDB (PAI, SINASIP). A complementary program to strengthen participatory approaches is being developed with the support of DFID-UK and UNDP. The sections that follow elaborate upon key points of this system.

### **A. Implementation of the SGPRS**

207. Given its importance, the Presidency through SETEC will coordinate the implementation of the SGPRS at the national level, with the support of MINREX, BCN and MHCP. The FSS and its Council will oversee the implementation of the ten programs to be financed by the HIPC fund. All projects, programs and policies will be carried out by the different governmental entities as specified in various loan agreements, budget documents and the matrix of policy actions of the SGPRS. The participation of civil society will be coordinated through CONPES. CONPES will also play a key role in the social audit of SGPRS national results, as well as its key programs.

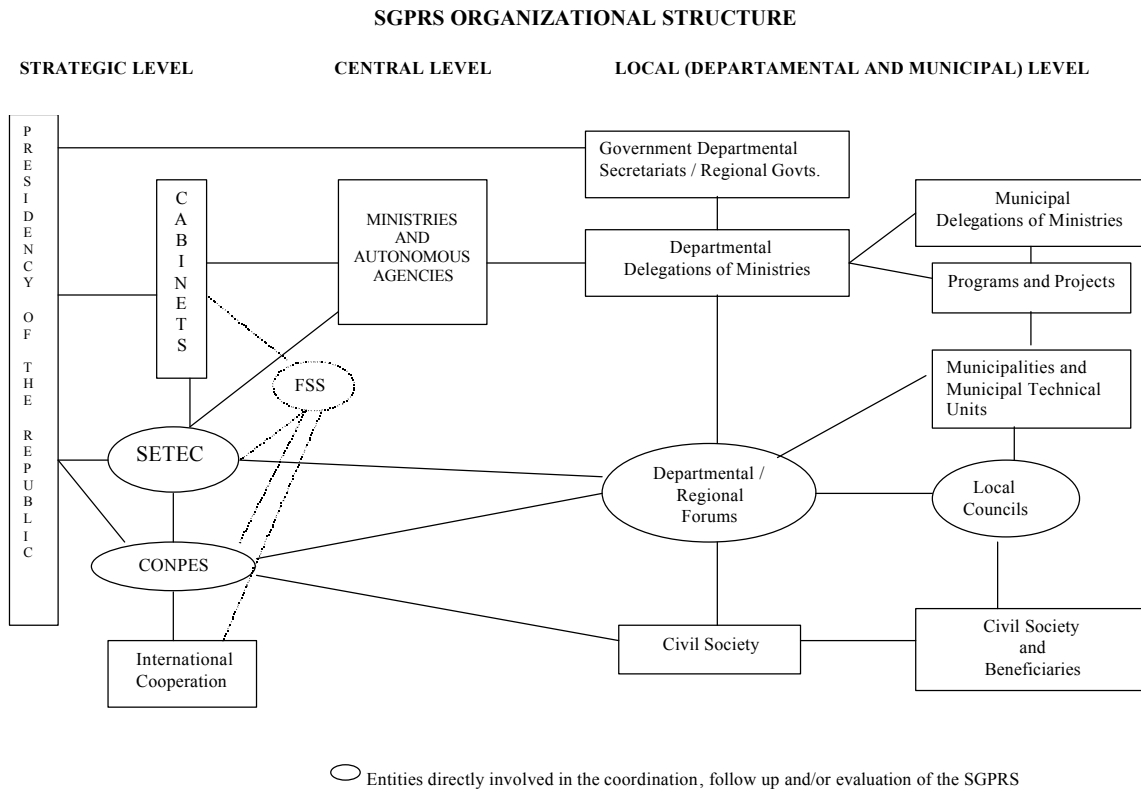
208. Presidential delegates in each Department will play a special role in coordinating multisectoral efforts to implement the strategy, helped by the participation of municipal authorities and civil society. Gradually, SNIP is being decentralized and will work in coordination with the departmental government secretariats under the presidential delegates. The ultimate objective is a bottom-up formulation of public investment initiatives, which includes the broad participation of NGOs, local leaders, grass root organizations, and civil society in general, interacting with the central government and local authorities in defining local priorities. The specific local conditions will be taken into account in these processes. The draft Citizen Participation Law, when passed, will further encourage and define the roles of the different sectors.

209. The following diagram presents the SGPRS organizational structure developed through experience and recommendations generated through the process of regional consultation. The

organization adheres strictly to the principles of the SGPRS: broader participation, more transparency and accountability, greater equity and continued modernization of the State. In particular, the structural organization aims to encourage a stronger linkage between central government, municipal governments and civil society. In this context, a program for the implementation of the strategy at local level in a number of pilot municipalities was formulated and negotiated with the IDB to support the consolidation of the organizational structure. The program will review progress of SGPRS programs and projects in each locality and encourage the municipalities to better plan their own efforts, and will include supplementary funds to finance high-priority local projects that fall within the SGPRS program but lack immediate financing. An emphasis on inter-institutional coordination and civil society participation is a key part of the program. The lessons learned will be applied to other implementation practices at the national level.

210. Consultative and monitoring bodies for the municipal pilot projects will be set up at local level, based on existing local structures (e.g., municipal development committees). At the municipal level, a special effort will be made to include representatives of beneficiaries; with attempts to ensure the composition of the local committees will reflect an appropriate gender and ethnic balance. Each municipality will define the structure of its local committees so as to make maximum use of existing institutional capacity.

Figure 6. SGPRS Organizational Structure



211. The following table describes some of the key roles SETEC and the other participants will play as implementation begins. Strategic and operational coordination of the



implementation, monitoring and evaluation of the SGPRS will be undertaken by SETEC. Multisectoral coordination of government agencies will be closely-linked to citizen participation in all stages of the planning cycles. Civil society, both organized and non-organized, as well as the international donor community will be the key partners of the government. One challenge will be to include the legislature and judiciary as active partners in the implementation of the SGPRS.

**Table 10. SGPRS coordination: SETEC and other participants' roles**

| <b>SETEC coordinating functions:</b>   | <b>Other participants</b>  |
|--|--|
| <b>Implementation:</b> <ul style="list-style-type: none"> <li>▪ Ongoing advice to implementing agencies, Departmental and Local Councils in formulation, management and follow-up of policy actions and programs</li> <li>▪ Prioritization of SGPRS programs in the national budget</li> <li>▪ HIPC funds allocation to prioritized programs (FSS)</li> <li>▪ Implementation of regional pilot program (PAI)</li> <li>▪ Coordination of international cooperation</li> </ul> | <ul style="list-style-type: none"> <li>▪ Ministerial cabinets</li> <li>▪ Ministries and autonomous agencies (Technical Committees)</li> <li>▪ Departmental and Regional Forums and Local Councils (including municipal and regional governments)</li> <li>▪ MHCP</li> <li>▪ MINREX (Secretariat for External Cooperation)</li> <li>▪ International and bilateral cooperation agencies</li> </ul> |
| <b>Monitoring:</b> <ul style="list-style-type: none"> <li>▪ Policy action compliance</li> <li>▪ Macro-economic program</li> <li>▪ Assignment and execution of budget allocation (FSS and SNIP)</li> <li>▪ Goals, targets and intermediate indicators (SINASIP)</li> <li>▪ Periodic progress reports on implementation</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Ministerial cabinets and other branches of government</li> <li>▪ BCN and MCHP</li> <li>▪ INEC</li> <li>▪ Ministries and autonomous agencies (Sector units for public investment and planning)</li> <li>▪ Municipal Technical Units</li> </ul>   |
| <b>Evaluation</b> <ul style="list-style-type: none"> <li>▪ Impact evaluation of programs</li> <li>▪ Evolution of poverty analysis</li> <li>▪ Dissemination and use of evaluation findings</li> </ul>   | <ul style="list-style-type: none"> <li>▪ INEC – MECOVI, MITRAB</li> <li>▪ Ministries and autonomous agencies</li> </ul>  |
| <b>Citizen participation</b> <ul style="list-style-type: none"> <li>▪ Follow up to citizen participation (CONPES Executive Secretariat)</li> <li>▪ Follow up and program evaluation with participatory approaches</li> <li>▪ Broad consultation and dissemination of the SGPRS</li> </ul>  | <ul style="list-style-type: none"> <li>▪ CONPES (Plenary and Commissions)</li> <li>▪ National and local organizations from civil society</li> <li>▪ Non-organized civil society</li> <li>▪ Beneficiaries</li> </ul>  |

212. For the dissemination, ownership and the implementation of the strategy, summary and popular revisions, as well as this SGPRS, will be edited for publication and widely distributed at the national and local level. Documents resulting from recent local consultations will be sent to all participants at the municipal level. Discussions on implementation strategies, training in the use of the poverty map for targeting, requirements to meet goals, targets and indicators will be part of an ongoing program with civil society and government institutions to ensure the greatest impact from this process of implementation.

### **B. What to monitor and evaluate**

213. The government will evaluate the evolution of poverty and assess the SGPRS performance in reducing poverty based on the targets and intermediate indicators noted in Chapter IV. Selected SGPRS programs and projects, particularly those in the HIPC-related FSS

as well as others specifically chosen for their potential impact on poverty indicators, will also be monitored and evaluated. Equally important will be joint monitoring of the overall SGPRS progress with those affected, particularly in the poorest municipalities. Parallel and complementarily to this monitoring and evaluation, the government will maintain surveillance of related macroeconomic indicators and compliance with structural reforms agreed within the context of an IMF program.

### **C. Setting up the SGPRS monitoring and evaluation system**

214. Institutional coordination is essential to guarantee the transparent and efficient monitoring and evaluation of the SGPRS. The Technical Secretariat of the Presidency, BCN, MHCP and MINREX, will lead the inter-institutional coordination effort. This effort requires the strong support of CONPES, other civil society representatives and the donor community to ensure a fully participatory and effective system of monitoring and evaluation.

215. The monitoring and evaluation system builds upon the existing government structures and upon the available instruments to measure poverty and SGPRS programs. BCN tracks key macroeconomic variables, the MHCP plans and monitors the government's budget, and SETEC monitors the physical and financial performance of public investment through the SNIP, including programs financed through the FSS. The National Institute of Statistics and Census (INEC) collects and process socio-economic statistics, including household surveys that measure the living standards of the population (e.g., LSMS, DHS, and other more specific surveys).

216. During the last decade the government has made considerable efforts to strengthen these institutions. For instance, INEC is building up technical capacities to carry out LSMS and is working closely with the Central Bank and SETEC to coordinate the already-existing household surveys and to standardize social indicators. The Central Bank is in the process of reestablishing and improving the national accounts system. The SNIP is opening local monitoring units in all departmental capitals as part of its efforts to decentralize public investments. Recently SETEC completed the validation of the SIG-FSS, a management information system that is already operating, to monitor both physical and financial performance as well as the results of projects financed through the FSS. This has provided the basis for some monitoring systems of the SGPRS.

217. Additionally, most central ministries already have specialized units to monitor and evaluate their investments and programs. While efforts to strengthen these units in line ministries are underway, important problems of institutional capacity and coordination remain, and will be addressed during SGPRS implementation to make them more accountable and efficient.

218. Besides government institutions, CONPES will play a decisive role as coordinator of civil society's participation in the monitoring and evaluation processes. CONPES will be reviewing more than macrodata. The specific programs being developed, with IDB, UK, and UNDP assistance, will allow the government and CONPES to jointly review SGPRS progress with the poorest municipalities.

219. The follow-up of the agreements made at Stockholm has encouraged the international community to participate in the formulation, monitoring and evaluation of the SGPRS. Some donors have expressed a keen interest in following SGPRS progress and have joined on-site consultations with the poor. Many donors assisted in financing MECOVI, a key program that supported the all-important surveys required for the strategy's design. Further advice and technical support will be needed for an effective monitoring.

#### **D. Evaluation of poverty evolution and overall SGPRS impact**

220. A central theme in the strategy involves monitoring the evolution of poverty and evaluating the overall SGPRS impact. This will be essential to reorient program efforts and where necessary, to readjust priorities.

221. The country has a recently-updated statistical base, which is the starting point for the monitoring and evaluation of SGPRS programs. After a gap of 25 years, a new population census was conducted in 1995. This will be updated every 10 years. Most household data used to study poverty come from the LSMS of 1993 and 1998—(another should be published by year end) and two demographic and health surveys conducted in 1993 and 1998. A qualitative study on poverty was carried out for the first time in late 1999 to provide information on people's perception of their poverty status and the barriers they face to slip out of poverty. Another study on the poor's vulnerability is underway. An agricultural census was completed in mid-2001; it should shed light on rural production patterns quite soon.

222. Available household surveys provide high quality information. However, the wealth of data generated is not fully utilized due to dissemination problems and the paucity (and poverty) of national researchers. Recent financing by international agencies has brought forth an important number of studies, often conducted by international experts, and these studies have been determinant in the SGPRS formulation process.

223. An appropriate surveillance of people's welfare requires that data be collected periodically, particularly at the household level. The LSMS carried out in the last decade has served as the basis for developing the SGPRS statistical system. The government will be setting up an annual system of multi-purpose household surveys aimed at measuring a limited set of key variables regarding income, employment and other determinants of poverty levels. Methodologies of this type have already been used in the country to predict rural poverty at the household level through a very limited set of 60 variables, most of them selected from the LSMS database.

224. At the same time full reviews of the SGPRS will require overall analysis of poverty on the basis of consumption levels, and other specialized surveys such as a demographic and health survey, income-expenditure surveys, and employment surveys. The next LSMS is scheduled for 2004. These major surveys will be carried out every 3 or 4 years to obtain an in-depth picture of the evolution of poverty and its determinants at both national and local levels.

225. Quantitative analysis, however, will not be the sole criterium for monitoring and evaluating SGPRS progress. The CONPES reviews with the poorest municipalities will also provide major guidance to adjust or improve SGPRS programs. As the pilot program of 10-15

municipalities expands to the national level, a wealth of information, which may be more accurate than quantitative analyses, will guide the development of programs and ensure they stay strongly focused on Nicaragua's poor.

### **E. Monitoring and evaluation of key SGPRS programs**

226. One basic component of the SGPRS involves monitoring and evaluation at the program and project level. SETEC and executing agencies, with the support of the World Bank and IDB, are developing an efficient system for monitoring programs, and evaluating results of selected programs. This should be in place before the end of the year. Key program evaluations, including beneficiaries' satisfaction, will take place periodically. Together with evaluation of the physical and financial aspects, these will be key to rank programs and revise priorities. The monitoring and evaluation of the HIPC-related Supplementary Social Fund will be done quarterly with information widely shared with the donor community and CONPES. Full reports will be issued annually, with an audit of the resources generated by debt relief and how they were applied. These reports will include not only the operations of the Supplementary Social Fund, but that of its various components and their effectiveness.

227. Many of the government's monitoring and evaluation systems, however, have an input orientation, and track best only the physical and financial aspects of projects. They do not yet measure beneficiaries' satisfaction, nor do they systematically evaluate program impact and outputs. Many monitoring units are limited in their capacity to identify program targets, performance indicators and even output indicators. This must and will change.

228. Some institutions are already improving their systems and introducing new monitoring and evaluation procedures, such as indicators of coverage and quality of services. A registry of the monitoring and evaluation resources of line ministries is being established so that they can monitor programs more effectively. As noted, these units will also need training, better equipment and technical assistance within the next two years to improve their capabilities. The SNIP is coordinating a general review of input, output, and outcome indicators to be reported by executing agencies for all SGPRS programs. In addition, there are some innovative experiences with monitoring and evaluating social programs. The impact evaluations carried out by FISE in connection with the LSMS 98, and its recently-completed Beneficiaries Satisfaction Survey, are innovative examples in this regard.

229. A major component of the SGPRS is its concentration of actions and assistance upon the poor and the extreme poor. This is crucial for the attainment of poverty reduction goals in an efficient manner, and for evaluating the effectiveness of program impact. The government's Poverty Map ranks the country's 151 municipalities according to the size of their extreme poverty gap, and identifies their geographic location. This map has proved to be an excellent tool for designing policies and programs aimed at poverty groups, and for making the most efficient assignment of poverty reduction resources among competing targets. It will be equally useful in guiding the monitoring of the SGPRS. A handbook describing how to use the map is being developed; that and training in the map's use should rapidly expand its influence.

## F. Schedule of reports and evaluation

230. The many participants involved in the SGPRS will require that a series of evaluations be widely disseminated. Many will be *ad-hoc* and unscheduled. Donors will continue to periodically review projects they are assisting; municipalities will be evaluating progress with CONPES in a variable manner; and reports by ministries, academics, NGOs, and the multilateral agencies will all shed light on progress. Other reports will have relatively firm timing. The IMF, IDA, and IDB, as well as the rest of the donor community, will receive annual reports on SGPRS progress, particularly in meeting the annual indicators linked to SGPRS goals. These reports will be published widely in Nicaragua. The IMF, in particular, will review progress of its programs periodically. The FSS will issue annual, audited reports on those high priority programs financed by debt relief. Moreover, the FSS Council now includes a CONPES and a donor representative. It will meet at least quarterly to review the progress of these programs, and the representatives of donors and CONPES will share their conclusions with colleagues. Consultative Group meetings will also be provided with reports on SGPRS progress.

231. Finally, there will be the longer term actions. The 2001 and 2004 LSMS may lead to further reviews of SGPRS progress. In this respect, the SGPRS is a process that will have to be regularly reevaluated and modified as circumstances demand and new findings suggest. The new surveys will not only be a rich source of detailed data to evaluate the impact of the strategy, some of the intermediate indicators are linked to the LSMS. The results will obviously lead to adjustments in SGPRS programs. In any event, as 2005 approaches further detailed indicators must be developed to meet the fifteen-year goals, and hopefully better, fewer, and more efficient programs developed to address Nicaragua's poverty issues.

## THE CONSULTATION PROCESS

### I. Background

1. Since 1990, Nicaragua has made great strides in transforming itself into a more open and democratic society. By 1996, the peace process was accomplished and the basis for democracy and a free market economy established. Since the beginning of the current administration, the government of Nicaragua has intensified dialogues and contacts among the political parties, churches, the private sector, labor unions, non-governmental organizations (NGO's) and citizens. Members of the economic cabinet have met on many occasions with the business community's Superior Council for Private Enterprise (COSEP) to discuss economic issues. Likewise, the president of Nicaragua has had many meetings with the member associations of COSEP.
2. The reform and modernization program of the health system to be implemented during 1998-2002 was widely publicized by mid-1998. Workshops were held at seventeen Local Integrated Health Care Systems (SILAIS) and country hospitals, with the participation of different sectors of Nicaraguan society; the social and economic ministries, universities, NGO's, labor unions, the business community, the National Health Council and donors.
3. The national education strategic plan was developed through a number of meetings at the national level that began in December 1998. Some of the participants were the Nicaraguan Initiative for Education and Human Development Forum, the National Pedagogic Movement and about three thousand people, among them teachers, parents, students, university professors, members of CNE, CNU, and churches' representatives.
4. After hurricane Mitch, in November 1998, at the conclusion of the work by the National Emergency Committee, the government organized a Presidential Commission for the Reconstruction and Transformation of Nicaragua. This commission was composed of six consultative councils with members from different sectors of our society to identify the needs of stakeholders. These six councils were: Financing and Foreign Cooperation, coordinated by the Secretary of External Cooperation; Social, coordinated by the Technical Secretary of the Presidency; Infrastructure, coordinated by the executive director of the government-owned electric company-ENEL; Production, coordinated by the Minister of Agriculture and Forestry; Civil Society, coordinated by the Minister of Foreign Affairs; and Environment, coordinated by the president of the National Council for Sustainable Development (CONADES). With the participation of civil society, these councils developed proposals on different topics, and presented their recommendations to the president of Nicaragua.

### II. The Process

5. The issue of poverty reduction has long been discussed with citizens and donors in the context of preparing for Consultative Group meetings, particularly in Geneva, Stockholm and Washington. At these fora, the government presented a national development program with the dual objectives of achieving sustainable, solid economic growth and reducing poverty. To achieve these goals, the government placed emphasis upon macroeconomic stability, growth in the rural sector, development of economic infrastructure, decentralization, governance, the environment, and development of human capital, the latter through investments in education,

health, water, housing, and protection for vulnerable populations. A poverty reduction strategy has thus been an integral element of the Nicaraguan government program since January 1997.

6. The findings of the 1998 Living Standards Measurement Survey (LSMS 98), the 1998 Demographic and Health Survey (DHS 98), and the experience learned from implemented programs have helped deepen and strengthen this strategy since late 1999. The development of the Strengthened Growth and Poverty Reduction Strategy (SGPRS) coordinated by the Technical Secretariat of the Presidency (SETEC) and the support of the social and economic cabinets, has also been supported by technical assistance from the World Bank, the Interamerican Development Bank (IDB) and the United Nations Development Program (UNDP). The World Bank has taken the lead role in terms of poverty assessment, including a qualitative poverty and exclusion study that documents the poor's perceptions about their own problems and their priorities to overcome them. In addition, it has supported various sectoral studies and seminars. It has advised on the review and formulation of the SGPRS, the participatory process, costing of indicators, and the investment portfolio. The IDB has provided technical assistance to review the strategies and the investment portfolio, and will assist SGPRS implementation, monitoring and evaluation. The UNDP has provided technical assistance, and helped finance a broadening of the participatory process and local consultation in the departments through workshops and seminars. Along with the Organization of American States (OAS), the UNDP is assisting in the National Dialogue initiated in June 2000. Bilateral donors are also supporting and participating in the planning and implementation of the participatory process and its corresponding methodology.

7. The preparatory process of the SGPRS began with discussions at three levels: (a) within the government, through meetings of the Economic and Social Cabinets, deliberations with technical personnel from the ministries, autonomous agencies, representatives from municipal, regional governments and departmental secretaries of the government; (b) with civil society, mainly through the National Council for Social and Economic Planning (CONPES), and additional meetings with other sectors of Nicaraguan society; and (c) through discussions with representatives of bilateral donors and multilateral organizations.

8. Within the framework of this participatory approach, the authorities have maintained a constant flow of information, broadened the role of the consultation process to regional departments and localities, promoted open discussions among government, citizens and donors, and strengthened policy formulation, monitoring and evaluation capabilities. Citizens are now being provided with information about the public investment program at local level, as well as on their role in the formulation process. The goal was not only to build consensus, but also to ensure this strategy became a truly national project.

9. The comments of those consulted and their recommendations for every phase of the strategy have been included in matrices. These span poverty assessment and strategies to goal selection, the investment portfolio and the Interim Poverty Reduction Strategy Paper (I-PRSP). Those completed before the I-PRSP are included in that paper; those since are in this annex. The draft documents for discussions and the I-PRSP were available throughout the entire process of meetings in the departments, workshops, working sessions, as well as by specific request. They are also available on the web page, <http://www.setec.gob.ni>

10. During June 2000 - December 2001 the government, with the UNDP and government of Denmark, undertook a formal program to facilitate the contributions, broad participation and consensus building on the SGPRS. This National Program for the Analysis and Formulation of Public Policy (PRANAFP) systematized participatory mechanisms, improved our analysis and decision-making processes and strengthened public communication efforts. The program provided technical support, seminars and workshops to CONPES and its members, political parties, the private sector, NGO's, local development organizations, the Association of Nicaraguan Municipalities (AMUNIC) and the National Council for Sustainable Development (CONADES). It has also supported development of the follow-up indicators to the Stockholm Accords, the elaboration of the document "One Nation, Many Voices" presented in Washington in May 2000, the methodology for the National Dialogue, studies to improve social and economic policies and data, and The Nicaragua Human Development Report 2001.

11. CONPES, the entity in charge of monitoring and evaluating the strategy and commitments, is developing and improving its own organizational structure and agenda. (See section B for a full description of CONPES). At this stage, CONPES' emphasis is not only on the activities related to the SGPRS, but other public policy issues as well. CONPES through PRANAFP received basic technical assistance in fields such as statistics, database management, research and communications, and has also received some foreign assistance, particularly from the Economic and Social Council of Spain.

12. The presentations, workshops and recommendations made during the sessions with mayors, departmental secretaries of the government and territorial representatives from the Nicaraguan Institute for Municipal Development (INIFOM) led to discussions in other places of the country. Later experience was gained from sessions of the expanded CONPES in Jinotega and Matagalpa as well as in Chinandega and León. Since September 2000 (i.e., after circulation of the I-PRSP), workshops were held in 9 departments -- Rivas, Boaco, Nueva Segovia, Jinotega, Matagalpa, Madriz, Río San Juan, RAAS, and RAAN -- with members of civil society (citizens and members of institutions not necessarily affiliated to CONPES), and regional government representatives to discuss the I-PRSP in detail, and to provide inputs for the process.

13. Further steps were taken to plan the methodological, technical and logistical details to ensure a more open and helpful process. Two initial workshops were held in 2000, one in June with participants from outside of Managua, affiliated to members of CONPES, and one in September in Jinotega which included participants from Matagalpa. These were held to obtain opinions and ideas for the formulation and implementation of the above local consultation process. Some members of the donor community also participated. With the assistance of the UNDP and the United Kingdom a local consultation project, PROCONSULTA, was developed to institutionalize the process with proper participation and methodology. This first stage provided the experience to go ahead with the recent and more widespread local consultations as well as the organisation of 16 focus groups in Madriz, Nueva Segovia, Jinotega, Matagalpa, Boaco, RAAS, Río San Juan, and RAAN with the urban and rural extremely poor. A second stage, a 30 month program, will expand and deepen this local consultation process, as well as develop municipal work plans. Some donors have expressed interest in assisting this phase, particularly the IDB, because of the linkage to its program in support of the implementation, monitoring and evaluation of the SGPRS. The World Bank, IDB, UNDP, DFID, and other bilateral donors have participated and observed the local consultation process.



14. The implementation, monitoring and evaluation procedure also stresses participative processes. The civil society and government will thus be in a position to develop mechanisms for: (a) ranking national priorities and improving the design of public policies, strengthening the budgeting and investment processes, and monitoring government institutions and programs, (b) promoting networks, or working groups, to respond to the information and research needs of CONPES and citizens, to spell out objectives, build consensus and strengthen the environment for change; (c) better utilizing donor funds and experience; and (d) discussing the SGPRS investment program and its process at departmental/municipal level, and providing the necessary information and linkages for involvement and feedback.

15. Many other consultation processes took place. For instance, in March 2000 MARENA initiated a series of consultations for the formulation of the Environmental Policy and Action Plan (PANic). The first stage consisted of 45 workshops that included all the municipalities in Nicaragua. Some of these workshops included 153 indigenous communities in their own villages and their own language. A second stage was initiated in June with 17 workshops held at departmental level. Among the participants were mayors, community leaders, local NGOs, project directors, churches, cooperatives, small producers, candidates for the upcoming municipal elections, police, army, women, universities and government institutions. The Ministry of Agriculture and Forestry along with the Environmental and Natural Resource Commission of the National Assembly developed a consultation process on forestry policies and strategies. In drawing up its Municipal Development Plan the city of Managua undertook a broad consultation process, with an array of government institutions, the private sector, community organizations, professional associations, NGO's and others. Civil society has also developed its own consultation processes. From February to April 2001, FUNDEMOS, a national NGO, undertook a consultation process at national level on the public investment formulation process, with a detailed analysis of local investment projects. This was carried out with government support. At the same time, the CCER, a confederation of NGOs, conducted a more comprehensive public debate of the SGPRS in all regions of the country, providing additional inputs. Four municipalities of the northern region of León, Santa Rosa del Peñon, El Jicaral, El Sauce and Achuapa, with assistance from government institutions and donors, have developed individual and combined poverty reduction strategies using a comprehensive local consultation process over the last year.

### **III. PRSP Working Sessions**

#### **A. Government**

16. The Government began its discussion on poverty and a strengthened strategy to reduce it, by reassessing its own thinking on poverty. Since November 1999, the Economic and Social Cabinet has discussed the topic with technical personnel from the various ministries, autonomous agencies and representatives from municipal and regional governments. The government then met with representatives of bilateral donors and multilateral organizations in Nicaragua to discuss ideas and receive feedback.

17. The following table reflects some of the meetings and workshops held by government institutions. Those related to the review and rationalization of the public investment programs 2001-2003, received support from the World Bank and the IDB, which are providing technical

assistance to the National System of Public Investments (SNIP). Many other meetings with technical staff complemented these consultations.

### Government: Working Sessions

| Date               | Institution  | Topic   |
|--------------------|--|---|
| <b>1999</b>        |  |   |
| November 9         | Economic and Social Cabinet  | Agenda for the PRSP and poverty assessment  |
| November 13 and 16 | MECOVI technical commission  | Methodological aspects and criteria for poverty measurement surveys   |
| November 26        | Technical staff of social sector ministries  | Coordination, work agenda and poverty assessment  |
| <b>2000</b>        |  |   |
| January 11         | Economic Cabinet   | Presentation and discussion of poverty strategy and participatory process   |
| February 28        | Mayors, departmental secretaries of the government and INIFOM's delegates                  | Workshop on the poverty strategy, the PRSP process and organization of working groups with a local perspective  |
| March 3            | Government institutions (SETEC/UNDP)   | Presentation on the roles of CONPES, PRANAFP and the PRSP   |
| March 8            | SETEC/SNIP, general and specific directors of cooperation, projects and programs           | Presentation and discussion of the PRSP, analysis and review of the investment portfolio, participatory process, agenda and work teams and inter-institutional coordination |
| May 1              | Economic and Social Cabinet  | Presentation and discussion of the goals and investment portfolio of the PRSP and the next steps  |
| May 8              | Mayors, departmental secretaries of the government and INIFOM's delegates                  | Presentation and discussion of the goals and investment portfolio of the PRSP and next steps  |
| May 17             | SETEC/SNIP, directors and technical staff from units of cooperation, projects and programs | Workshop and seminar for the formulation of the public investment program 2001-2005   |
| May 18             | SETEC/SNIP directors and technical staff of the economic and social infrastructure sectors | Methodology, objectives and strategy for the public investment policy for social infrastructure   |
| May 18             | Mayors and departmental secretaries  | Workshop on the recommendations for the PRSP -- goals and investment portfolio  |
| May 19             | SETEC/SNIP directors and technical staff from units of cooperation,                        | Methodology, objectives and strategy for the public investment policy for the production sector   |

| <b>Date</b>            | <b>Institution</b>  | <b>Topic</b>   |
|------------------------|---|--|
|                        | projects and programs of the production sector              |  |
| June 21                | MECD, MINSA, MHCP, MIFAMILIA, SAS, IDR, FISE, INIFOM, SETEC | Program to support the implementation of the PRSP                |
| July 11                | SETEC-SNIP, MINSA, MECD                                     | Investment portfolio, annual budget 2001                         |
| July 12                | SETEC-SNIP, ENACAL, INIFOM, MINGOB, IDR                     | Investment portfolio, annual budget 2001                         |
| July 13                | MIFAMILIA, MAGFOR, INVUR, INTA, INAFOR, MTI, MARENA, INETER | Investment portfolio, annual budget 2001                         |
| July 17                | ENEL, CNE   | Investment portfolio, annual budget 2001                         |
| July 20                | Regional Governments RAAN and RAAS                          | Investment portfolio, annual budget 2001                         |
| July 20                | MARENA, MHCP, MTI, BCN, SETEC, UCRESEP                      | Workshop on the environmental policy and action plan             |
| August 15, 16          | MARENA, MHCP, MIFAMILIA, SAS, IDR, FISE, INIFOM, SETEC      | Program to support the implementation of the PRSP                |
| September 7, 8         | SNIP-Government Institutions                                | Workshop on the PIP formulation process                          |
| September 18           | Government Institutions                                     | Workshop on communication strategy and the I-PRSP                |
| September 19           | Government institutions spokespersons                       | Workshop on the I-PRSP   |
| September 28, 29       | Social and productive sectors                               | Workshop on implementation of the I-PRSP                         |
| October 12, 13, 14     | Social and productive sectors                               | Workshop on implementation of the I-PRSP                         |
| <b>2001</b>            |   |  |
| January 10             | Social Cabinet  | Presentation of the extreme poverty map                          |
| January 15             | Social sector technical staff                               | Review investment portfolio                                      |
| February 26 to March 2 | SETEC/SNIP, INEC, MINSA, FISE, MECD                         | SINASIP-national system for the monitoring of poverty indicators |
| May 18-25              | SNIP / Social and rural development sector                  | Classification, review and reformulation of investment programs  |

**Government: Sectoral Working Sessions**

| <b>Pillar</b>          | <b>Date</b>             | <b>Institution</b> | <b>Topic</b>  |
|------------------------|-------------------------|--------------------|---|
| <b>ECONOMIC GROWTH</b> | March 21, 22, 2000      | MAGFOR, INTA, IDR. | Strategy, goals, investment and financing portfolio   |
|                        | March 28                | MAGFOR, INTA, IDR. | Investment portfolio  |
|                        | March 28                | MIFIC/INPYME       | PYMES investment proposals  |
|                        | April 8, 25             | MIFIC              | Investment and financing portfolio  |
|                        | June 9                  | IDR- SNIP          | Investment program 2001-2005, targets and indicators  |
|                        | June 13, 15             | MAGFOR-SNIP        | Investment programs 2001-2005, targets, indicators, on-time information and implementation  |
|                        | June 15                 | OTR (MHCP)-SNIP    | Investment program, new ones for rural land titling and Indian communities land demarcation |
|                        | February 6, 8, 15, 2001 | MAGFOR             | Policy actions  |
|                        | March 15                | MAGFOR             | Forestry law  |
|                        | May 14                  | MAGFOR             | Policy actions  |
| <b>HUMAN CAPITAL</b>   | November 10, 1999       | MECD               | Sector strategy   |
|                        | November 12             | MINSA              | Sector strategy   |
|                        | December 9, 10          | MINSA              | Sector strategy   |
|                        | December 14             | MINSA              | Goals, indicators, investment programs and financing  |
|                        | December 14             | MECD/INATEC        | Goals, indicators and investment programs.  |
|                        | December 17             | MINSA              | Goals, indicators and investment programs   |
|                        | December 20             | INATEC             | Sector strategy and recommendations   |
|                        | December 21             | MECD               | Goals, indicators and investment programs   |
|                        | March 13, 15, 2000      | MINSA              | Review the strategy, targets, indicators and investment programs                            |
|                        | March 22                | MECD               | Review the strategy, targets, indicators and investment programs                            |
|                        | March 23                | INATEC             | Investments and financing   |
|                        | March 27, 31            | INTECNA            | The strategy, investment and financing  |

| <b>Pillar</b> | <b>Date</b>                   | <b>Institution</b>          | <b>Topic</b>  |
|---------------|-------------------------------|-----------------------------|---|
|               | March 28                      | INATEC                      | Review investment programs                                  |
|               | March 28, 29                  | MECD                        | Investment programs   |
|               | April 5                       | INTECNA                     | Investment programs   |
|               | April 6, 12                   | INATEC                      | Investment programs   |
|               | June 6, 8, 14, 16, 20, 26, 30 | MINSA                       | Analysis of programs.                                       |
|               | June 8                        | MECD/SNIP                   | Investment program 2001-2005, legal issue and indicators    |
|               | June 8                        | MINSA/SNIP                  | Investment program 2001-2005, municipal data and indicators |
|               | June 14, 16, 20               | MINSA                       | Planning Dept.  |
|               | June 8, 15, 26                | MINSA                       | Nutrition Department programs                               |
|               | June 21, 27                   | MINSA                       | Maternity   |
|               | June 13                       | INATEC/SNIP                 | Investment program 2001-2005, targets and indicators        |
|               | June 15                       | MINSA                       | Nutrition Dept.   |
|               | June 26, 30                   | MECD                        | Statistics  |
|               | June 28                       | SAS                         | Population  |
|               | July 3, 4                     | MECD                        | Statistics  |
|               | July 28                       | MINSA                       | Planning Dept.  |
|               | July 5                        | MECD/ASEN                   | Support program   |
|               | July 12, 13                   | SAS                         | Population  |
|               | July 14                       | Despacho de la Primera Dama | Population  |
|               | July 17, 20                   | BID, CNU, FENUP, and others | Technical education   |
|               | July 21, 26                   | COSUP                       | Technical education   |
|               | August 11                     | INTECNA                     | Technical education   |
|               | August 14                     | MECD                        | National education plan                                     |
|               | August 15                     | SAS                         | Population  |
|               | August 16, 17                 | EDUQUEMOS                   | Education   |
|               | August 21, 23                 | MINSA                       | Planning Dept., indicators                                  |
|               | August 24                     | SAS/FNUAP                   | Reproductive health   |
|               | August 28                     | MECD                        | National education plan                                     |
|               | September 8, 21               | MINSA                       | Planning Dept.  |
|               | September 12                  | COSUP                       | Technical education   |
|               | September 25                  | MECD                        | Statistics  |
|               | September 27                  | SAS                         | Population  |
|               | October 2                     | SAS                         | Population  |
|               | October 11, 16, 17, 18, 19    | MINSA                       | Planning Dept.  |
|               | October 20                    | SAS                         | Population  |
|               | November 24                   | COSUP                       | National education plan                                     |

| <b>Pillar</b>                               | <b>Date</b>               | <b>Institution</b>              | <b>Topic</b>   |
|---|---------------------------|---------------------------------|--|
|   | November 29               | MINSA                           | Presentation of I-PRSP and poverty map to general and specific area directors            |
|   | November 30<br>December 1 | MINSA                           | Presentation of I-PRSP, extreme poverty map and indicators to SILAIS directors and staff |
|   | December 5, 6             | MINSA                           | Discussion on nutrition policy, and poverty map with nutrition programs                  |
|   | December 26               | MINSA                           | Presentation of I-PRSP to technical staff  |
|   | February 28,<br>2001      | MINSA/SIL AIS                   | Presentation of I-PRSP to technical staff  |
|   | March 16                  | MECD                            | Presentation of I-PRSP to departmental delegates   |
|   | March 20                  | MINSA/CIASS                     | Presentation of I-PRSP to interinstitutional support commission                          |
|   | May 24                    | SAS                             | Workshop on citizens participation policies  |
| <b>SOCIAL INFRASTRUCTURE</b>                | March 21-23,<br>2000      | MTI, ENACAL and INVUR           | Investment and financing programs  |
|   | March 27-29               | MTI, ENACAL and INVUR           | Draft investment programs  |
|   | March 29                  | CNE                             | Daft investment programs   |
|   | June 7                    | ENACAL-SNIP                     | Investment program 2001-2005, targets and indicators                                     |
|   | June 9                    | MTI-SNIP                        | Investment program 2001-2005   |
|   | June 13                   | INVUR-SNIP                      | Investment programs, indicators, budgeting ceiling and INVUR's role                      |
| <b>PROTECTION FOR VULNERABLE POPULATION</b> | December 10,<br>1999      | MIFAMILIA                       | Population and nutrition strategy  |
|   | December 13               | SAS, MIFAMILIA, MINSA, and INIM | Population and nutrition strategy  |
|   | December 16               | MINSA and SAS                   | Population and nutrition strategy  |
|   | March 21-24,<br>2000      | MINSA, MECD, MIFAMILIA and INIM | Review of strategy, goals and investment programs  |
|   | March 30                  | MINSA, MIFAMILIA, SAS and INIM  | Investment programs  |
|   | March 31                  | MIFAMILIA                       | Investment portfolio   |

| <b>Pillar</b>                                | <b>Date</b>                    | <b>Institution</b>              | <b>Topic</b>   |
|--|--------------------------------|---------------------------------|--|
|  | April 4, 6                     | MINSA,<br>MIFAMILIA and<br>INIM | Investment portfolio   |
|  | April 6, 10                    | INATEC                          | Investment portfolio and<br>financing                              |
|  | April 10                       | MIFAMILIA                       | Investment portfolio   |
|  | June 7                         | MIFAMILIA                       | School nutrition programs and<br>social protection network         |
|  | June 12                        | SAS-SNIP                        | Investment program 2001-2005<br>targets and indicators             |
|  | June 14                        | MIFAMILIA-SNIP                  | Investment programs and<br>coordination with INIM                  |
|  | June 15                        | MIFAMILIA                       | Presentation of pillars, policy<br>actions and investment programs |
|  | July 10                        | MIFAMILIA, INIM                 | Investment programs  |
|  | February 1, 2001               | MIFAMILIA                       | Presentation of I-PRSP   |
| <b>ENVIRONMENT<br/>AND<br/>VULNERABILITY</b> | March 16, 20,<br>2000          | CONADES                         | Recommendations on the strategy<br>and investment programs         |
|  | March 21, 24                   | MARENA                          | The strategy and investment<br>portfolio                           |
|  | March 28, 31                   | MARENA- SNIP                    | Develop draft programs and<br>financing                            |
|  | April 4                        | MARENA                          | Environmental component of<br>PROTIERRA.                           |
|  | April 25                       | CONADES                         | Investment programs and<br>financing                               |
|  | June 14                        | MARENA                          | Investment program 2001-2005,<br>targets and indicators            |
|  | July 20                        | MARENA-<br>Institutions         | Presentation of the PANIC  |
|  | November 27                    | MARENA                          | Proposed land use and<br>management regulations                    |
|  | January 5, 11,<br>18, 23, 2001 | MARENA                          | Policy actions and programs  |
|  | January 9                      | SNPMAD                          | Policy actions and programs  |
|  | February 1                     | SNPMAD                          | Policy actions and programs  |
|  | February 2                     | MARENA                          | Policy actions and programs  |
|  | February 6                     | INETER                          | Policy actions and programs  |
|  | April 2                        | MARENA                          | PANic  |
|  | May 3, 15                      | MARENA                          | PANic and SGPRS policy actions                                     |
| <b>DECENTRALIZA-<br/>TION</b>                | March 3, 2000                  | INIFOM, CSD,<br>PROTIERRA       | Workshop on decentralization                                       |
|  | March 15                       | INIFOM-CSD                      | Workshop with mayors and<br>departmental secretaries               |

| <b>Pillar</b> | <b>Date</b>      | <b>Institution</b>           | <b>Topic</b>  |
|---------------|------------------|------------------------------|---|
|               | March 20, 22-24  | INIFOM-CSD                   | Review strategy and investment programs.  |
|               | March 27-28      | INIFOM-SNIP                  | Development of draft programs   |
|               | March 30-31      | INIFOM-SNIP                  | Development of draft programs   |
|               | April 1, 4, 5    | INIFOM                       | Information and new study on decentralization. Programs and PROTIERRA's new phase |
|               | June 7           | INIFOM-SNIP                  | Investment program 2001-2005, goals and indicators.                               |
|               | August 31        | INIFOM                       | CDS   |
|               | September 20     | INIFOM-FISE                  | Implementation support program  |
|               | October 3        | INIFOM                       | Decentralization  |
|               | December 12      | INIFOM                       | Presentation of I-PRSP and municipal development                                  |
|               | January 24, 2001 | INIFOM                       | Decentralization strategy   |
|               | February 8       | INIFOM, FISE, IDR            | Decentralization policy and strategy  |
|               | February 20      | Municipalities of León Norte | Municipalities and the SGPRS  |
|               | March 2          | CSD                          | Decentralization policy and strategy  |
|               | April 24         | CSD                          | Decentralization policy and strategy  |

## **B. Civil Society**

### **THE NATIONAL COUNCIL FOR SOCIAL AND ECONOMIC PLANNING (CONPES)**

#### **Background and Purpose of CONPES**

18. The legal base for CONPES is article 150, clause 13, of the National Constitution, which gives the president of Nicaragua a mandate to create it as a counseling entity to assist in the development of social and economic plans. Decree No.15-99 created CONPES on February 1999. The decree takes into account the participation of the many sectors of society involved in the social and economic development of the country.

19. CONPES has the following functions:

- Advise the president in policy formulation, and monitor and evaluate social and economic programs.
- Be informed about structural adjustment programs, and oversee the investment portfolio (projects and programs).
- Make recommendations on the annual budget.
- Advise the president on any issue of national interest.



## Inauguration and Members

20. Presidential Decree No. 295-99, established the membership of CONPES on August 25, 1999. On February 18, 2000, the government coordinators for the North and South Autonomous Regions of the Atlantic, RAAN and RAAS, were included. By Decree 39-2001 of May 2, 2001, the Minister of Labor and the Association of Nicaraguan Municipalities (AMUNIC) were added as members of CONPES. Membership is broad-based; for example all political parties were invited to join, although a few declined. The Conservative Party was incorporated as an observer in July 2001.

### CONPES Members

| <b>Coordinator and Executive Secretariat</b>                                |   |
|---|---|
| <b>Coordinator</b>  | Luis Duran Downing                                |
| <b>Executive Secretary</b>  | José Luis Velázquez                               |
| <b>Private Sector</b>   |   |
| <b>Superior Council for Private Enterprise (COSEP)</b>                      | Roberto Terán<br>Willy Rivas Icaza                |
| <b>Nicaraguan Private Banks Association (ASOBANP)</b>                       | Luciano Astorga<br>Marcos Narváez                 |
| <b>American Nicaraguan Chamber of Commerce (AMCHAM)</b>                     | Armando Castillo<br>Agustín Fuentes               |
| <b>National Union of Agriculture and Cattle Breeders (UNAG)</b>             | Daniel Núñez Rodríguez<br>Lidia Darce             |
| <b>Nicaragua Farmers Association (UPANIC)</b>                               | Oscar Alemán Cruz<br>Gerardo Blandón              |
| <b>Labor Unions</b>   |   |
| <b>Permanent Workers Congress (CPT)</b>                                     | Nilo Salazar Aguilar<br>Manuel Castillo           |
| <b>National Workers Front (FNT)</b>   | José Antonio Zepeda                               |
| <b>Community-Based Organizations</b>  |   |
| <b>Boards for Community Development (JCOP)</b>                              | Carlos Valle Guerrero<br>Martha Guillén de Lizano |
| <b>Nicaraguan Community-Based Movement (MCN)</b>                            | Ramón Gámez Rodríguez<br>Mario Ordóñez Herrera    |
| <b>NGOs</b>   |   |
| <b>Civic Coordinating Group for the Emergency and Reconstruction (CCER)</b> | Violeta Granera Padilla<br>Amado Ordóñez Mejía    |

| <b>Universities</b>                                      |   |
|--|---|
| <b>National Universities Council (CNU)</b>               | Ernesto Medina Sandino<br>Francisco Telémaco Talavera |
| <b>Political Parties</b>                                 |   |
| <b>National Conservative Action (ANC)</b>                | Frank Duarte Tapia<br>Luisa Duarte de López           |
| <b>Sandinista National Liberation Front (FSLN)</b>       | Sinforiano Cáceres<br>Juan Manuel Caldera             |
| <b>Nicaraguan Christian Way Party (PCCN)</b>             | Frank Sarria García<br>Delia Arellano Sandoval        |
| <b>Neo-Liberal Party (PALI)</b>                          | Alexis Fernández Fernández                            |
| <b>Constitutionalist Liberal Party (PLC)</b>             | Leopoldo Navarro<br>José Rizo Castellón               |
| <b>Nationalist Liberal Party (PLN)</b>                   | Adán Bermúdez Urcuyo<br>María Mercedes Roa            |
| <b>Liberal Party for National Unity (PLIUN)</b>          | Nicolás Leytón<br>Augusto López                       |
| <b>Social Christian Party of Nicaragua (PSC)</b>         | Abel Reyes Téllez<br>Francisco Campos                 |
| <b>National Project (PRONAL)</b>                         | María Elena Palacios                                  |
| <b>Municipalities</b>                                    |   |
| <b>Association of Nicaraguan Municipalities (AMUNIC)</b> | To be nominated                                       |
| <b>Government</b>  |   |
| <b>Minister of Foreign Affairs</b>                       | <b>Minister of Finance</b>                            |
| <b>Minister of Development, Industry and Trade</b>       | <b>Minister of Agriculture and Forestry</b>           |
| <b>Minister of Labor</b>                                 | <b>Secretary of the Presidency</b>                    |
| <b>President of the Central Bank</b>                     | <b>Secretary for Social Action</b>                    |
| <b>Technical Secretary of the Presidency</b>             |   |
| <b>Autonomous Regions of the Atlantic</b>                |   |
| <b>Government Coordinator RAAN</b>                       | <b>Government Coordinator RAAS</b>                    |

### Operational Mechanism

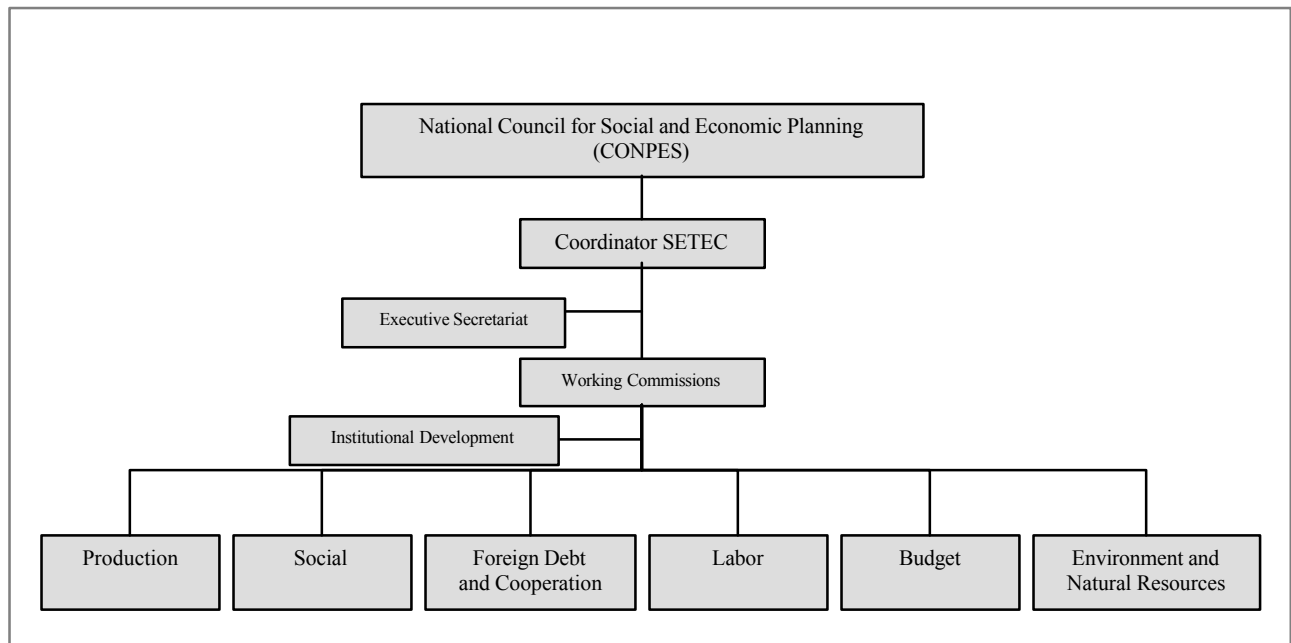
21. On September 2, 1999, by Presidential Decree No. 310-99 the Technical Secretary of the Presidency was appointed the coordinator of CONPES. During the October 1999, a number of meetings took place between members of government and members of the organizations represented in CONPES to discuss the legal context of CONPES and explore ideas that members of the CONPES had on national issues and about the structure of CONPES itself.

22. CONPES has met 37 times in plenary sessions since its inauguration in August 1999. In its earlier meetings it dealt with topics such as objectives, organizational structure, and conformation of working groups or commissions. Later sessions discussed the social and economic policy of the government, the national budget and the annual budgets for 2000 and 2001, Consultative Group Meetings, the PRSP, and the reform of the social security system. Members of the IDB Board of Directors attended a presentation by CONPES on its 24<sup>th</sup> session, held on July 22, 2000.

23. At the outset, CONPES organized itself around five working groups or commissions: Production, Social, Foreign Debt and Cooperation, Labor and Environment and Natural Resources. On June 2, 2000, a commission for Institutional Development was added to make proposals to strengthen, improve and broaden participation. As the workload increased, and the need to deal with specifics of the annual budgets, a Budget commission was established in late 2000.

24. On October 16, 2000, by Presidential Decree No. 108-2000 the National Production Commission was established to make recommendations on the formulation, implementation and follow-up of policies that have an effect on agricultural production, competitiveness, technology generation and transfer, technical assistance and financing. This new national commission includes CONPES, the CONPES Coordinator, the ministers of Finance, MAGFOR, MARENA and MIFIC, the president of the Central Bank and a representative from every one of the national producers' associations that are not represented at CONPES. In turn, the National Production Commission is a member of CONPES' Production commission.

25. The organizational chart of the CONPES is the following:



26. Rules were established in spirited debates, defining the functions of CONPES, its coordinator, the executive secretariat and the various commissions. Presidential Decree No. 434-99 established the norms and regulations, and the following structures: the Plenary Council, the working Commissions and the Executive Secretariat.

27. The Tripartite Committee of CONPES, a coordinating body of representatives from government, civil society, donors and PRANAFP, have contracted technical assistance to advise on specific topics of the SGPRS process and the budget. This approach has improved the analytic capabilities of CONPES members and their ability to make recommendations. The World Bank, the IDB, the UNDP and bilateral donors have all provided support and technical assistance for this participatory process. CONPES has held workshops to design its organizational structure.

### Activities and Meetings of CONPES

28. The CONPES started functioning on October 13, 1999. Its plenary sessions took place on the following dates:

#### CONPES' Plenary Sessions

| Session          | Date        | Topic  |
|------------------|-------------|--|
| <b>1999</b>      |             |  |
| 1 <sup>st</sup>  | November 8  | Objectives, composition and structure of CONPES.<br>Government's social and economic policy.<br>Draft of annual budget legislation 2000.   |
| 2 <sup>nd</sup>  | November 11 | 1998 LSMS, agenda for the year 2000.   |
| 3 <sup>rd</sup>  | November 16 | Rules, regulations and structural organization of CONPES   |
| 4 <sup>th</sup>  | November 23 | Recommendations on the poverty assessment document.<br>Structural organization and objectives of CONPES.   |
| 5 <sup>th</sup>  | November 30 | Objectives and goals of the ESAF, financial and fiscal programs, review and approval of CONPES' regulations.   |
| 6 <sup>th</sup>  | December 3  | Reform to the INSS's Pension Law and working groups - government, private sector and labor unions.   |
| 7 <sup>th</sup>  | December 10 | Agenda and objectives of the PRSP, issues of production, infrastructure, social and population policy, labor market, foreign debt and cooperation and costs of basic services.<br>Others: property rights, public safety, disaster prevention and the environment. |
| 8 <sup>th</sup>  | December 15 | Operational mechanism and five commissions: Production, Social, Labor, Environment and Natural Resources, Foreign Debt and Cooperation.  |
| <b>2000</b>      |             |  |
| 9 <sup>th</sup>  | January 11  | Monitoring of commitments of the Consultative Group of Stockholm; report on the elaboration of the PRSP.   |
| 10 <sup>th</sup> | January 28  | Draft of recommendations by the commissions to the PRSP.   |
| 11 <sup>th</sup> | January 31  | Postponement of the Consultative Group meeting in  |

|                  |             |   |
|------------------|-------------|---|
|                  |             | Managua and proposal for the new members of the Electoral Council, Supreme Court and Comptroller's Office.  |
| 12 <sup>th</sup> | February 2  | First draft of recommendations by the commissions for the PRSP.   |
| 13 <sup>th</sup> | March 9     | Approval of recommendations for the PRSP.   |
| 14 <sup>th</sup> | March 10    | Presentation of recommendations for the PRSP to the donor community.  |
| 15 <sup>th</sup> | March 17    | Presented to expanded CONPES, second draft of the document, "One Nation, Many Voices: Society, Government and Economy in the New Millennium".   |
| 16 <sup>th</sup> | March 31    | Recommendations on the document "One Nation, Many Voices".  |
| 17 <sup>th</sup> | April 5     | Expanded CONPES, civil society from Matagalpa and Jinotega, to discuss, "One Nation, Many Voices".  |
| 18 <sup>th</sup> | April 7     | Expanded CONPES, civil society from León and Chinandega to discuss, "One Nation, Many Voices".  |
| 19 <sup>th</sup> | May 2       | Presentation of the second part of the PRSP: Goals and Investment portfolio, and process to draft recommendations.  |
| 20 <sup>th</sup> | May 5       | Expanded CONPES, branches of government and donors; presentation of the document, "One Nation, Many Voices".  |
| 21 <sup>st</sup> | June 2      | The Consultative Group meeting in Washington.<br>Functioning of CONPES.<br>Problems and methodology for the participatory process, and recommendations on PRSP- Goals and Investment portfolio.<br>The National Dialogue.                           |
| 22 <sup>nd</sup> | June 9      | Technical staff that will work with the two commissions on the recommendations to PRSP, 1-) Production, environment and foreign cooperation, and 2-) Social, infrastructure and decentralization.<br>CONPES participation in the National Dialogue. |
| 23 <sup>rd</sup> | July 10     | Commissions' recommendations to PRSP-Goals and Investment portfolio.<br>Tripartite Commission report about the National Dialogue.<br>CONPES administrative issues.  |
| 24 <sup>th</sup> | July 22     | Report on the exploratory stage of the National Dialogue.<br>Presentation to visiting directors of the IDB.   |
| 25 <sup>th</sup> | July 27     | The HIPC, training program for budget analysis.   |
| 26 <sup>th</sup> | August 3    | CONPES and the HIPC initiative.<br>Verification commission for The National Dialogue and its regulations.<br>Report of visit to Mexico by CONPES delegation.<br>Naming of CONPES representatives in PRANAFP.  |
| 27 <sup>th</sup> | August 22   | Process and methodology for the National Dialogue, (Tripartite Commission- CONPES, UNDP, OAS).<br>Others.   |
| 28 <sup>th</sup> | September 4 | CONPES commission and working plans.  |

|                  |              |  |
|------------------|--------------|--|
|                  |              | Presentation to the president of the draft of the CONPES 2000 Annual Report, others.   |
| 29 <sup>th</sup> | September 27 | Presentation of the proposed Annual Budget Law for 2001, Ministry of Finance.<br>Presentation of the I-PRSP, others.                                 |
| 30 <sup>th</sup> | October 9    | Approval of CONPES recommendations to the Annual Budget Law 2001, others.  |
| 31 <sup>st</sup> | November 14  | Report on the incorporation of CONPES recommendations to the Annual Budget Law 2001 by the Ministry of Finance.                                      |
| 32 <sup>nd</sup> | November 28  | Closing session for the period 2000.   |
| <b>2001</b>      |              |  |
| 33 <sup>rd</sup> | January 9    | Opening Session. Agenda 2001. Topics: the consultation process and the follow up to the I-PRSP, the National Dialogue and the functioning of CONPES. |
| 34 <sup>th</sup> | January 30   | Work program for 2001, FSS representative chosen, and request to social commission to review I-PRSP.   |
| 35 <sup>th</sup> | March 23     | Agenda with CONADES, representation in PRANAFP and report by the National Production Commission  |
| 36 <sup>th</sup> | May 7        | Execution of the budget 2001 and perspectives for the budget 2002  |
| 37 <sup>th</sup> | July 3       | PRSP Recommendations   |

29. Since their inauguration, the CONPES' commissions have held more than 200 meetings, as detailed in the following table. These commissions have worked on the issues raised at CONPES, such as strategic policies for the productive and social sectors, free trade agreements, debt relief and the HIPC initiative, public investment and foreign cooperation, fiscal policies, the budget for 2001 and perspectives for 2002, the recommendations for the many stages of the SGPRS and the Consultative Group document, "One Nation, Many Voices". CONPES is free to decide how to organize its commissions and how to carry out its analyses. For instance, for the preparation of the document "One Nation Many Voices" it set up four working groups: (1) ecological vulnerability, (2) macroeconomic issues, (3) governance and human rights, and (4) decentralization. For analyzing PRSP goals and investment portfolio, it set up two expanded commissions; (1) production, environment and foreign cooperation, and (2) social, infrastructure and decentralization.

30. CONPES published its first Annual Report in December 2000, describing in great detail its activities for the 1999-2000 period. The report was widely circulated and publicized.

#### CONPES Commission Meetings in 2000/2001

| Date   | Commission                              | Topics  |
|--|---|---|
| <b>2000</b><br>January 4, 6, 7, 11,<br>12, 27<br>June 14, 20, 22, 27, 29<br>July 3, 21<br>July 5, 6, 7, 21 | <b>Foreign Debt and<br/>Cooperation</b> | PRSP- Assessment and Strategy<br>PRSP- Goals and Investment Portfolio |

| Date  | Commission                               | Topics  |
|---|--|---|
| <b>2001</b><br>February 13<br>March 8<br>May 31,<br>June 7  |  |   |
| <b>2000</b><br>January 5, 12, 25, 26,<br>28<br>February 9<br>March 1<br>May 4, 8, 9, 10, 11, 17<br>June 14, 20, 22, 27, 29<br>July 3, 4, 5, 6, 7<br>October 25<br>November 21<br>December 6<br><b>2001</b><br>January 24, 25, 26, 29<br>February 6, 8, 14<br>March 9, 20<br>April 18<br>June 13 | <b>Production</b>                        | PRSP, presentations by The Central Bank and National Production Commission                                    |
| <b>2000</b><br>January 6, 13, 25<br>February 17<br>March 14, 29<br>July 11, 18, 25<br>November 24, 25<br><b>2001</b><br>January 24, 26, 31<br>February 7<br>March 26, 29<br>April 19, 23<br>May 3, 17, 31   | <b>Labor</b>                             | PRSP, meetings with MITRAB, CUS, CST, CPT and MIFIC, and seminars on labor markets and regulatory frameworks. |
| <b>2000</b><br>January 6, 24, 28<br>February 7, 15<br>March 22<br>June 14, 20, 22, 27, 29<br>July 3, 5, 6, 7<br>September 25<br>October 23<br><b>2001</b><br>February 7<br>March 5, 13<br>April 4, 16   | <b>Environment and Natural Resources</b> | PRSP, presentations by MARENA of the PANic, environmental projects, and workshops on the PANic and the SGPRS  |

| Date  | Commission                                       | Topics   |
|---|--|--|
| May 29  |  |  |
| <b>2000</b><br>January 12, 26, 31<br>February 9, 16<br>March 1<br>May 4, 10, 12<br>June 15, 21, 28<br>July 5, 6, 7<br>November 17<br>December 7<br><b>2001</b><br>January 18, 29<br>February 5, 14<br>March 7, 21, 26, 29<br>April 18, 25<br>May 2, 16, 21, 29<br>June 1, 6, 12           | <b>Social</b>                                    | PRSP, National Integrity Program, major changes in I-PRSP, fiscal policy, CONPES/SETEC, CCER and León consultation processes, and CONPES recommendations for the SGPRS.  |
| <b>2000</b><br>March 20, 22, 28   | Ecological Vulnerability                         | * <b>One Nation, Many Voices</b>   |
| <b>2000</b><br>March 20, 22, 28   | Macroeconomic issues                             | ” ”  |
| <b>2000</b><br>March 21, 23, 30   | Governance and Human Rights                      | ” ”  |
| <b>2000</b><br>March 21, 23, 30   | Decentralization                                 | ” ”  |
| <b>2000</b><br>June 12, 13, 19, 27, 28<br>July 3, 11, 17, 20, 24, 25, 31<br>August 21, 28<br>September 18, 28<br>October 2, 11, 23, 31<br>November 7, 13, 27<br>December 4, 12<br><b>2001</b><br>February 5, 12<br>March 5, 19, 22<br>April 4, 16, 18, 30<br>May 14, 21, 30<br>June 4, 11 | <b>Institutional Development</b>                 | The functioning of CONPES, to improve and broaden participation; the PRSP. The local consultation project; meetings with the Group of 5 plus Japan and COSUDE, presentation of the national education plan, free trade agreements, the human development report and diagnostic on the functioning of CONPES. |
| <b>2000</b><br>June 12, 15, 19<br>July 25<br>August 16, 18, 25<br>November 27   | <b>Tripartite Commission (CONPES, PNUD, OEA)</b> | <b>The National Dialogue</b><br>Meeting with mayors and departmental secretariats.   |



| <b>Date</b>   | <b>Commission</b>  | <b>Topics</b>   |
|---|--|---|
| December 1, 12  |  |   |
| <b>2000</b><br>August 7, 9  | Ad Hoc Commission for the elaboration of the rules for The National Dialogue |   |
| <b>2000</b><br>August 17, 18<br>September 26<br>October 4, 5, 6<br>November 16, 20<br>December 5<br><b>2001</b><br>January 31<br>February 7, 13<br>March 6, 21<br>April 5, 19, 25<br>May 15 | <b>National Budget Law</b>   | <b>Annual Budget Law 2001</b><br>Includes presentations by the Central Bank, the Ministry of Finance, SNIP, fiscal policy and the budget. |
| <b>2001</b><br>March 23<br>May 2, 18, 29<br>June 7  | <b>CONPES / CONADES<br/>Joint Commission</b>                                 | National Vision Plan  |

\* At this time CONPES decided to set up four Commissions: ecological vulnerability, macroeconomic issues, governance and human rights, and decentralization.

## **OTHER SECTORS OF SOCIETY**

### **The Local Consultation Process**

31. As the I-PRSP was finalized, the Government, CONPES and the donor community acknowledged the desirability of deepening the consultation process at the local level, although it was understood that the logistics would be difficult and effective participation would require different consultative approaches. The Department for International Development of the United Kingdom together with the UNDP assisted CONPES and SETEC in the preparation of a “SGPRS Territorial Consultation Support Project” (PROCONSULTA) to facilitate this local citizen participation.

32. After preparatory meetings and the printing of simpler, summary versions of the I-PRSP, a series of local consultation workshops, with external facilitators and participative methodology, were held in the Departments of Matagalpa and Jinotega on September 29, 2000 to obtain ideas on how to initiate the process. Consequently, a first series of departmental consultations were held in Rivas on November 22; in Boaco on December 12; and in Nueva Segovia on December 14, 2000. A second phase started in Jinotega on March 12, 2001; in Matagalpa on March 14; in Madriz on March 16; in the Autonomous Region of the South Atlantic on March 23; in Río San Juan on March 27; and in the Autonomous Region of the North Atlantic on March 29. The sessions were supported by selected departmental secretariats of the government and the government coordinators of RAAN and RAAS and included leaders from the diverse sectors of

civil society. These included many of the municipal mayors – (the outgoing, the elected, and candidates from the diverse political parties participating in the November 2000 municipal elections) the churches, local and international NGOs, foreign cooperation projects, big, medium and small producers, social services organizations, labor unions, students, professionals and representatives from the many governmental institutions present in each local territory.

33. The summary I-PRSP was presented and discussed at these meetings. In addition, the participants were provided with information and documentation on the SGPRS process and the public investment program in each locality. As part of the program, the Public Investments Office (DGIP) described the process used to develop the public investment program and indicated how citizens could actively participate. Some of these processes have been observed by some of the multilateral and bilateral donors. Some directors/managers of the foreign cooperation projects in the departments also participated.

34. Complementing the consultation process, sixteen focus groups were convened, four in December 2000 in the Departments of Madriz and Nueva Segovia and then two for each Department of Matagalpa, Jinotega, Boaco, Río San Juan, RAAS, and RAAN between March and April 2001 to deepen the government's understanding of the poor's reactions to the I-PRSP. The groups included extremely poor citizens, both urban and rural.

35. As the process deepens, more citizens and sectors are being included. With the preparatory technical assistance provided by donors and independent facilitators, workshops and seminars have been held with members of CONPES and sectors of society not present in CONPES, such as local development organizations and mass media. These have provided analyses and recommendations on specific issues of the PRSP process. Civil society groups like FUNDEMOS and the CCER provided more inputs by developing their own complementary consultation procedures. Some municipalities in northern León developed their own initiatives. All groups have shared information and experiences.

### Other Sessions with Civil Society

| Date        | Organization   | Topic   |
|-------------|--|---|
| <b>1999</b> |  |   |
| November 19 | Economists from Nicaragua and the region                                   | Foreign debt and the process for the HIPC initiative.                   |
| November 22 | CCER   | Methodologies for the 1998 LSMS, poverty line and the poverty map       |
| <b>2000</b> |  |   |
| January 17  | COSEP, UNAG, NGO's and Universities  | Proposal for the creation of a staffed technical unit for civil society |
| February 24 | Political parties (SETEC/UNDP)   | Workshop about CONPES, PRANAFP, PRSP and the participatory process      |
| February 25 | Local development organizations, Government, AMUNIC, CONADES, (SETEC/UNDP) | Workshop about CONPES, PRANAFP, PRSP and the participatory process      |

| <b>Date</b>     | <b>Organization</b>  | <b>Topic</b>  |
|-----------------|--|---|
| February 29     | NGO's, universities and research centers (SETEC/UNDP)  | Workshop about CONPES, PRANAFP, PRSP and the participatory process                          |
| March 2         | Mass media   | Workshop about the PRSP and the role of the media   |
| March 6         | Private sector and labor unions (SETEC/UNDP)   | Workshop about CONPES, PRANAFP, PRSP and the participatory process                          |
| March 16        | Agricultural frontier projects and indigenous communities (CONADES/UNDP)                             | Presentation of the PRSP and the participatory process                                      |
| June 15         | Government, CSOs, private sector, NGOs, local projects, universities and others from outside Managua | Workshop for the formulation of the consultation process in the territory                   |
| September 4, 8  | Universities   | Seminar on the causes of poverty  |
| September 6     | National Universities Council  | Presentation of the I-PRSP  |
| September 8     | Civil society/IPEA/UNDP  | Debate about poverty  |
| September 21    | Primary Health Congress  | Health and poverty  |
| September 22    | UPOLI  | Presentation of the I-PRSP  |
| September 29    | Government/CONPES/Civil Society  | Local consultation of the PRSP and the public investment program in Matagalpa and Jinotega. |
| November 14     | Municipalities of El Sauce, Achuapa, Santa Rosa, El Jicaral, IBIS- Denmark, DFID                     | Local development and citizens participation  |
| November 22     | Government/CONPES/Civil Society  | Local consultation of the PRSP and the public investment program in Rivas.                  |
| November 29, 30 | Government/Civil Society   | First national forum on migration, the PRSP, and social and economic policies               |
| December 1      | Construction Chamber   | Presentation of the I-PRSP  |
| December 12     | Government/CONPES/Civil Society  | Local consultation of the PRSP and the public investment program in Boaco.                  |
| December 14     | Government/CONPES/Civil Society  | Local consultation of the PRSP and the public investment program in Nueva Segovia.          |
| December 12, 13 | Extremely poor, urban and rural  | Focus groups of the PRSP in Somoto, Madriz.   |
| December 14, 15 | Extremely poor, urban and rural  | Focus groups on the PRSP in Ocotol, Nueva Segovia.  |

| <b>Date</b>     | <b>Organization</b>             | <b>Topic</b>  |
|-----------------|---------------------------------|---|
| <b>2001</b>     |                                 |   |
| January 24      | CONADES                         | The consultation process, the PRSP and other efforts  |
| February 13     | UCA, WB, SETEC                  | Seminar on poverty reduction  |
| March 12        | Government/CONPES/Civil Society | Local consultation of the PRSP and the public investment program in Jinotega.                 |
| March 12, 13    | Extremely poor, urban and rural | Focus groups on the PRSP in Matagalpa   |
| March 14        | Government/CONPES/Civil Society | Local consultation of the PRSP and the public investment program in Matagalpa.                |
| March 14, 15    | Extremely poor, urban and rural | Focus groups on the PRSP in Jinotega  |
| March 16        | Government/CONPES/Civil Society | Local consultation of the PRSP and the public investment program in Somoto, Madriz.           |
| March 19, 20    | Extremely poor, urban and rural | Focus groups on the SGPRS in Boaco.   |
| March 23        | Government/CONPES/Civil Society | Local consultation of the PRSP and the public investment program in Bluefields, RAAS.         |
| March 27        | Government/CONPES/Civil Society | Local consultation of the PRSP and the public investment program in San Carlos, Río San Juan. |
| March 29        | Government/CONPES/Civil Society | Local consultation of the PRSP and the public investment program in Puerto Cabezas, RAAN.     |
| April 4, 5      | Extremely poor, urban and rural | Focus groups on the PRSP in Laguna de Perlas, RAAS.   |
| April 16        | UNICA / INDES                   | Seminar on social and economic policies; the PRSP process.                                    |
| April 18, 20    | Extremely poor, urban and rural | Focus groups on the PRSP in Waspam and Siuna, RAAN.   |
| April 25 and 26 | Extremely poor, urban and rural | Focus groups on the PRSP San Carlos, Río San Juan.  |
| May 4           | CCER                            | Workshop on the preliminary results of the CCER consultation process                          |
| May 10          | CONADES                         | Presentation of the PANic and the SGPRS   |

### C. Bilateral Donors and International Organizations

36. The World Bank, the IDB, the UNDP, and bilateral donors, by way of their representative offices and missions, have been supporting the preparatory and consultation processes for the strategy with technical assistance, logistics, research and support documentation, workshops and seminars. Working groups were formed with the assistance of independent facilitators and other experts provided by the UNDP. Separate sessions were held with international NGOs at the Ministry of Foreign Affairs. The staff of the International Monetary Fund and the World Bank also provided detailed comments and assistance on some elements of the proposed strategy as it evolved. Many meetings with technical staff and working groups established by donors, in particular the Group of Six have complemented the consultation process.

#### Working Sessions: Donors and International Organizations

| DATE                | INSTITUTION                              | TOPIC  |
|---------------------|--|--|
| <b>1999</b>         |  |  |
| November 10, 17, 19 | UNFPA                                    | Population strategy and recommendations  |
| November 17         | Donors, UNDP                             | Poverty assessment and PRSP  |
| December 21         | UNDP and multi-sectoral technical staff. | Causes of poverty  |
| <b>2000</b>         |  |  |
| January 13          | Donors                                   | First draft PRSP   |
| January 24          | UNFPA                                    | Population policy and the PRSP   |
| February 17-23      | WB specialists                           | Analysis of the investment portfolio   |
| March 1             | Donors                                   | Workshop about the PRSP process and recommendations                                    |
| March 10            | WB                                       | Participatory process and mechanisms to improve it                                     |
| March 13-15         | IDB Mission                              | MINSA, the strategy, goals, indicators and investment programs                         |
| March 21-22         | IDB Mission                              | Agricultural sector MAGFOR, IDR and INTA; the strategy and investment programs         |
| March 21-23         | WB and IDB specialists                   | Social protection for vulnerable population, goals, indicators and investment programs |
| March 23            | IDB Mission                              | Municipal development  |
| March 28, 29        | IDB Mission                              | Education, the strategy, goals, indicators and investment programs                     |
| March 28-30         | IDB Mission                              | Municipal development and decentralization, INIFOM/ CSD, FISE                          |
| March 30-31         | WB, IPEA, UNDP                           | Findings of the causes of poverty  |
| April 4, 5          | WB                                       | Review of projections, goals and possible indicators                                   |

|                    |   |  |
|--------------------|---|--|
| April 6            | WB specialist                           | Analysis of the investment portfolio, work to do to adjust it to the strategy, the goals and indicators          |
| April 6, 7         | WB                                      | Seminar on the PRSP  |
| April 12           | International NGO's                     | Presentation of the PRSP and recommendations   |
| April 13,14        | IDB Mission and the Netherlands Embassy | Review strategy for nutrition, goals, indicators and investment programs   |
| April 13-14        | WB                                      | Goals and indicators for the PRSP  |
| April 15           | IDB Mission                             | Safe water and health protection   |
| May 3              | Donors                                  | PRSP: Goals and investment portfolio   |
| May 10-19          | WB specialist                           | Rationalization of the investment portfolio  |
| June 5, 6          | IDB/CNU/MECD/ others                    | University education reform  |
| June 5-16          | DFID/British Embassy                    | Support for the formulation of the local consultation process  |
| June 8             | UNFPA                                   | Support for population investment programs   |
| June 12            | WB                                      | Poverty assessment- education  |
| June 13            | WFP                                     | School's nutrition program and others  |
| June 21            | BCIE                                    | Social Transfers Fund  |
| June 19-24         | IDB Mission                             | Support for PRSP implementation  |
| June 19            | IDB Mission                             | Urban projects   |
| June 23, 26        | WB Mission                              | FISE, INIFOM   |
| June 30            | Donors                                  | Workshop about the PRSP- Goals and investment portfolio  |
| July 3             | UNFPA                                   | Population (education)   |
| July 18            | BID                                     | Technical education reform   |
| July 28            | IPEA-PNUD                               | Presentation by IPEA on poverty determinants (for CONPES members)  |
| August 2           | DFID/PNUD                               | Consultation process with CONPES   |
| August 11-25       | IDB                                     | Support program for implementation of PRSP (meeting with social and production sectors, CONPES and other donors) |
| August 18          | DFID/UNDP                               | Consultation process   |
| August 30          | UNFPA                                   | Education  |
| September 4, 5, 6  | DFID/UNDP                               | Consultation process   |
| September 7        | WB                                      | Consultation process   |
| September 12-20    | IDB                                     | Support program for PRSP implementation and CONPES (Institutional Development Comm.)                             |
| September 19       | DFID/UNDP                               | Consultation process with CONPES   |
| September 29       | UNICEF                                  | Cooperation program  |
| October 11         | BID                                     | Technical education  |
| October 12, 18, 19 | DFID/UNDP                               | Consultation process   |

|   |                     |   |
|---|---------------------|---|
| October 17                                    | WB                  | Poverty map with INEC                                 |
| October 19                                    | Italian Mission     | Development project in León                           |
| October 23, 24                                | IDB                 | Support program for PRSP implementation               |
| October 25                                    | Donors              | PRSP  |
| October 30                                    | WB                  | Poverty map with INEC and FISE                        |
| November 3, 6, 10, 13, 14, 15, 20, 21, 24, 27 | DFID/UNDP           | Consultation process CONPES / PROCONSULTA             |
| November 21                                   | BCIE Mission        | Support program for PRSP implementation               |
| November 23                                   | International NGOs  | Presentation and status of the PRSP                   |
| November 27                                   | IDB                 | Support program for PRSP implementation and CONPES    |
| November 28, 29                               | IDB                 | Urban poverty project                                 |
| November 30                                   | WB                  | Poverty map with INEC, FISE                           |
| December 11, 14                               | WB/IDB              | Loan to FISE and PRSP implementation                  |
| December 13                                   | IDB                 | Support program for PRSP implementation               |
| December 14                                   | IFPRI               | PRSP implementation                                   |
| December 15                                   | WB                  | Consultation Process                                  |
| <b>2001</b>                                   |                     |   |
| February 5                                    | BCIE/UNDP           | Poverty Analysis                                      |
| February 7                                    | UNDP/ IPEA          | Poverty analysis                                      |
| February 14                                   | GGG-Group of Six    | Decentralization                                      |
| February 23                                   | Donors              | The PRSP process                                      |
| February 26 – March 2                         | IDB mission         | Support program for SGPRS implementation              |
| March 30                                      | DFID, UNDP          | The consultation process and next steps               |
| April 3                                       | Donors/Group of Six | Coordination mechanisms                               |
| April 16-20                                   | IDB mission         | Urban poverty project                                 |
| April 17-20                                   | IDB mission         | Municipal development and strengthening               |
| May 3   | DFID, UNDP          | The consultation process, its results and experiences |

#### IV. Summary of Comments and Recommendations made on the I-PRSP

37. A summary follows of the main comments and recommendations made during the consultation process since the I-PRSP was circulated. These came from participants in local consultations, from CONPES and from multilateral organizations and donors. Many of these suggestions have been incorporated into the full PRSP, others will guide the SPRS implementation.

38. An exhaustive account of all the comments and recommendations made are summarized by pillars. In general terms, all participants were interested in sharing information and improving and institutionalizing the participatory process and its results.

## **A. Comments from the Local Consultation Process**

### **I. Consultation with local leaders**

#### **The Consultation Process and Government's Commitment**

39. The people consulted mentioned that positive aspects of the consultation process included the effort made by the government to elaborate a Strengthened Poverty Reduction Strategy with a broad participation of all sectors without any political, religious or other distinction. The dissemination of data on public investment in the territory was also recognized as valuable information to support the strengthening of capabilities at the local level for determining priorities.

40. According to workshop participants, the development of the SGPRS should be a transparent process, supported by widespread dissemination, taking into consideration the municipalities and opening up to citizen participation. It should be a sustained effort, to ensure domestic and international credibility, and not be perceived solely as a condition for access to the HIPC initiative but rather as an opportunity to overcome poverty.

41. Emphasis was given to: the importance of access to socio-economic information, considered a vital element for the SGPRS implementation, which should be respected by any elected government; the involvement of civil society in the search for solutions; and a shared interest in improving the poverty index.

42. With regards to the institutionalization of the consultation, they recommended that participation at different levels -- national, regional, departmental, municipal and community -- be strengthened by means of appropriate structures such as CONPES, regional and departmental forums, as well as municipal and community development committees. They also recommended that the actions of these committees be strengthened through training for their members, representative selection of their leaders, the participation of local institutions. Participants also recommended more participation of municipal authorities to facilitate the integration of the population and the formation of citizens' committees to support municipal council management.

43. In order to carry out the consultation process, it was suggested that information and documents be distributed in advance to ensure relevant recommendations. Also important are the incorporation of contributions, a permanent communication between the government and civil society, the dissemination of the SGPRS, the consideration of municipal governments and local development plans. They recommended that SETEC or the departmental secretariats of the government elaborate an information bulletin on the status of investment projects. A national congress or workshop might be held to consolidate the consultation process.

#### **The Poverty Profile**

44. Community leaders defined poverty as the lack of resources required for survival, or the non-satisfaction of basic necessities caused by the marginalization of the poorest sectors. Poverty was also associated with the lack of equity in the distribution of income, the scarcity of jobs, the low level of investment, the low level of education, the destruction of the environment, the lack



of planning and control of projects, the lack of government programs for the most vulnerable sectors of the population and the fact that people are not taken into account in government decisions. They indicated that poverty should not be limited to material or resource-related aspects, but that emotional and spiritual aspects should also be taken into account.

### **Goals and Intermediate Indicators**

45. With regard to the goals and indicators that should be included in the SGPRS, they suggested reductions in unemployment and underemployment rates, reductions in the mortality rate of mothers, infants and children under the age of five, an increase in the coverage of basic services, and a reduction in the rate of illiteracy. They requested that goals and intermediate indicators be appropriate to regional, departmental and municipal realities.

### **Economic Growth and Poverty Reduction Program**

46. Some of the positive aspects mentioned include the accessibility to the culmination point of the HIPC initiative, the fostering of economic growth in the country, the prioritization of SGPRS projects, the maximization of their impact on the most vulnerable sectors and the support from bilateral donors and multilateral organizations. Also mentioned as positive were the emphasis on developing the rural economy, the proposals for diversification and technification of agricultural production, the strengthening of small and medium-sized businesses, the emphasis on basic education, the improvement of curricula for higher education, and the emphasis on health. Furthermore, proposals related to the strengthening of national institutions and governance, citizens' safety, decentralization, the population issue, the preservation of natural resources, potential use of the soil and the environment, were all considered important.

47. Participants proposed the creation of an incentive policy to stimulate investment, mainly in the agriculture and cattle sectors. This would be done through credit and fiscal policies seeking to provide adequate financing for production, with low interest rates and accessibility to all producers. It was suggested that a Bank for National Agricultural Development be created.

48. With regards to production, the need for a national plan for diversification, technology transfer and training was emphasized to promote an improvement in the quality of products and services and producers' competitiveness in international markets. The plan should take into consideration the agro-ecological characteristics of the different zones, their actual use and potential, assuring the equity and sustainability of natural resources.

49. The modernization of the productive and communication infrastructure, as well as production support services, is considered necessary. The creation of a Land Bank was suggested for the small farming sector. It was also emphasized that community and private property rights should be respected. Participants indicated the need for support programs for business investment and better links between the different sectors of the economy to increase the aggregate value of the products produced. Regarding housing construction, it was proposed that the private and public sectors participate in programs to improve access to comfortable and dignified dwellings.

50. Participants from the Autonomous Regions of the Atlantic proposed that fiscal decentralization should ensure fiscal and municipal taxes collected in the Region be destined

totally to the Region to carry out social and investment projects. They also wished to establish criteria and procedures for awarding concessions and registering the rights for exploiting natural resources.

51. A recommendation for the implementation of a national education program that would be easily accessible, functional, high-quality and free of charge was mentioned. This program should institutionalize non-formal education, extend the radius of educational coverage, promote the establishment of agricultural institutes in the countryside and allow increased and better ties between the rural population and production development. It was recommended that technical education and curricula be improved. It is also important to give effective attention to residual illiteracy through adult education. The National Universities Council (CNU) with government support, should prepare the way for improving access to, and the quality of, higher education. They recommended giving incentives to teachers and administrative personnel for improving the quality of their teaching and for reducing staff turnover. This can be done by increasing salaries and training teachers. Participants from the Autonomous Regions of the Atlantic also proposed that bilingual education be strengthened.

52. For the health sector, they recommended that a program be set up whereby the government guarantees access of the entire population to healthcare. This would mean expanding coverage and attention with regard to reproductive health, providing comprehensive medical attention to children and adolescents, improving care for patients suffering from hepatitis "B", breast cancer, AIDS, expanding the coverage of soup kitchens for children with nutritional programs suited to each region's diet, and improving and/or building new health centers and hospitals. The availability of medicine and appropriate equipment in health centers (SILAIS) and health posts was considered important. The recommendations contemplate training for MINSA personnel, as well as community health leaders and promoters. The Autonomous Regions of the Atlantic desire to see the lifestyle, food, customs and habits of its population taken into consideration.

53. It was recommended that programs with the goal of improving the quality of life of the most vulnerable groups be carried out. These should include the true integration of women with regard to production as well as reproduction. It is equally important to take into consideration local human capacities and to create the necessary conditions to provide equal opportunities in the social, economic, labor, productive, institutional, and juridical environments, without racial, religious, political, ethnic, or sexual discrimination.

54. With regards to governance, the participants emphasized the rule of law, respect for private and community property, equality before with law – especially in respect of public institutions -- eradication of influence-peddling, the creation of laws against corruption, the modernization of public administration, the elimination of high salaries, and the guarantee of peace and political stability.

55. Participants recommended that clear and effective consultation mechanisms be defined for the entire process of formulation and execution of national, departmental, municipal and community programs and projects. It was proposed that structures such as CONPES be organized or strengthened at the departmental and regional level, to guarantee effective participation and coordination between local governments and the central government, and that a budget be assigned for the functioning of these participative opportunities. It was suggested that

different departmental and regional programs be integrated into the municipal budget and that austerity, transparency and efficiency be maintained, while eradicating corruption. The participation of the different ethnic communities was also recommended.

### **Monitoring and Impact Evaluation**

56. The proposals related to monitoring were considered to be positive, as they allow civil society involvement in monitoring and evaluation activities. They considered the SGRPS to be an evolving document, which should be evaluated and adjusted as it progresses. They recommended training for the different people involved in the execution, monitoring and evaluation process of the SGPRS, the creation of a multi-sectoral committee for monitoring and evaluation, and the updating of statistics at municipal level.

57. Participants to the different workshops agree that the follow-up, monitoring and evaluation process should take place at different levels, but emphasize the key role of community and municipal-based structures. They propose that broad informational and consultative assemblies be organized, and recommend the use of social audits as a broad and participatory mechanism. They also agree on the importance that information be readily available at all times during the process. The Atlantic Regions demanded as their first priority the regulation of Law 28 or Autonomy Law.

## **II. Consultation with urban and rural focus groups of poor and extremely poor individuals and grass root leaders**

### **General Comments**

58. Despite their condition of poverty or extreme poverty, the groups stated that all aid to be given through the SGPRS should be considered as an opportunity to overcome the crisis, or in other words, the attitude of receiving “donations” should be replaced by an attitude of “by their own effort”. In addition, the groups highlighted the high rate of migration to neighboring countries.

59. With regard to community organization and participation, the groups mentioned that there was a need to create working groups from the grass roots to the municipal levels, asserting that the communities should not only receive aid, but also be active in the entire implementation process of the SGPRS, from the diagnosis through to the formulation of projects, and their management, monitoring and evaluation.

60. The groups spoke of the need to introduce a new cross-cutting theme into the SGPRS called “Organization and Coordination between community institutions and organizations” and/or the inclusion of a proposal for organization and coordination in order to ensure that the SGPRS reaches the furthestmost regions. Local authorities should assume responsibility for coordinating the implementation of the SGPRS in their territory.

### **Poverty Profile**

61. The analyses of the causes of poverty led them to identify the following: limited access to public services, the marginalization of the poorest segments of the population, low capacity for incidence, lack of organization, the fall in export output of their main products, the reduction of their income and insufficient support from the government.

62. The groups indicated that the following should be included as causes of poverty: low salaries, large families, unfair land ownership, unemployment, the high cost of inputs for production, the lack of clear policies for agricultural production, natural disasters, the incorrect use of public funds and corruption.

### **Goals and Intermediate Indicators**

63. The groups believed that goals and intermediate indicators of the SGPRS should take into consideration access to primary and secondary education, subsidies for basic grains, access to credit, an increased minimum salary, access to water and sanitation, and commercialization. The groups stated that the goal of increasing the number of women with access to family planning should be complemented with goals that include the participation of men.

### **Economic Growth and Poverty Reduction Program**

64. The most important aspect of this pillar was a Land Bank involving the careful selection of beneficiaries in order to ensure that those who receive benefits are really those in need. Priority should be given to women as they have demonstrated their ability to look after the family possessions. They stated that it is necessary to reduce the congestion of urban areas by prioritizing land distribution to farming families settled in urban quarters, in order for them to return to their places of origin.

65. With regard to financial and agricultural services, they stated that the knowledge acquired by agricultural promoters be formally recognized by official institutions (INTA, INATEC). They also proposed the establishment of an office in each municipality to promote small and medium-sized businesses (PYMES), family plots in urban areas and the creation of shops with accessible prices for the majority. The aspects related to technical training and cooperation make sense to the groups, as long as they are combined with a financial and technical support package.

66. From the financial point of view, they recommended the creation of Rural Credit Offices as a component of a Bank for Agricultural Development, with low interest rates, medium and long term credit, that also covers the needs of urban groups. They recommended the elaboration of a commercialization strategy, which would include setting up collection centers in the countryside. They recommended that there be support for organic farming; that foreign investment be promoted in such a way that it be linked to local businesses, that food security be promoted through production for their own consumption, and that backyard economy and agro-industrial production be fostered.

67. They proposed that potable water and sanitation services, especially in rural areas, be run by community organizations and that housing be built by themselves on their own land.

### **Investment in Human Capital**

68. The groups consulted proposed the creation of soup kitchens, shelters for children, pre-schools, the extension of health coverage, the creation of low-price pharmacies, provision of first-aid kits for emergency health workers and midwives, the expansion of the MINSA's list for medications and medical treatment, the recognition of private health organizations such as maternity homes, and the official recognition of health promoters.

69. A very sensitive aspect put forth during the workshops is the discrimination that the poor and extremely poor are subject to by public institutions. To address this problem, they suggested human relations training, as well as training on topics such as nutrition, health systems management, education and family planning.

70. They suggested the inclusion of two new objectives: in the case of the elderly, "providing attention to retirees that they deserve as human beings as indicated by the law"; and in health "extending coverage and promoting preventive health".

### **Protection for Vulnerable Groups**

71. Workshop participants contributed to the objective of guaranteeing that the extremely poor have minimum levels of consumption and access to basic social services, by adding, "so they can be inserted into production". Also they suggested extending the concept of Vulnerable Groups to Temporarily Vulnerable Groups (children addicted to drugs, orphans) and "Permanently Vulnerable Groups" (the elderly, the mentally and physically disabled). These protection processes should be accompanied by training and education and courses of action in order to open up opportunities to temporarily vulnerable groups. Alternative homes are also needed for children at risk, the elderly and special homes for the mentally disabled.

### **Governance**

72. Participants proposed the addition of a new objective to the pillar of governance, which is "to attain the appropriation of the SGPRS, by the beneficiaries as well as government authorities, within a common objective". Some indigenous groups claimed their rights to community land that was declared state-owned during the agrarian reform, the recognition of their culture, identity, traditional organizations and their right to manage their own projects and resources.

73. Almost all of these groups agreed that the law should be applicable to everyone equally. Strongest criticism referred to forestry exploitation permits, by which MAGFOR gives concessions to large business owners. They proposed the creation of commissions to supervise this area.

74. Although the leadership of local governments is recognized throughout the entire implementation process of the SGPRS, they proposed that the municipalities law be complied with by holding council meetings at least twice a year and that these sessions be open to the public. They recommended that the municipal staff be trained in the municipalities law, human rights on the women, children and adolescent's code, and citizen participation.

### **Cross-cutting Themes**

75. Participants agreed that although the development and improvement of the legal framework related to the environment is necessary, it must be complied with by punishing transgressors. They proposed that environmental topics, the formation of ecological brigades and the promotion of clean technology be integrated into primary education.

76. With regard to decentralization, they proposed the technical training of community organizations, the opening of an office for maintaining relations with the community, and the establishment of technical parameters for candidates to municipal offices (local training courses) and above all, financial support for the municipalities.

77. On social equity, they proposed a change of the term “eliminate” gender, ethnic, regional and difficulties in obtaining information, knowledge, economic resources and services, to “decrease”; the application of Law 230 in cases of domestic violence and the naming of delegates in the municipalities; the creation of special shelters for those suffering from abuse; raising the awareness of men to the need for incorporating women into productive activities; the organization of indigenous women; and the creation of human rights institutions and offices for women in each department and autonomous region.

### **Medium Term Poverty Reduction**

78. The most urgent lines of action for the medium term included support for PYMEs and farming families, agro-ecological projects, technical training, financing, access to goods used in production, and productive processes focused on food security. They considered women and children to be priorities within the objectives for the medium term, as are actions directed at adolescents who are initiating their sexual activity. Assistance is needed for the handicapped with productive abilities to insert them into economic life, as is training for youths.

### **Monitoring and Evaluation of Impact**

79. The groups recommended that work be done first on the system of indicators for each of the programs, and if possible, for each region, in order to define medium and short-term indicators. This is due to the fact that some impact indicators are long-term, and these new indicators would allow immediate results to be measured.

80. Once the indicator system has been defined, a system for dynamic, participative and reliable follow-up and evaluation would have to be designed. Evaluations could be carried out every six months for results and every year for objectives.

### **Matrix of Policy Actions**

81. It is important to establish levels of responsibility for the different ministries and autonomous agencies of the government in the matrix of policy actions, as well as the possible inter-relation with non-governmental organizations’ policies and practices. The interrelation between programs and projects funded by donors must be clear.

## B. Comments from CONPES

82. CONPES held a number of workshops to review the I-PRSP, the consultation process and the formulation of the SGPRS. It participated in the local consultations and has shared information and experiences with other civil society and municipal consultation processes. Some of the more important comments are:

83. In general terms CONPES recognized that the PRSP is an evolving document, subject to reviews and adjustments in its implementation process to reach the goals and targets of the SGPRS. They also recognized that the local consultation process and recommendations obtained are a significant advancement. The CONPES assembly should be informed on a more regular basis.

84. In terms of economic growth, they recommended more equity in land distribution and access to credit for agriculture, particularly for small farmers and agro-industrial PYMEs, provision of technical training in the rural sector and market information service centers. They also suggested that the SGPRS should include all foreign-financed projects, and that the state should assume responsibility for the provision of electricity services in areas not profitable for the privatized electricity companies.

85. The business community should be linked to the poverty strategy. Citizens, civil society enterprises or NGOs with relevant experience, should assume the management services for local potable water, power generation and electricity distribution, individual home construction, street and roads cleaning, maintenance and construction, and others. Highly recommended is the creation of clear and transparent mechanisms selecting local leaders and local beneficiaries and to establish a network for proper implementation and follow up. Citizens have reiterated the need to avoid programs that create social dependency, particularly amongst women. Food security should be added to nutrition programs.

86. Some comments mentioned that technical education should be comprehensive and adjusted to local needs and realities. Citizens demand more school supplies, scholarships and economic assistance for needy students, reproductive health programs for both men and women, more training for local health workers, and training in human relations for public employees that provide services to the poor.

87. In view of the fragility of the judicial system, the perception of corruption in public administration and weak fiscal mechanisms that offer no guarantees for transparency in the use of resources, CONPES recommended the hiring of professional and honest personnel and a campaign against corruption and influence-peddling. It is essential to establish clear administrative and legal mechanisms for the fiscalization and auditing of public administration. In this respect they proposed to reinforce the role of the municipal councils and public meetings, and to provide information and training on the appropriate laws and regulations, not only to public officials, but also to local citizens and civil society organizations.

88. CONPES reiterated citizens' wish to link the SGPRS and PANic, the need to establish priorities for policy actions, to identify potential environmental services and to bring those to public debate. In particular they recommended prioritizing land-use planning, the demarcation

of the indigenous community lands in the Atlantic regions and to solve the problem of property rights. They mentioned that local environmental management is important for environmental sustainability and poverty reduction in the territory.

89. The incorporation of environmental issues into economic and social policies and *vice versa* was suggested, so as to avoid adverse incentives and environmental externalities. The need to improve communications between institutions and to establish a joint intervention mechanism at the departmental or municipal level was also recognized. Also identified was the need to support research efforts and to emphasize environmental education.

90. There was ample consensus to support decentralization processes and the establishment of institutional coordination mechanisms given the responsibility that local, municipal and departmental authorities and citizens will have in the implementation of the SGPRS and its follow-up. Decentralization of the public investment programs for better local empowerment and transparency was emphasized, as was social auditing by beneficiaries of the SGPRS. The need to provide training for technicians at the department, municipal and community levels on the public investment program process was also mentioned. This must include the Atlantic regions.

91. They recognized the need to develop a consultative mechanism at the department or municipal level such as a local CONPES as suggested in the local consultations. For the implementation of the SGPRS, they recommended that local diagnosis be undertaken, to consider those local characteristics and be ready to replicate experiences. Also identified was the need to incorporate the rural areas into development plans and to better integrate the Pacific, North-Central and the Atlantic regions.

92. They supported respect for the autonomy of the Atlantic regions and the need for corresponding regulation of the law, as citizens and communities of same regions consider these to be an important requirement for implementation of the SGPRS. In addition, they underlined the need for a proper translation of the SGPRS, other documents and procedures into indigenous languages and to assure the participation of the mayagna indigenous communities into the consultation processes.

### **C. Comments from Multilateral Organizations and Donors**

93. The Board of Directors of the IMF, the World Bank and their respective Staff made many detailed suggestions, but emphasized some of the following observations:

94. That a PRGF arrangement was necessary, particularly for 2001 and a medium-term macroeconomic fiscal framework within which SPRS expenditure can be analyzed. In reference to the matrix of policy actions, Annex V, it was suggested to reduce the many peripheral actions proposed in the I-PRSP to fewer, but more essential priorities. An explanation was considered necessary on why social expenditures seemed to be less in the 2001 budget than in the 2000one, and the question was raised on why the 2001 budget had no transfer to the municipalities.

95. The need to establish costing priorities within the overall program was stressed. The proposed I-PRSP expenditure program was considered unrealistically high, and there was a need



to reduce and prioritize the programs of the SPRS (and probably other fiscal) outlays. It was suggested that recurrent social outlays were more important than high public investment levels.

96. It was considered important to accelerate and complete the privatization of ENEL and ENITEL; to provide more information on Nicaragua's commercial trade regime and external trade policies; to aggressively address problems of bank distress and to reform social ministries and agencies. With respect to the proposed revision of the Supplementary Social Fund, it was suggested that there was a need for more information and details on how it would operate.

97. More emphasis and information on rural areas and rural development and the description about the social safety net was suggested. With respect to Nicaragua's social safety net, it was considered that it was far more advanced, at least in concept, than the modest text indicated in the I-PRSP. It was also recommended to finalize monitoring and evaluation indicators and processes, and to establish annual indicators.

98. Particular emphasis was given to the need to strengthen the autonomy and capacity of the Comptroller General's office, as well the Supreme Electoral Council and the Judiciary.

99. It was very much stressed the need for further consultations at regional and local level, particularly with the poor, before a full PRSP was finalized, and with more emphasis given to gender and indigenous people.

100. Some other multilateral and bilateral agencies, such as the European Union, the UNDP, FAO, BCIE, USAID, and the Governments of Switzerland, Austria, Sweden, Norway and Germany all forwarded comments; some of them in great detail. As would be expected from such a diverse group of donors, some suggestions reinforced each other while others were in conflict. Some of them were:

101. There was a particular request to specify which budgetary programs were included in the 53% and 64% targets for government expenditures on the poor. Some donors mentioned that the targets and indicators seemed too ambitious and needed costing, and reiterated that public investment was too high and could be reduced. Of particular interest was the review of the FSS/HIPC Fund and the donors' request to be informed in more details about its operation.

102. A suggestion was made that the document put more emphasis on sectoral reforms, particularly in health, education and water, instead of concentrating overly on the financing side. Institutional weaknesses in terms of regulations and controls with the opening and deregulation of the economy needed more emphasis. BCEI in particular suggested that it was necessary to highlight the debt relief amount and the efforts made by multilateral and bilateral donors. Some saw the need to establish a relationship between corruption as a cause of poverty and a barrier to growth in the SGPRS.

103. The lack of integration of the SGPRS with actual policies (i.e. tax, income distribution and reallocation of public expenditures) was mentioned as a shortcoming. It was suggested that the economic growth pillar should give more emphasis to the service sector, especially for employment generation and that a more urban emphasis would be useful. For some, the agricultural sector needed more emphasis in the SPRS, and small producers seemed to be

presented only as objects of social programs -- e.g., it was necessary to reduce illiteracy to increase agricultural productivity.

104. The importance of women as key to family issues was pointed out. Also it was mentioned that the section on nutrition needs more expansion and sophistication and that the discussion about AIDs seems optimistic.

105. In terms of education, it was suggested that the textbook indicator be revised, since many texts remain undistributed. Also the PRSP should point out that environmental education in primary schools is already underway; and that the environmental education law was approved by the legislature. In addition, the recently-approved Environmental Action Plan 2001-2005 needs to be discussed in more detail and better integrated into the PRSP.

106. Of considerable interest was the consultation process, with widely-shared concern that it be expanded and should include private efforts that are underway, particularly for enhancing implementation. Additionally, donors gave great importance to decentralization, and drew attention to the low public expenditures at the municipal level and the roles and responsibilities of the municipalities in the implementation of the SGPRS.

## MAIN STRUCTURAL REFORMS – PAST MEASURES

### I. PUBLIC SECTOR REFORM

- Public employment was reduced from 290,000 to 107,000 through downsizing of armed forces (from 83,000 to 15,000), privatization or closure of public enterprises (involving 74,000 employees) and an early retirement program 1990-93
- Public sector employment was reduced by 14,000 positions through a voluntary retirement program (*Labour Mobility Program*) 1994-99
- Public employment was further reduced by 3,800 posts through extension of voluntary retirement program Oct. 97-Jun. 99
- National Assembly approved Law N° 290, prepared with IDB and World Bank assistance, to restructure and reorganize the executive branch of the government Jun. 1998
- Implemented regulation on restructuring government; reduced the number of ministries and decentralized entities (by 3 each), and reduced the number of high-ranking officials by 25 percent Nov. 98-May 99
- Approved law to restructure revenue and customs departments (DGI and DGA) Mar. 2000
- Approved a decree formalizing the National System of Public Investment (SNIP) for evaluating, clearing and monitoring investment projects Jun. 2001

### II. PUBLIC ENTERPRISE REFORM AND PRIVATE SECTOR DEVELOPMENT

- All but five of the 351 companies incorporated in the public sector holding company, CORNAP, and accounting for almost 30% of Nicaragua's GDP were privatized, returned to former owners or liquidated. 1990-95
- National Assembly approved laws to separate the regulatory and operational activities of the following public utilities:
  - Telecommunications (TELCOR y ENITEL) 1995
  - Power (INE y ENEL) 1995
  - Water and sewerage (INAA y ENACAL) Nov. 1997
- National Assembly approved laws for hydrocarbon sector to:
  - Liberalize the exploration and commerce of hydrocarbons. Mar. 1998
  - Lease PETRONIC to private sector firm Jun. 1998
- Introduced policy of periodic tariff adjustments to bring rate structure closer to long-term marginal costs in:
  - Power sector Sep. 1999
  - Water and sewerage (including rate adjustments of 1.5 percent/month) Jan. 2000
  - Telecommunications Dec. 1998
- National Assembly approved Road Maintenance Law Aug. 2000

|   |            |
|---|------------|
| ENEL  |            |
| • Separated ENEL into generation, transmission and distribution operations as a step towards privatization.   | Apr. 1999  |
| • Issued regulations for the setting of tariffs, electricity generation, and distribution by the ENEL units to be privatized in accordance with IDB recommendations | Jun. 2000  |
| • Issued final bidding documents for the privatization of ENEL's generation and distribution units  | Jun. 2000  |
| • Privatized distribution units   | Sept. 2000 |
| PETRONIC  |            |
| • Leased PETRONIC to private sector   | Jun. 1999  |
| ENITEL  |            |
| • Implemented program to reduce operational costs of ENITEL by 20%  | Sep. 1999  |
| • ENITEL issued final documents for the privatization bid   | May 2001   |
| ENABAS  |            |
| • Leased 80% of ENABAS to private sector  | 1999       |
| ENAP  |            |
| • Contracted port facilities concession of Puerto Cabezas   | 2000       |

### III. TAX SYSTEM AND TAX ADMINISTRATION

- |   |         |
|---|---------|
| • Corporate income taxes were unified, number of tax brackets for personal income taxes were reduced, the maximum marginal income tax was reduced in line with regional standards, and the Value-Added Tax was raised from 10 to 15 percent   | 1990-91 |
| • Updated and modernized the registry of the 10,000 largest tax contributors to improve tax collections   | 1990-92 |
| • Tax exemptions were reduced, public enterprises were subjected to taxation, income taxes applicable to agricultural and non-agricultural activities were unified and coffee exporters were subject to withholding tax   | 1993-95 |
| • National Assembly approved a major tax and customs duties reform package (Ley de Justicia Tributaria N°257), which broadened the tax base, improved the transparency of the tax system, reduced the number of exemptions to VAT and import duties and lowered the ceiling on personal and corporate income taxes to 30 percent and introduced a presumptive income tax based on the value of corporate assets or agricultural land-holdings | 1997    |

### IV. SOCIAL SECURITY REFORM

- |   |           |
|---|-----------|
| • Separated social welfare system in INSS from pension and health insurance   | 1995      |
| • National Assembly approved the new Law of the pension system which is based on individual accounts administrated by private enterprises | Mar. 1999 |

|   |                 |
|---|-----------------|
| • Implemented new parameters in reformed pension system   | Jun. 2000       |
| • Approval of the law on the supervision of private pension fund managers   | Feb. 2001       |
| <b>V. FINANCIAL SECTOR REFORM</b>   |                 |
| • State banks were recapitalized and downsized, and one state bank, Banco Inmobiliario was closed, yielding a total reduction from 9,100 employees in 1990 to 3,500 in 1993   | 1990-93         |
| • A new law permitting the establishment of private banks and creating a Superintendency of Banks was approved  | 1991            |
| • A new general banking law and a new central bank law were approved  | 1995-96         |
| • Interest rate controls were progressively removed and directed credit was eliminated  | 1991-95         |
| • Insurance market was opened up to private sector (4 private firms were operating in 1998)   | 1996            |
| • The largest state bank, BANADES, was closed and its branches were sold to the private banks, facilitating a rapid expansion of private banking services into rural areas  | Nov. 97-Jun. 98 |
| • Prudential norms were revised to set higher standards for asset classification and provisioning, minimum capital and capital adequacy, credit risk concentration and lending to related parties   | Jun. - Nov. 98  |
| • A majority share (51%) of second largest state bank, BANIC, was awarded to private bidder   | Jan. 1999       |
| • National Assembly approved three additional financial sector laws to guarantee the autonomy of the Central Bank, strengthen the Superintendency of Banks and modernize the legal environment for banks and other financial institutions | Sep.-Oct. 1999  |
| • Superintendency of Banks is implementing prudential norms established in 1998   | 2000            |
| • National Assembly approved a law establishing private bank deposit insurance  | Dec. 2000       |
| • The liquidity requirement (LR) (that banks whose deposits increased between August 5 and December 5, 2000 invest 65 percent of this increase in BOMEX) was rescinded  | Jan. 2001       |
| • Creation of appropriate institutional arrangements to coordinate all institutions involved in the banking crisis resolution process (CBN, Ministry of Finance, SBIF), and assign clear responsibility                                   | Jan. 2001       |
| • Approval of regulations for main shareholders and managers of banks, including restrictions on former owners and managers of failed banks that have caused losses to the state to subsequently own or manage banks.                     | Jan. 2001       |
| • Modification of the financial legislation to enhance Superintendency's capabilities for timely bank intervention according to international best practices.   | Jan. 2001       |
| • Tightening of rules for classification and provisioning of restructured loans and classification criteria for all loans reviewed.   | Feb. 2001       |

|  |                 |
|--|-----------------|
| • Design and implementation of a repo facility at the CBN  | March 2001      |
| • Introduction of a scale of intensified supervisory action and penalties for noncompliance with regulatory norms. Superintendency of Banks will apply penalties and disciplinary measures in a uniform and nondiscretionary basis. The authorities will review the level and uniformity of penalties and of supervisory actions                                       | March 2001      |
| • Manage and recover impaired assets of Interbank and Bancafe  | April 2001      |
| • Development and implementation of a plan to improve the CBN's ability to place bonds at market rates, including strengthening the financial profile (debt sustainability) of the CBN.  | May 2001        |
| • Review of current norms to make sure they are still adequate given Nicaragua's needs. Among others, banks should be required to publish audited accounts, and sanctions should be introduced to punish the publication of erroneous information  | May 2001        |
| <br><b>VI. TRADE AND PRICING POLICIES</b>  |                 |
| • Eliminated state exporting and importing monopolies  | 1991-92         |
| • Eliminated price controls on all products except public utility tariffs, selected petroleum products, basic medicines and milk.  | 1991-93         |
| • Eliminated use of negotiable tax certificates ("CBTs") to promote non-traditional exports  | Nov. 1997       |
| • Reduced the import tariff ceiling from over 60 percent in 1990 to 10 percent.  | 1991- Jul. 1999 |
| • National Assembly approved a new Law on Foreign Investment   | May 2000        |
| <br><b>VII. IMPROVING GOVERNANCE</b>   |                 |
| • Established a National Review Commission (to review claims and recommend compensation or return of properties), an Office of Territorial Ordering (to review the legitimacy of land reform beneficiaries) and the Office of Quantification of compensation (to determine the amount of fair compensation to be paid in cases where properties could not be returned) | 1992-93         |
| • Implemented multi-year modernization program of the judicial system, which included the construction of court houses in most municipal capitals (128 out of 147) and a training program that has included all judges   | 1992-98         |
| • Improved transparency and accountability in management of public finances through:   |                 |
| - Adoption of Integrated Financial Management System (SIGFA) in core central government ministries   | 1996-98         |
| - Improved expenditure control by expanding the coverage of the fiscal budget to include all extra-budgetary revenues and expenditures made through own sources (" <i>sinceramiento</i> ").  | 1997-98         |
| • National Assembly approved law to strengthen property rights (Ley de la Propiedad Reformada Urbana y Agraria) by clarifying rights of former owners (who can seek  | Nov. 1997       |

resource to the courts if unsatisfied with indemnization levels), protecting small-scale landholders that received land and streamlining the property conflict resolution process by setting time limits for the completion of proceedings

|  |            |
|--|------------|
| • Issued 6,720 urban property titles and 4,640 rural property titles   | 1999       |
| • Solved 1,376 property claims, of which 960 were returned to previous owners or paid compensation                                   | 1999       |
| • National Assembly approved law for public sector procurement and contracting   | Dec. 1999  |
| • Issued regulations for Law for Public Sector Procurement and Contracting   | Jan. 2000  |
| • National Assembly approved in general terms the New Penal Code   | 2000       |
| • Published regulation and established Center for Property Rights (arbitration tribunals)  | May 2000   |
| • National Assembly approved Law on the Administrative Dispute Settlement Law  | May 2000   |
| • A mechanism to transform non-conventional credit institutions into banks, supervised by the Superintendency of Banks, was designed | 2000       |
| • A system for voter's identification and voter's registry at voting centers was developed   | 2000       |
| • INIFOM's Organic Law was approved  | May 2000   |
| • General Comptroller's Office approved an institutional strengthening plan.   | Aug. 2000  |
| • National Assembly approved reforms to General Comptroller's Office law   | Sept. 2000 |
| • National Assembly approved new law on public prosecutors   | Oct. 2000  |
| • National Assembly approved law on municipal budgets  | Dec. 2000  |
| • Centralized cash management "cuenta única" in Treasury implemented for all domestic revenues and transfers                         | 2001       |
| • All sectors of society on the poverty reduction strategy consulted   | 2001       |
| • Regional consultations and dialogue undertaken including the Atlantic Coast  | 2001       |
| • A Citizen's Participation Law was introduced to the National Assembly  | 2001       |
| • Participation of all ethnic groups in national consultations achieved  | 2001       |
| <b>Education sector reforms</b>  |            |
| • Major school infrastructure rehabilitation, including that through FISE  | 1992-98    |
| • Introduced and expanded school autonomy program for primary and secondary schools  | 1994-98    |
| • Distributed textbooks and workbooks based on new primary school curriculum to all  | 1995-99    |

students in grades 1-4; curriculum for secondary level is under revision

- Prepared a long-term Education Plan (Master Plan), including a baseline study to evaluate the selection process for school directors, with the participation of all education stakeholders Jun. 1999
- Expanded school autonomy program to 87% of secondary schools and 63% of primary schools Dec. 1999
- Validated primary school standards 2000
- 12,500 performance-linked incentives were given to teachers 2000
- Supplied students with school knapsacks (330,000) 2000

#### **Health sector reforms**

- Major infrastructure program was implemented, including that through FISE, to rehabilitate health posts, health centers and hospitals 1992-98
- Initiated process to decentralize public health system to improve primary and preventive health care services, and introduced program to reform pharmaceuticals procurement and distribution 1994-98
- Shifted Primary Health Care focus from vertical to integrated, preventive PHC model 1993-95
- Implemented reform to permit INSS to contract out the provision of health services for its beneficiaries separate of MINSA 1995-98

#### **Social safety nets, rural development and poverty monitoring**

- Eliminated marketing boards for basic grains and other products 1990-91
- Established National System of Agricultural Technology and expanded assistance to small-scale farmers 1993-98
- Developed poverty maps based on 1993 Living Standards Measurement Surveys. 1993-95
- Poverty map established as main criterion for targeting social policies 1997
- Initiated a program to support small-scale basic grains producers in poor areas as identified by LSMS poverty map 1997
- Published and consulted with civil society results on poverty from the LSMS 1998 Nov. 1999
- Prepared and consulted with civil society drafts of I-PRSP Dec. 1999 - Dec. 2000
- National System for Risk Reduction was approved Mar. 2000
- Designed and implemented a pilot safety net program July 2000



- Poverty map was completed

Dec. 2000

**IX. ENVIRONMENTAL SUSTAINABILITY**

- Prepared and adopted National Forestry Action Plan and Environmental Action Plan
- The draft law to regulate the demarcation and titling of indigenous lands in the Atlantic Coast was presented to the National Assembly

1993-94

Oct. 1998

### Matrix of Goals, Targets and Intermediate Indicators

| Current situation  | National Goals                                 | National Targets Year 2005                                    | Intermediate Indicators  | 1999 | 2000 | 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.  | <b>Poverty reduction</b>                       | Reduce extreme poverty by 17.5%                               | Increase government spending on poverty related outlays to 62% from 50% of budget by year 2005 <sup>1/</sup>                                   | ...  | 46.9 | 50.0 | 54.2 | 55.6 | 60.0 | 62.1 | Reduce extreme poverty by 50% by 2015 with respect to 1995 |
|  |  |   | Projected rate of growth of real GDP of 4.2%   | 7.4  | 4.3  | 3.0  | 3.7  | 4.5  | 5.0  | 5.0  |  |
| Almost 50% of school-aged children (6-18 years) in extreme poverty do not attend school, compared with only 16% for their non-poor counterparts. Poor and extremely poor people have only 2.3 - 3.1 years of education. More than half the children who abandon school do so for economic reasons. | <b>Raising primary education access to 90%</b> | Increase net primary enrolment rate to 83.4% from 75% in 1999 | Annual average increase of 1.4 percentage points in the net primary enrolment rate   | 75.0 | 76.4 | 77.9 | 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 | 78.6 | 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 | 36.0 | 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 <sup>th</sup> grade | ...  | ...  | Done | ...  | ...  | ...  | ...  |  |
|  |  |   | Annual increase of 1.0 percentage point in the net pre-school enrolment rate during 2000-2005  | 26.0 | 27.0 | 28.0 | 29.0 | 30.0 | 31.0 | 32.0 |  |
|  |  |   | Increase to one half the percent of rural multigrade schools offering 6 <sup>th</sup> grade by 2005  | 29.0 | 33.0 | 37.0 | 41.0 | 44.0 | 47.0 | 50.0 |  |
|  |  |   | Construct and replace 2630 elementary school classrooms during 2001-2005 <sup>2/</sup>   | 977  | 860  | 400  | 490  | 540  | 600  | 600  |  |

### Matrix of Goals, Targets and Intermediate Indicators

| Current situation   | National Goals  | National Targets Year 2005   | Intermediate Indicators   | 1999 | 2000 | 2001 | 2002       | 2003 | 2004 | 2005 | International Targets Year 2015  |
|---|---|--|---|------|------|------|------------|------|------|------|--|
| 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.  | <b>Reduction in maternal mortality rate</b>                     | 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) <sup>3/</sup> | 47.0 | 52.4 | 54.6 | 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) <sup>3/</sup>                   | 71.6 | 78.6 | 80.6 | 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) <sup>3/</sup>  | 31.9 | 35.9 | 37.7 | 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. | <b>Reduction in infant and children under 5 mortality rates</b> | Reduce infant mortality rate to 32 per thousand live births from 40 per thousand live births in 1998   | 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       | 99.0 | 99.0 | 99.0 |  |
|   |   | 3 d. antipolio   | 91.0  | 91.0 | 91.0 | 92.0 | 93.0       | 94.0 | 94.5 |      |  |
|   |   | 3 d. 5-in-1  | 7.0 <sup>4/</sup>   | 90.0 | 90.0 | 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 births in 1998   |   | Increase polio immunization coverage (3 doses) for children under 5 years (measured by survey) from 83.8% in 1998 to 94% in 2004 <sup>5/</sup> | 83.8 (1998)   | ...  | 92.5 | ...  | ...        | 94.0 | ...  |      |  |
|   |   | Reduce the incidence of diarrhea in children under 5 to 16.2% by 2004 <sup>5/</sup> from 21.9% in 1998 <sup>6/</sup>                           | 21.9 (1998)   | ...  | 19.0 | ...  | ...        | 16.2 | ...  |      |  |
| Reduce the incidence of acute respiratory infections in children under 5 to 21% by 2004 <sup>5/</sup> from 27.3% in 1998  |   |  | 27.3 (1998)   | ...  | 24.0 | ...  | ...        | 20.8 | ...  |      |  |

### Matrix of Goals, Targets and Intermediate Indicators

| Current situation  | National Goals   | National Targets Year 2005   | Intermediate Indicators  | 1999           | 2000 | 2001     | 2002      | 2003 | 2004 | 2005 | International Targets Year 2015  |
|--|--|--|--|----------------|------|----------|-----------|------|------|------|--|
| 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. | <b>Access to reproductive healthcare services</b>              | Reduce to 24.8% <sup>7/</sup> 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 <sup>7/</sup> the unsatisfied demand for family planning among women with partners in the 15-19 age group from 27.1% in 1998   | 27.1<br>(1998) | ...  | 26.1     | ...       | ...  | ...  | 24.8 | Provide access to reproductive health care services for all individuals of appropriate age |
|  |  | Reduce to 18% <sup>7/</sup> the unsatisfied demand for family planning among women with partners in the 20-24 age group from 19.7% in 1998   | Reduce to 18.9% in 2001 and 18% in 2005 <sup>7/</sup> the unsatisfied demand for family planning among women with partners in the 20-24 age group from 19.7% in 1998   | 19.7<br>(1998) | ...  | 18.9     | ...       | ...  | ...  | 18   |  |
|  |  |  | Increase the share of women of childbearing age accessing reproductive healthcare services to 23% by 2005 from 21% in 1999 (an annual average increase of 14,000 women of childbearing age during 2000-2005 period) <sup>8/ 3/</sup> | 21.0           | 21.0 | 22.0     | 22.0      | 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  | <b>Implement National Strategy for Sustainable Development</b> | Have the National Strategy for Sustainable Development implemented by 2005   | Published and implemented policy and environmental action plan   | ...            | ...  | 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   | 1999           | 2000 | 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.  | <b>Reduce chronic malnutrition</b>             | Reduce chronic malnutrition in children under 5 to 16% in 2004 <sup>5/</sup> from 19.9% in 1998  | Reduce chronic malnutrition in children under 5 to 17.9% in 2001 and 16% in 2004 from 19.9% in 1998                               | 19.9<br>(1998) | .... | 17.9 | ...  | .... | 16.0 | .... | Reduce chronic malnutrition to 7% by 2015 <sup>9/</sup>     |
| 35% of the overall population has no access to potable water and 16% have no access to safe water. The percentages among extremely poor households in rural areas are considerably higher, 77% lack potable water and 40% lack safe water. | <b>Increase access to water and sanitation</b> | Increase national coverage of water to 75.4% from 66.5% in 1999<br><br>Increase access to safe water and sanitation in rural dispersed areas to 53.5% from 39% in 1999 <sup>7/</sup>   | Annual average increase of national potable water coverage by 1.4 percentage point per year during 2000-2005                      | 66.5           | 68.1 | 69.5 | 71.0 | 72.4 | 73.9 | 75.4 | Increase to 100% national water coverage <sup>9/</sup>      |
|  |  |  | Annual average increase of 2.4 percentage points in access to safe water in rural dispersed areas during 2000-2005 <sup>10/</sup> | 39.0           | 41.6 | 45.8 | 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 <sup>5/ 11/</sup><br><br>Increase access to sewerage in urban areas to 44.1% from 33.6% in 1999 <sup>8/</sup> | Increase national access to sanitation by 4 percentage points during 2000-2004 <sup>11/</sup>                                     | 84.1<br>(1998) | ...  | 85.0 | ...  | ...  | 88.0 | ...  | Increase to 95% national access to sanitation <sup>9/</sup> |
|  |  |  | Annual increase of 1.7 percentage point in share of urban population with access to sewerage <sup>12/</sup>                       | 33.6           | 35.8 | 34.9 | 35.8 | 37.4 | 40.3 | 44.1 |   |
| 19% of Nicaragua's population over 10 years old is illiterate and illiteracy rate among extreme poor is 41% .  | <b>Reduce illiteracy rate</b>                  | Reduce illiteracy rate to 16% by 2004 from 19% from 1998 <sup>5/</sup>   | Decrease illiteracy rate by 3 percentage point by 2004 as measured by LSMS <sup>5/</sup>  | 19.0<br>(1998) | ...  | 18.5 | ...  | ...  | 18.0 | ...  | Decrease illiteracy rates to 10% <sup>9/</sup>              |
|  |  |  | Increase mean years of schooling among the 10-19 age group to 5.0 years in 2004 <sup>5/</sup> from 4.6 years in 1998              | 4.6<br>(1998)  | ...  | 4.8  | ...  | ...  | 5.0  | ...  |   |

<sup>1/</sup> Annex VI defines poverty-related outlays.

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

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

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

<sup>5/</sup> Measured by Living Standard Measurement Survey (LSMS) scheduled for 2001 and 2004.

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

<sup>7/</sup> Measured by Demographic and Health Survey (DHS) 2001 and 2005.

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

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

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

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

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

### THE NICARAGUAN EXTREME POVERTY MAP

1. The 1998 Extreme Poverty Map is the result of a collaborative effort involving MECOVI (Program for the Improvement of Living Standards Measurement Surveys), SETEC (Technical Secretariat of the Presidency), INEC (National Statistics Institute), FISE (Emergency Social Investment Fund), and the World Bank.
2. The 1998 Map classifies Nicaragua's population according to geographical zones (regions, departments, and municipalities), and by four different poverty levels: severe, high, medium, and low. The classification criterion for the poverty map is based on the extreme poverty gap (see column 10). Municipalities with an extreme poverty gap of more than 12.0 percent are considered severely poor, municipalities with a gap between 9.2 to 12.0 percent are considered to have high poverty, municipalities in the range from 6.6 to 9.2 are considered as medium poverty ones, and municipalities with an extreme poverty gap of less than 6.6 percent are considered as having low poverty.
3. The Extreme Poverty Map constitutes an effective and reliable tool for designing policies and programs focused on the poor, and allocating scarce, poverty-reduction resources in efficient ways. High-quality data from the 1998 Living Standards Measurement Survey and the 1995 Census were used as inputs. In addition to its reliability, the Poverty Map's greatest virtue is its clarity and ease of interpretation.
4. Table 1 shows the following municipality-level poverty statistics or characteristics associated with the Nicaraguan Poverty Map:
  - Poverty status: the map ranks municipalities in four categories, severe poverty, high poverty, medium poverty and low poverty levels.
  - Municipalities: there are 151 municipalities in Nicaragua. The poverty map includes them all.
  - Estimated population: it refers to the estimated population as of 1995 based on the latest population census.
  - Estimated number of poor people: this column shows the number of poor people by municipality. A household is classified as poor if household yearly consumption expenditure per capita falls below a poverty line of US\$402.05. The poverty line is the yearly amount of per capita consumption expenditure needed to buy minimum per capita calorie requirements plus other basic consumption items including housing, clothing and transportation.
  - Percent of estimated number of poor persons in rural areas: this column indicates the share of poor people by municipality that live in rural areas.
  - Estimated number of extremely poor people: this column shows the number of extremely poor people by municipality. A household is identified as extremely poor if household yearly consumption expenditure per capita falls below an extreme poverty line of US\$212.22. The extreme poverty line is the yearly amount of per capita consumption expenditure needed to buy minimum per capita calorie requirements only (2,226 Kcal). Percent of estimated number of

extreme poor in rural areas: This column provides the share of extremely poor people that live in rural areas.

- Percent of estimated number of extreme poor in rural areas: This column provides the share of extremely poor people by municipality that live in rural areas.
- Poverty head count index that are poor: this is the share of population by municipality that are poor.
- Poverty gap: the average across households of the percent by which household per capita consumption expenditure falls short of the US\$402.05 poverty line, by municipality.
- Extreme poverty head count index: the share of population by municipality that are extremely poor.
- The extreme poverty gap: the average across households of the percent by which household per capita consumption expenditure falls short of the US\$212.22 extreme poverty line, by municipality. In the table below notice that the poverty gap is always greater than the extreme poverty gap in all municipalities.

5. Table 2 is a summary one; it shows the 1998 population in each poverty status as well as the national poverty gap by status. Figure 2 shows how the Extreme Poverty Map can be utilized, giving four adjoining municipalities as examples. San Nicolás and San Sebastián de Yalí clearly have the greatest extreme poverty gaps, although the former seems slightly better off than the latter. Both have the worst primary school attendance and access to safe water. Using the extreme poverty map, the government will give first priority, in primary education and water provision, to San Nicolás, given its greater poverty, and then San Sebastián de Yalí. The map can be used in conjunction with other available and reliable information at the municipality level before making a decision on the delivery of other specific programs. As a general rule, when deciding between municipalities exhibiting similar low coverage rates and high poverty levels, priority will be given to those with the greatest poverty gaps.

6. The data sources used in the elaboration of the Extreme Poverty Map were the 1995 Census, and the 1998 Living Standards Measurement Survey. The map used the aggregate consumption estimate and the poverty line built by SETEC with the World Bank's technical assistance. The map will be revised in 2002, using the results of the 2001 LSMS.



**Table 1: Indicators of the Nicaraguan poverty map by municipalities**

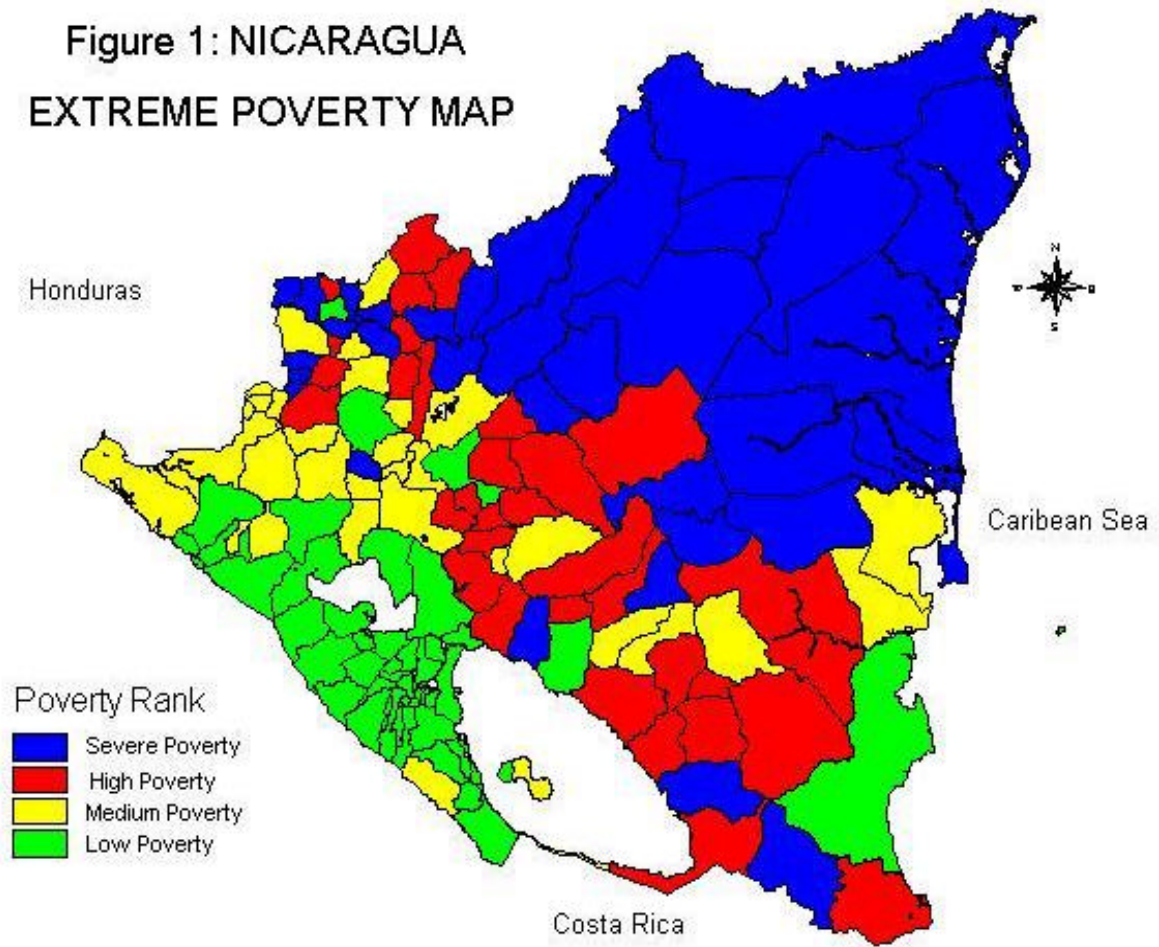
| 0                               | 1                 | 2                         | 3                                | 4                       | 5  | 6                       | 7                            | 8               | 9                                    | 10                      |
|---------------------------------|-------------------|---------------------------|----------------------------------|-------------------------|--|-------------------------|------------------------------|-----------------|--------------------------------------|-------------------------|
| Poverty stratus                 | Municipality      | Estimated population 1995 | Estimated number of poor persons | % of (3) in rural areas | Estimated number of extremely poor persons | % of (5) in rural areas | Poverty head count index (%) | Poverty gap (%) | Extreme poverty head count index (%) | Extreme poverty gap (%) |
| S<br>e<br>v<br>e<br>r<br>e      | Prinzapolka       | 4,312.0                   | 3,918.3                          | 94.0                    | 3,291.3                                    | 96.6                    | 90.9                         | 65.5            | 76.3                                 | 48.0                    |
|                                 | Waspan            | 28,972.0                  | 24,033.5                         | 88.3                    | 18,561.5                                   | 95.0                    | 83.0                         | 56.4            | 64.1                                 | 40.0                    |
|                                 | Desemb. C.R.G.    | 2,850.0                   | 2,182.3                          | 38.1                    | 1,233.1                                    | 55.7                    | 76.6                         | 40.1            | 43.3                                 | 20.8                    |
|                                 | Bonanza           | 11,014.0                  | 6,638.4                          | 81.9                    | 4,178.8                                    | 94.7                    | 60.3                         | 34.3            | 37.9                                 | 20.4                    |
|                                 | Pto. Cabezas      | 37,133.0                  | 21,220.7                         | 53.1                    | 12,508.8                                   | 84.0                    | 57.1                         | 31.4            | 33.7                                 | 18.5                    |
|                                 | Cua-Bocay         | 56,337.0                  | 43,311.7                         | 96.1                    | 24,681.7                                   | 97.7                    | 76.9                         | 39.2            | 43.8                                 | 18.3                    |
|                                 | Wiwili            | 37,949.0                  | 32,396.2                         | 94.4                    | 18,679.1                                   | 96.0                    | 85.4                         | 42.7            | 49.2                                 | 17.5                    |
|                                 | Totogalpa         | 8,796.0                   | 7,476.0                          | 88.3                    | 4,340.8                                    | 92.1                    | 85.0                         | 42.0            | 49.3                                 | 16.1                    |
|                                 | Santa Maria       | 3,698.0                   | 3,149.7                          | 92.2                    | 1,807.6                                    | 94.8                    | 85.2                         | 41.8            | 48.9                                 | 16.0                    |
|                                 | Ayote             | 8,497.0                   | 6,981.0                          | 71.1                    | 3,912.1                                    | 71.1                    | 82.2                         | 39.9            | 46.0                                 | 15.4                    |
|                                 | San Nicolas       | 6,200.0                   | 5,120.1                          | 94.3                    | 2,824.3                                    | 95.8                    | 82.6                         | 39.9            | 45.6                                 | 15.1                    |
|                                 | Waslala           | 32,785.0                  | 25,697.5                         | 91.7                    | 14,097.9                                   | 94.5                    | 78.4                         | 37.8            | 43.0                                 | 14.7                    |
|                                 | S.J. de Cusmapa   | 5,698.0                   | 4,802.0                          | 83.7                    | 2,652.9                                    | 87.1                    | 84.3                         | 40.3            | 46.6                                 | 14.6                    |
|                                 | C.R. Grande       | 13,586.0                  | 10,866.1                         | 93.4                    | 5,838.4                                    | 94.9                    | 80.0                         | 38.1            | 43.0                                 | 14.5                    |
|                                 | Comalapa          | 10,489.0                  | 8,553.8                          | 95.9                    | 4,667.5                                    | 97.4                    | 81.5                         | 39.0            | 44.5                                 | 14.5                    |
|                                 | El Castillo       | 9,698.0                   | 7,331.9                          | 98.1                    | 3,984.6                                    | 98.8                    | 75.6                         | 36.3            | 41.1                                 | 14.2                    |
|                                 | Macuelizo         | 4,743.0                   | 3,969.6                          | 96.4                    | 2,143.3                                    | 97.2                    | 83.7                         | 39.6            | 45.2                                 | 14.0                    |
|                                 | Siuna             | 52,989.0                  | 40,517.2                         | 90.2                    | 21,830.8                                   | 93.6                    | 76.5                         | 36.4            | 41.2                                 | 14.0                    |
|                                 | Paiwas            | 32,887.0                  | 26,101.8                         | 90.7                    | 13,876.2                                   | 91.7                    | 79.4                         | 37.5            | 42.2                                 | 13.9                    |
|                                 | San Miguelito     | 13,526.0                  | 9,980.0                          | 84.9                    | 5,368.5                                    | 89.4                    | 73.8                         | 35.1            | 39.7                                 | 13.6                    |
|                                 | San Lucas         | 10,464.0                  | 8,689.0                          | 95.5                    | 4,554.8                                    | 96.4                    | 83.0                         | 38.7            | 43.5                                 | 13.4                    |
|                                 | El Tortuguero     | 8,672.0                   | 6,402.0                          | 88.9                    | 3,463.5                                    | 88.2                    | 73.8                         | 35.2            | 39.9                                 | 13.1                    |
|                                 | C. Antigua        | 3,406.0                   | 2,756.4                          | 70.5                    | 1,454.3                                    | 73.8                    | 80.9                         | 37.8            | 42.7                                 | 13.0                    |
|                                 | Mozonte           | 5,176.0                   | 4,202.7                          | 76.7                    | 2,170.6                                    | 78.0                    | 81.2                         | 37.6            | 41.9                                 | 12.9                    |
|                                 | Rosita            | 14,167.0                  | 9,369.6                          | 70.6                    | 4,704.5                                    | 81.4                    | 66.1                         | 31.0            | 33.2                                 | 12.9                    |
|                                 | Las Sabanas       | 4,039.0                   | 3,234.8                          | 82.8                    | 1,664.4                                    | 85.4                    | 80.1                         | 37.0            | 41.2                                 | 12.8                    |
|                                 | Wiwili de abajo   | 13,880.0                  | 11,218.0                         | 84.2                    | 5,745.7                                    | 87.5                    | 80.8                         | 37.2            | 41.4                                 | 12.7                    |
|                                 | Telpaneca         | 15,113.0                  | 12,164.1                         | 91.1                    | 6,259.5                                    | 93.2                    | 80.5                         | 37.1            | 41.4                                 | 12.6                    |
| Quilali                         | 20,614.0          | 16,257.5                  | 65.5                             | 8,276.6                 | 65.3                                       | 78.9                    | 36.3                         | 40.2            | 12.6                                 |                         |
| Rancho Grande                   | 17,050.0          | 13,651.4                  | 97.2                             | 7,028.6                 | 97.7                                       | 80.1                    | 36.9                         | 41.2            | 12.5                                 |                         |
| Santo Domingo                   | 12,500.0          | 8,985.8                   | 74.3                             | 4,686.3                 | 79.2                                       | 71.9                    | 33.5                         | 37.5            | 12.2                                 |                         |
| P<br>o<br>v<br>e<br>r<br>t<br>y | Matiglas          | 38,460.0                  | 29,058.4                         | 88.1                    | 14,906.8                                   | 91.4                    | 75.6                         | 34.8            | 38.8                                 | 12.0                    |
|                                 | S.M. de pantasma  | 29,688.0                  | 23,776.6                         | 94.3                    | 11,801.3                                   | 94.8                    | 80.1                         | 36.2            | 39.8                                 | 12.0                    |
|                                 | San Juan de Limay | 12,488.0                  | 9,547.0                          | 78.7                    | 4,761.0                                    | 83.0                    | 76.4                         | 34.8            | 38.1                                 | 11.9                    |
|                                 | Murra             | 11,002.0                  | 8,917.1                          | 97.1                    | 4,369.9                                    | 98.0                    | 81.1                         | 36.5            | 39.7                                 | 11.9                    |
|                                 | Muy Muy           | 13,036.0                  | 9,741.3                          | 86.4                    | 4,870.9                                    | 89.9                    | 74.7                         | 34.0            | 37.4                                 | 11.6                    |
|                                 | San Carlos        | 28,452.0                  | 19,874.3                         | 76.6                    | 9,990.5                                    | 80.3                    | 69.9                         | 32.0            | 35.1                                 | 11.6                    |
|                                 | Tuma-la Dalia     | 43,818.0                  | 34,066.0                         | 94.3                    | 16,947.6                                   | 94.5                    | 77.7                         | 35.1            | 38.7                                 | 11.6                    |
|                                 | La Libertad       | 9,774.0                   | 6,942.3                          | 87.1                    | 3,574.4                                    | 92.3                    | 71.0                         | 32.8            | 36.6                                 | 11.6                    |
|                                 | San Ramon         | 23,048.0                  | 17,648.6                         | 95.8                    | 8,786.9                                    | 96.8                    | 76.6                         | 34.6            | 38.1                                 | 11.6                    |
|                                 | San Lorenzo       | 22,268.0                  | 16,782.4                         | 81.8                    | 8,337.5                                    | 84.7                    | 75.4                         | 34.1            | 37.4                                 | 11.5                    |
|                                 | Teustepe          | 21,265.0                  | 16,376.7                         | 92.0                    | 8,082.5                                    | 94.0                    | 77.0                         | 34.7            | 38.0                                 | 11.3                    |
|                                 | San Dionisio      | 16,003.0                  | 12,407.9                         | 89.0                    | 6,016.3                                    | 90.1                    | 77.5                         | 34.6            | 37.6                                 | 11.1                    |
|                                 | Rio Blanco        | 26,099.0                  | 19,063.1                         | 73.1                    | 9,357.3                                    | 77.5                    | 73.0                         | 32.8            | 35.9                                 | 11.0                    |
|                                 | S. Juan del Norte | 271.0                     | 180.8                            | 16.2                    | 87.2                                       | 23.4                    | 66.7                         | 29.9            | 32.2                                 | 11.0                    |
|                                 | Morrito           | 6,074.0                   | 4,205.6                          | 86.2                    | 2,076.1                                    | 87.9                    | 69.2                         | 31.2            | 34.2                                 | 10.9                    |
|                                 | Acoyapa           | 16,732.0                  | 11,264.1                         | 68.1                    | 5,633.5                                    | 73.7                    | 67.3                         | 30.6            | 33.7                                 | 10.8                    |
|                                 | El Coral          | 7,159.0                   | 5,322.4                          | 62.0                    | 2,504.2                                    | 73.0                    | 74.3                         | 32.8            | 35.0                                 | 10.8                    |
|                                 | S.F. de Cuapa     | 4,984.0                   | 3,587.0                          | 75.8                    | 1,743.9                                    | 78.5                    | 72.0                         | 32.1            | 35.0                                 | 10.7                    |
|                                 | Yalaguina         | 7,501.0                   | 5,777.6                          | 82.1                    | 2,723.4                                    | 84.7                    | 77.0                         | 33.9            | 36.3                                 | 10.7                    |
|                                 | S.S. de Yali      | 20,206.0                  | 15,028.5                         | 90.7                    | 7,162.0                                    | 92.1                    | 74.4                         | 32.9            | 35.4                                 | 10.5                    |
|                                 | Camoapa           | 32,180.0                  | 21,285.5                         | 77.6                    | 10,575.7                                   | 83.3                    | 66.1                         | 29.9            | 32.9                                 | 10.5                    |
|                                 | El Almenro        | 11,783.0                  | 8,309.3                          | 87.7                    | 3,862.1                                    | 87.9                    | 70.5                         | 31.0            | 32.8                                 | 10.5                    |
|                                 | S.J. Rio Coco     | 15,103.0                  | 11,093.1                         | 93.2                    | 5,256.3                                    | 95.3                    | 73.4                         | 32.3            | 34.8                                 | 10.4                    |
|                                 | S.J. Remates      | 7,640.0                   | 5,556.7                          | 89.1                    | 2,676.3                                    | 92.5                    | 72.7                         | 32.3            | 35.0                                 | 10.4                    |
|                                 | Terrabona         | 10,585.0                  | 8,179.3                          | 92.6                    | 3,812.2                                    | 94.1                    | 77.3                         | 33.7            | 36.0                                 | 10.4                    |
|                                 | El Jicaró         | 21,980.0                  | 16,357.1                         | 76.6                    | 7,673.7                                    | 77.9                    | 74.4                         | 32.6            | 34.9                                 | 10.4                    |
|                                 | N. Guinea         | 79,011.0                  | 56,800.4                         | 63.1                    | 26,478.9                                   | 63.8                    | 71.9                         | 31.4            | 33.5                                 | 10.3                    |
|                                 | Dipilto           | 3,879.0                   | 2,926.5                          | 94.7                    | 1,357.4                                    | 95.2                    | 75.4                         | 33.0            | 35.0                                 | 10.3                    |
|                                 | El Rama           | 45,620.0                  | 30,818.5                         | 78.2                    | 14,470.7                                   | 84.6                    | 67.6                         | 29.7            | 31.7                                 | 10.1                    |
|                                 | Esquipulas        | 14,733.0                  | 10,445.8                         | 78.4                    | 4,923.5                                    | 82.5                    | 70.9                         | 31.1            | 33.4                                 | 9.9                     |
|                                 | Villa Sandino     | 13,276.0                  | 8,721.7                          | 64.2                    | 4,136.5                                    | 69.2                    | 65.7                         | 29.0            | 31.2                                 | 9.8                     |
|                                 | S.R. del Norte    | 14,002.0                  | 9,926.1                          | 87.2                    | 4,611.3                                    | 90.9                    | 70.9                         | 30.8            | 32.9                                 | 9.6                     |
| Jalapa                          | 41,595.0          | 29,588.7                  | 53.3                             | 13,273.7                | 56.0                                       | 71.1                    | 30.5                         | 31.9            | 9.5                                  |                         |
| Pueblo Nuevo                    | 19,504.0          | 14,127.1                  | 90.4                             | 6,327.4                 | 93.2                                       | 72.4                    | 31.0                         | 32.4            | 9.5                                  |                         |
| S<br>o<br>m<br>o<br>t<br>o      | Somoto            | 28,590.0                  | 18,585.4                         | 63.2                    | 8,711.9                                    | 69.3                    | 65.0                         | 28.4            | 30.5                                 | 9.2                     |
|                                 | Cardenas          | 4,606.0                   | 3,419.9                          | 90.5                    | 1,483.6                                    | 94.6                    | 74.2                         | 31.4            | 32.2                                 | 9.1                     |
|                                 | S. Pedro del N.   | 4,045.0                   | 3,227.2                          | 92.5                    | 1,405.7                                    | 94.1                    | 79.8                         | 33.5            | 34.8                                 | 9.0                     |
|                                 | C. Dario          | 35,780.0                  | 24,353.6                         | 81.6                    | 10,964.2                                   | 85.1                    | 68.1                         | 29.1            | 30.6                                 | 8.9                     |
|                                 | Palacaguina       | 11,826.0                  | 8,143.4                          | 74.9                    | 3,531.4                                    | 76.4                    | 68.9                         | 29.0            | 29.9                                 | 8.8                     |
|                                 | San Fernando      | 5,950.0                   | 4,088.5                          | 69.3                    | 1,801.3                                    | 73.0                    | 68.7                         | 29.0            | 30.3                                 | 8.8                     |

(Table 1 continued) Indicators of the Nicaraguan poverty map by municipalities

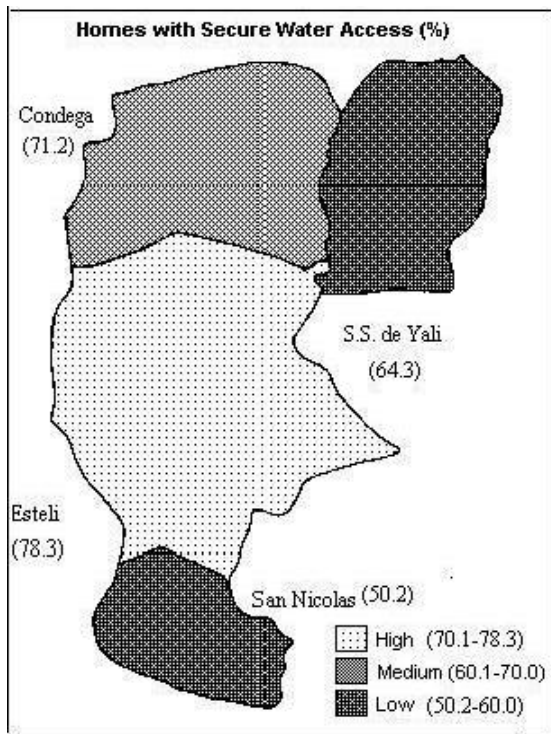
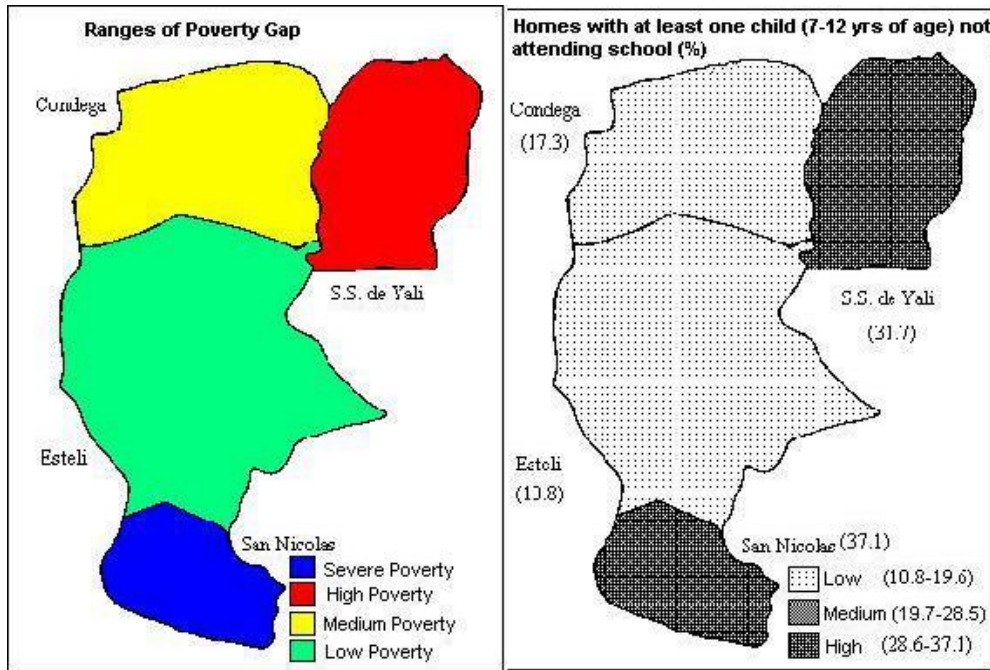
|                            | 0                 | 1                         | 2                                | 3                       | 4  | 5                       | 6                            | 7               | 8                                    | 9                       | 10 |
|----------------------------|-------------------|---------------------------|----------------------------------|-------------------------|--|-------------------------|------------------------------|-----------------|--------------------------------------|-------------------------|----|
| Poverty stratus            | Municipality      | Estimated population 1995 | Estimated number of poor persons | % of (3) in rural areas | Estimated number of extremely poor persons | % of (5) in rural areas | Poverty head count index (%) | Poverty gap (%) | Extreme poverty head count index (%) | Extreme poverty gap (%) |    |
| M<br>e<br>d<br>i<br>u<br>m | San Isidro        | 15,331.0                  | 9,964.4                          | 80.1                    | 4,501.5                                    | 85.9                    | 65.0                         | 27.9            | 29.4                                 | 8.7                     |    |
|                            | Condega           | 24,888.0                  | 17,182.7                         | 77.3                    | 7,477.4                                    | 81.0                    | 69.0                         | 29.1            | 30.0                                 | 8.7                     |    |
|                            | San P. de Lovago  | 7,125.0                   | 4,339.7                          | 77.0                    | 1,990.1                                    | 82.7                    | 60.9                         | 26.4            | 27.9                                 | 8.6                     |    |
|                            | Muelle de B.      | 23,223.0                  | 14,589.5                         | 91.8                    | 6,575.2                                    | 93.6                    | 62.8                         | 26.9            | 28.3                                 | 8.6                     |    |
|                            | Sta. Rosa del p   | 9,129.0                   | 6,959.7                          | 84.0                    | 2,952.2                                    | 89.4                    | 76.2                         | 31.7            | 32.3                                 | 8.5                     |    |
|                            | Boaco             | 45,130.0                  | 27,673.1                         | 77.8                    | 12,851.9                                   | 84.1                    | 61.3                         | 26.6            | 28.5                                 | 8.5                     |    |
|                            | Villanueva        | 22,293.0                  | 16,783.9                         | 91.0                    | 7,099.9                                    | 94.1                    | 75.3                         | 31.2            | 31.8                                 | 8.5                     |    |
|                            | Sto. Tomas del N. | 6,782.0                   | 5,347.4                          | 95.8                    | 2,220.0                                    | 96.4                    | 78.8                         | 32.3            | 32.7                                 | 8.4                     |    |
|                            | La Concordia      | 7,032.0                   | 4,899.7                          | 86.0                    | 2,054.1                                    | 88.6                    | 69.7                         | 28.8            | 29.2                                 | 8.2                     |    |
|                            | K. Hill           | 7,433.0                   | 4,977.3                          | 65.6                    | 2,039.5                                    | 71.8                    | 67.0                         | 27.5            | 27.4                                 | 8.1                     |    |
|                            | Posoltega         | 15,314.0                  | 11,010.2                         | 77.9                    | 4,524.0                                    | 81.7                    | 71.9                         | 29.3            | 29.5                                 | 8.0                     |    |
|                            | S.Fco. del N.     | 5,967.0                   | 4,551.4                          | 94.4                    | 1,858.0                                    | 96.6                    | 76.3                         | 31.1            | 31.1                                 | 8.0                     |    |
|                            | Altagracia        | 17,575.0                  | 12,864.5                         | 92.9                    | 5,298.8                                    | 94.8                    | 73.2                         | 29.9            | 30.1                                 | 7.9                     |    |
|                            | Jinotega          | 76,789.0                  | 46,752.7                         | 76.1                    | 20,543.2                                   | 81.4                    | 60.9                         | 25.7            | 26.8                                 | 7.8                     |    |
|                            | Sebaco            | 24,793.0                  | 15,194.6                         | 43.7                    | 6,524.3                                    | 46.8                    | 61.3                         | 25.6            | 26.3                                 | 7.8                     |    |
|                            | Achuapa           | 13,180.0                  | 9,860.4                          | 88.7                    | 4,018.2                                    | 91.9                    | 74.8                         | 30.5            | 30.5                                 | 7.8                     |    |
|                            | Santa Lucia       | 8,173.0                   | 5,500.0                          | 94.7                    | 2,263.1                                    | 96.3                    | 67.3                         | 27.9            | 27.7                                 | 7.8                     |    |
|                            | Sto. Tomas        | 15,957.0                  | 9,082.1                          | 51.8                    | 4,015.0                                    | 60.9                    | 56.9                         | 24.1            | 25.2                                 | 7.7                     |    |
|                            | Tola              | 19,869.0                  | 14,535.4                         | 93.8                    | 5,800.2                                    | 94.5                    | 73.2                         | 29.5            | 29.2                                 | 7.7                     |    |
|                            | Pto. Morazan      | 11,385.0                  | 7,987.9                          | 78.6                    | 3,214.4                                    | 72.9                    | 70.2                         | 28.4            | 28.2                                 | 7.7                     |    |
|                            | L. Perlas         | 6,154.0                   | 3,651.6                          | 48.9                    | 1,447.2                                    | 58.1                    | 59.3                         | 24.0            | 23.5                                 | 7.6                     |    |
|                            | El Sauce          | 25,899.0                  | 18,429.0                         | 82.3                    | 7,405.4                                    | 87.0                    | 71.2                         | 28.7            | 28.6                                 | 7.4                     |    |
|                            | El Jicaral        | 9,972.0                   | 7,509.4                          | 96.3                    | 2,914.6                                    | 97.1                    | 75.3                         | 29.9            | 29.2                                 | 7.3                     |    |
|                            | Somotillo         | 24,696.0                  | 17,472.9                         | 66.6                    | 6,858.0                                    | 70.1                    | 70.8                         | 28.2            | 27.8                                 | 7.2                     |    |
|                            | Telica            | 22,760.0                  | 15,568.8                         | 79.2                    | 6,123.9                                    | 82.8                    | 68.4                         | 27.4            | 26.9                                 | 7.2                     |    |
|                            | El Viejo          | 68,974.0                  | 44,519.0                         | 62.7                    | 17,898.8                                   | 72.2                    | 64.5                         | 26.0            | 26.0                                 | 7.1                     |    |
|                            | Cinco Pinos       | 6,209.0                   | 4,618.1                          | 93.9                    | 1,757.5                                    | 95.2                    | 74.4                         | 29.3            | 28.3                                 | 7.0                     |    |
| La Trinidad                | 18,502.0          | 11,326.3                  | 75.2                             | 4,641.2                 | 80.6                                       | 61.2                    | 24.9                         | 25.1            | 7.0                                  |                         |    |
| Larreynaga                 | 29,768.0          | 20,082.0                  | 85.2                             | 7,443.0                 | 86.7                                       | 67.5                    | 26.3                         | 25.0            | 6.6                                  |                         |    |
| Matagalpa                  | 103,606.0         | 55,812.1                  | 60.1                             | 23,212.0                | 67.7                                       | 53.9                    | 22.1                         | 22.4            | 6.5                                  |                         |    |
| Quezalguaque               | 7,746.0           | 5,324.7                   | 89.9                             | 1,943.7                 | 92.8                                       | 68.7                    | 26.5                         | 25.1            | 6.3                                  |                         |    |
| La Conquista               | 3,830.0           | 2,619.6                   | 88.6                             | 960.4                   | 95.0                                       | 68.4                    | 26.3                         | 25.1            | 6.3                                  |                         |    |
| Juigalpa                   | 45,469.0          | 22,797.6                  | 30.3                             | 9,301.7                 | 37.9                                       | 50.1                    | 20.4                         | 20.5            | 6.2                                  |                         |    |
| Belen                      | 15,890.0          | 10,553.1                  | 82.2                             | 3,845.5                 | 86.4                                       | 66.4                    | 25.5                         | 24.2            | 6.1                                  |                         |    |
| Diriomo                    | 20,079.0          | 12,731.9                  | 72.3                             | 4,605.7                 | 75.4                                       | 63.4                    | 24.3                         | 22.9            | 5.8                                  |                         |    |
| La Paz Centro              | 27,372.0          | 16,393.4                  | 47.6                             | 5,971.7                 | 55.4                                       | 59.9                    | 23.0                         | 21.8            | 5.8                                  |                         |    |
| La Paz de Carazo           | 4,054.0           | 2,488.2                   | 64.7                             | 908.9                   | 70.0                                       | 61.4                    | 23.6                         | 22.4            | 5.7                                  |                         |    |
| Ocotol                     | 25,819.0          | 13,555.8                  | 4.4                              | 5,077.2                 | 5.8  | 52.5                    | 20.4                         | 19.7            | 5.6                                  |                         |    |
| Nandaime                   | 32,486.0          | 19,276.9                  | 69.0                             | 6,823.2                 | 77.8                                       | 59.3                    | 22.5                         | 21.0            | 5.3                                  |                         |    |
| Sta. Teresa                | 17,353.0          | 10,043.0                  | 86.8                             | 3,489.3                 | 91.8                                       | 57.9                    | 21.7                         | 20.1            | 5.0                                  |                         |    |
| S.J. del Sur               | 13,041.0          | 7,442.4                   | 75.9                             | 2,565.9                 | 84.7                                       | 57.1                    | 21.3                         | 19.7            | 4.9                                  |                         |    |
| Tisma                      | 9,989.0           | 6,161.1                   | 70.7                             | 2,017.2                 | 74.9                                       | 61.7                    | 22.5                         | 20.2            | 4.9                                  |                         |    |
| Diria                      | 6,062.0           | 3,361.5                   | 61.1                             | 1,170.1                 | 70.1                                       | 55.5                    | 20.8                         | 19.3            | 4.8                                  |                         |    |
| Niquinohomo                | 13,454.0          | 7,576.5                   | 73.3                             | 2,501.8                 | 79.0                                       | 56.3                    | 20.6                         | 18.6            | 4.5                                  |                         |    |
| El realajo                 | 8,119.0           | 4,423.9                   | 64.2                             | 1,452.1                 | 72.4                                       | 54.5                    | 20.0                         | 17.9            | 4.5                                  |                         |    |
| Esteli                     | 91,918.0          | 40,985.3                  | 36.0                             | 14,604.5                | 41.8                                       | 44.6                    | 16.9                         | 15.9            | 4.4                                  |                         |    |
| Buenos Aires               | 4,821.0           | 2,893.1                   | 78.3                             | 904.6                   | 81.8                                       | 60.0                    | 21.5                         | 18.8            | 4.4                                  |                         |    |
| La Concepcion              | 27,676.0          | 15,826.7                  | 73.9                             | 4,954.5                 | 76.3                                       | 57.2                    | 20.4                         | 17.9            | 4.3                                  |                         |    |
| El Rosario                 | 3,923.0           | 2,111.7                   | 55.1                             | 670.8                   | 63.1                                       | 53.8                    | 19.4                         | 17.1            | 4.2                                  |                         |    |
| Potosi                     | 10,708.0          | 5,930.8                   | 73.3                             | 1,873.4                 | 77.4                                       | 55.4                    | 19.9                         | 17.5            | 4.2                                  |                         |    |
| Moyogalpa                  | 8,665.0           | 4,800.3                   | 72.5                             | 1,492.6                 | 76.5                                       | 55.4                    | 19.8                         | 17.2            | 4.2                                  |                         |    |
| San Marcos                 | 25,801.0          | 13,084.8                  | 45.8                             | 4,182.4                 | 47.4                                       | 50.7                    | 18.3                         | 16.2            | 4.1                                  |                         |    |
| Nandasmo                   | 7,876.0           | 4,327.1                   | 46.3                             | 1,282.7                 | 47.3                                       | 54.9                    | 19.3                         | 16.3            | 3.9                                  |                         |    |
| Chinandega                 | 115,916.0         | 55,211.6                  | 23.4                             | 17,394.0                | 27.6                                       | 47.6                    | 17.0                         | 15.0            | 3.8                                  |                         |    |
| Chichigalpa                | 41,731.0          | 19,978.2                  | 45.3                             | 6,168.6                 | 55.1                                       | 47.9                    | 16.9                         | 14.8            | 3.6                                  |                         |    |
| Masatepe                   | 25,503.0          | 13,019.2                  | 56.7                             | 3,933.4                 | 61.8                                       | 51.0                    | 17.9                         | 15.4            | 3.6                                  |                         |    |
| Granada                    | 95,874.0          | 43,691.1                  | 40.0                             | 13,604.5                | 50.1                                       | 45.6                    | 16.2                         | 14.2            | 3.6                                  |                         |    |
| S.J. de Oriente            | 3,101.0           | 1,670.3                   | 60.9                             | 465.1                   | 62.6                                       | 53.9                    | 18.4                         | 15.0            | 3.6                                  |                         |    |
| Jinotepe                   | 37,293.0          | 16,142.8                  | 54.2                             | 5,128.0                 | 65.9                                       | 43.3                    | 15.5                         | 13.8            | 3.4                                  |                         |    |
| Nindirí                    | 28,850.0          | 14,447.1                  | 79.1                             | 4,102.2                 | 81.6                                       | 50.1                    | 17.2                         | 14.2            | 3.4                                  |                         |    |
| Leon                       | 161,087.0         | 67,392.8                  | 41.3                             | 20,891.9                | 53.9                                       | 41.8                    | 14.8                         | 13.0            | 3.3                                  |                         |    |
| Diriamba                   | 50,957.0          | 24,169.9                  | 52.7                             | 7,080.1                 | 59.2                                       | 47.4                    | 16.4                         | 13.9            | 3.3                                  |                         |    |
| Nagarote                   | 29,098.0          | 14,393.6                  | 42.8                             | 4,071.1                 | 48.7                                       | 49.5                    | 16.9                         | 14.0            | 3.3                                  |                         |    |
| Catarina                   | 7,099.0           | 3,501.0                   | 76.4                             | 989.5                   | 75.8                                       | 49.3                    | 16.8                         | 13.9            | 3.3                                  |                         |    |
| Masaya                     | 117,437.0         | 50,503.9                  | 36.4                             | 14,236.2                | 42.4                                       | 43.0                    | 14.6                         | 12.1            | 2.9                                  |                         |    |
| Dolores                    | 5,418.0           | 2,239.9                   | 13.7                             | 627.2                   | 18.5                                       | 41.3                    | 14.1                         | 11.6            | 2.8                                  |                         |    |
| San Jorge                  | 7,052.0           | 3,017.5                   | 29.5                             | 808.9                   | 34.0                                       | 42.8                    | 14.2                         | 11.5            | 2.8                                  |                         |    |
| Rivas                      | 37,519.0          | 16,189.1                  | 60.2                             | 4,353.3                 | 65.0                                       | 43.1                    | 14.4                         | 11.6            | 2.7                                  |                         |    |
| Bluefields                 | 37,084.0          | 12,835.2                  | 19.6                             | 3,424.8                 | 34.0                                       | 34.6                    | 11.5                         | 9.2             | 2.4                                  |                         |    |
| S.F. Libre                 | 8,743.0           | 3,366.1                   | 83.5                             | 690.5                   | 83.5                                       | 38.5                    | 11.6                         | 7.9             | 1.7                                  |                         |    |
| Corinto                    | 17,126.0          | 5,179.1                   | 3.7                              | 1,072.7                 | 8.3  | 30.2                    | 9.0                          | 6.3             | 1.5                                  |                         |    |
| C. Island                  | 5,306.0           | 1,678.8                   | 0.0                              | 349.8                   | 0.0  | 31.6                    | 9.4                          | 6.6             | 1.4                                  |                         |    |
| El Crucero                 | 12,519.0          | 3,795.2                   | 4.0                              | 780.5                   | 4.0  | 30.3                    | 9.0                          | 6.2             | 1.4                                  |                         |    |
| S.R. del S.                | 36,337.0          | 10,835.3                  | 49.5                             | 2,249.8                 | 49.5                                       | 29.8                    | 8.9                          | 6.2             | 1.3                                  |                         |    |
| Villa C.Fonseca            | 24,156.0          | 7,892.5                   | 90.6                             | 1,530.2                 | 90.6                                       | 32.7                    | 9.6                          | 6.3             | 1.3                                  |                         |    |
| Mateare                    | 17,636.0          | 5,208.7                   | 36.2                             | 1,076.1                 | 36.2                                       | 29.5                    | 8.7                          | 6.1             | 1.3                                  |                         |    |
| Tipitapa                   | 82,461.0          | 23,746.9                  | 18.0                             | 4,882.8                 | 18.1                                       | 28.8                    | 8.6                          | 5.9             | 1.3                                  |                         |    |
| Ticuantepé                 | 19,929.0          | 5,223.8                   | 61.4                             | 1,022.3                 | 61.4                                       | 26.2                    | 7.6                          | 5.1             | 1.1                                  |                         |    |
| C. Sandino                 | 53,909.0          | 12,717.5                  | 4.1                              | 2,037.6                 | 4.1  | 23.6                    | 6.4                          | 3.8             | 0.7                                  |                         |    |
| Managua                    | 832,824.0         | 146,791.5                 | 4.3                              | 24,923.7                | 4.3  | 17.6                    | 4.9                          | 3.0             | 0.6                                  |                         |    |

| <b>Indicator</b>                         | <b>Poverty Status</b> |                     |                       |                    | <b>Total</b> |
|--|-----------------------|---------------------|-----------------------|--------------------|--------------|
|  | <b>Severe Poverty</b> | <b>High Poverty</b> | <b>Medium Poverty</b> | <b>Low Poverty</b> |              |
| Number of Municipalities                 | 31                    | 34                  | 34                    | 52                 | 151          |
| Number of Extremely Poor                 | 220,487               | 243,168             | 184,765               | 261,149            | 909,571      |
| Percent of National Extremely Poor       | 24.3%                 | 26.7%               | 20.3%                 | 28.7%              | 100%         |
| Number of Rural Extremely Poor           | 201,209               | 202,568             | 150,118               | 131,027            | 684,922      |
| Percent of National Rural Extremely Poor | 29.4%                 | 29.6%               | 21.9%                 | 19.1%              | 100%         |
| Extreme Poverty Gap (US\$ million)       | 18.15                 | 15.80               | 11.04%                | 13.89              | 58.88        |
| Percent of National Extreme Poverty Gap  | 30.8%                 | 26.8%               | 18.8%                 | 23.6%              | 100%         |

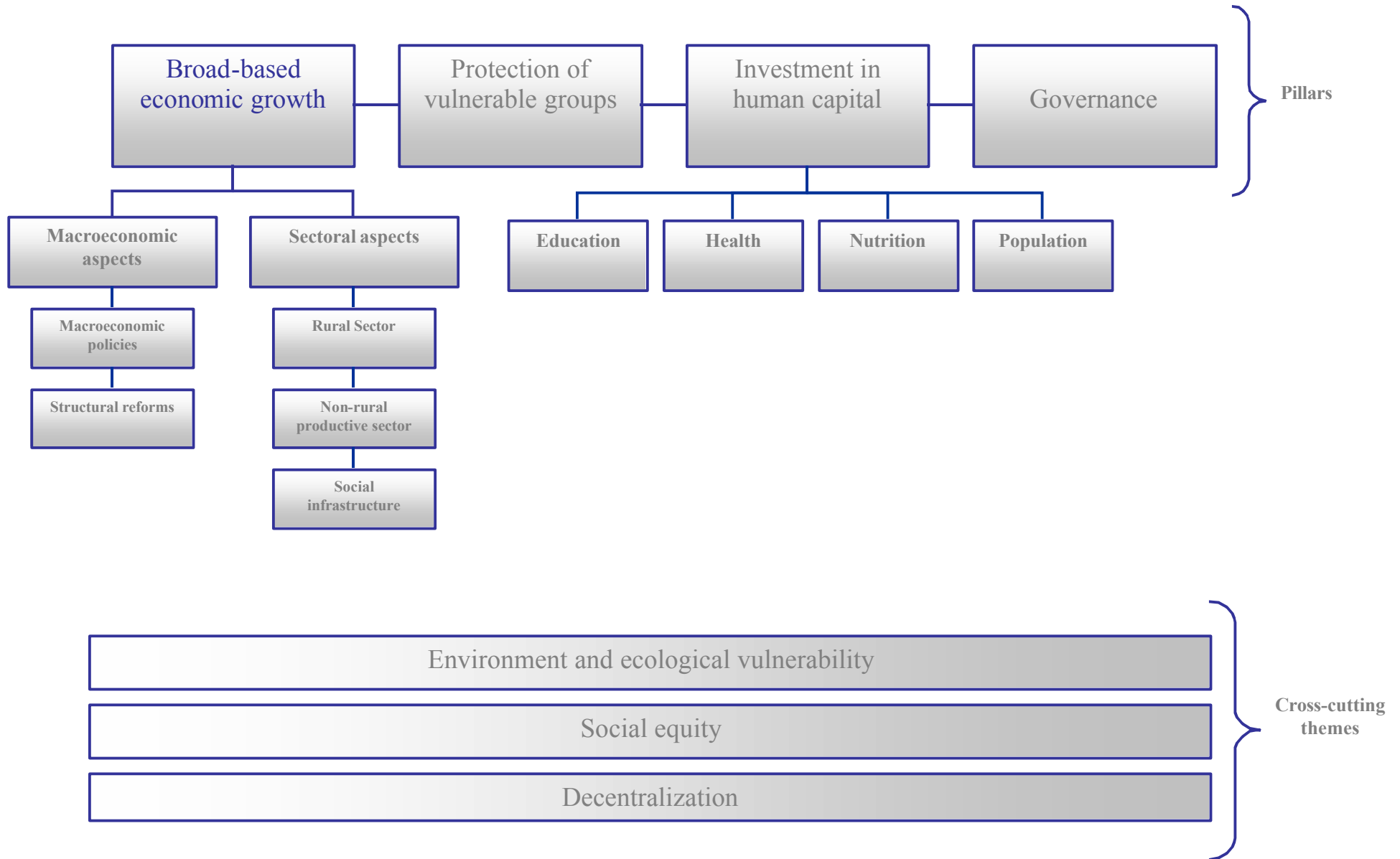
Figure 1: NICARAGUA  
EXTREME POVERTY MAP



**Figure 2. Maps to select projects**  
(Extreme Poverty, Elementary Education and Water Coverage)



STRENGTHENED ECONOMIC GROWTH AND POVERTY REDUCTION STRATEGY  
POLICY ACTIONS



## MATRIX OF POLICY ACTIONS

| PILLAR 1: Broad-based economic growth   |  |  |   |  |                                 |
|---|--|--|---|--|---------------------------------|
| Guidelines  | Objectives   | Policy actions   | Scheduled execution                               | Executor   | Financing                       |
| <b>Macroeconomic Aspects</b>  |  |  |   |  |                                 |
| Maintain economic stability and growth  | Maintain a real average annual rate of growth of 4.2% during 2000-2005<br><br>Reduce annual inflation rate to 4.0% by 2005                             | <b>MACROECONOMIC POLICIES</b>  |   |  |                                 |
|   |  | <b>FISCAL POLICY</b><br><ul style="list-style-type: none"> <li>Rationalize public investment programs</li> <li>Increase government spending on poverty-related outlays to 62% of budget</li> </ul>   | Under formulation<br><br>2005                     | DGIP<br><br>MHCP                                 | Under negot.                    |
|   | <b>MONETARY POLICY AND FOREIGN INDEBTEDNESS</b><br><ul style="list-style-type: none"> <li>Contract foreign debt only on concessional terms.</li> </ul> | The whole period   | MHCP  | ...  |                                 |
| Continue the transformation towards a market economy  |  | <b>STRUCTURAL REFORMS</b>  |   |  |                                 |
|   |  | <b>PUBLIC SECTOR</b><br><ul style="list-style-type: none"> <li>Implement SNIP decree</li> <li>Approval of civil service law</li> <li>Implementation of civil service law</li> </ul>  | Under execution<br><br>Oct. 2001<br><br>2001-2002 | DGIP<br><br>MHCP/<br>CERAP<br><br>MHCP/<br>CERAP | WB<br><br>WB<br><br>WB          |
|   |  | <b>PRIVATIZATION AND PUBLIC SECTOR TARIFFS</b>   |   |  |                                 |
|   |  | <b>ENITEL</b><br><ul style="list-style-type: none"> <li>Announce the results of the bidding of 40% of ENITEL assets (unsuccessful first offer)</li> <li>Offer the remaining shares for sale, following the sale of 40%</li> </ul>  | 2001<br><br>2002-2003                             | ENITEL/<br>TELCOR<br><br>ENITEL/<br>TELCOR       | WB<br><br>WB                    |
|   |  | <b>ENACAL</b><br><ul style="list-style-type: none"> <li>Continue adjusting water and sewerage tariffs until marginal costs are fully recovered</li> <li>Foster public-private partnerships through management contract for regional water and sewage sub-systems:<br/>León and Chinandega<br/>Matagalpa and Jinotega<br/>Other regional systems to be offered or measures to reform sector.</li> </ul> | 2001-2002<br><br>2001<br>2001-2002<br>2001-2002   | ENACAL/<br>INAA<br><br>ENACAL/<br>INAA           | ENACAL<br><br>ENACAL/BID<br>KFW |
|   |  | <b>ENEL</b><br><ul style="list-style-type: none"> <li>Announce the results of the bidding of the thermal generating plants (unsuccessful first offer)</li> <li>Complete privatization of hydroelectric generating plant</li> </ul>   | Jun.2001<br><br>July 2001                         | ENEL<br><br>ENEL                                 | IDB<br><br>IDB                  |
| <b>ENAP</b><br><ul style="list-style-type: none"> <li>Offer long-term concession to private investors for operation of major public port facilities (Corinto, Potosí, and San Juan del Sur).</li> </ul> | 2003-2005  | ENAP   | IDB   |  |                                 |
|   |  | <b>BANIC</b><br><ul style="list-style-type: none"> <li>Approval of law authorizing sale of the remaining government shares in BANIC.</li> </ul>  |   | Presidency                                       | WB                              |

| <b>PILLAR 1: Broad-based economic growth</b> |                   |   |   |   |  |
|--|-------------------|---|---|---|--|
| <b>Guidelines</b>                            | <b>Objectives</b> | <b>Policy actions</b>   | <b>Scheduled execution</b>  | <b>Executor</b>   | <b>Financing</b>   |
|  |                   | <p><b>STRENGTHENING OF THE FINANCIAL SYSTEM</b></p> <ul style="list-style-type: none"> <li>• Implement prudential norms of capital adequacy, credit risk assessment, provisioning, and on-lending limits to related parties</li> <li>• Implement plan to strengthen superintendency of banks and the supervision process</li> <li>• Approval of revised prudential norms on asset-risk classification and provisioning, along the lines recommended by the World Bank</li> <li>• Modifications of the criminal code to update the definition of financial crimes:<br/>Submission to the Assembly and approval</li> <li>• Finalize the current cycle of on-site assisted inspections, design and implement strengthening program where weaknesses have been found</li> <li>• Complete the second cycle of on-site assisted inspections in the banks that absorbed the intervened banks and those banks where weaknesses are found in the first cycle; implement strengthening programs for banks where weakness have been found</li> <li>• Conduct a diagnosis of the operating procedures of the risk management centre and implement action plan with time limits to correct any deficiencies found</li> <li>• Amend accounting standards to bring them into conformity with GAAP (Generally Accepted Accounting Principles), and with respect to proper asset valuation (mark to market valuation of securities—except held to maturity- and real estate assets) and accounting of restructured loans.</li> <li>• Complete review of supervisory practices and undertake, with the assistance of the IFI's and foreign supervisors, compliance assessments of the Basle core principles</li> <li>• Develop time-specific action plan to address any deficiencies found in the action above</li> </ul> | <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>March 2002</p> | <p>SBIF</p> <p>SBIF</p> <p>SBIF</p> <p>SBIF</p> <p>SBIF</p> <p>SBIF</p> <p>SBIF</p> <p>SBIF</p> <p>SBIF</p>             | <p>IDB/WB</p> <p>WB</p> <p>IDB</p> <p>IDB/WB</p> <p>IDB/WB</p> <p>IDB/WB</p> <p>IDB/WB</p> <p>IDB/WB</p> <p>IDB/WB</p> |
|  |                   | <p><b>SOCIAL SECURITY</b></p> <ul style="list-style-type: none"> <li>• Award contracts to private pension fund managers</li> <li>• Introduce the new system of funded individual accounts</li> <li>• Restructure and streamline the Nicaraguan Social Security Institute (INSS)</li> <li>• Approval of laws to strengthen framework for developing a domestic capital market:<br/>Capital market Law<br/>Insurance Law</li> <li>• Establish and make operational the supervision agency of private pension fund managers</li> </ul>   | <p>Oct. 2001</p> <p>Oct. 2001</p> <p>Sept. 2001</p> <p>Oct. 2001<br/>Oct. 2001</p> <p>Sept. 2001</p>  | <p>CREPEN,<br/>SETEC</p> <p>CREPEN,<br/>SETEC</p> <p>CREPEN,<br/>SETEC</p> <p>BCN<br/>SBIF</p> <p>CREPEN,<br/>SETEC</p> | <p>IDB/WB</p> <p>WB</p> <p>IDB/WB</p> <p>IDB/WB</p>  |



| PILLAR 1: Broad-based economic growth  |  |   |  |  |  |
|--|--|---|--|--|--|
| Guidelines   | Objectives   | Policy actions  | Scheduled execution  | Executor   | Financing  |
| <b>Sectoral Aspects</b>  |  |   |  |  |  |
| Improve the framework for incentives and competitiveness in the rural sector                                   | Correct distortions that still persist in the market   | <b>RURAL SECTOR</b> <ul style="list-style-type: none"> <li>Compliance with timetable of programmed tariff reductions on goods that compete with imports in accordance with the Law of Tributary Justice</li> <li>Keep and expedite 1.5% refund of exported value</li> <li>Maintain fiscal incentives for agricultural capital goods and inputs</li> </ul>   | Underway<br>Jun. 2005<br>Dec. 2002   | MIFIC/MHCP<br>MHCP<br>MIFIC/MHCP   |  |
| 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<br><br>Develop agro-industry and promote non-agricultural rural productive activities<br><br>Exploit internal and external market opportunities | <b>LAND MARKET</b> <ul style="list-style-type: none"> <li>Modernize the cadastral system and property registry, and regularize property titles, including titling, conflict resolution, documentation legitimizing and land demarcation:<br/>Pilot in 3 departments (Madríz, Estelí and Chinandega) plus 12 indigenous communities of the Atlantic Coast and Bosawás<br/>In the rest the national territory</li> <li>Reduce the cost and time required for the process of legalizing, titling, and registering properties</li> <li>Implement project for Land Administration</li> <li>Continue titling of lands in the reformed sector</li> <li>Conduct study on lands market</li> <li>Complete the design of land policies based on study on lands market</li> <li>Train property owners on methods for reducing impact of natural disasters at the farm level</li> <li>Approval of law for demarcating indigenous lands</li> <li>Demarcate and title lands of the indigenous communities of the Atlantic Coast and Bosawás</li> </ul> | 2005<br>2009<br>Underway<br>Underway<br>Underway<br>Sept. 2001<br>July 2001<br>2001<br>...<br>2001 | MHCP<br>MAGFOR<br>MHCP<br>MHCP<br>MAGFOR<br>MAGFOR<br>MAGFOR<br>Presidency / AN<br>INETER/MHCP | World Bank<br>USAID<br>WB<br>WB<br>WB<br>USAID<br>WB<br>WB     |
|  | Increase rural productivity in the long run  | <b>FINANCIAL AND AGRICULTURAL SERVICES</b> <ul style="list-style-type: none"> <li>Implement:<br/>Plan that promotes tighter linkages between the Rural Credit Fund (FCR) and other public financing funds<br/><br/>Plan to transform non-conventional organizations into rural banks supervised by the Superintendency of Banks</li> <li>Design credit instruments for small rural producers</li> <li>Consolidate a network of financial intermediaries</li> </ul>  | Underway<br>Underway<br>Underway<br>Underway   | IDR, FCR, MAGFOR<br>Presidency/FCR<br>MAGFOR, IDR<br>MAGFOR, INPYME, IDR, FCR                  | Budget<br>WB<br>FIDA, EU<br>FIDA, EU, Finland, The Netherlands |

| <b>PILLAR 1: Broad-based economic growth</b> |                   |   |                            |                          |                         |
|--|-------------------|---|----------------------------|--------------------------|-------------------------|
| <b>Guidelines</b>                            | <b>Objectives</b> | <b>Policy actions</b>   | <b>Scheduled execution</b> | <b>Executor</b>          | <b>Financing</b>        |
|  |                   | <ul style="list-style-type: none"> <li>• Deliver multiple support services for agricultural and forestry production</li> </ul>  | Underway                   | IDR                      | IDB, FIDA, EU           |
|  |                   | <ul style="list-style-type: none"> <li>• Guarantee sanitary and quality standards for agricultural, livestock, and forestry products bearing quality assurance</li> </ul>           | Underway                   | MAGFOR                   | IDB                     |
|  |                   | <ul style="list-style-type: none"> <li>• Expand area free of porcine cholera and declare areas free of other diseases</li> </ul>  | Underway                   | MAGFOR                   | Taiwan, Partly financed |
|  |                   | <ul style="list-style-type: none"> <li>• Develop norms, regulate and encourage marketing of certified seeds</li> </ul>  | Underway                   | MAGFOR                   | IDB                     |
|  |                   | <ul style="list-style-type: none"> <li>• Implement quality assurance system in packing plants and produce collection points, and best management practices at farm level</li> </ul> | 2002                       | MAGFOR                   | IDB                     |
|  |                   | <ul style="list-style-type: none"> <li>• Coordinate with other institutions and civil society rational and environment-friendly uses of insecticides</li> </ul>                     | Underway                   | MAGFOR                   | DANIDA                  |
|  |                   | <ul style="list-style-type: none"> <li>• Continue adoption of technologies to increase production</li> </ul>  | Underway                   | MAGFOR                   | Taiwan                  |
|  |                   | <ul style="list-style-type: none"> <li>• Extend loans for agricultural machinery, equipment, and inputs</li> </ul>  | Underway                   | IDR                      | Japan                   |
|  |                   | <ul style="list-style-type: none"> <li>• Viability analysis of agricultural insurance</li> </ul>  | 2001                       | MAGFOR, MHCP, Presidency | WB                      |
|  |                   | <ul style="list-style-type: none"> <li>• Promote basic grains production</li> </ul>   | Underway                   | IDR                      | Japan                   |
|  |                   | <ul style="list-style-type: none"> <li>• Implement program to rehabilitate rice production and peasant economy</li> </ul>   | Underway                   | IDR                      | Italy                   |
|  |                   | <ul style="list-style-type: none"> <li>• Implement program for livestock development</li> </ul>   | Underway                   | IDR                      | Finland                 |
|  |                   | <ul style="list-style-type: none"> <li>• Food security<br/>Implement monitoring system for food security programs and projects</li> </ul>   | Underway                   | MAGFOR                   | USDA, EU                |
|  |                   | Prepare status report on country's food situation   | Underway                   | MAGFOR                   | USDA, EU                |
|  |                   | Implement program that guarantees the Atlantic Coast's food security through production, marketing, and post-harvest storage programs   | 2001-2002                  | FSS-FISE                 | IDB                     |
|  |                   | <b>COMMERCIALIZATION</b>  |                            |                          |                         |
|  |                   | <ul style="list-style-type: none"> <li>• Strengthen commercialization firms managed by small and medium producers</li> </ul>  | Underway                   | IDR                      | FIDA, EU                |
|  |                   | <ul style="list-style-type: none"> <li>• Impart training on commercial negotiations, creation of agri-businesses, and market intelligence</li> </ul>                                | Underway                   | MAGFOR                   | BID, EU                 |

| <b>PILLAR 1: Broad-based economic growth</b> |                   |  |  |                          |   |
|--|-------------------|--|--|--------------------------|---|
| <b>Guidelines</b>                            | <b>Objectives</b> | <b>Policy actions</b>  | <b>Scheduled execution</b>                               | <b>Executor</b>          | <b>Financing</b>  |
|  |                   | <ul style="list-style-type: none"> <li>Support basic grains commercialization processes</li> </ul>   | Underway   | MAGFOR                   | EU  |
|  |                   | <ul style="list-style-type: none"> <li>Improve the quality, storage and commercialization of milk and milk products</li> </ul>   | Underway   | IDR                      | Italy, WFP, Finland   |
|  |                   | <ul style="list-style-type: none"> <li>Support the transformation of primary products and their sale in domestic and export markets</li> </ul>   | Underway   | IDR                      | EU, The Netherlands   |
|  |                   | <ul style="list-style-type: none"> <li>Implement:<br/>Actions stemming from tri-national agreement between Nicaragua, El Salvador, and Guatemala in regards to agriculture<br/>Program to promote development of new technologies for storing and processing food on farms.</li> </ul> | Underway<br>Underway                                     | MAGFOR,<br>MIFIC<br>INTA | Budget<br>COSUDE,<br>Norway   |
|  |                   | <b>INFRASTRUCTURE</b>  |  |                          |   |
|  |                   | <ul style="list-style-type: none"> <li>Rehabilitate and improve productive infrastructure on farms</li> </ul>  | Underway   | IDR                      | IDB, EU   |
|  |                   | <ul style="list-style-type: none"> <li>Rehabilitate and build infrastructure to support commercialization and transformation activities</li> </ul>   | Underway   | IDR                      | IDB, EU, Finland  |
|  |                   | <ul style="list-style-type: none"> <li>Implement programs for:<br/>Rural electrification<br/>Energization of rural areas<br/>Energy efficiency<br/>Dendroenergy evaluation</li> </ul>  | 2000-2001<br>2000-2002<br>Under formulation<br>2000-2001 | CNE<br>CNE<br>CNE<br>CNE | COSUDE, WB<br>IDB<br>IDB<br>Brazilian Agency for External Cooperation |
|  |                   | <ul style="list-style-type: none"> <li>Master plan for rural electrification</li> </ul>  | 2001-2005  | CNE                      | Privatization of ENEL, Canada, PREEICA                                |
|  |                   | <ul style="list-style-type: none"> <li>Install electricity generating systems powered by solar energy for the cold storage and marketing of products</li> </ul>  | 2001-2002  | IDR                      | Spain   |
|  |                   | <ul style="list-style-type: none"> <li>Implement paving stones pilot plan</li> </ul>   | 2000-2001  | MTI                      | WB  |
|  |                   | <ul style="list-style-type: none"> <li>Rehabilitate and improve rural infrastructure</li> </ul>  | 2002-2006  | MTI                      | IDB   |
|  |                   | <ul style="list-style-type: none"> <li>Rehabilitate rural roads and pave with paving stones</li> </ul>   | 2000-2004  | MTI                      | WB  |
|  |                   | <ul style="list-style-type: none"> <li>Rehabilitate and build rural network of secondary roads</li> </ul>  | Underway   | IDR                      | IDB, Japan, EU, Finland   |
|  |                   | <ul style="list-style-type: none"> <li>Support the design and operation of fund for rural telecommunications development</li> </ul>  | 2000-2004  | UCRESEP                  | WB  |

| <b>PILLAR 1: Broad-based economic growth</b> |                   |   |   |   |  |
|--|-------------------|---|---|---|--|
| <b>Guidelines</b>                            | <b>Objectives</b> | <b>Policy actions</b>   | <b>Scheduled execution</b>  | <b>Executor</b>   | <b>Financing</b>   |
|  |                   | <p>WATER AND SANITATION</p> <ul style="list-style-type: none"> <li>• Set new rates and revised subsidies for extremely poor neighborhoods</li> <li>• Implement water and sanitation project for marginal sectors of Managua</li> <li>• Implement comprehensive water and sanitation programs plus training: Potable water in rural high-density areas</li> </ul> <p>Matagalpa and Jinotega<br/>Nueva Guinea<br/>Partial transfers and training programs (latrines, training in preventive health, water chlorination)</p> <ul style="list-style-type: none"> <li>• Implement potable water and latrines projects</li> </ul> | <p>June 2001</p> <p>2001</p> <p>Underway</p> <p>Underway<br/>Underway<br/>2000-2004</p> <p>2001</p> | <p>ENACAL</p> <p>ENACAL</p> <p>ENACAL/<br/>FISE</p> <p>ENACAL<br/>ENACAL<br/>MINSA/FISE</p> <p>FES, ENEL<br/>ENACAL,<br/>INIFOM</p> | <p>Budget</p> <p>EU, IDB,<br/>OPEC.</p> <p>WB, IDB,<br/>KFW, ASDI</p> <p>KFW<br/>SNV</p> <p>Taiwan</p> |
|  |                   | <p>HOUSING</p> <ul style="list-style-type: none"> <li>• Implement community-assisted housing reconstruction programs</li> </ul> <ul style="list-style-type: none"> <li>• Construction of floor and roof for 100,000 houses</li> <li>• Reconstruct damaged houses and build emergency shelters for those affected by hurricane Mitch.</li> </ul>   | <p>2001-2003</p> <p>2000-2004</p> <p>2000-2005</p>  | <p>SETEC, OAS,<br/>ENEL,<br/>ENACAL,<br/>INIFOM</p> <p>INVUR</p> <p>INVUR, SAS</p>  | <p>Taiwan.</p> <p>Budget,<br/>partially<br/>financed</p> <p>Budget</p>                                 |
|  |                   | <p>RURAL EXTENSION WORK, DIVERSIFICATION, AND INSTITUTIONAL STRENGTHENING</p> <ul style="list-style-type: none"> <li>• Create capacity for planning in rural communities through advice, technical assistance, and training</li> <li>• Develop participatory processes for identifying problems and implementing solutions in rural communities</li> <li>• Strengthen managerial and business capabilities among small and medium-size producers</li> </ul>   | <p>Underway</p> <p>Underway</p> <p>Underway</p>   | <p>IDR</p> <p>IDR</p> <p>IDR</p>  | <p>GTZ</p> <p>GTZ</p> <p>IDB, FIDA,<br/>EU, Germany</p>  |

| <b>PILLAR 1: Broad-based economic growth</b>   |   |  |  |  |   |
|--|---|--|--|--|---|
| <b>Guidelines</b>  | <b>Objectives</b>                           | <b>Policy actions</b>  | <b>Scheduled execution</b>   | <b>Executor</b>  | <b>Financing</b>  |
|  |   | <ul style="list-style-type: none"> <li>Strengthen the institutional capabilities of MAGFOR, INATEC, INTA, the Foundation for Technological Development (FUNICA) and IDR</li> <li>Strengthen MAGFOR</li> <li>Improve coordination among institutions supporting development of rural sector</li> <li>Strengthen rural development actions in the policy formulation area and pilot zones</li> <li>Implement project on repopulation and genetic improvement of livestock</li> <li>Increase farm-level yields and diversification through technology transfers, validations, and improvement of existing technologies</li> </ul>   | <p>2001-2004</p> <p>Underway</p> <p>2000-2004</p> <p>2001-2002</p> <p>Underway</p> <p>Underway</p> | <p>MAGFOR, INATEC, INTA, FDT, IDR, FUNICA</p> <p>MAGFOR</p> <p>MAGFOR, IDR</p> <p>MAGFOR</p> <p>IDR</p> <p>IDR</p> | <p>BID, WB, COSUDE, FIDA, EU</p> <p>IDB, EU, WB</p> <p>IDB, EU, WB</p> <p>IDB, EU, AECI</p> <p>Taiwan, Italy</p> <p>IDB, Japan, EU, FIDA, The Netherlands</p> |
| Increase rate of technological progress in agriculture   | Increase rural productivity in the long run | <ul style="list-style-type: none"> <li>Implement national irrigation program</li> <li>Implement the National Program of Technology and Technical Agricultural Education with the following components:<br/>Institutional Strengthening<br/>Investigation and technical transference<br/>Training and education<br/>Creation and implementation of FUNICA<br/>Agricultural information system</li> <li>Implement a comprehensive approach to farm development (PRODES)</li> <li>Provide financial resources for implementing the Participatory Micro-Planning (MPP) methodology and executing priority local projects identified by this methodology in the Atlantic Coast</li> </ul> | <p>Underway</p> <p>2001-2004</p> <p>2000-2002</p> <p>2000-2001</p>                                 | <p>MAGFOR/ private banks</p> <p>MAGFOR, INTA, INATEC</p> <p>IDR</p> <p>FSS-FISE</p>                                | <p>Taiwan</p> <p>WB, FIDA, COSUDE</p> <p>The Netherlands</p> <p>IDB</p>   |
| Develop small and medium enterprises in accord with their potential, strengthening their institutional | Promote employment in the urban sector      | <p><b>NON-RURAL PRODUCTIVE SECTOR</b></p> <ul style="list-style-type: none"> <li>Implement projects for science and technology, fishing, seafood farming, tanneries, dairy processing, handicrafts, and mining</li> </ul>  | 2001-2004  | MIFIC  | Taiwan, DANIDA, IDB, UNPF   |

| <b>PILLAR 1: Broad-based economic growth</b>  |   |  |   |   |   |
|---|---|--|---|---|---|
| <b>Guidelines</b>   | <b>Objectives</b>   | <b>Policy actions</b>  | <b>Scheduled execution</b>  | <b>Executor</b>                           | <b>Financing</b>                              |
| framework   | Strengthen institutional framework and improve inter-institutional coordination in the sector | <ul style="list-style-type: none"> <li>Modernize the regulatory framework</li> <li>Improve coordination of NGOs, local governments, and the central government to further enhance assistance to small and medium enterprises</li> <li>Implement projects that:               <ul style="list-style-type: none"> <li>Support and promote small and medium enterprises</li> <li>Train small and medium enterprise personnel</li> <li>Strengthen coordinating mechanisms</li> <li>Extend credit to small and medium enterprises</li> <li>Extend technical assistance to small and medium enterprises</li> </ul> </li> </ul> | 4 years<br><br>2 years<br><br>Underway<br>Underway<br>2001-2002<br>Underway<br>Underway | MIFIC<br>MIFIC<br>MIFIC<br>MIFIC<br>MIFIC | IDB<br>Taiwan, IDB<br>IDB<br>Taiwan<br>Taiwan |
| Develop clusters in tourism, coffee, textiles and clothing manufacture, milk derivatives and economic infrastructure  | Increase productivity in other sectors  | GENERAL  |   |   |   |
|   |   | <ul style="list-style-type: none"> <li>Develop framework and medium and long term action plans for each strategic cluster</li> </ul>   | Dec. 2001   | MIFIC/PNC                                 | WB  |
|   |   | <ul style="list-style-type: none"> <li>Prepare operations plan for 2001</li> </ul>   | Dec. 2001   | MIFIC/PNC                                 | WB  |
|   |   | ATTRACTION OF INVESTMENT AND EXPORT PROMOTION  |   |   |   |
|   |   | <ul style="list-style-type: none"> <li>Collaborate with CEI in implementation of projects that foster exports and attract new investment</li> </ul>  | Jul. 2001-2004  | CEI                                       | WB  |
|   |   | PORTS  |   |   |   |
|   |   | <ul style="list-style-type: none"> <li>Draw up port regulations that simplify and streamline procedures</li> </ul>   | Underway  | PNC                                       | CONATLAN                                      |
|   |   | TOURISM  |   |   |   |
| <ul style="list-style-type: none"> <li>Update macro-analysis of tourism sector</li> <li>Design program for certification of sustainable tourism</li> </ul>  | Underway<br><br>2001-2004   | INCAE<br><br>INTUR/PNC   | INCAE<br><br>Swiss Contact  |   |   |
| COFFEE  |   |  |   |   |   |
| <ul style="list-style-type: none"> <li>Support development of the coffee sector:               <ul style="list-style-type: none"> <li>Diagnostic of small and medium coffee businesses</li> <li>Implement special plan of support to the coffee sector</li> </ul> </li> </ul> | Underway  | MAGFOR,<br>MIFIC   | USAID, WB,<br>IDB,<br>TAIWAN  |   |   |
| TEXTILE-CLOTHING  |   |  |   |   |   |
| <ul style="list-style-type: none"> <li>Prepare proposal for development of the sector</li> <li>Promote the WRAP certification program (Worldwide Responsible Apparel Production Program)</li> </ul>   | 2001<br><br>May 2001  | PNC<br><br>PNC   | WB<br><br>WB  |   |   |

| <b>PILLAR 1: Broad-based economic growth</b>  |   |   |                                     |                            |   |
|---|---|---|-------------------------------------|----------------------------|---|
| <b>Guidelines</b>   | <b>Objectives</b>   | <b>Policy actions</b>   | <b>Scheduled execution</b>          | <b>Executor</b>            | <b>Financing</b>  |
| Expand provision of safe water and sanitation in rural areas  | Increase coverage of safe water and sanitation in rural areas.                              | <b>SOCIAL INFRASTRUCTURE</b>  |                                     |                            |   |
|   |   | <b>WATER AND SANITATION</b>   |                                     |                            |   |
|   |   | <ul style="list-style-type: none"> <li>Increase coverage of:               <ul style="list-style-type: none"> <li>Potable water in urban areas from 89% in 2000 to 90% by 2004</li> <li>Safe water in rural areas from 41.6% in 2000 to 52.6% by 2005</li> <li>Increase coverage of sewerage system</li> </ul> </li> </ul>  | 2000-2005<br>2000-2005<br>2000-2005 | ENACAL<br>ENACAL<br>ENACAL | WB, IDB, EU, OPEC, KFW, USAID, Japan, Austria, Spain, Sweden, Swiss Canada, The Netherlands, Luxemburg, COSUDE, UNICEF, Save the Children, ENACAL |
|   |   | <ul style="list-style-type: none"> <li>Improve systems for gathering, transporting, and treating solid wastes in 40 municipalities across the country</li> </ul>  | 2001-2004                           | INIFOM                     | No financing  |
| <ul style="list-style-type: none"> <li>Build 2,000 septic tanks to treat liquid waste dumped directly into surface waters, including the provision of the equipment and machinery necessary for the transport and final disposal of garbage, and 2,200 additional tanks in marginal urban zones of 25 municipalities</li> </ul> | 2001-2004   | INIFOM  | No financing                        |                            |   |
| Solve water basin management problems, reorganize institutions, and strengthen rural water supply systems.  | Ensure the financial and institutional sustainability of the local water systems.           | <ul style="list-style-type: none"> <li>Provide a comprehensive solution to problems associated with the provision of water, sanitation, and water basin management</li> </ul>   | Underway                            | ENACAL                     | Budget  |
|   |   | <ul style="list-style-type: none"> <li>Implement programs:               <ul style="list-style-type: none"> <li>To help rural communities ensure the sustainability of their water supply systems</li> <li>To make organizational changes that bring decision-making closer to the clients</li> </ul> </li> </ul>   | Being formulated                    | ENACAL                     | Budget  |
|   |   |   | Underway                            | ENACAL                     | Budget  |
| Encourage sustainable water usage at home.  | Conservation of water sources.  | <ul style="list-style-type: none"> <li>Implement program to provide information about sustainable water usage and associated costs: "Nicaraguan Initiative for Care and Rehabilitation of the Environment"</li> </ul>   | Underway                            | ENACAL                     | Budget  |
| 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. | <b>HOUSING</b>  |                                     |                            |   |
|   |   | <ul style="list-style-type: none"> <li>Deliver draft of the organic law of INVUR, and a draft law for the Housing Social Fund (FOSOVI) to the National Assembly</li> <li>Deliver plan to close BAVINIC, including:               <ul style="list-style-type: none"> <li>Draft of law declaring legal dissolution of BAVINIC</li> <li>Accounting liquidation, including action plan and tentative timetable</li> <li>List of programs administered by BAVINIC and a proposal for their divestment</li> </ul> </li> </ul> | Jun. 2001<br><br>Jun. 2001          | INVUR<br><br>INVUR         | Budget<br><br>Budget  |

| <b>PILLAR 1: Broad-based economic growth</b>          |   |  |                            |                 |                  |
|---|---|--|----------------------------|-----------------|------------------|
| <b>Guidelines</b>                                     | <b>Objectives</b>   | <b>Policy actions</b>  | <b>Scheduled execution</b> | <b>Executor</b> | <b>Financing</b> |
| Administer efficient and effective housing subsidies  | Facilitate the construction of housing for low-income families  | <ul style="list-style-type: none"> <li>• Provide 15,000 annual targeted subsidies to fill unsatisfied housing needs from low-income sectors</li> <li>• Buy and transfer lands to NGOs to encourage investment in low-cost housing</li> </ul> | 2000-2004                  | INVUR           | No financing     |
|   |   |  | 2000-2004                  | INVUR           | Budget           |
| Develop and regulate the private financing of housing | Increase the supply of financial resources for housing projects | <ul style="list-style-type: none"> <li>• Consolidate legal framework for development of a private mortgage market</li> <li>• Promote the development of private mortgage market</li> </ul>   | Under formulation          | INVUR           | IDB              |
|   |   |  | Under formulation          | INVUR           | IDB              |



| <b>PILLAR 2: Investment in human capital</b>           |  |   |                            |                                      |   |
|--|--|---|----------------------------|--------------------------------------|---|
| <b>Guidelines</b>                                      | <b>Objectives</b>  | <b>Policy actions</b>   | <b>Scheduled execution</b> | <b>Executor</b>                      | <b>Financing</b>  |
| <b>Education</b>                                       |  |   |                            |                                      |   |
| Increase coverage                                      | Increase net primary enrollment to 83.4% from 75% in 1999                          | <ul style="list-style-type: none"> <li>Implement pilot project for preschool education during vacations</li> </ul>  | 2001                       | MECD                                 | IDB   |
|  |  | <ul style="list-style-type: none"> <li>Design plans to:               <ul style="list-style-type: none"> <li>Increase double shifts</li> <li>Expand multigrade schools in rural areas</li> <li>Incorporate classrooms with community support (community primary)</li> </ul> </li> </ul> | Being formulated           | ...                                  | ...   |
|  |  | <ul style="list-style-type: none"> <li>Rehabilitate, replace, and/or build over 6,000 primary classrooms</li> </ul>   | 2000-2005                  | MECD, FISE, PRRAC                    | Sweden, Germany-KFW, USAID, CATIE, WB, IDB, OPEC, EU, Japan, Budget |
|  |  | <ul style="list-style-type: none"> <li>Expand program for functional illiteracy</li> </ul>  | 2001                       | MECD, PAEBANIC                       | Spain, Under negot.: EU, Partly financed                            |
|  |  | <ul style="list-style-type: none"> <li>Make a situation analysis of coverage at the municipal level and define strategies and financial requirements and develop physical facilities master plan</li> </ul>   | 2001-2002                  | MECD                                 | Under negot.  |
| Reduce illiteracy rate to 18% in 2004 from 19% in 1998 |  | <ul style="list-style-type: none"> <li>Build home-schools for teachers in rural areas</li> </ul>  | Underway                   | MECD, ASEN                           | EU, Korea, Budget   |
|  |  | <ul style="list-style-type: none"> <li>Give primary teachers incentives linked to performance               <ul style="list-style-type: none"> <li>14,000 teachers</li> <li>18,000 teachers</li> </ul> </li> </ul>  | 2001<br>2002               | MECD<br>FSS-MECD                     | WB  |
|  |  | <ul style="list-style-type: none"> <li>Improve initial and ongoing training for teachers (including the Atlantic Coast)</li> </ul>  | 2000-2003                  | SIMEN, FOREBICA, ASEN, BASE, APRENDE | UNESCO, Finland, USAID, EU, UNICEF                                  |
|  |  | <ul style="list-style-type: none"> <li>Expand textbooks and educational materials distribution by 2% a year</li> </ul>  | 2000-2003                  | MECD, FOREBICA, APRENDE              | WB<br>Finland   |
|  |  | <ul style="list-style-type: none"> <li>Generalize primary school standards</li> </ul>   | 2001                       | MECD                                 | USAID, Budget   |
| Improve the quality of education                       | Improve the quality of education by improving relevance and pertinence of teaching | <ul style="list-style-type: none"> <li>Reform secondary education</li> </ul>  | 2001                       | MECD                                 | IDB   |
|  |  | <ul style="list-style-type: none"> <li>Reform elementary bilingual intercultural education</li> </ul>   | 2001                       | FOREIBCA, MECD, BASE                 | Finland, IDB<br>USAID   |
|  |  | <ul style="list-style-type: none"> <li>Modernize tertiary education</li> </ul>  | 2001-2004                  | CNU, MHCP                            | IDB   |
|  |  | <ul style="list-style-type: none"> <li>Strengthen plan for flagship schools</li> </ul>  | Underway                   | MECD,                                | USAID   |

| <b>PILLAR 2: Investment in human capital</b>   |   |  |                            |                 |  |
|--|---|--|----------------------------|-----------------|--|
| <b>Guidelines</b>  | <b>Objectives</b>   | <b>Policy actions</b>  | <b>Scheduled execution</b> | <b>Executor</b> | <b>Financing</b>                                     |
|  |   | <ul style="list-style-type: none"> <li>• Provide scholarships in teacher training schools</li> <li>• Reinforce multi-grade schools</li> <li>• Implement comprehensive supervision strategies to education programs in the Atlantic Coast</li> <li>• Provide furniture, school vegetable gardens, mini-libraries, and science labs to education centers</li> </ul>  | Underway                   | MECD            | Luxemburg  |
|  |   |  | Underway                   | MECD            | UNICEF, partly financed                              |
|  |   |  | 2000-2001                  | FSS-MECD        | IDB  |
|  |   |  | 2004                       | FISE            | Sweden, IDB, Germany-KFW, USAID, WB, OPEC, budget    |
| School decentralization  | Improve participation of families and communities   | <ul style="list-style-type: none"> <li>• Implement training plan for the School Directive Councils, parents, and school principals</li> <li>• Continue formulating and training student governments</li> </ul>   | 2000-2003                  | MECD            | World Bank   |
|  | Improve financial efficiency and transparency   | <ul style="list-style-type: none"> <li>• Expand school autonomy by 100%</li> <li>• Pass Law for Participation in Education (Entered National Assembly in May 2000)</li> </ul>  | Underway                   | CED             | USAID  |
|  |   |  | 2001                       | MECD            | WB   |
|  |   |  | 2001                       | MECD/AN         | ...  |
| 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"> <li>• Design and implement:<br/>National System for Institutional and Academic Evaluation</li> <li>• Integrated Financial Management System (Local SIGFA)</li> <li>• Finalize design of the National Education Plan</li> </ul>  | 2002                       | MECD            | WB   |
|  |   |  | 2001-2002                  | MECD            | WB   |
|  |   |  | 2001                       | MECD            | IDB, Spain   |
| <b>Health</b>  |   |  |                            |                 |  |
| 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<br><br>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"> <li>• Support the 15 SILAIS to improve the quality of healthcare by providing medical equipment, inputs, rehabilitation of infrastructure, and training of staff and community volunteers</li> <li>• Repair the primary network, equipment, furnishings, health centers and posts (7 on the Atlantic Coast)</li> <li>• Repair hospitals in RAAN, RAAS, and Río San Juan</li> <li>• Adopt alternative modalities for delivering services in faraway areas: FONMAT and Social Protection Safety Net and design and implement a package of services for pregnancy and infants under one year of age (FONMAT)</li> <li>• Get a functional community reference and counter-reference system underway in order to improve follow-up to patient care in 12 municipalities of 6 SILAIS</li> <li>• Support for organizing reproductive health services and work with adolescents in 40 municipalities</li> </ul> | 2000-2002                  | MINSA           | Sweden, EU USAID, Nordic Fund, Italy, Japan, WB, IDB |
|  |   |  | 2000-2002                  | MINSA/FISE      | Budget; KWF, WB, IDB,                                |
|  |   |  | 2001                       | MINSA           | Budget   |
|  |   |  | 2000-2003                  | MINSA FSS-FISE  | USAID, SIDA, IDB                                     |
|  |   |  | 2001                       | MINSA           | SIDA, PAHO, UNICEF,                                  |
|  |   |  | 2001-2003                  | MINSA FSS-FISE  | SIDA, PAHO   |

| <b>PILLAR 2: Investment in human capital</b>                |   |  |   |   |  |
|---|---|--|---|---|--|
| <b>Guidelines</b>   | <b>Objectives</b>   | <b>Policy actions</b>  | <b>Scheduled execution</b>  | <b>Executor</b>                                       | <b>Financing</b>   |
|   |   | <ul style="list-style-type: none"> <li>Strengthen comprehensive healthcare system for children (Strategic Plan for Comprehensive Attention to Diseases Prevalent during Infancy – AIEPI):               <ul style="list-style-type: none"> <li>Provide vaccines, medicines, and inputs for immunization program and for comprehensive attention to women and children</li> </ul> </li> <li>Implement model for comprehensive reproductive health care services               <ul style="list-style-type: none"> <li>Strengthen programs to improve reproductive counseling and services, with qualified attention</li> <li>Develop and publicize communication plans for family planning</li> </ul> </li> <li>Conduct study to expand benefits coverage in INSS health services</li> <li>Implement pilot project to introduce tele-medicine on the Atlantic Coast</li> </ul> | 2001<br>2002-2003<br>2001<br>2001-2004<br>2001-2004<br>2000-2001<br>2001-2002 | MINSA<br>MINSA<br>MINSA<br>MINSA<br>INSS<br>FSS-MINSA | PAHO, SIDA<br>Luxemburg, Japan<br>Norway, Finland, Germany, UNPF<br>No financing<br>WB<br>IDB              |
| Improve capacity of households to care for their own health | Change family sanitary behavior and habits in order to improve the health and nutrition of families       | <ul style="list-style-type: none"> <li>Develop plan for strengthening sanitary and nutritional education in communities and households</li> <li>Support investments in epidemiological monitoring systems for decision-making by communities and authorities</li> <li>Support maternal mortality monitoring system</li> <li>Prevent and control epidemics through monitoring, control, basic sanitation and epidemiological investigation</li> <li>Design and disseminate educational, informational, and communications campaigns to promote healthy lifestyles</li> </ul>  | Being formulated<br>2001<br>2000-2003<br>2001-2003<br>Under formulation       | MINSA<br>MINSA<br>MINSA<br>MINSA<br>MINSA             | Budget<br>USAID, Spain<br>SIDA<br>USAID, SIDA, KFW, COSUDE, WB, IDB, OPEP, Partly financed<br>No financing |
| Modernize the sector  | Strengthen MINSA in its role of setting norms and financing and promoting a pluralistic offer of services | <ul style="list-style-type: none"> <li>Approval of General Law for Health</li> <li>Design National Health Plan and basic package of health services</li> <li>Develop human resource policy for the sector, allocating staff according to need</li> <li>Further hospital autonomy program</li> </ul>  | 2001<br>2001<br>2002<br>2000-2003   | AN, MINSA<br>MINSA<br>MINSA<br>MINSA                  | WB, IDB<br>Budget, WB, IDB<br>Budget<br>WB, IDB  |
| <b>Nutrition</b>  |   |  |   |   |  |
| Foster preventive approaches to malnutrition                | Reduce under five chronic malnutrition to 16% in 2004 from 19.9% in 1998                                  | <ul style="list-style-type: none"> <li>Foster educational approaches based on promoting behavioral changes in families and communities to promote hygiene, preventative health, and practices for caring for children among pregnant women and breastfeeding mothers</li> <li>Promote at the community level healthy growth and development strategies for children, monitoring weight during pregnancy, support actions and develop social</li> </ul>   | 2001<br>Apr.-Dec. 2001  | MINSA<br>MINSA  | WB<br>USAID, UNICEF  |

| <b>PILLAR 2: Investment in human capital</b>   |  |   |   |   |  |
|--|--|---|---|---|--|
| <b>Guidelines</b>  | <b>Objectives</b>  | <b>Policy actions</b>   | <b>Scheduled execution</b>                                | <b>Executor</b>   | <b>Financing</b>   |
|  | Promote prevention of malnutrition by means of measures in the household and the community   | <p>communication strategy to promote breastfeeding</p> <ul style="list-style-type: none"> <li>• Design a plan to assist pregnant women and review the experience of breastfeeding mothers, fostering educational approaches based on the promotion of behavioral changes</li> <li>• Revise the topics and include in primary school health education curricula, and adult literacy programs topics on malnutrition prevention</li> <li>• Guarantee quality standards for fortifying sugar with vitamin A, wheat flour with iron, and salt with iodine, and increase coverage in the most needy areas</li> <li>• Analyze the pilot project “Comprehensive Attention to Community Children” and draw applicable lessons for other projects</li> </ul> | <p>2001</p> <p>2001-2002</p> <p>2002</p> <p>June 2002</p> | <p>MINSA</p> <p>MECD</p> <p>MINSA</p> <p>MINSA</p>                        | <p>UNICEF; partly financed</p> <p>...</p> <p>Budget</p> <p>USAID, Budget</p> <p>WB</p> |
| Improve inter-institutional coordination   | Integrate actions that have an impact on the nutritional levels of the population in the medium term   | <ul style="list-style-type: none"> <li>• Design scheme for coordinating actions that will impact nutrition levels of the population.</li> </ul>   | Under formulation   | MINSA   | ...  |
| <b>Population</b>  |  |   |   |   |  |
| Incorporate reproductive healthcare services as a basic component of human capital investments in the poor | <p>Increase access to reproductive healthcare services to individuals of all ages by 2015</p> <p>Foster responsible patterns of conduct in vulnerable groups’ families</p> | <ul style="list-style-type: none"> <li>• Provide basic package of social services including preventive, basic, emergency, and reproductive healthcare services with emphasis on women and adolescents</li> <li>• Finish work plan for the implementation of the National Population Policy</li> <li>• Support in the adaptation of obstetric emergency norms. Evaluation of care and proposals for adolescents’ services</li> </ul>   | <p>Dec. 2001</p> <p>Dec. 2001</p> <p>2001-2003</p>        | <p>MINSA</p> <p>MINSA/ National Commission on Population</p> <p>MINSA</p> | <p>Partly financed, USAID, UNFPA, Norway, Finland</p> <p>UNFPA</p> <p>SIDA</p>         |

| <b>PILLAR 3: Protection of vulnerable groups</b>   |   |  |                            |                          |                   |
|--|---|--|----------------------------|--------------------------|-------------------|
| <b>Guidelines</b>  | <b>Objectives</b>   | <b>Policy actions</b>  | <b>Scheduled execution</b> | <b>Executor</b>          | <b>Financing</b>  |
| Modernize the institutional framework  | Strengthen institutional capacity to formulate, coordinate, and evaluate policies and programs                        | <b>RESTRUCTURING OF PROGRAMS AND PROJECTS PORTFOLIO</b>  |                            |                          |                   |
|  |   | <ul style="list-style-type: none"> <li>Analysis of plans, programs, and projects directed at vulnerable groups, their delivery mechanisms, and cost/effectiveness evaluation</li> </ul>  | Underway                   | SETEC,<br>All sectors    | IDB, WB           |
|  |   | <ul style="list-style-type: none"> <li>Implement the Action Plan for the Rationalization of Social Investment directed at extremely poor and vulnerable groups</li> </ul>  | 2001                       | SETEC/FISE,<br>MIFAMILIA | IDB, WB           |
|  |   | <ul style="list-style-type: none"> <li>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</li> </ul>   | 2001                       | SETEC                    | IDB, WB           |
|  |   | <ul style="list-style-type: none"> <li>Design effective service delivery mechanisms promoting behavioral changes of the extreme poor and vulnerable groups, through sustainable schemes involving central and local governments, civil society, and international cooperation for the execution of social protection programs</li> </ul> | Underway                   | SETEC/FISE,<br>MIFAMILIA | IDB, WB           |
|  |   | <b>INSTITUTIONAL STRENGTHENING</b>   |                            |                          |                   |
| <ul style="list-style-type: none"> <li>Coordinate the efforts of MIFAMILIA, INIM, National Council for Children, and other organizations created to assist vulnerable groups</li> </ul>  | 2001-2002   | MIFAMILIA,<br>INIM   | IDB                        |                          |                   |
| <ul style="list-style-type: none"> <li>Implement programs to strengthen organizations that formulate, coordinate, follow up, and evaluate social and economic policies directed at extremely poor and vulnerable groups</li> </ul> | 2001-2002   | MIFAMILIA,<br>SETEC, FISE,   | IDB, WB                    |                          |                   |
| Improve quality, targeting and coverage  | Design and implement interventions for social protection based on specific characteristics of vulnerability and risks | <b>IMPROVEMENT OF PRODUCTIVE CAPACITY OF THE EXTREMELY POOR</b>  |                            |                          |                   |
|  |   | <ul style="list-style-type: none"> <li>Implement Integrated Program for Poor Urban Neighborhoods</li> </ul>  | 2001-2003                  | FISE-SETEC               | IDB               |
|  |   | <ul style="list-style-type: none"> <li>Implement food security programs among 33,022 rural families facing adverse environmental conditions (Special Program for Food Security PESA, Support food security of poor rural families affected by drought or flooding and rehabilitate families affected by hurricane Mitch)</li> </ul>      | Underway                   | MAGFOR,<br>INTA          | FAO, Spain<br>WFP |
|  |   | <ul style="list-style-type: none"> <li>Implement community jobs program</li> </ul>   | Underway                   | SAS                      | Budget            |
| <ul style="list-style-type: none"> <li>Programs to fight women's poverty (women and credit program; women's garden economy with technology and credit-in-kind)</li> </ul>  | Underway  | INIM,<br>INTA  | Taiwan,<br>Norway          |                          |                   |

| PILLAR 3: Protection of vulnerable groups |            |  |                     |                       |   |
|---|------------|--|---------------------|-----------------------|---|
| Guidelines                                | Objectives | Policy actions   | Scheduled execution | Executor              | Financing                                   |
|   |            | HUMAN CAPITAL PROTECTION   |                     |                       |   |
|   |            | <ul style="list-style-type: none"> <li>Implement programs to improve health in extremely poor rural areas (medical resources and nursing)</li> </ul>   | Underway            | MINSA-FSS             | IDB   |
|   |            | <ul style="list-style-type: none"> <li>Implement strategic plan to increase health coverage among formal and informal sector workers</li> </ul>  | Underway            | INSS                  | INSS  |
|   |            | <ul style="list-style-type: none"> <li>Medical brigades to assist vulnerable and extremely poor groups</li> </ul>  | Underway            | INSS                  | INSS  |
|   |            | <ul style="list-style-type: none"> <li>Assistance to groups facing nutritional and educational risk:               <ul style="list-style-type: none"> <li>89,182 children 2 – 6 years (School Lunch Program) and community preschoolers</li> </ul> </li> </ul>   | 2001-2005           | MIFAMILIA             | WFP   |
|   |            | <ul style="list-style-type: none"> <li>Increase coverage of integral attention of children 0-6 years (PAININ)</li> </ul>   | 2001-2003           | MIFAMILIA,            | WFP, IDB,                                   |
|   |            | <ul style="list-style-type: none"> <li>Implement programs to fight extreme rural poverty (Social Safety Network)</li> </ul>  | 2000-2002           | FSS-FISE, MECD, MINSA | IDB   |
|   |            | <ul style="list-style-type: none"> <li>200,000 children attending formal pre-schools, 1<sup>st</sup>, 2<sup>nd</sup> grades and multigrade schools located in extremely poor areas (PINE)</li> </ul>   | 2001-2004           | MECD                  | WFP   |
|   |            | <ul style="list-style-type: none"> <li>Health and nutrition programs aimed at women and children through participatory schemes, and support for the delivery of health services</li> </ul>   | Underway            | MINSA                 | UNICEF                                      |
|   |            | <ul style="list-style-type: none"> <li>Preventive nutritional health programs aimed at children to facilitate early detection of nutritional deficiencies and opportune interventions</li> </ul>   | 2001                | MINSA                 | Under negot.                                |
|   |            | <ul style="list-style-type: none"> <li>Healthy Schools Program</li> </ul>  | Under formulation   | MECD, MINSA, ENACAL   | Under negot.                                |
|   |            | <ul style="list-style-type: none"> <li>Implement program to assist handicapped children:               <ul style="list-style-type: none"> <li>Special education program to assist 3,900 children (teachers' training, promoting handicapped children's participation, promotion of diversity)</li> </ul> </li> </ul> | Underway            | MECD                  | EU, Save the Children, Sweden, UNESCO, VVOP |
|   |            | <ul style="list-style-type: none"> <li>Rehabilitation by the community (Smile operation)</li> </ul>  | Underway            | MIFAMILIA             | USA Smile Operation                         |
|   |            | <ul style="list-style-type: none"> <li>Rehabilitate and provide treatment to handicapped persons</li> </ul>  | 2000-2002           | MINSA                 | Finland                                     |

| <b>PILLAR 3: Protection of vulnerable groups</b>         |  |   |   |  |   |
|--|--|---|---|--|---|
| <b>Guidelines</b>  | <b>Objectives</b>                              | <b>Policy actions</b>   | <b>Scheduled execution</b>  | <b>Executor</b>  | <b>Financing</b>  |
|  |  | <ul style="list-style-type: none"> <li>Protection of working children:<br/>Alternative ways of receiving educational services and on-the-job-training<br/>Decrease work performed by children in Managua and other cities</li> <li>Protection of minors under high-risk conditions (delinquency and abandonment):<br/>Protection for 551 stoplight children<br/><br/>Protection for 480 children under risk due to drug use and sexual abuse<br/><br/>Attention to 790 inhalant children<br/><br/>Comprehensive development plan for the prevention of juvenile delinquency</li> <li>Protection centers for abandoned children</li> </ul> | <p>2000-2001</p> <p>Underway</p> <p>Underway</p> <p>2000-2001</p> <p>Underway</p> <p>2002</p> <p>Underway</p> | <p>MIFAMILIA</p> <p>MIFAMILIA, MITRAB</p> <p>MIFAMILIA</p> <p>MIFAMILIA</p> <p>MIFAMILIA, Casa Alianza</p> <p>SAS</p> <p>MIFAMILIA</p> | <p>EU, UNICEF</p> <p>OIT, UNICEF, EU</p> <p>Taiwan and NGO's</p> <p>UNDP, UNICEF, UNESCO</p> <p>IDB, Budget, Casa Alianza</p> <p>Budget, Norway</p> <p>Budget PMA</p> |
|  |  | <ul style="list-style-type: none"> <li>Fight Against Drugs:<br/>Approval and negotiation of Plan to Fight Drugs<br/><br/>Implement antidrugs campaigns in primary, secondary schools and communities<br/><br/>Prevention plan against drugs in the Atlantic Coast</li> </ul>  | <p>Underway</p> <p>Underway</p> <p>August 2001</p>  | <p>CNLD, MINGOB</p> <p>MECD, CNLD, PN, MIFAMILIA, MINSA, NGO's</p> <p>Regional Autonomous Councils for Fight Against Drugs</p>         | <p>OAS, UNDP</p> <p>Budget funds from each institution</p> <p>IDB</p>   |
| Strengthen community participation and social solidarity | Foster the sustainability of the interventions | <ul style="list-style-type: none"> <li>Implement comprehensive attention programs aimed at the extremely poor sick:<br/>Special attention program for cancer patients and neurosurgery</li> <li>Implement programs for the elderly<br/>Attention program for senior citizens<br/><br/>Feasibility study on increasing coverage for the elderly</li> <li>Development of community capacities<br/>Foster homes program<br/><br/>Training of local community promoters (Centers for Soc. and Educ. formation)</li> </ul>   | <p>Underway</p> <p>Under way</p> <p>New program phase under design</p> <p>Underway</p> <p>2001</p>            | <p>MINSA-FES-ONG's</p> <p>MIFAMILIA</p> <p>INSS</p> <p>MIFAMILIA</p> <p>MIFAMILIA</p>  | <p>Taiwan</p> <p>RICOTEC</p> <p>WB</p> <p>Budget</p>  |

| PILLAR 4: Governance  |  |   |                                      |                       |                       |
|---|--|---|--------------------------------------|-----------------------|-----------------------|
| Guidelines  | Objectives   | Policy actions  | Scheduled execution                  | Executor              | Financing             |
| Strengthen governance, legal framework, and processes   | Strengthen the rule of law, transparency, and accountability | <b>TRANSPARENCY</b>   |                                      |                       |                       |
|   |  | <ul style="list-style-type: none"> <li>Establish and implement a system for public sector procurement and contracting with assistance from IDB:               <ul style="list-style-type: none"> <li>Sign contract for private inspection</li> <li>Sign contract for administrative support</li> <li>Submit legislation to National Assembly to centralize implementation of a new system for public procurement/contracting</li> </ul> </li> </ul> | June 2001<br>Sept. 2001<br>June 2002 | MHCP                  | IDB                   |
|   |  | <ul style="list-style-type: none"> <li>Law on access to information:               <ul style="list-style-type: none"> <li>Approve law</li> <li>Implement law</li> </ul> </li> </ul>   | Dec. 2001<br>2001-2002               | CNI/AN<br>CNI/sectors | IDB<br>No financing   |
|   |  | <ul style="list-style-type: none"> <li>Ensure that all domestic receipts (revenue and transfers) of the public sector entities are recorded at the Treasury (cuenta única)</li> </ul>   | 2001-2002                            | MHCP                  | WB                    |
|   |  | <ul style="list-style-type: none"> <li>Increase share of Treasury revenues and transfers registered in the SIGFA integrated system for financial management and auditing;               <ul style="list-style-type: none"> <li>In the Ministries of Treasury and Public Credit, Transport, Agriculture, Education, and Health</li> <li>In all other entities of the Central Government</li> </ul> </li> </ul>                                       | Dec. 2001<br>Dec. 2002               | MHCP                  | WB                    |
|   |  | <ul style="list-style-type: none"> <li>Strengthening of the Comptroller's Office:               <ul style="list-style-type: none"> <li>Introduce and implement a system of internal controls in 50 percent of the public sector</li> <li>Design and start implementing a system of management and supervision of audits</li> <li>Design and start implementing a training program</li> </ul> </li> </ul>  | July 2001<br>July 2001<br>April 2001 | CGR<br>CGR<br>CGR     |                       |
|   |  | <b>JUDICIAL REFORM</b>  |                                      |                       |                       |
|   |  | <ul style="list-style-type: none"> <li>Approve the laws to reform the judicial process:               <ul style="list-style-type: none"> <li>New Penal Code</li> <li>New law on penal procedures</li> <li>Implement a technical strengthening program to put these laws into practice</li> </ul> </li> </ul>  | June 2001<br>Oct. 2001<br>June 2001  | AN<br>CSJ<br>CSJ      | IDB<br>USAID<br>USAID |
|   |  | <ul style="list-style-type: none"> <li>Implement the recently-approved Law on the Administrative Dispute Settlement law</li> </ul>  | Sep. 2001                            | CSJ                   | USAID                 |
|   |  | <ul style="list-style-type: none"> <li>Implement program for institutional strengthening (technical and professional) in judicial matters supported by IDB</li> </ul>   | 2001-2003                            | CSJ                   | IDB                   |
| <ul style="list-style-type: none"> <li>Submit a revised commercial code to the National Assembly</li> </ul> | Dec. 2001  | Special Commission  | No Financing                         |                       |                       |
|   |  | <b>PROPERTY RIGHTS</b>  |                                      |                       |                       |
|   |  | <ul style="list-style-type: none"> <li>Monitor quantitative targets on property claims solved, and urban and rural property titles issued</li> </ul>  | 2001-2002                            | MHCP                  | UNDP                  |
|   |  | <ul style="list-style-type: none"> <li>Modify property and land registries:               <ul style="list-style-type: none"> <li>Approve law on public registries</li> <li>Establish an independent and decentralized public registry</li> </ul> </li> </ul>  | July 2001<br>2001-2003               | CSJ<br>CSJ            | USAID<br>USAID        |



| <b>PILLAR 4: Governance</b> |                   |   |  |   |  |
|-----------------------------|-------------------|---|--|---|--|
| <b>Guidelines</b>           | <b>Objectives</b> | <b>Policy actions</b>   | <b>Scheduled execution</b>   | <b>Executor</b>   | <b>Financing</b>   |
|                             |                   | <p>ADDITIONAL ACTIONS ON GOVERNANCE</p> <ul style="list-style-type: none"> <li>• Implementation of National Integrity Plan</li> <li>• Institutional strengthening of the National Integrity Committee</li> <li>• Provide technical assistance to Nicaraguan Journalists Association (APN) for them to draft their professional Code of Ethics</li> <li>• Design a program to promote a culture of transparency and integrity</li> <li>• Strengthen the National Assembly with training programs for legislators and their technical support staff</li> <li>• Design and implement an educational campaign on human rights for the army and police</li> <li>• Strengthen the Attorney General's Office for Human Rights and the Special Attorney Offices for the protection of children, women, and indigenous communities.</li> <li>• Approval of law: <ul style="list-style-type: none"> <li>On family patrimony</li> <li>On probity and moral integrity of civil officials and employees</li> </ul> </li> </ul> | <p>Underway</p> <p>2001</p> <p>June 2001</p> <p>June 2001</p> <p>2001-2003</p> <p>Underway</p> <p>Underway</p> <p>2000</p> <p>2001</p> | <p>CNI</p> <p>CNI</p> <p>APN/UPN/<br/>CNI</p> <p>CNI</p> <p>CNI</p> <p>PDH</p> <p>PDH</p> <p>...</p> <p>CNI</p> | <p>IDB</p> <p>No financing</p> <p>IDB</p> <p>IDB</p> <p>No financing</p> <p>Budget</p> <p>GTZ, Finland, Sweden, Save the Children, UNICEF. Under negot. UNDP</p> <p>...</p> <p>IDB</p> |
|                             |                   | <p>PARTICIPATION</p> <ul style="list-style-type: none"> <li>• Design coordination mechanisms to monitor the strategy (Government, CONPES, and donor community)</li> <li>• Strengthen the National Council for Social and Economic Planning</li> <li>• Activate sectoral councils</li> <li>• Strengthen the National System of Environmental Management</li> </ul>   | <p>Underway</p> <p>2000-2001</p> <p>...</p> <p>2001</p>  | <p>SETEC</p> <p>CONPES</p> <p>CONPES</p> <p>MARENA</p>  | <p>Budget</p> <p>UNDP</p> <p>No financing</p> <p>IDB</p>   |

| <b>CROSS-CUTTING THEMES: Environment and ecological vulnerability</b> |  |  |                                     |   |   |
|---|--|--|-------------------------------------|---|---|
| <b>Guidelines</b>   | <b>Objectives</b>                                      | <b>Policy actions</b>  | <b>Scheduled execution</b>          | <b>Executor</b>                           | <b>Financing</b>                                    |
| Environmental restoration and sustainable production processes        | Reduce environmental degradation                       | <ul style="list-style-type: none"> <li>Implement and monitor the Environmental Policy and Action Plan (PANic)</li> </ul>   | 2001-2005                           | MARENA                                    | No financing  |
|   |  | <ul style="list-style-type: none"> <li>Prepare:               <ul style="list-style-type: none"> <li>Strategy for Biodiversity</li> <li>Biodiversity Law</li> <li>National Strategy for Sustainable Development</li> </ul> </li> </ul> | 2001-2005<br>2001-2002<br>2001-2002 | MARENA<br>MARENA/AN<br>MARENA/<br>CONADES | WB, Finland<br>Finland/UNDP<br>UNFP,<br>Capacity 21 |
|   | Promote the ecological restoration of productive areas | <ul style="list-style-type: none"> <li>Approval of laws on:               <ul style="list-style-type: none"> <li>Water resources</li> <li>Fisheries</li> <li>Mining (submitted to National Assembly in 2001)</li> </ul> </li> </ul>    | 2001-2002<br>2001-2002<br>2001-2002 | MIFIC/AN<br>MIFIC/AN<br>MIFIC/AN          | DANIDA, IDB<br>DANIDA<br>IDB                        |
|   |  | <ul style="list-style-type: none"> <li>Implement water resources information system</li> </ul>   | 2001                                | MIFIC/AN                                  |   |
|   |  | <ul style="list-style-type: none"> <li>Strengthen environmental units to consolidate the National System for Environmental Administration</li> </ul>   | 2001-2005                           | MARENA                                    | IDB   |
|   |  | <ul style="list-style-type: none"> <li>Approve National Environmental Fund regulation</li> </ul>   | 2001-2002                           | MARENA/AN                                 | WB  |
|   |  | <ul style="list-style-type: none"> <li>Prevent and control forest fires</li> </ul>   | Underway                            | INAFOR                                    | WB, USAID,<br>Spain                                 |
|   |  |  |                                     |   |   |
| Management and conservation of forests                                | Promote sustainable management and biodiversity        | <ul style="list-style-type: none"> <li>Approval of the Forestry Development Law</li> </ul>   | 2001-2002                           | MAGFOR/AN                                 | WB, IDB   |
|   |  | <ul style="list-style-type: none"> <li>Conservation of forest ecosystems</li> </ul>  | Underway                            | MARENA                                    | IDB, Nordic<br>Development<br>Fund                  |
|   | Offer environmental services                           | <ul style="list-style-type: none"> <li>Establish the international compensation market for carbon sequestration</li> </ul>   | 2001-2005                           | MARENA                                    | FINIDA  |

| <b>CROSS-CUTTING THEMES: Environment and ecological vulnerability</b> |  |  |                            |                   |   |
|---|--|--|----------------------------|-------------------|---|
| <b>Guidelines</b>   | <b>Objectives</b>                        | <b>Policy actions</b>  | <b>Scheduled execution</b> | <b>Executor</b>   | <b>Financing</b>  |
|   | Promote productive forest development    | <ul style="list-style-type: none"> <li>Implement project for:               <ul style="list-style-type: none"> <li>Reforestation and management</li> <li>Wood processing, by-products, and commercialization</li> </ul> </li> </ul>                        | 2001-2004                  | MAGFOR-<br>INAFOR | WB, Finland   |
|   |  | <ul style="list-style-type: none"> <li>Promote sustainable forest investment</li> </ul>  | 2001-2004                  | MIFIC             | No financing  |
|   |  | <ul style="list-style-type: none"> <li>Promote technological change in the forestry industry</li> </ul>  | Underway                   | MAGFOR            | WB  |
|   |  | <ul style="list-style-type: none"> <li>Support small farmers' forest activities in Nueva Segovia</li> </ul>  | Underway                   | MAGFOR            | WB  |
|   |  | <ul style="list-style-type: none"> <li>Promote sustainable production practices and adequate management of natural resources</li> </ul>  | Underway                   | INAFOR            | Finland   |
|   |  | <ul style="list-style-type: none"> <li>Promote sustainable production practices and adequate management of natural resources</li> </ul>  | Underway                   | IDR               | IDB, EU, FIDA, Italy, Germany, The Netherlands, Finland |
|   |  | <ul style="list-style-type: none"> <li>Implement forestry programs in indigenous areas to benefit 5 communities</li> </ul>   | 2000-2004                  | MAGFOR            | WB  |
|   |  | <ul style="list-style-type: none"> <li>Encourage market diversification to increase forestry biodiversity and services</li> </ul>  | 2000-2004                  | MAGFOR            | WB  |
| Strengthen local and institutional environmental management           | Increase local level management capacity | <ul style="list-style-type: none"> <li>Implement:               <ul style="list-style-type: none"> <li>Program for institutional strengthening and interinstitutional coordination</li> <li>National prevention system on real-time</li> </ul> </li> </ul> | 2001-2002                  | INETER            | No financing  |
|   |  | <ul style="list-style-type: none"> <li>Strengthen municipal environmental commissions</li> </ul>   | 2001-2003                  | INETER            | No financing  |
|   |  | <ul style="list-style-type: none"> <li>Strengthen municipal environmental commissions</li> </ul>   | 2001-2005                  | MARENA            | DANIDA, WB  |
|   |  | <ul style="list-style-type: none"> <li>Strengthen local environmental management capabilities</li> </ul>   | 2001-2005                  | MARENA            | DANIDA, WB  |
|   |  | <ul style="list-style-type: none"> <li>Strengthen local environmental management capabilities</li> </ul>   | 2001-2005                  | MARENA            | DANIDA, WB  |

| <b>CROSS-CUTTING THEMES: Environment and ecological vulnerability</b> |  |   |                            |                                     |                                  |
|---|--|---|----------------------------|-------------------------------------|----------------------------------|
| <b>Guidelines</b>   | <b>Objectives</b>                        | <b>Policy actions</b>   | <b>Scheduled execution</b> | <b>Executor</b>                     | <b>Financing</b>                 |
|   | Risk reduction                           | <ul style="list-style-type: none"> <li>• Modernize early warning systems</li> </ul>   | Underway                   | INETER                              | USAID                            |
|   |  | <ul style="list-style-type: none"> <li>• Prepare:<br/>Map of geological and dangerous zones in the vicinity of the Telica, Cerro Negro, and Momotombo volcanoes</li> </ul>                          | Underway                   | INETER                              | Czech Gov't                      |
|   |  | <ul style="list-style-type: none"> <li>• National geological map at 1:50,000 scale, and cartographic mapping of risks due to natural phenomena</li> </ul>   | 2001-2005                  | INETER                              | USAID-Partly financed:           |
|   |  | <ul style="list-style-type: none"> <li>• Expand geographical information system for mapping of natural threats</li> </ul>   | 2001-2004                  | INETER                              | USAID                            |
|   |  | <ul style="list-style-type: none"> <li>• Install:<br/>25 telemetric meteorological stations in dry productive vulnerable zones</li> </ul>   | Underway                   | INETER                              | USAID, EU                        |
|   |  | <ul style="list-style-type: none"> <li>• 15 telemetric hydrometry stations in flood risk areas</li> </ul>   | Underway                   | INETER                              | USAID                            |
|   |  | <ul style="list-style-type: none"> <li>• 8 seismic stations</li> </ul>  | 2001-2002                  | INETER                              | Under negot.                     |
|   |  | <ul style="list-style-type: none"> <li>• National tsunami warning center</li> </ul>   | 2001-2002                  | INETER                              | Germany                          |
|   |  | <ul style="list-style-type: none"> <li>• Equipping of the accelerograph network with telemetric accessories</li> </ul>  | 2001-2004                  | INETER                              | Under negot.                     |
|   |  | <ul style="list-style-type: none"> <li>• Elaborate and implement:<br/>National Program for Risk Reduction</li> </ul>  | 2001-2004                  | Executive Secretary of System (ESS) | Under negot.:WB, partly financed |
|   |  | <ul style="list-style-type: none"> <li>• National Risk Administration policy</li> </ul>   | 2001                       | ESS                                 | No financing                     |
|   |  | <ul style="list-style-type: none"> <li>• Organize The Disaster Operation Center (COE)</li> </ul>  | 2001-2002                  | ESS, Civil Defense                  | USAID / FEMA, WB                 |
|   |  | <ul style="list-style-type: none"> <li>• Formulate National Emergencies Plan</li> </ul>   | 2002-2003                  | ESS                                 | USAID                            |
|   |  | <ul style="list-style-type: none"> <li>• Implement rehabilitation project in area around Casitas volcano</li> </ul>   | 2000-2004                  | MAGFOR                              | WB                               |
|   |  | <ul style="list-style-type: none"> <li>• Improve volcano-monitoring system with automatic cameras, temperature measurements, and gas monitoring, and monitor areas exposed to landslides</li> </ul> | 2001-2003                  | INETER                              | Under negot.                     |
|   | Develop culture of social responsibility | <ul style="list-style-type: none"> <li>• Develop a national environmental information system (SINIA)</li> </ul>   | 2001-2003                  | MARENA                              | WB                               |
|   |  | <ul style="list-style-type: none"> <li>• Design and implement education and information campaigns for the population</li> </ul>   | 2001-2003                  | MARENA                              | DANIDA                           |
| Incorporate the demographic dimension into territorial planning       | Land use and planning                    | <ul style="list-style-type: none"> <li>• Elaborate, approve and implement norms and criteria for land-use planning</li> </ul>   | 2001                       | MARENA / INETER                     | WB                               |
|   |  | <ul style="list-style-type: none"> <li>• Make maps showing potential land uses</li> </ul>   | 2001-2004                  | INETER                              | No financing                     |
|   |  | <ul style="list-style-type: none"> <li>• Increase density of meteorological and hydrometry network</li> </ul>   | 2001-2004                  | INETER                              | No financing                     |
|   |  | <ul style="list-style-type: none"> <li>• Elaborate policy and law on rationalization of land use in national territory</li> </ul>   | 2001-2002                  | INETER, MARENA                      | IDB, UNFPA, Capacity 21          |

| <b>CROSS-CUTTING THEMES: Environment and ecological vulnerability</b> |                   |  |                            |                            |                  |
|---|-------------------|--|----------------------------|----------------------------|------------------|
| <b>Guidelines</b>   | <b>Objectives</b> | <b>Policy actions</b>  | <b>Scheduled execution</b> | <b>Executor</b>            | <b>Financing</b> |
|   |                   | <ul style="list-style-type: none"> <li>Elaborate plans to rationalize land use in prioritized territories / municipalities</li> </ul>  | 2001-2005                  | Municipalities, Reg. Govt. | IDB, WB          |
|   |                   | <ul style="list-style-type: none"> <li>Implementation of local environment plans</li> </ul>  | 2001-2005                  | Municipalities, MARENA     | DANIDA, WB       |
|   |                   | <ul style="list-style-type: none"> <li>Analyze country's vulnerability to natural disasters and initiate process for rationalizing land use in areas affected by Mitch</li> </ul>      | Underway                   | INETER                     | IDB              |
|   |                   | <ul style="list-style-type: none"> <li>Analyze requirements for social and productive infrastructure at points of migratory attraction and expulsion</li> </ul>                        | 2001                       | Undefined                  | UNFPA            |
|   |                   | <ul style="list-style-type: none"> <li>Promote minimal population concentration schemes for the provision of basic social services and social and productive infrastructure</li> </ul> | Under formulation          | INETER                     | No financing     |
|   |                   | <ul style="list-style-type: none"> <li>Initiate improvement of urban settlements</li> </ul>  | Under formulation          | SETEC/ FISE                | IDB              |

| <b>CROSS-CUTTING THEMES: Social equity</b>   |  |   |                            |                         |                          |  |
|--|--|---|----------------------------|-------------------------|--------------------------|--|
| <b>Guidelines</b>  | <b>Objectives</b>  | <b>Policy actions</b>   | <b>Scheduled execution</b> | <b>Executor</b>         | <b>Financing</b>         |  |
| Promote equal access to services and opportunities and overcome problems of social exclusion | Guarantee equal gender access to economic, social, cultural, and political areas | <ul style="list-style-type: none"> <li>Promote follow-up of international conventions: Female, children and adolescents</li> </ul>            | 2001                       | INIM                    | BID                      |  |
|  |  | <ul style="list-style-type: none"> <li>Design plan to promote sexualequality in salaries, in the public and private sector</li> </ul>         | 2001                       | INIM                    | UNICEF                   |  |
|  |  | <ul style="list-style-type: none"> <li>Implement actions to reduce the abuse and mistreatment of women</li> </ul>                             | 2001                       | INIM                    | ACDI                     |  |
|  | Prevent, sanction, and eradicate abuse and mistreatment of women and children    | <ul style="list-style-type: none"> <li>Guarantee the continued functioning of Women's Commissariats 40 women centers</li> </ul>               | 2000-2001                  |                         |                          |  |
|  |  | <p style="text-align: center;">National Plan Against Domestic Violence</p>  | 2001-2004                  | INIM, PN, Civil Society | NORAD, SNV, OPNAM, OXFAM |  |
| Guarantee the rights of indigenous peoples   |  | <ul style="list-style-type: none"> <li>Approve the regulations of the Children and Adolescents Code</li> </ul>                                | 2001                       | INIM,                   | Under negot.             |  |
|  |  |   | 2001                       | MIFAMILIA, CNA          | Budget                   |  |
|  |  | <ul style="list-style-type: none"> <li>Design economic development programs for ethnic groups</li> </ul>                                      | 2000                       |                         |                          |  |
|  |  | <ul style="list-style-type: none"> <li>Strengthen the regulatory framework legislation protecting the rights of indigenous peoples</li> </ul> | 2001                       |                         |                          |  |

| <b>CROSS-CUTTING THEMES: Decentralization</b>                           |   |   |                            |                    |                  |
|---|---|---|----------------------------|--------------------|------------------|
| <b>Guidelines</b>   | <b>Objectives</b>   | <b>Policy actions</b>   | <b>Scheduled execution</b> | <b>Executor</b>    | <b>Financing</b> |
| Strengthen local governments and accelerate their modernization process | Increase efficiency and effectiveness in the provision of services      | • Define national policy on decentralization  | Dec. 2001                  | CSD                | GTZ, WB          |
|   |   | • Define a decentralization strategy  | Dec. 2001                  | CSD                | GTZ, WB          |
|   | Consolidate decentralization policies towards local governments         | • Advance implementation of decentralization strategy   | 2002-2003                  | Sectors            | WB               |
|   |   | • Implement program to develop and strengthen the technical capabilities of municipal administrations | 2001-2004                  | INIFOM             | WB               |
|   | Develop local administrative and fiscal capacities                      | • Implement the institutional strengthening of INIFOM   | 2001-2002                  | INIFOM             | WB               |
|   |   | • Approve law on:<br>Municipal administrative career and civil service                                | 2001                       | AN, INIFOM, AMUNIC | AECI             |
|   | Improve local governance  | • National comprehensive cadastre incorporating municipal cadastres                                   | 2001                       | INIFOM             | DANIDA, UNDP     |
|   |   | • Prepare and approve amendments to Law of Municipalities   | 2000-2001                  | AN                 | DANIDA           |
|   | Promote civil society participation in public investment administration | • Harmonize municipal public investment systems with SNIP   | 2001                       | INIFOM, SETEC      | WB               |
|   |   | • Design and implement technical support program for departmental secretariats                        | 2000-2001                  | INIFOM             | WB               |
|   |   | • Design and implement a National System for Municipal Capacity-Building                              | 2001                       | INIFOM             | No financing     |
|   |   | • Issue regulation of the Law for the Autonomy of the Atlantic Coast                                  | 2001                       | Presidency         | No financing     |
|   |   | • Provide comprehensive support to governments of the Atlantic Coast                                  | Under formulation          | ..                 | ...              |

| <b>SUPPORTING ACTIONS: Targeting, monitoring, and evaluation of impact</b> |  |   |                            |                 |                  |
|--|--|---|----------------------------|-----------------|------------------|
| <b>Guidelines</b>  | <b>Objectives</b>  | <b>Policy actions</b>   | <b>Scheduled execution</b> | <b>Executor</b> | <b>Financing</b> |
| <b>Targeting</b>   |  |   |                            |                 |                  |
| Target vulnerable groups   | Increase the efficiency of programs by directing efforts at the appropriate groups | <ul style="list-style-type: none"> <li>Establish targets by municipality, vulnerable groups and families using Poverty Map</li> </ul>   | 2001                       | All sectors     | Budget           |
|  |  | <ul style="list-style-type: none"> <li>Improve targeting mechanisms of programs on the basis of equity and cost-effectiveness criteria:               <ul style="list-style-type: none"> <li>Comparative analysis of the costs of providing services, subsidies, and transfers for social protection programs in Nicaragua and other countries</li> </ul> </li> </ul> | 2001                       | SETEC           | IDB, WB          |
|  |  | <ul style="list-style-type: none"> <li>Cost efficiency evaluation of targeting mechanisms of the Social Safety Net Program</li> </ul>   | 2001-2002                  | SETEC           | IDB              |
| <b>Monitoring and evaluation of impact</b>                                 |  |   |                            |                 |                  |
| Program monitoring and evaluation of impacts                               | Availability of timely information for decision making                             | <ul style="list-style-type: none"> <li>Design a monitoring and impact evaluation system for information and decision making</li> </ul>  | Underway                   | SETEC           | IDB, WB          |
|  |  | <ul style="list-style-type: none"> <li>Implement system for:               <ul style="list-style-type: none"> <li>Monitoring by means of existing indicators and systems (SIGFA, SNIP, SIG-SETEC)</li> <li>Evaluation of impact including participatory approaches (household surveys), (surveys of user satisfaction, LSMS 2001, DHS 2003)</li> </ul> </li> </ul>    | Annual                     | All sectors     | IDB, WB          |
|  |  |   | Under formulation          | SETEC           |                  |
|  |  |   | Underway                   | All sectors     |                  |
|  |  | Underway  | All sectors                | IDB             |                  |
| 2001   | All sectors  |   |                            |                 |                  |

| Summary of actions to be carried out in the Atlantic Coast |  |                     |   |  |
|--|--|---------------------|---|--|
| Area   | Policy actions   | Scheduled execution | Executor  | Financing  |
| Broad-based economic growth                                | • Modernize cadastral system for indigenous communities  | 2005                | MHCP  | WB   |
|  | • Approval of a law for demarcating indigenous lands   |                     | AN/<br>Presidency   | WB   |
|  | • Demarcate and title lands of the indigenous communities of the Atlantic Coast and Bosawas  | March 2001          | INETER  | WB   |
|  | • Provide financial resources for implementing the Participatory Micro-Planning (MPP) methodology and for executing priority local projects identified by this methodology in the Atlantic Coast | 2000-2001           | FSS-FISE  | WB   |
|  | • Implement program that guarantees the Atlantic Coast's food security through production, marketing, and post-harvest storage programs  | 2001-2002           | FSS-FISE  | WB   |
|  | • Implement water and sanitation pilot project in RAAN   | 2001-2004           | ENACAL  | Canada, Swiss,<br>Save the Children  |
|  | • Improve water and sanitation systems in Bluefields   | 2001-2004           | ENACAL  | Spain, Canada  |
| Investment in human capital                                | • Reform bilingual education   | 2001                | FOREBICA  | Finland,<br>USAID  |
|  | • Provide education programs in the Atlantic Coast with comprehensive supervision  | 2000-2001           | FSS-MECD  | BID  |
|  | • Implement:<br>Pilot project to introduce tele-medicine in the Atlantic Coast   | 2000-2001           | FSS-MINSA   | BID  |
|  | Drug prevention plan for the Atlantic Coast  | 2000-2001           | FSS-MINSA   | BID  |
|  | Rehabilitate the primary network, equipment, furnishings, health centers and posts (9 in the Atlantic Coast)   | 2000-2004           | FISE  | ASDI, KWF,<br>USAID, WB,<br>IDB, OPEC,<br>COSUDE,<br>Canada, GTZ,<br>Spain, Mexico |
|  | Rehabilitate hospitals in RAAN and RAAS  | 2000-2002           | MINSA   | Budget   |
| Protection to vulnerable groups                            | • Conduct survey on extent of drug problem in the Atlantic Coast   | Underway            | Regional<br>Autonomous<br>Councils on<br>Fight Against<br>Drugs | UNDP   |



| Summary of actions to be carried out in the Atlantic Coast |   |                     |            |   |
|--|---|---------------------|------------|---|
| Area   | Policy actions  | Scheduled execution | Executor   | Financing   |
| Governance   | <ul style="list-style-type: none"> <li>Strengthen the Attorney General's Office for Human Rights and the Special Attorney Offices for the Protection of Children, Women, and Indigenous people</li> </ul> | Underway            | PDH        | GTZ, Finland, Sweden, Save the Children, UNICEF, UNDP: under negotiations |
|  | <ul style="list-style-type: none"> <li>Guarantee the participation of ethnic groups in national consultations</li> </ul>  | 2000                | CONPES     | No financing  |
| Environment and ecological vulnerability                   | <ul style="list-style-type: none"> <li>Implement:<br/>Program to support the development of commercial forestry activities, agro-forestry with indigenous communities, and eco-tourism</li> </ul>         | Underway            | MAGFOR     | WB  |
|  | <ul style="list-style-type: none"> <li>Forestry programs in indigenous areas to benefit 5 communities</li> </ul>  | Underway            | MAGFOR     | WB  |
|  | <ul style="list-style-type: none"> <li>Atlantic Biological Corridor Program</li> </ul>  | Underway            | MARENA     | WB, GTZ   |
| Social equity  | <ul style="list-style-type: none"> <li>Design economic development programs for ethnic groups</li> </ul>  | 2001                |            |   |
|  | <ul style="list-style-type: none"> <li>Strengthen the regulatory framework of the legislation protecting the rights of indigenous people</li> </ul>   | 2001                |            |   |
| Decentralization   | <ul style="list-style-type: none"> <li>Issue regulation of the Law for the Autonomy of the Atlantic Coast</li> </ul>  | 2001                | Presidency | No financing  |
|  | <ul style="list-style-type: none"> <li>Provide comprehensive support to governments of the Atlantic Coast</li> </ul>  | Under formulation   | ...        | ...   |
|  | <ul style="list-style-type: none"> <li>Design a program to develop and strengthen the technical capabilities of municipal administrations</li> </ul>  | 2001-2004           | INIFOM     | WB  |

## DEFINING POVERTY-RELATED EXPENDITURES

1. Defining poverty-related expenditures can only be done fairly arbitrarily. It is, without doubt, a fairly blunt instrument of resource allocation. Nevertheless, the probable benefits of the budgetary and decisions giving preference to favor outlays directed at a nation's poorest, makes it a useful tool of public resource allocation, particularly in democratic nations where lobbying and organized pressure groups do not necessarily favor the poor. Nicaragua's definition is based on a compromise between efficiency, or ease of use, and definitional rigor. Quick calculations are needed as budgets or programs are debated or revised. This process is described below.
  
2. The total expenditure denominator is the national government expenditure, the outlays of the autonomous agencies -- those national entities dependent on the national government for financing -- and the public investment programs of national public enterprises minus debt service. Given the pending departure from the public sector of urban electricity, telephone service, and some port services, some outlays in these areas have been dropped from the denominator, although others (e.g., rural electrification, some port improvements) remain when their financing and justification remains as a public good or service.
  
3. The numerator, or the poverty-related outlays, are defined as follows:
  - a. The outlays, mostly capital outlays, defined in the SGPRS expenditure program. These often have foreign financial and technical support, are followed closely by SNIP, and are published and revised frequently as disbursements and new agreements occur. The disadvantages of using the SGPRS are that it includes some non-poverty outlays (e.g., environmental, some infrastructure projects) and it includes some recurrent outlays and thus is not strictly comparable to the national public investment program. These, however, are more than compensated by the rigor with which SGPRS programs are linked to its four pillars and three cross-cutting themes, and the ease of deducting SGPRS current outlays from the budget.
  
  - b. Total current outlays of the SGPRS are included in the National Budget according to the following points:
    - (i) INETER's recurrent budget.
    - (ii) The recurrent outlays of CNE, the National Energy Commission, which besides its regulatory responsibilities will implement rural electrification programs.
    - (iii) The following recurrent programs of the Health Ministry: The Maintenance Fund (MINSА/FISE), central activities, level I and II attention programs, laboratory services, and community attention programs.
    - (iv) INIFOM's normal operational outlays.
    - (v) The following recurrent programs of the Ministry of Education: Maintenance Fund (MECD/FISE), central activities, community activities to support nutrition, community activities for development coordination, primary education, preschool education, special education, adult continuing education, primary teacher training.
    - (vi) FISE's social safety net outlays (those without foreign support ) and current outlays.
    - (vii) The following recurrent programs of the Family Ministry: central activities, community programs, family attention program, special attention program, social development program, and transfers to decentralized entities.

- (viii) All the outlays of the Secretary for Coordination Actions within the Secretariat of Social Action.
- (ix) The recurrent outlays of the Rural Development Institute.
- (x) The following recurrent programs of the Ministry of Agriculture and Forestry: central activities, community activities, agricultural protection services, agricultural and forestry policy services, and recurrent programs of INTA (the research and extension arm of the Ministry).

Annex Table 1. Nicaragua: Economic and Social Indicators

|   | Year         |              |              |              |          |          |          |          |          |          |
|---|--------------|--------------|--------------|--------------|----------|----------|----------|----------|----------|----------|
|   | 1960-1969 1/ | 1970-1979 1/ | 1980-1989 1/ | 1990-1994 1/ | 1995     | 1996     | 1997     | 1998     | 1999     | 2000 2/  |
| <b>Economy</b>  |              |              |              |              |          |          |          |          |          |          |
| GDP per capita (US\$ of 1980)                         | 950.4        | 1,038.3      | 670.4        | 450.3        | 440.9    | 449.6    | 459.8    | 465.7    | 486.6    | 507.7    |
| Real GDP (millions of CSS of 1980)                    | 15,323.1     | 23,947.4     | 21,001.8     | 18,249.2     | 19,518.0 | 20,450.0 | 21,494.0 | 22,368.0 | 24,014.7 | 25,057.6 |
| Real GDP growth (%)                                   | 7.6          | 0.7          | -0.8         | 0.6          | 4.3      | 4.7      | 5.1      | 4.1      | 7.4      | 4.3      |
| Inflation rate (%)                                    | ...          | 12.1         | 2,098.8      | 2,096.4      | 10.9     | 11.6     | 9.2      | 13.1     | 11.2     | 11.5     |
| Current account balance (% of GDP)                    | ...          | -3.9         | -25.6        | -48.0        | -40.9    | -38.2    | -41.2    | -38.4    | -49.4    | -38.3    |
| Trade balance (millions of US\$)                      | 3.5          | 4.6          | -371.6       | -331.6       | -405.4   | -455.5   | -703.4   | -810.4   | -1,153.5 | -1,009   |
| Exports F.O.B. (millions of US\$)                     | 121.7        | 403.6        | 359.7        | 285.6        | 444.6    | 485.3    | 625.9    | 573.2    | 545.2    | 625.3    |
| Imports C.I.F. (millions of US\$)                     | 140.0        | 423.6        | 819.8        | 768.8        | 945.5    | 1,050.7  | 1,411.8  | 1,492.0  | 1,861.7  | 1,791.6  |
| Gross international reserves (months of               | 3.2          | 3.4          | 0.4          | 2.9          | 2.7      | 3.6      | 4.4      | 3.8      | 4.0      | 3.8      |
| Fiscal balance (% of GDP)                             | 0.2          | 1.4          | -16.8        | -11.5        | -11.2    | -14.2    | -7.1     | -2.9     | -12.5    | -13.6    |
| Non-financial public sector expenditure (% of         | 20.9         | 28.0         | 43.5         | 37.2         | 42.5     | 45.5     | 40.9     | 40.2     | 47.6     | 45.7     |
| Non-financial public sector current expenditure (% of | 14.5         | 16.8         | 35.0         | 28.2         | 24.6     | 25.8     | 26.1     | 27.4     | 26.2     | 26.3     |
| Non-financial public sector capital expenditure (% of | 6.5          | 11.2         | 8.5          | 9.1          | 17.9     | 19.7     | 14.8     | 12.8     | 21.4     | 19.4     |
| External debt (millions of US\$)                      | ...          | 625.7        | 5,431.0      | 10,900.5     | 10,248.4 | 6,094.3  | 6,001.0  | 6,287.1  | 6,548.9  | 6,659.9  |
| External debt (% of GDP)                              | ...          | 40.3         | 276.1        | 628.4        | 541.8    | 308.5    | 296.4    | 295.7    | 296.0    | 285.4    |
| External debt (% of exports)                          | ...          | 144.3        | 1,782.8      | 3,894.5      | 2,305.1  | 1,255.8  | 958.8    | 1,096.8  | 1,201.2  | 1,049.1  |
| External debt service (millions of US\$)              | ...          | ...          | ...          | 310.5        | 405.5    | 335.8    | 450.9    | 318.6    | 292.6    | 313.3    |
| External debt service (% of exports)                  | ...          | ...          | ...          | 111.3        | 91.2     | 69.2     | 72.0     | 55.6     | 53.7     | 49.4     |
| <b>Population</b>                                     |              |              |              |              |          |          |          |          |          |          |
| Total population (millions of                         | 1.8          | 2.5          | 3.3          | 4.1          | 4.4      | 4.6      | 4.7      | 4.8      | 4.9      | 5.0      |
| Total fertility rate (births per women)               | ...          | ...          | ...          | 5.1          | 4.9      | 4.9      | 4.9      | 4.9      | 4.3      | 4.3      |
| Life expectancy at birth (No. of years)               | ...          | ...          | ...          | 62.2         | 66.1     | 66.1     | 66.1     | 66.1     | 67.5     | 67.5     |
| Women of reproductive age                             | ...          | ...          | ...          | 1.0          | 1.0      | 1.0      | 1.1      | 1.2      | 1.2      | 1.2      |
| Children under one year (thousands)                   | ...          | ...          | ...          | 155.1        | 159.2    | 132.5    | 147.6    | 169.9    | 165.6    | 160.8    |
| Children under five years (thousands)                 | ...          | ...          | ...          | 871.4        | 888.4    | 753.4    | 807.4    | 950.9    | 967.4    | 801.1    |
| <b>Poverty</b>  |              |              |              |              |          |          |          |          |          |          |
| National (% of total population)                      | ...          | ...          | ...          | 50.3         | ...      | ...      | ...      | 47.9     | ...      | ...      |
| Urban (% of urban population)                         | ...          | ...          | ...          | 31.9         | ...      | ...      | ...      | 30.5     | ...      | ...      |
| Rural (% of rural population)                         | ...          | ...          | ...          | 76.1         | ...      | ...      | ...      | 68.5     | ...      | ...      |
| <b>Consumption Distribution</b>                       |              |              |              |              |          |          |          |          |          |          |
| Gini coefficient                                      | ...          | ...          | ...          | 50.3         | ...      | ...      | ...      | 45.2     | ...      | ...      |
| Lowest quintile                                       | ...          | ...          | ...          | 4.2          | ...      | ...      | ...      | 5.3      | ...      | ...      |
| Highest quintile                                      | ...          | ...          | ...          | 55.2         | ...      | ...      | ...      | 51.3     | ...      | ...      |
| <b>Social Indicators</b>                              |              |              |              |              |          |          |          |          |          |          |
| <b>Public Spending</b>                                |              |              |              |              |          |          |          |          |          |          |
| Health (% of GDP)                                     | ...          | 1.8          | 4.4          | 4.4          | 4.8      | 4.6      | 4.1      | 3.7      | 5.3      | ...      |
| Education (% of GDP)                                  | 1.9          | 2.4          | 4.5          | 4.8          | 4.6      | 4.7      | 5.1      | 4.9      | 6.5      | ...      |
| <b>Education</b>                                      |              |              |              |              |          |          |          |          |          |          |
| Illiteracy rate (%)                                   | ...          | ...          | ...          | 22.9         | 25.8     | 25.0     | 24.2     | 23.4     | ...      | ...      |
| Mean years of schooling 10-19 years old               | ...          | ...          | ...          | 4.5          | ...      | ...      | ...      | 4.9      | ...      | ...      |
| Net primary enrollment rate (%)                       | ...          | ...          | ...          | 77.9         | 75.2     | 73.2     | 73.6     | 73.1     | 75.0     | 77.0     |
| Gross primary enrollment rate (%)                     | ...          | ...          | ...          | 101.9        | 101.0    | 98.3     | 97.8     | 96.1     | 97.8     | 103.5    |
| Net preschool enrollment rate (%)                     | ...          | ...          | ...          | 14.1         | 17.2     | 19.7     | 22.3     | 23.6     | 26.0     | 27.0     |
| Women's primary school enrollment growth              | ...          | ...          | ...          | ...          | ...      | 2.7      | -0.4     | 1.2      | 3.7      | 2.3      |
| Women graduating from primary school                  | ...          | ...          | ...          | 26.3         | 29.0     | 31.0     | 29.0     | 32.0     | 35.7     | 36.8     |
| Promotion rate of third graders (%)                   | ...          | ...          | ...          | 76.8         | 75.3     | 78.3     | 80.9     | 84.4     | 82.6     | 83.9     |
| Promotion rate of third graders in rural areas (%)    | ...          | ...          | ...          | 67.6         | 69.3     | 72.2     | 72.3     | 81.1     | 75.7     | 77.0     |
| Promotion rate of six graders (%)                     | ...          | ...          | ...          | 94.7         | 96.3     | 96.9     | 97.4     | 98.3     | 98.4     | 98.0     |
| Children who complete primary education in six years  | ...          | ...          | ...          | 17.9         | 18.6     | 22.4     | 27.8     | 38.8     | 31.3     | 29.5     |
| Number of students per teacher in primary             | ...          | ...          | ...          | 35.4         | 36.0     | 38.1     | 36.8     | 38.3     | 35.0     | 37.0     |
| Rate of non-certified teachers in primary schools     | ...          | ...          | ...          | 35.5         | 22.5     | 15.5     | 4.5      | 13.0     | 16.7     | 16.0     |
| Number of constructed and replaced classrooms         | ...          | ...          | ...          | ...          | ...      | ...      | 2.4      | 1.3      | 2.0      | ...      |

Annex Table 1. Nicaragua: Economic and Social Indicators (continued)

| <b>Health and Nutrition</b>                                   |     |     |     |         |         |         |         |         |         |         |
|---|-----|-----|-----|---------|---------|---------|---------|---------|---------|---------|
| Immunizations (% of children under 1                          |     |     |     |         |         |         |         |         |         |         |
| DPT   | ... | ... | ... | 73.4    | 84.8    | 94.8    | 94.3    | 85.7    | 82.6    | ...     |
| Measels   | ... | ... | ... | 74.2    | 81.2    | 94.0    | 94.4    | 19.5    | ...     | ...     |
| Tuberculosis  | ... | ... | ... | 85.9    | 103.0   | 113.9   | 105.7   | 91.4    | 100.0   | 103.6   |
| Chronic malnutrition or stunting (% of children under 5       | ... | ... | ... | 23.7    | ...     | ...     | ...     | 19.9    | ...     | ...     |
| Infant mortality (per 1,000 live births)                      | ... | ... | ... | 58.0    | ...     | ...     | 43.0    | 40.0    | ...     | ...     |
| Under-five mortality rate (per 1,000 live births)             | ... | ... | ... | 72.0    | ...     | 57.0    | ...     | 50.0    | ...     | ...     |
| Maternal mortality rate (per 100,000 live births)             | ... | ... | ... | 98.3    | 111.8   | 154.4   | 142.7   | 138.2   | 148.3   | ...     |
| Institutional delivery of births (% of expected births)       | ... | ... | ... | 45.5    | 43.8    | 48.2    | 52.1    | 42.2    | 47.0    | 50.6    |
| Prenatal care (% of expected pregnant women)                  | ... | ... | ... | ...     | 71.8    | 79.9    | 82.1    | 68.7    | 71.6    | 75.2    |
| Early prenatal care of pregnant women (% of expected pregnant | ... | ... | ... | ...     | 29.0    | 33.4    | 35.5    | 29.6    | 31.9    | 33.6    |
| Access to family planning services (%)                        | ... | ... | ... | ...     | 16.0    | 19.0    | 17.0    | 18.0    | 21.0    | 22.0    |
| Hospital beds (per 1,000 inhabitants)                         | ... | ... | ... | 1.19    | 1.2     | 1.2     | 1.2     | 1.1     | 1.0     | 1.0     |
| Doctors (per 1,000 inhabitants)                               | ... | ... | ... | 0.475   | 0.6     | 0.6     | 0.6     | 0.5     | 0.5     | 0.4     |
| Professional nurses (per                                      | ... | ... | ... | 0.225   | 0.3     | 0.3     | 0.3     | 0.3     | 0.4     | 0.3     |
| <b>Water and Sanitation Services</b>                          |     |     |     |         |         |         |         |         |         |         |
| Access to safe water  |     |     |     |         |         |         |         |         |         |         |
| Total (% of population)                                       | ... | ... | ... | 50      | 56.1    | 59.1    | 61.6    | 62.8    | 66.5    | 67.9    |
| Urban (% of urban population)                                 | ... | ... | ... | 77.04   | 80.8    | 82.4    | 86.9    | 88.3    | 88.5    | 89.3    |
| Dispersed rural population (% of dispersed rural              | ... | ... | ... | 21.1    | 28.0    | 31.3    | 32.0    | 33.3    | 39.0    | 41.1    |
| Sanitation access in urban populations (% of urban            | ... | ... | ... | 31.14   | 32.6    | 32.6    | 32.3    | 32.3    | 33.6    | 34.9    |
| National access to sanitation                                 | ... | ... | ... | 82.6    | ...     | ...     | ...     | 84.1    | ...     | ...     |
| <b>Environment</b>  |     |     |     |         |         |         |         |         |         |         |
| Annual deforestation (Km2)                                    | ... | ... | ... | ...     | ...     | ...     | ...     | 1508.0  | ...     | ...     |
| Deforestation rate (% change 1990 - 1995)                     | ... | ... | ... | ...     | 2.5     | ...     | ...     | ...     | ...     | ...     |
| Protected areas (% of country's total area)                   | ... | ... | ... | ...     | ...     | ...     | ...     | 7.4     | ...     | ...     |
| Energy consumption (millions of KWH)                          | ... | ... | ... | 1104.18 | 1,129.8 | 1,204.7 | 1,361.9 | 1,391.6 | 1,474.4 | 1,502.1 |
| Carbon dioxide emissions (metric tons per                     | ... | ... | ... | ...     | ...     | ...     | ...     | 0.6     | ...     | ...     |
| <b>Agriculture</b>  |     |     |     |         |         |         |         |         |         |         |
| Land under permanent crops (% total land)                     | ... | ... | ... | ...     | ...     | ...     | ...     | 2.4     | ...     | ...     |
| Land under irrigation (% cultivable land)                     | ... | ... | ... | ...     | ...     | ...     | ...     | 3.3     | ...     | ...     |
| Cultivable land (per capita hectares)                         | ... | ... | ... | ...     | ...     | ...     | ...     | 0.5     | ...     | ...     |
| Tractors per 1000 agricultural workers                        | ... | ... | ... | ...     | ...     | ...     | ...     | 7.0     | ...     | ...     |
| Traditional exports (millions of US\$)                        | ... | ... | ... | 208.32  | 330.8   | 344.3   | 333.0   | 382.5   | 339.8   | 412.5   |
| Non-traditional exports (millions of US\$)                    | ... | ... | ... | 82.18   | 195.6   | 324.7   | 370.6   | 190.7   | 204.0   | 222.3   |

Sources: BCN, MINSA, MECD, MARENA, MAGFOR

1/ Average value

2/ Some figures are preliminary

**Annex Table 2. SGPRS Portfolio of Programs (consolidated)**

| <b>Guidelines</b>                                 | <b>2001</b>              | <b>2002</b>  | <b>2003</b>  | <b>2004</b>  | <b>2005</b>  | <b>TOTAL</b>  |
|---|--------------------------|--------------|--------------|--------------|--------------|---------------|
|   | (millions of US dollars) |              |              |              |              |               |
| <b>TOTAL</b>                                      | <b>218.6</b>             | <b>217.1</b> | <b>223.3</b> | <b>238.5</b> | <b>252.0</b> | <b>1149.5</b> |
| <b>Pillars</b>                                    | <b>185.6</b>             | <b>193.8</b> | <b>196.0</b> | <b>206.9</b> | <b>217.2</b> | <b>999.5</b>  |
| 1. Broad-based economic growth                    | 81.0                     | 96.0         | 99.7         | 102.6        | 106.3        | <b>485.6</b>  |
| 2. Greater and better investment in human capital | 72.0                     | 75.8         | 72.3         | 79.3         | 84.6         | <b>384.0</b>  |
| Education   | 50.4                     | 52.2         | 49.2         | 50.8         | 53.2         | <b>255.8</b>  |
| Health  | 19.9                     | 22.0         | 22.1         | 27.3         | 29.8         | <b>121.1</b>  |
| Nutrition   | 0.2                      | 0.1          | 0.3          | 0.4          | 0.5          | <b>1.6</b>    |
| Population  | 1.5                      | 1.4          | 0.6          | 0.8          | 1.1          | <b>5.5</b>    |
| 3. Better protection for vulnerable groups        | 29.9                     | 19.2         | 21.3         | 22.1         | 23.2         | <b>115.8</b>  |
| 4. Governance                                     | 2.6                      | 2.8          | 2.7          | 2.9          | 3.1          | <b>14.1</b>   |
| <b>Cross-cutting themes</b>                       | <b>33.0</b>              | <b>23.2</b>  | <b>27.3</b>  | <b>31.6</b>  | <b>34.8</b>  | <b>150.0</b>  |
| 1. Environment and ecological vulnerability       | 16.2                     | 6.3          | 5.7          | 8.7          | 11.6         | <b>48.5</b>   |
| 2. Decentralization                               | 16.8                     | 16.9         | 21.6         | 22.9         | 23.2         | <b>101.5</b>  |

**Annex Table 3. SGPRS Portfolio of Programs**

| Guidelines  | 2001                     | 2002         | 2003         | 2004         | 2005         | TOTAL         |
|---|--------------------------|--------------|--------------|--------------|--------------|---------------|
|   | (millions of US dollars) |              |              |              |              |               |
| <b>TOTAL</b>  | <b>218.6</b>             | <b>217.1</b> | <b>223.3</b> | <b>238.5</b> | <b>252.1</b> | <b>1149.6</b> |
| <b>A. Pillars</b>   | <b>185.6</b>             | <b>193.8</b> | <b>196.0</b> | <b>206.9</b> | <b>217.3</b> | <b>999.6</b>  |
| <b>1. Broad-based economic growth</b>                     | <b>81.0</b>              | <b>96.0</b>  | <b>99.7</b>  | <b>102.6</b> | <b>106.3</b> | <b>485.6</b>  |
| Maintain stability and economic growth                    | 0.3                      | 3.8          | 5.6          | 5.8          | 6.0          | <b>21.5</b>   |
| Rationalize public investment projects                    | 0.3                      | 3.8          | 5.6          | 5.8          | 6.0          | <b>21.5</b>   |
| Improve efficiency through factor markets                 | 37.9                     | 49.2         | 50.2         | 51.6         | 53.5         | <b>242.3</b>  |
| Land market   | 1.0                      | 3.3          | 3.9          | 4.0          | 4.1          | <b>16.3</b>   |
| Financial and agricultural services                       | 5.5                      | 5.9          | 4.5          | 4.6          | 4.8          | <b>25.2</b>   |
| Commercialization   | 1.6                      | 1.5          | 1.4          | 1.5          | 1.5          | <b>7.6</b>    |
| Infrastructure  | 13.2                     | 18.8         | 24.3         | 25.0         | 25.9         | <b>107.2</b>  |
| Rural extension and institutional strengthening           | 16.6                     | 19.7         | 16.1         | 16.5         | 17.1         | <b>86.1</b>   |
| Increase the rate of technological progress               | 3.5                      | 2.7          | 1.8          | 1.9          | 1.9          | <b>11.8</b>   |
| Agricultural technology                                   | 3.5                      | 2.7          | 1.8          | 1.9          | 1.9          | <b>11.8</b>   |
| Expand the provision of safe water and sanitation         | 34.2                     | 36.7         | 38.9         | 40.0         | 41.4         | <b>191.2</b>  |
| Urban and high density populated rural areas              | 25.5                     | 27.9         | 30.8         | 31.6         | 32.8         | <b>148.5</b>  |
| Low-density populated rural areas                         | 8.2                      | 8.4          | 7.6          | 7.8          | 8.1          | <b>40.2</b>   |
| Environmental management                                  | 0.5                      | 0.5          | 0.5          | 0.5          | 0.5          | <b>2.5</b>    |
| Develop the housing sector                                | 4.3                      | 2.7          | 2.6          | 2.6          | 2.7          | <b>15.0</b>   |
| Self-built housing  | 1.7                      | 0.9          | 0.8          | 0.8          | 0.9          | <b>5.1</b>    |
| Promote housing for low income and social interest groups | 2.7                      | 1.8          | 1.8          | 1.8          | 1.9          | <b>10.0</b>   |
| Strengthen strategic activities                           | 0.8                      | 0.8          | 0.7          | 0.7          | 0.7          | <b>3.8</b>    |
| Promote investments and exports                           | 0.3                      | 0.4          | 0.3          | 0.3          | 0.3          | <b>1.5</b>    |
| Develop small and medium businesses                       | 0.5                      | 0.4          | 0.4          | 0.4          | 0.4          | <b>2.2</b>    |
| <b>2. Investment in human capital</b>                     | <b>72.0</b>              | <b>75.8</b>  | <b>72.3</b>  | <b>79.3</b>  | <b>84.6</b>  | <b>384.0</b>  |
| <b>EDUCATION</b>  | <b>50.4</b>              | <b>52.2</b>  | <b>49.2</b>  | <b>50.8</b>  | <b>53.2</b>  | <b>255.8</b>  |
| Increase coverage   | 41.2                     | 43.6         | 41.2         | 42.3         | 43.8         | <b>212.2</b>  |
| Repair and replacement of school's infrastructure         | 27.3                     | 30.7         | 27.6         | 28.6         | 30.0         | <b>144.2</b>  |
| Expand coverage of education                              | 13.1                     | 12.2         | 13.0         | 13.1         | 13.2         | <b>64.7</b>   |
| Professional training                                     | 0.7                      | 0.7          | 0.6          | 0.6          | 0.6          | <b>3.3</b>    |
| Improve the quality of education                          | 4.7                      | 2.5          | 2.6          | 3.0          | 3.6          | <b>16.4</b>   |
| Modernize the sector                                      | 2.2                      | 3.2          | 3.1          | 3.2          | 3.4          | <b>15.2</b>   |
| School autonomy   | 2.4                      | 2.8          | 2.2          | 2.3          | 2.4          | <b>12.0</b>   |

**Annex Table 3. SGPRS Portfolio of Programs (continued)**

| <b>Guidelines</b>   | <b>2001</b>              | <b>2002</b> | <b>2003</b> | <b>2004</b> | <b>2005</b> | <b>TOTAL</b> |
|---|--------------------------|-------------|-------------|-------------|-------------|--------------|
|   | (millions of US dollars) |             |             |             |             |              |
| <b>HEALTH</b>   | 19.9                     | 22.0        | 22.1        | 27.3        | 29.8        | <b>121.1</b> |
| Improve coverage and quality  | 15.7                     | 16.6        | 16.0        | 20.1        | 21.6        | <b>90.0</b>  |
| Rehabilitation of the primary network                               | 7.7                      | 7.4         | 6.9         | 8.5         | 9.3         | <b>39.7</b>  |
| Strengthening of the SILAIS   | 4.3                      | 6.0         | 5.1         | 6.6         | 6.9         | <b>28.9</b>  |
| Strengthening of the immunizations program                          | 0.1                      | 0.1         | 1.0         | 1.2         | 1.3         | <b>3.7</b>   |
| Prevention and control of epidemics                                 | 2.8                      | 2.0         | 2.0         | 2.5         | 2.7         | <b>11.9</b>  |
| Technical assistance  | 0.9                      | 1.1         | 1.1         | 1.3         | 1.4         | <b>5.8</b>   |
| Modernize the sector  | 4.1                      | 5.4         | 6.1         | 7.2         | 8.2         | <b>31.1</b>  |
| <b>NUTRITION</b>  | 0.2                      | 0.1         | 0.3         | 0.4         | 0.5         | <b>1.6</b>   |
| Foster preventive approaches to malnutrition                        | 0.2                      | 0.1         | 0.3         | 0.4         | 0.5         | <b>1.6</b>   |
| <b>POPULATION</b>   | 1.5                      | 1.4         | 0.6         | 0.8         | 1.1         | <b>5.5</b>   |
| Incorporate sexual and reproductive health                          | 1.4                      | 0.9         | 0.1         | 0.2         | 0.2         | <b>2.9</b>   |
| Responsible family behavior   | 0.1                      | 0.5         | 0.5         | 0.6         | 0.9         | <b>2.6</b>   |
| <b>3. Better protection for vulnerable groups</b>                   | <b>29.9</b>              | <b>19.2</b> | <b>21.3</b> | <b>22.1</b> | <b>23.2</b> | <b>115.8</b> |
| Modernize the institutional framework                               | 2.6                      | 2.3         | 1.4         | 1.5         | 1.5         | <b>9.3</b>   |
| Modernize the institutional framework                               | 2.6                      | 2.3         | 1.4         | 1.5         | 1.5         | <b>9.3</b>   |
| Improve the quality of targeting and coverage                       | 27.3                     | 16.8        | 19.6        | 20.3        | 21.3        | <b>105.3</b> |
| Improve the productive capacity for vulnerable groups               | 5.6                      | 0.9         | 0.9         | 0.9         | 0.9         | <b>9.2</b>   |
| Improve the social infrastructure for vulnerable groups             | 5.6                      | 5.0         | 5.2         | 5.4         | 5.7         | <b>26.9</b>  |
| Improve investment in human capital for children and adolescents    | 15.0                     | 10.4        | 12.5        | 13.0        | 13.6        | <b>64.4</b>  |
| Supplementary Social Fund   | 1.1                      | 0.5         | 1.0         | 1.1         | 1.1         | <b>4.8</b>   |
| Strengthen community participation and social solidarity            | 0.0                      | 0.2         | 0.3         | 0.3         | 0.3         | <b>1.2</b>   |
| Assistance to the elderly and the sick                              | 0.0                      | 0.2         | 0.3         | 0.3         | 0.3         | <b>1.2</b>   |
| <b>4. Governance</b>  | <b>2.6</b>               | <b>2.8</b>  | <b>2.7</b>  | <b>2.9</b>  | <b>3.1</b>  | <b>14.1</b>  |
| Strengthen institutional  | 2.6                      | 2.8         | 2.7         | 2.9         | 3.1         | <b>14.1</b>  |
| Transparency  | 2.3                      | 2.1         | 1.7         | 1.9         | 2.0         | <b>10.0</b>  |
| Additional governance actions                                       | 0.3                      | 0.8         | 0.9         | 1.0         | 1.1         | <b>4.1</b>   |
| <b>B. Cross-cutting themes</b>                                      | <b>33.0</b>              | <b>23.2</b> | <b>27.3</b> | <b>31.6</b> | <b>34.8</b> | <b>150.0</b> |
| <b>1. Environment and ecological vulnerability</b>                  | <b>16.2</b>              | <b>6.3</b>  | <b>5.7</b>  | <b>8.7</b>  | <b>11.6</b> | <b>48.5</b>  |
| Environmental restoration   | 1.1                      | 1.1         | 1.7         | 2.6         | 3.5         | <b>10.0</b>  |
| Management and conservation of forests                              | 5.3                      | 1.0         | 0.6         | 1.0         | 1.3         | <b>9.1</b>   |
| Rehabilitation and protection of watersheds and other water sources | 0.3                      | 0.2         | 0.2         | 0.3         | 0.4         | <b>1.4</b>   |
| Strengthen local and institutional environmental management         | 9.4                      | 3.8         | 3.0         | 4.6         | 6.2         | <b>27.1</b>  |
| Land-use planning   | 0.1                      | 0.2         | 0.1         | 0.2         | 0.2         | <b>0.9</b>   |
| <b>2. Decentralization</b>  | <b>16.8</b>              | <b>16.9</b> | <b>21.6</b> | <b>22.9</b> | <b>23.2</b> | <b>101.5</b> |
| Municipal infrastructure  | 10.8                     | 10.2        | 9.9         | 10.0        | 10.2        | <b>51.1</b>  |
| Municipal promotion   | 1.7                      | 1.0         | 1.7         | 1.9         | 2.0         | <b>8.2</b>   |
| Municipal development   | 4.4                      | 5.8         | 10.0        | 11.0        | 11.0        | <b>42.1</b>  |