



A Strengthened Poverty Reduction Strategy

Government of Nicaragua

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ABBREVIATIONS AND ACRONYMS

AN	National Assembly
AMUNIC	Association of Nicaraguan Municipalities
AMCHAM	American Nicaraguan Chamber of Commerce
ANC	National Conservative Action Party
APN	Nicaraguan Journalists Association
ASEN	Assistance to Education Project
ASOBANP	Nicaraguan Private Banks Association
BANADES	National Development Bank
BANIC	Banco Nicaraguense
BASE	Basic Education Program
BAVINIC	Nicaragua Housing Bank
BCN	Central Bank
CANTUR	Chamber of Tourism
CATIE	Research and Educational Center for Tropical Agricultural
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	Democracy Education Center
CEI	Center for the Promotion of Exports and Investments
CERAP	Committee for the Reform of Public Administration
CGR	Comptroller's General Office
CIVITAS	A Civil Society Coordinating Group
CNA	Children and Adolescents Code
CNE	National Energy Commission
CNE	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
CONADES	National Council for Sustainable Development
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
CPT	Permanent Workers Congress
CREPEN	Pension Reforms Commission
CSD	Sectoral Commission for Decentralization
CSE	Electoral Council
CSJ	Supreme Court of Justice
CSO	Civil Society Organizations
DANIDA	Danish Development Assistance
DGA	Customs Office
DGI	Tax Revenue Service Office
DGIP	Public Investments Office
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
FES	Social Emergency Fund
FIDA	International Agricultural Development Fund
FISE	Emergency Social Investment Fund
FNT	National Workers Front
FODIEN	Fund for the Development of the Electric Sector
FONMAT	Fund for Safe Motherhood and Childhood
FOREBICA	Bilingual and Intercultural Education Program for the Atlantic Coast
FOSOVI	Housing Social Fund
FSLN	Sandinista National Liberation Front Party
FSS	Supplementary Social Fund
FUNDEMOS	Democracy Support Group
GDP	Gross Domestic Product
GTZ	German Cooperation Agency
HIPC	Highly Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development (WB)
IDB	Interamerican Development Bank
IDR	Rural Development Institute
IFAD	International Fund for Agricultural Development
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	Private Sector Development Institute
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	Boards for Community Development
LSMS	Living Standards Measurement Surveys
MAGFOR	Ministry of Agriculture and Forestry
MARENA	Ministry of the Environment and Natural Resources
MCN	Nicaraguan Community Based 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 the 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
OAS	Organization of American States
OECD-DAC	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
OOT	Territorial Rationalization Office
PAEBANIC	Adults Basic Education Program
PAHO	Pan American Health Organization
PALI	Neo-Liberal Party
PANic	Nicaragua Environmental Plan
PCN	Conservative Party
PDH	State Attorney's Office for Human Rights
PETRONIC	The Government-owned Oil Company
PGJ	State Attorney's Office
PLC	Constitutionalist Liberal Party
PLI	Independent Liberal Party
PLIUN	Liberal Party for National Unity
PLN	Nationalist Liberal Party
PN	National Police
PNC	National Program for Competitiveness
PRANAFP	Program for the Analysis and Formulation of Public Policy
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	Autonomous Region of the Northern Atlantic
RAAS	Autonomous Region of the Southern Atlantic
SAS	Social Action Secretariat
SBIF	Superintendency of Banks and Other Financial Institutions
SETEC	Technical Secretariat of the Presidency
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
SNIP	National System of Public Investments
SPRS	Strengthened Poverty Reduction Strategy
TELCOR	Telecommunications and Mail Services Regulatory Agency
UBN	Unsatisfied Basic Needs
UCRESEP	Coordinating Unit for the Reform of the Public Sector
UNAG	National Union of Agriculture and Cattle Breeders
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organizations
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
UPANIC	Nicaragua Farmers Association
UPN	Nicaraguan Journalists Union
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
WB	World Bank
WFP	World Food Program

EXECUTIVE SUMMARY

1. Nicaragua's Strengthened Poverty Reduction Strategy (SPRS) 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 used over the last year 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 a series of traumas in the 1980s caused by a mismanaged effort to create a command economy, inconsistent fiscal and monetary policies, and 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 1950s; 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 democratic government 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 strongly reduced, 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, positive real GDP growth returned in 1994; growth has accelerated since, in spite of major hurricanes, earthquakes, and droughts. Nevertheless, Nicaragua's economy still remains at levels well below those of the late 1970s, 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. Reducing Nicaragua's poverty remains the major challenge for the forthcoming decade.

5. What causes Nicaragua's poverty? Detailed Living Standard Measurement Surveys conducted in 1993 and 1998 have 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 confront severe 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, more than 50 percent below 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 far more often 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 and floods. Its concentrated 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, are among the poorest of the nation's citizens. Nicaragua's past political and economic development 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 of both democratic governments, for some time. While understandably immersed in the issues of transition from socialism to free markets, from a nation at war to one at peace, the first 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 the reduction of poverty. Nicaragua's social and rural funds have proven to be both well-managed and responsive. The present government, soon after its inauguration, began a dual-track process that allowed it to begin a poverty reduction strategy and over time strengthen it considerably. First was a process

of wide consultation within and without government, among all 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 fully 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, political parties, key ministries and regional governments, and NGOs-- to advise the government on a wide array of economic issues. During more than two dozen meetings CONPES members have analyzed and made recommendations on a wide variety of poverty issues. Subcommissions of CONPES, assisted by consultants, are now able to examine issues and critique government proposals in considerable detail. Indeed, CONPES has become the major vehicle to strengthen the poverty reduction strategy; this Strengthened Poverty Reduction Strategy (SPRS) 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 broad 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. More recently the president of Nicaragua called for a broader socioeconomic dialogue. All parties have agreed on CONPES as the major vehicle for a dialogue which would focus particularly on specific short-term economic problems and a broad vision of the nation's future during the decades ahead. It is this rich consultative process that makes the government confident that the SPRS outlined in this paper is a strategy that the country, not just one government, will support over the coming years.

10. The consultation on the SPRS led to decisions on first principles and the key pillars required to guide both the development of the SPRS and the ultimate success 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 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 SPRS. 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 and Annex III in the paper 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 a real GDP growth rate of 5.5 percent (2.9 percent per capita) over the next five years in an

environment of declining inflation. This, in turn, will require further moves toward a private sector-driven market economy. To address rural poverty, much of the growth will be based on agricultural expansion. 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 --from continued prudent and coherent fiscal and monetary policies to privatization of electricity, telephone, water, and port services; from continued strengthening of the financial system to a reformed pension system; from more secure land titling and ownership to modernization of regulatory frameworks-- will support the overall growth. Specific actions to encourage agricultural expansion, include rural infrastructure (particularly roads, water, and housing), programs to improve the agricultural technology of the poor, demand-driven funds for poor farmers, the provision of telephony, electricity and water for rural areas not attractive to private providers, and a wide array of marketing, training, and standardization programs.

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 population 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, they should 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 lives. More and better-staffed 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. So will community and parent-based efforts to disseminate information on preventive health and nutrition directed to improve the poor's behavior, a behavior that often places them at greater health risk.

13. The third pillar, better protection for vulnerable groups --both those affected by natural disasters, and those with physical or family problems-- will require strengthening relevant public institutions and developing a greater understanding of the poor's vulnerabilities. This will permit a better targeting of the many programs and projects now underway or proposed; the need to integrate them more closely and achieve stronger benefits for the poor is pressing. Finally, there will be a steady transfer of some responsibilities to local governments, where the understanding of the vulnerable poor 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 establish land registries. At the same time, major efforts to train judges, regulators, and other public servants must be complemented by restructuring obsolete procedures and even institutions. The ultimate result will be not only a transparent, honest government, but one that can 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 and three-year expenditure program. Their implementation will include new legislation, improved institutions and coordination, and far better practices. Among the latter will be better water management, sustainable forestry practices, and a better system to warn of natural disasters. Social equity will be addressed by facilitating equal access for women to political, economic, cultural and social areas, reducing the violence so many women 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 expansion in the responsibilities of 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 SPRS, evaluating its impact, and adjusting programs and projects to better address poverty problems has been an important part of the strategy's formulation. Chapter IV lists 9 specific poverty targets the nation will meet by 2005; virtually all of them linked directly to reducing the number of the poor and improving their education and health --particularly reducing their high mortality rates-- as well as access to related public services. Most focus particularly on women and children; most are measurable by both direct and intermediate indicators, although in some cases monitoring and evaluation processes and bases are still being developed.

17. The SPRS is not only 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 about US\$ 1.1 billion in capital spending during 2001-2003 averaging an eighth of projected GDP. This program, supported by foreign donors, will finance much of the expanded and improved public services for the 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 almost 65 percent in 2003; about US\$115 per capita and more than one fifth 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 will be able to transform the Supplementary Social Fund (FSS), originally designed as a "bridge" until HIPC relief arrived for financing innovative projects, into a HIPC fund to complement financing in at least eight new or revised programs. The FSS already has both sophisticated management information systems and well-developed processes to monitor and evaluate the programs it implements. This approach will not only accelerate and deepen implementation of the SPRS, it will provide a clear and accountable fund for the incremental HIPC relief resources.

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 a broad-based representation of all participants. During this period major strides were made towards the establishment of a true representative democracy with transparent and fair elections at all levels, including regional and municipal. This has been accompanied by a growing and deepening consultation process. This chapter presents how the process of consultation has evolved in the context of the formulation of the poverty reduction strategy. Annex I contains a detailed account of participants, meetings, recommendations and how these were incorporated in the strategy.

A. Background on Previous Processes

2. As early as 1997, the present government initiated an intensive consultation 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. Nevertheless, this ambitious agenda left some issues unresolved, and the government has called once again for a broad national dialogue.

3. Given the virtual collapse of the economy in the 1980s, the issue of poverty reduction has long been a primary and widely shared concern in Nicaragua. So has a desire for participatory consultations by democratic governments. These consultations have usually been held with the private sector, political parties, the church, NGOs and with donors and international organizations, particularly when preparing for the various Consultative Group meetings. More than two years ago, at Geneva, the government underlined to the Group the growing national consensus that rural development --to accelerate a broadly-based growth -- and social sector improvements were the keys to the country's progress.

4. 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. Each of the councils met and worked closely with citizens and national and international experts and organizations to develop specific policy recommendations. These were presented to the international community in both Washington in late 1998, and Stockholm in May 1999.

5. The recommendations stemming from the Stockholm Agreements were embodied in a document, "One Nation, Many Voices." This document also assessed the remaining challenges and needs identified during a broad consultative process with members of government, civil society, donors and international organizations.

6. In 1998, the government began a dialogue on health reform with citizens, labor unions, NGOs, universities, the private sector, the National Health Council and donors through workshops at local health care centers (SILAIS) and hospitals. A proposal for a new national education strategy was also discussed with broad segments of society; among them teachers,

parents, students, university professors and churches' representatives at both national and local levels.

B. Current Approaches

7. The present formulation of a practical and transparent SRSP 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, the legal base of which 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 will continue to develop the internal dialogue and follow up the commitments of the Consultative Group meetings (Annex I).

8. The social and economic ministries will continue to spearhead 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 recently-formed Institutional Development Commission will continue to coordinate civil society participation, with technical assistance from the United Nations Development Program (UNDP). In addition, the understanding of poverty issues and approaches to mitigate it have benefited by advice and comments from the latest Consultative Group meeting in Washington. Also, there have been presentations, provision of documents, meetings, workshops and seminars related to the SPRS and the participatory process which have shed additional light on the problem from the perspective of the general public.

9. 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, the government will continue to actively encourage CONPES to serve as an active channel of communication with the civil society and other groups. The government has also consulted closely with representatives of bilateral donor and multilateral organizations in Nicaragua to discuss ideas and receive feedback for the process of formulating the strengthened poverty reduction strategy. Many of these organizations have also provided valuable assistance in the form of technical and logistical support.¹ These institutions --both domestic and foreign-- have played a pivotal role in reaching a better understanding of the main issues and in reflecting the views and concerns of civil society.

10. In its initial stages the Strengthened Poverty Reduction Strategy (SPRS) discussion was conducted at three levels: (1) within the government, through meetings of the economic and social ministries and deliberations with technical staff including autonomous agencies. Other

¹ Particularly useful have been 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.

workshops have included the municipalities and other departmental secretaries and regional governments; (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, other discussions included local development organizations, other NGOs, the National Council for Sustainable Development (CONADES) and the media. To this effect, workshops were organized with technical and logistical assistance from the United Nations Development Program (UNDP) and the Interamerican Development Bank (IDB). Most of the recommendations have been published in a prior report to facilitate their evaluation and maintain a proper record of the process.²

11. 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 major product of this effort is the SPRS; a paper that is being widely circulated throughout Nicaragua.

C. Strengthening the Process

12. The consultative process, while extensive and useful, has been costly. To review and adjust its strategy Nicaragua will need continuing technical and financial support, especially to implement detailed qualitative and quantitative assessments of poverty and to undertake the appropriate monitoring mechanisms. To implement its strategy it will need to further develop its technical capacity and improve the availability of critically needed information. 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 will establish links for the production and analysis of relevant information and facilitate the formulation of recommendations on poverty-related strategies. The authorities are also promoting dialogue aimed at consensus building with other civil society organizations and directly with the poor in order to achieve a better understanding of the problems involved.

13. To deepen its general understanding of poverty-related problems the government is also observing closely the experience of other countries in similar circumstances. There will also be a clear need for all of society to know and understand government institutions and the framework within which they work, and thus for the media to play a more proactive role in communicating commitments and progress. While most of the interaction to design and promote the poverty reduction strategy took place in Managua, the government realizes the importance of consulting with people and institutions outside of the capital and is searching for cost-effective and practical ways to do so. Local municipalities and communities, in particular, will play a key role in identifying and monitoring grassroots projects and providing information on local needs. Workshops with municipal mayors, departmental secretaries, and territorial representatives from the Nicaraguan Institute for Municipal Development (INIFOM) were thus only the first steps to

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

inform and share views on the SPRS and government plans. Most of the civil society organizations have networks and affiliates that will likely be the platform for future discussions. For instance, the municipal councils must, by law, provide for adequate local participation. With UNDP assistance, PRANAFP, and some bilateral donors, a process of local consultation with the participation of entities associated with members of CONPES has been designed, and the first workshops completed. Dissemination of the SPRS out of Managua is important to raise awareness. For the Atlantic regions, in particular, specific opportunities will be provided to guarantee direct participation by indigenous communities, the poor and vulnerable.

14. The National Assembly, of course, will establish the necessary legislative agenda for considering and approving supporting legislation, such as the annual budget and the revision of public policies and programs.

15. The government is convinced that its consultative process not only has been useful, it should be both deepened and expanded. Last June the government called for an even broader national dialogue. This effort is now coordinated by CONPES and has the support of UNDP and the Organization of American States. Initially, the framework for the dialogue was discussed widely; among those consulted were former presidents, the head of the Catholic church in Nicaragua, the business community, political parties, civil society organizations and NGOs, private and public universities, community organizations, groups and organizations from the Atlantic regions, labor unions, the media, other branches of the state, and prominent citizens. A consensus was arrived at to link the dialogue to (a) debates on immediate economic problems, and (b) a strategic, long-term vision of Nicaragua's socioeconomic and political future. This broad, national dialogue will, of course, not only increase public participation, it will accompany the expanding consultative process on poverty reduction.

II. POVERTY PROFILE

A. Basis of Analysis and Methodologies of Measurement

16. 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, there were census of population (1995) and health (1998), which shed some light on poverty issues.

17. Poverty is a multidimensional problem, but its most common definition is in terms of unacceptable 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.

18. 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

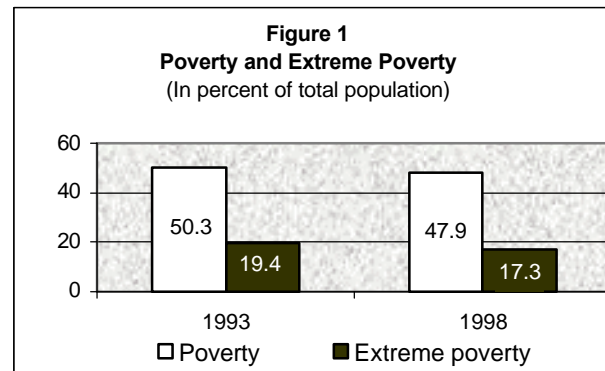
the household, dependency level, and others. According to this method, households with only one unsatisfied need are classified as poor; those with two or more unsatisfied needs are considered extremely poor. The UBN is an important indicator of poverty level, but it is susceptible to bias because of a tendency towards overestimation. Thus, non-poor households are often included with the poor; this tends to inflate UBN-targeted poverty programs and erode the value and effectiveness of resources available for the really poor.

19. The income distribution method ranks households on the base 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 the full amount of income they earn and to leave out income in-kind (e.g., crops grown and consumed by households).

20. The third index of poverty measurement is based on relative levels of consumption. The poverty line is estimated by a base of the annual per capita expenditure needed to consume minimum daily caloric requirements, and acquire basic goods such as clothing, shelter, and transportation. 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.

B. The Situation and Evolution of Poverty

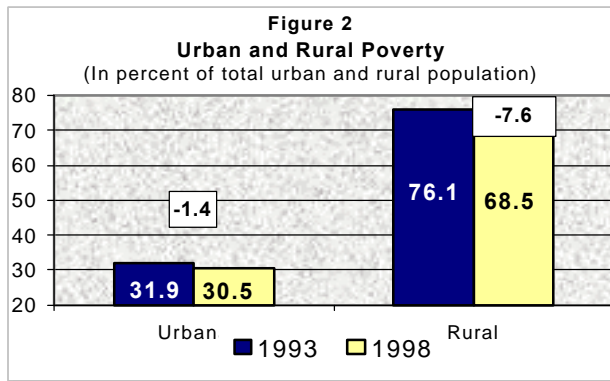
21. Nicaragua is one of the poorest countries in Latin America; its per capita GNP is only one third the regional average. Of thirty-three Latin American countries, Nicaragua is the poorest after Haiti. It is thus not surprising that, based on the consumption index, almost one half (47.9 percent) of Nicaragua's population are poor. This is equivalent to 2.3 million people, of which 830,000 (17.3 percent) are extremely poor. Measured by the UBN method, poverty rises to 72.6 percent, and extreme poverty to 44.7 percent. Measured by the income distribution method, overall poverty is 60.0 percent and extreme poverty is 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.



22. **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 remain overwhelmingly rural (see Figures 2 and 3). Two out of three people in rural areas are poor, compared to one out of three in urban areas. Annex IV of the SPRS includes a national poverty map, which --along with detailed tables of data-- clearly shows the municipalities where poverty, especially 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).

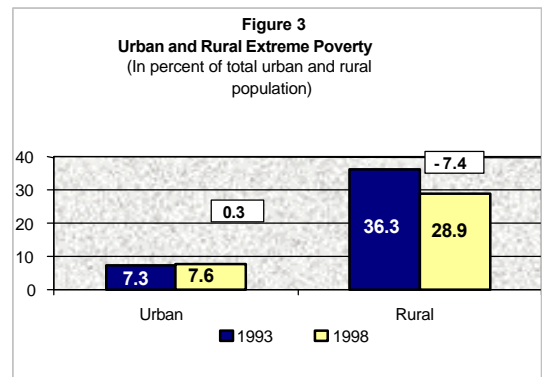
23. The recent reduction of rural poverty stems mainly from the recovery in the agricultural sector, which grew at an annual real rate of 7.0 percent during 1993-1998. Favorable export prices, especially for coffee and sugar, contributed to the output expansion. The production of basic grain and other staples, including non-cash crops also rose significantly during this period.



24. The lowest incidence of poverty and extreme poverty is in Managua, where only two out of ten people are poor. The economic recovery and expansion of the service sector in this city--particularly finance and commerce-- have contributed to a notable reduction in poverty compared to 1993.

25. Rural areas not only have the highest share of poor households, but also the greatest poverty gap³. The Atlantic Coast

has the greatest poverty gap, with 37 percent; the Central and Pacific regions 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 is partly due to the economic crisis in some areas -- particularly León and Chinandega-- caused by the collapse of cotton production. In the Atlantic region problems of access, population dispersion and lack of investment contributed to this poor outcome.



³ 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)		
National	19.4	17.3	-2.1	50.3	47.9	-2.4
Urban	7.3	7.6	+0.3	31.9	30.5	-1.4
Rural	36.3	28.9	-7.4	76.1	68.5	-7.6
Managua	5.1	3.1	-2.0	29.9	18.5	-11.4
Pacific						
Urban ^{1/}	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
Central						
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
Atlantic						
Urbano	7.9	17.0	+9.0	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)		
National	21.8	18.3	-3.5
Urban	10.9	9.9	-1.0
Rural	37.1	28.3	-8.8
Managua	9.5	5.1	-4.4
Pacific			
Urban ^{1/}	9.4	12.6	+3.2
Rural	32.3	26.0	-6.3
Central			
Urban	19.4	14.3	-5.1
Rural	45.3	30.9	-14.4
Atlantic			
Urbano	12.1	17.5	+5.4
Rural	35.9	37.3	+1.4

Source: INEC/LSMS 1993 and 1998

1/ Excluding Managua

26. **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 will likely generate substantial medium term costs. A further, deeper analysis of the effects of hurricane Mitch on the poor will thus be needed.

27. **Inequality in income distribution and consumption.** Nicaragua, like much of Latin America, presents 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 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.

28. 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, which is nine times higher than the poorest 20 percent; this difference falls to seven times in rural areas (see 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

29. While circumstances relating to 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; both mean the poor are extremely vulnerable to extraordinary events.

30. **High unemployment and underemployment rates, especially among women.** The overall unemployment rate in Nicaragua, according to the 1998 survey is 12 percent. However, the rate is higher among poor households, reaching a high of 21 percent among extremely poor women. Even worse is underemployment, particularly among poor females of which one out of two is 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) is one third of total employment. The regions with the highest visible underemployment rates are Managua and the rural Pacific.

31. **Uncertain property rights.** Nicaraguans in general confront extremely uncertain property rights; the poor confront even more uncertainty. Statistical information on property ownership, however, is deficient, disperse, and unreliable. About four fifths of Nicaragua's land is unregistered; and 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.

32. **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 lacks potable water and 16 percent has no access to safe water. The percentages among the extremely poor households in rural areas are considerably higher (77 percent lacks potable water and 40 percent lacks safe water). In addition, about a third of the poor have no access to latrines, 57 percent have no access to electricity, and 94 percent use only firewood for cooking. Access to main roads varies 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

33. 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.

34. **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 for their families; they have less access to information on family planning and face higher reproductive risks. Furthermore, the poorest households comprise more people (6.7–7.7) than non-poor households (4.7) and their adults have almost twice the number of dependents per head (defined as people under the age of 16).

35. **Low educational attainment and low access and quality of education services, particularly in the rural sector.** 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 have 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 basic cognitive 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 insufficiently trained teachers, poor physical conditions in over half the primary classrooms, and a chronic shortage of teaching materials. This partly explains the high repetition and desertion rates, especially in rural areas where these problems are most acute.

36. **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. Also, they are only half as likely as non-poor women to be attended by doctors when giving birth.

37. **Malnutrition.** There is a strong link between poverty and malnutrition. Over 30 percent of poor children and almost 40 percent of extremely poor children are malnourished, compared to 12 percent of non-poor children. Poor children under five are particularly affected by chronic malnutrition (resulting in varying degrees of stunting); among the extremely poor children, this affects 36 percent. Although on an overall basis the surveys indicate that chronic malnutrition has declined since 1993, it increased by 45 percent among the urban poor and 30 percent among the extremely poor. The worst levels of chronic malnutrition are reported in the north and central parts of Nicaragua, where nearly half the extremely poor children suffer from this condition.

E. Vulnerability and Marginality

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

39. **High vulnerability to natural disasters.** Partly because of its geographical location, Nicaragua is affected by various natural calamities. Volcanic eruptions, hurricanes, earthquakes, and floods are common periodic occurrences which result in ecological deterioration and major destruction of property and infrastructure. Recent catastrophes (El Niño, Hurricane Mitch, La Niña, earthquakes in Managua and Masaya) have shown that the poor are much more likely to be adversely affected by these natural disasters 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 further reduce already inadequate levels of consumption. The collapse in employment caused by some disasters motivates people to emigrate in search of employment or engage in illegal activities such as prostitution, drug trafficking and crime.

40. **Lack of information and opportunities.** The poor have limited access to the media and often lack information to facilitate access to labor markets or public assistance. They lack the knowledge to obtain help from NGOs, and their ignorance of government social programs often precludes assistance from these sources. Moreover, the poor have little knowledge of relevant laws, rules, and procedures, which limits their access to the justice system and official assistance facilities.

41. **Family violence and street and countryside insecurity.** 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; 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.

42. **Gender inequality.** Nicaragua's girls have equal access to education; indeed, in the primary schools girls outnumber boys. Nevertheless, they 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 as does the fact that women are the caregivers of children and the elderly. The most common risks that poor women face are prostitution and sexual and physical abuse; despite this fact, the poorest communities usually lack the formal structures to protect women.

43. **Ethnic groups.** The indigenous groups in Nicaragua (i.e., miskitos, sumos, raras, creoles and others), which inhabit mainly the Atlantic Coast, are among the poorest populations. These groups are often excluded from the social benefits enjoyed by others and from the political and economic processes that affect the country. Ensuring that poverty among these groups of the population is alleviated, while preserving their ancestral culture and traditions, presents a special challenge.

44. **The handicapped and the disabled.** According to some studies the disabled feel 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. Many parents of disabled children prefer not to send them to school.

45. **The elderly.** In Nicaragua the elderly are traditionally taken care of by their own families. However, the elderly in poverty have little or no access to formal mechanisms of support. Many of them are forced to work beyond their productive years and are often forced into indigency.

46. **Surprising nonvulnerabilities.** Nicaragua, however, has avoided some severe problems usually encountered in nations with such low per capita incomes. Child labor, for example, is more frequent among boys than among girls (17 percent) and is higher in rural areas where 27 percent of boys work. Nevertheless, the incidence of child labor in Nicaragua is lower (11 percent) than in most other similar nations. HIV incidence is only about 1.5 to 2 cases per 100,000 in recent years; and new AIDS cases have varied from 25-35 yearly; both rates are well below that of many similar countries.

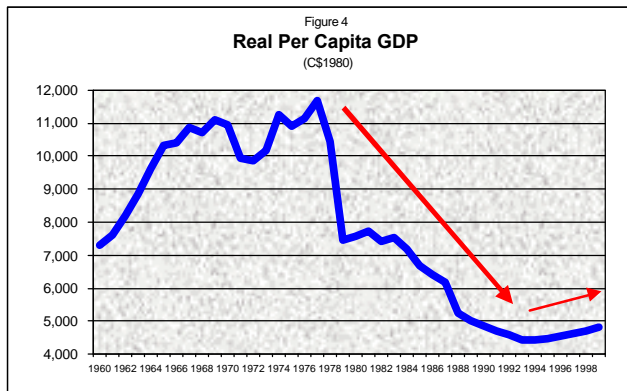
F. Poverty from the Poor's Point of View

47. At the beginning of 2000, the World Bank undertook a qualitative study on poverty, which complemented the findings of the 1993 and 1998 surveys. According to this study, the poor have a unique 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.

48. 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 financing. In general the poor distrust public institutions, which are often considered incapable of working on their behalf. One of the salient perceptions is a sense of despair and resignation. The poor believe that poverty is a vicious cycle from which they cannot escape since it is inherited and perpetuated through generations. The poor feel that their limited human capital increases their vulnerabilities to economic shocks and crisis. They are well aware that there is a high disparity between their access and non-poor access to health services, such as preventive care, and that such differences have an impact on the high incidence of mortality among poor households. The poor also know that a low educational attainment increases the probabilities of being poor, and they believe there is inequality in 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.

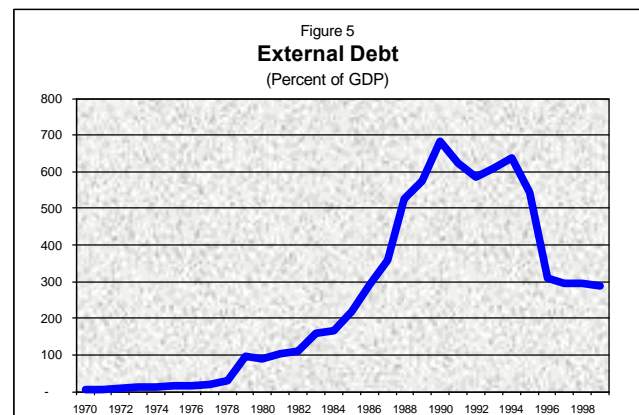
III. BACKGROUND ON POLICIES AND STRATEGIES AND THEIR IMPACT ON POVERTY

A. Some Important Economic and Social Facts of the Last Thirty Years



49. Poverty in Nicaragua is the cumulative result of past disastrous 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 has proven to be the most reliable instrument to reduce poverty.

50. During 1960–1977, prudent macroeconomic policies produced an extraordinary growth performance (see 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 growth in coffee and cotton production.

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

52. By contrast, the major disruption associated with civil war in the 1980s 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 1950s levels. This collapse is the major cause of Nicaragua’s presently high poverty levels. If the country had continued to grow at the same pace as in 1960–77, it would have at least twice today’s per capita income. And health, education, and employment levels would be all relatively closer to those of its more affluent neighbors.

53. Despite the introduction of preferential exchange rates and subsidized 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. Ad hoc and hasty transfers of productive land --with the resulting uncertainty, clouded ownership, and legal chaos it produced-- led to disinvestments and major drops in agricultural production. At the same time, the foreign debt grew to unprecedented levels, reaching US\$ 8.5 billion in 1988, six 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.

54. During 1990–1999, 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 permitted the control of inflation and the resumption of economic growth. With the help of appropriate monetary, fiscal, and exchange rate policies inflationary pressures quickly abated. Nonetheless, partly because of unresolved property disputes the fragile economy was slow to react to the reforms, in spite of the commercial liberalization, higher government savings, programmed reductions in import tariffs, and a 50 percent reduction in external debt. However, positive economic growth 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 5.4 percent yearly rate between 1997 and 1999, causing per capita income to increase by 1.9 percent yearly (see Annex table 1), and the open unemployment rate to drop from 17.1 percent in 1994 to 10.5 percent in 1999.

B. Strategies and Policies in the 1990s

55. In the first half of the 1990s, Nicaragua devoted major efforts to the restoration of peace and the abatement of hyperinflation. The structural reforms implemented during this period promoted economic growth. They were accompanied by a greater degree of attention to the 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 the following actions.

56. **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 three-fourths, 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 1980s to less than 3 percent in the last few years. As a result of these policies, public sector employment was reduced from 285,000 employees (24 percent of the economically active population) in 1990 to 80,000 in 1999.

57. 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 service rates, and made gradual adjustments in order to recover long run marginal costs. In 1998, the National Assembly approved a number of laws that created a framework for the privatization of the government telephone company (ENITEL) and liberalization of the exploration and sale of hydrocarbons. The government-owned oil company (PETRONIC) was leased to the private sector. Likewise, in 1997 the organic law of the government-owned electricity company (ENEL) was modified in order to permit private sector participation in the generation and distribution of electricity.

58. The tax system was revised with a view to broadening the 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.

59. **Financial sector reforms.** During the 1990s the financial system --an important source of the past inflation-- experienced a major transformation. In 1991, the first private bank, after democracy was reestablished, began to operate. At present there are 14 private banks accounting for more than 98 percent of total assets in the banking system. Also in 1991, the Superintendency of Banks was reestablished, and the Central Bank initiated a reform process in order to recover the autonomy it had lost in the 1980s. Ceilings on interest rates were abolished, reserve requirements restored, and laws mandating Central Bank financing of the fiscal deficit and state banks abolished.

60. In 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 privatized. Both transactions, while salutary for a growing private banking system, left the government with the bad debts of these banks.

61. **Trade and price reforms.** Liberalization of external 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 government supported this reform 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 1999. The extensive and perverse price control mechanisms set up during the 1980s were also abolished.

62. **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. At the beginning of the year 2000, the National Assembly approved a law for reform of the social security system. Full-scale application of the new system is expected by the end of this year. This reform, when fully implemented, will strengthen not only the pension system, but likely increase national savings and over the long term deepen the nation's financial markets as well.

63. **Public administration reforms and property rights.** The government began 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 issues. In 1997, the National Assembly also approved a new property law that facilitated the settlement of some accumulated property conflicts. Unfortunately, these measures proved insufficient; there remains a further agenda of actions to fully address the severe problems of uncertain land ownership. 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.

64. As a result of these major, and difficult, reforms the economy responded positively. After stagnating until 1993, real GDP grew an average 4.8 percent yearly during 1994–1999. This increased growth laid the foundations for even further expansion and led to a measurable drop in Nicaragua's poverty levels.

65. **Poverty reduction strategies.** Before 1990, Nicaragua, in spite of declared intentions, did not really have a comprehensive poverty reduction strategy. The social programs implemented in the 1980s 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 1990s 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 expanded

successfully 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 assistance. It is described in detail in Chapter VI.

C. Obstacles to Higher Economic Growth, Macro and Microeconomic Aspects

66. **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 returned to two-digit levels in 1999, to 13.7 percent of GDP. 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 9.2 percent of GDP. The high level of public expenditures (48.5 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 more than 40 percent of gross current fiscal savings for 1999 (11 percent of GDP) were earmarked for interest payments on the debt. On the other hand, 30 percent of external resources went to amortization of the external debt in 1999.

67. **The fragility of the banking system.** Nicaragua's private banking sector still needs strengthening. It has been growing for the last few years at a rapid pace, and the Superintendency of Banks (SBIF) has been equally rapid in developing and enforcing prudential norms to guarantee the quality of the loan portfolio. The structure of deposits, however, remains mostly short-term, which inhibits the capacity of the banks to provide medium and long-term financing. The economic and political conditions in the country still adversely affect risk perceptions, which makes it difficult to stimulate long-term savings to support the medium and longer-term credit usually required by the productive sectors. Incipient capital markets also constitute an obstacle to growth. High administrative costs, the need to accelerate recapitalization, and the concentration of branches in a few major urban centers constitute the system's major constraints. 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.

68. **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 1980s, and land distribution commitments made during the peace agreements in the 1990s, are the most important factors casting a shadow on 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, the uncertain land tenure provides little incentive for private investment, and even when such exists, restricts access to institutional credit since untitled land cannot be used as collateral.

69. **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 relevant infrastructure retards 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.

70. **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. Indicators show that annually 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 vocational technical training in general.

71. 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 diarrhea and other maladies --mostly from limited access to potable water and poor health practices-- also affect labor productivity.

72. **Infrastructure problems.** Lack of investment and poor physical infrastructure maintenance during the 1980s, deterioration due to war, and the effects of natural disasters make Nicaragua's infrastructure one of the most deficient in Latin America. Substantial amounts of private capital are needed to rehabilitate electricity generation and telecommunications infrastructure, ports, and roads. These deficiencies translate into higher, across-the-board, production, commercialization, and administrative costs for the private sector. Privatization efforts of public utilities are in process, but the expected expansions will most likely occur only in the medium term.

73. **Vulnerability and shocks.** Because of its geographical location Nicaragua has historically been vulnerable to natural disasters that have caused substantial damage to the ecology and seriously affected agricultural production (hurricanes, 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 has affected investment levels and seriously disrupted 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.

74. **Public expenditure and its efficiency.** During the 1990s, public sector imbalances narrowed significantly from the unsustainable and inflationary levels of the 1980s. 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 nonfinancial public sector still averaged 40 percent of GDP during the 1990s, 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 20.9 percent of GDP in 1999.

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

76. In spite of an improved distribution of public expenditures, their overall efficiency remains low. The high proportion of GDP spent by the public sector on social services has not meant 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, among others, which hinder the effectiveness of those expenditures for social and economic purposes.

77. A major source of the present fiscal imbalance stems from public debt service obligations. The debt was not serviced during the 1980s. This situation was ameliorated in the 1990s through negotiations with bilateral and multilateral organizations, particularly after hurricane Mitch. Nevertheless, the debt service remains high, and will be much higher after 2001, when the temporary relief ends.

IV. GOALS AND INTERMEDIATE INDICATORS

78. The consultative process has produced 9 specific national targets and a number of indicators for the SPRS. 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 each program as well as intermediate indicators, particularly since many of the programs are interdependent.

A. International Development Goals and the Setting of Goals and Indicators for Nicaragua

79. The goals, targets and intermediate indicators selected are the result of participatory consultation, analyses of salient characteristics and needs of the poor, an assessment of public sector implementation capacity and budgetary constraints, and a review of country commitments made in the context of United Nations International Conferences. Therefore, virtually all the long-term targets aim as a minimum to meet those set out as objectives by the OECD-DAC for

the year 2015, complemented by additional goals and targets resulting from domestic consultations and reflecting specific country characteristics and needs.

80. The government's ultimate goal 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 five years, reducing maternal mortality rates by three quarters, providing primary education to 90 percent of school age children, ensuring access to reproductive services to all interested people of appropriate age by 2015, and implementing a sustainable development strategy by the year 2005. In addition, in line with country characteristics, other long-term targets are reducing chronic malnutrition to 7 percent, increasing potable water service coverage to 100 percent, increasing sanitation coverage to 87 percent, and reducing the illiteracy rate to 10 percent; all by 2015.

81. 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 nine 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 variables were 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	2005	International Targets Year 2015
Poverty reduction	Reduce extreme poverty by 25%	Increase government spending on poverty related outlays to 64% from 53% of budget by year 2003	...	53	...	Reduce extreme poverty by 50% by 2015 with respect to 1995
		Projected rate of growth of real GDP.	7.0	5.4	5.5	
Raising primary education access to 90 percent	Increase net primary enrolment rate to 85% from 75% in 1999	Annual average increase of 1.7 percentage points in the net primary enrolment rate	75.0	76.6	85.0	Universal 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	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	44.0	
		Put into effect academic achievement measuring system, and make first evaluation in math and spanish in 2001 for 3rd and 6th grade	...	...	...
		Annual increase of 1.0 percentage point in the net pre-school enrolment rate during 2000-2005	26.0	27.0	32.0	
		Increase to 6th grade all rural multigrade schools by 2005	...	...	Done

National Goals	National Targets Year 2005	Intermediate Indicators	1999	2000	2005	International Targets Year 2015
		Construct and replace 600 classrooms annually during 2001-2005	977	860	600	
		Increase the number of schools with double shifts	...	To be defined ^{1/}		
Reduction in maternal mortality rate	Reduce maternal mortality rate to 129 per one-hundred-thousand live births from 148 per one-hundred-thousand born alive in 1999	Increase to 55% 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	48.3	55.0	Reduce maternal mortality rate by 3/4 by 2015 with respect to 1994
		Increase to 82.6% the coverage of prenatal care from 71.6% in 1999 (an annual average increase of 5,870 prenatal controls during 2000-2005)	71.6	73.4	82.6	
		Increase to 39% the coverage on early prenatal care from 31.9% in 1999 (an annual average increase of 3,400 early prenatal care controls during 2000-2005)	31.9	33.0	39.0	
		Introduce an education program on population for students in public schools as well as a non-formal program by 2002.	...	...	...
Reduction in infant and children under 5 mortality rates	Reduce infant mortality rate to 32 per thousand live births from 40 per thousand 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	70.1	73.0	95.0	
		3 d. antipolio	91.0	91.0	95.0	
	3 d. 5-in-1	7.0	90.0	95.0		
	Reduce mortality in children less than five to 37 per thousand live births from 50 per thousand in 1998	Increase immunization coverage (%) for children under 5 years				
		3 d. antipolio	91.0	91.0	95.0	
1 d. MMR		95.1	96.0	100.0		
	Reduce the incidence of diarrhea in children under 6 ^{2/} to 15% by 2002 ^{3/} from 19.6% in 1998 ^{4/}	19.6 (1998)	...	...
	Reduce the incidence of acute respiratory infections in children under 6 ^{2/} to 23% by 2002 ^{3/} from 27.3% in 1998	27.3 (1998)	...	...
Access to reproductive services	Reduce to 25% by 2003 ^{5/} the unsatisfied demand for family planning among women with partners in the 15-19 age group from 27.1% in 1998	Increase the share of women of childbearing age accessing reproductive services to 25% by 2005 from 21% in 1999 (an annual average increase of 14,000 women of childbearing age during 2000-2005 period) ^{6/}	21.0	21.6	25.0	Provide access to reproductive health for all individuals of appropriate age
	Reduce to 17.9% by 2003 ^{5/} the unsatisfied demand for family planning among women with partners in the 20-24 age group from 19.7% in 1998	Introduce a program on education for students in public schools as well as a non-formal program by 2002.	...	...	...
Implement National Strategy for Sustainable Development	Have the National Strategy for Sustainable Development	Published and implemented policy and environmental plan	...	Approved	...	Have a sustainable development strategy
		Approve the Forestry and Development Law	...	Approved	...	

National Goals	National Targets Year 2005	Intermediate Indicators	1999	2000	2005	International Targets Year 2015
	implemented by 2005	Approve the Fisheries Law	...	Approved	...	implemented by year 2005
		Approve the Biodiversity Law	...	...	...
Reduce chronic malnutrition	Reduce chronic malnutrition in children under 5 to 13% in 2005 ^{3/} from 19.9% in 1998	Reduce chronic malnutrition in children under 5 to 17% in 2002 from 19.9% in 1998	...	...	...	Reduce chronic malnutrition to 7% by 2015 ^{7/}
Increase access to water and sanitation	Increase national coverage of water to 75.5% from 66.5% in 1999	Increase national coverage of water by 1.5 percentage points per year during 2000-2005	66.5	68.1	75.5	Increase to 100% national water coverage ^{7/}
	Increase access to safe water and sanitation in rural dispersed areas to 54.0% from 39% in 1999 ^{8/}	Annual average increase of 2.5 percentage points in access to safe water in rural dispersed areas during 2000-2005 ^{8/}	39.0	41.6	54.0	
	Increase national access to sanitation to 50.2% from 36% in 1999	Increase national access to sanitation by 2.4 percentage points per year during 2000-2005	36.0	38.4	50.2	Increase to 87% national access to sanitation ^{7/}
	Increase access to sewerage in urban areas to 47.3% from 33.6% in 1999 ^{9/}	Annual increase of 2.3 percentage point in share of urban population with access to sewage ^{9/}	33.6	35.8	47.3	
Reduce illiteracy rate	Reduce illiteracy rate to 17% by 2002 from 19% from 1998 ^{3/}	Decrease illiteracy rate by 2 percentage points by 2002 as measured by LSMS ^{3/}	19 (1998)	...	...	Decrease illiteracy rates to 10% ^{7/}
		Increase mean years of schooling among the 10-19 age group to 4.9 years in 2002 ^{3/} from 4.6 years in 1998	4.6 (1998)	...	...

Source: Annex III

^{1/} These indicators will be defined in the near future.

^{2/} The government is exploring the possibility of reformulating these indicators for the appropriate age group, which is children under 5.

^{3/} Measured by Living Standard Measurement Survey (LSMS) 2002.

^{4/} Achieving these levels is partly dependent on the increase of water and sanitation services.

^{5/} Measured by Demographic and Health Survey (DHS) 2003.

^{6/} Increase the share of women of childbearing age accessing reproductive 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 mortality rate; and (2) increase access to reproductive services.

^{7/} National target.

^{8/} Increase access to safe water and sanitation in rural dispersed areas is an intermediate indicator which crosses three national goals: (1) reduce infant mortality rate and less-than-five mortality rate; (2) increase access to water; and (3) increase access to sanitation.

^{9/} Increase access to sewerage in urban population is an intermediate indicator which crosses two national goals: (1) reduce infant mortality rate and less than five mortality rate; and (2) increase access to sanitation.

82. 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 SPRS. While this process has the potential to link targets even more closely to required spending, it remains both tentative and preliminary. A number of technical difficulties remain, particularly with the quality of data and the interpretation of results. These shortcomings --which affect the quality and timeliness of indicators, not the targets-- will be addressed in the future.

B. Targets and Intermediate Indicators

83. 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. 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.

84. **Target 1: Reduce extreme poverty by 25 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 12.9 percent by the year 2005. Sensitivity analysis indicates that a 2 percent increase in per capita consumption growth alone could reduce extreme poverty by almost that much during the period.

85. Intermediate indicators for this target include: (1) the rate of growth of GDP; which is targeted to increase at an average annual rate of 5.5 percent during 2000-2005; (2) the share of central government expenditures on poverty related outlays, which is targeted to rise from 53 percent to 64 percent of total government expenditure excluding debt service during 2000-2003; and (3) some social indicators with annual periodicity --access to primary education, access to potable water, and immunization coverage.

86. **Target 2: Increase the net primary school enrolment rate from 75 percent to 85 percent by the year 2005.** At present the net primary school 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.

87. In view of this, the government intends to raise the net primary enrolment rate to 85 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, raising by two percentage points per year the number of children who finish primary school in six years, making operational by the year 2001 an academic achievement measuring system, and continuing to ensure gender equality in access to schools. The indicators to monitor increased coverage include increasing to 6th grade all multi-grade schools, the number of classrooms constructed and replaced annually and the number of schools with double shifts.

88. **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 50 percent by 2015.⁴ Achievement of the 2005 target will require an increase in the share of women giving

⁴ In 1999 the maternal mortality rate was 148 per 100,000 live births, compared to a rate of 106 per 100,000 in 1993. This large variation mostly reflects the implementation in 1993 of a System for Monitoring Maternal Deaths at MINSA, which reduced prior underreporting significantly.

births in hospitals and clinics (an annual average increase of 3,700 women a year), and ensuring that a rising share of pregnant women receive prenatal care (an annual average increase of 5,870 a year), as well as an increased number of early prenatal care services (an annual average increase of 3,400 a year).

89. **Target 4: Reduce the infant mortality rate from 40 to 32 per 1,000 live births and 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 less than five years old are the highest in Central America. The government intends to lower these two rates by 67 percent by the year 2015 with respect to the rates prevailing in 1994. Consistent with these aims, the inoculation coverage for infant and children under five will be increased. The incidence of diarrhea 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, which will be monitored by the water sector.

90. **Target 5: Increase access to reproductive services to individuals of appropriate age.** 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. To accomplish the goal of making available reproductive services to all individuals, by 2003 the government will reduce to 25 percent unsatisfied demand for family planning methods among women with partners in the 15–19 age group, and to 17.9 percent for those with partners in the 20–24 age group.

91. **Target 6: Implementation of a strategy for sustainable ecological 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.

92. The Ministry of the Environment and Natural Resources' Environmental Plan (PANic) for 2000–2005 is part of a broader strategy aimed at reducing the overall ecological vulnerability in Nicaragua. This plan will be 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 government expects such a strategy will be in place by 2001, and begin its implementation soon thereafter.

93. **Target 7: Reduce chronic malnutrition in children under 5 to 17 percent by 2002 from 19.9 percent, to 13 percent by 2005 and to 7 percent by 2015.** In Nicaragua, almost 20 percent of children under five are affected by chronic malnutrition. Another LSMS, planned for 2002, should identify progress, although the authorities are considering the use of spot nutrition surveys as well.

94. **Target 8: Between 1999 and 2000, increase the national coverage of access to water to 75.5 percent from 66.5 percent and the national access to sanitation to 50.2 percent from 36 percent. Increase access to safe water and sanitation in rural, dispersed areas to 54 percent from 39 percent by 2005 and access to sewerage in urban areas to 47.3 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 monitor the increase of access to water at a rate of 1.5 percentage points per year during the period, the increase of national access to sewerage or appropriate sanitation at a rate of 2.4 percentage points a year, and to monitor the increase of access to safe water and sanitation in dispersed rural areas at a rate of 2.5 percentage points per year and to sewerage in urban populations at a rate of 2.3 percentage points during the period.

95. **Target 9: Reduce the illiteracy rate to 17 percent by 2002 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 affects almost all others. The indicators to be monitored will be the reduction of the illiteracy rate by 2 percentage points by 2002 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 4.9 years in 2002.

V. STRENGTHENED POVERTY REDUCTION AND GROWTH POLICIES

A. Overview

96. During 1999/2000 Nicaragua has strongly reinforced its poverty reduction effort. This Strengthened Poverty Reduction Strategy (SPRS) reflects five differences from previous efforts. First, it is almost totally focused on poverty, and its reduction. Second, it is based on much more profound data and analyses of poverty. Third, it incorporates very specific and quantifiable targets. Fourth, it is based on an extremely broad and intense dialogue with all sectors of Nicaragua society and foreign donors. Finally, it includes an effort to systematically monitor and evaluate the progress of the strategy with continued wide participation.

97. The SPRS 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 SPRS: a reduction in environmental degradation and ecological vulnerability; an increase in equity; and further decentralization.

B. The Principles Underlying the Strengthened Poverty Reduction Strategy

98. The SPRS 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 to 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 and accountability* through participatory

processes that include targeted communities, beneficiaries and local leaders; and (d) *broad participation* by all members of society in the definition, implementation, and follow-up of the SPRS. The main actors in this venture are civil society's, organizations and representatives -- 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

99. Labor-intensive, broad-based economic growth, is the single most important pillar of the SPRS. 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 and integrating 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 a strengthened private sector response. Ultimately, it is the private, not the public sector, which will directly generate productive jobs, increased incomes and wealth in Nicaragua.

100. As the World Bank has noted, the economic collapse in the 1980s was the single most important cause of Nicaragua's growing poverty; economic growth --broadly shared, stable and sustainable growth-- will be vital to reduce poverty⁵. 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 as well as more modest growth expectations, the expected halving of the extreme poor will still mostly 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 responsibilities in the environment, the expansion of productive assistance to the rural poor, can only be sustained if financed from the growth dividend.

101. The SPRS places strong emphasis on the development of rural areas because of their higher incidence of poverty and continued high potential for growth with their abundant, though 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, the land and labor frontiers are fast closing. Future agricultural (and export) growth must come from productivity gains; the key focus of the SPRS effort.

⁵ "Nicaragua: Poverty Assessment", 20488-NI, June 2000.

102. 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 will be further reduced in the future.

103. 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 nonacquisitive mechanisms for accessing additional land for small farmers. Private producers need greater access to credit. To encourage this, the government will revise bank regulations to widen credit access, formalize non-conventional financial organizations, and improve the operations of its own rural credit funds.

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

105. 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 an agreement of the Central American presidents' agenda for competitiveness. Supported by the business community, it will promote growth in four strategic clusters identified for their high growth potential: tourism, coffee, textiles manufacturing, and forestry products. Three of these will have a major impact on rural economic activity.

106. 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 productive, nutrition and living conditions of the poor and extremely poor; the demarcation of the 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

107. The second pillar consists of increasing the investment in the human capital of the poor with the objective of enhancing their productivity, income and welfare. Investments in human capital 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 with programs to improve the living conditions of poor communities with the provision of water, sanitation and improvements in housing.

108. During the first half of the nineties, the government's efforts emphasized the provision of elementary education and primary health services in rural areas. At the same time, structural reforms expanded coverage and improved the quality of these services within a framework consistent with a market economy. These reforms were continued during the second half of the nineties, including decentralization processes. In both sectors, the government has invested a significant amount of resources to rehabilitate health and school facilities, especially in needy rural areas.

109. **Education.** In the education sector, the strategy includes four basic guidelines: expand coverage of basic education, improve the quality, relevance, and pertinence of all education, improve and deepen the school decentralization process, and modernize the sector.

110. The expanded coverage will require new preschool approaches, double shifts in some rural schools, construction and replacement of a significant number of classrooms and vocational centers, as well as the conversion of existing rural buildings into schools. 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 their children's education.

111. Improvement in educational relevancy will require the revision of the elementary curricula to ensure the inclusion of topics such as health, nutrition, and population education. A reform of the secondary curriculum is underway. Salary incentives for teachers based on performance are being expanded. Improvement in educational quality will require that the curriculum of teacher training institutions be reformed, relevant in-service programs be improved, and greater availability of textbooks and materials take place nationwide. The objective is to increase the number of graduating students by reducing dropouts and repeaters. For the Atlantic Coast the teaching curriculum will be revised to make it more relevant and pertinent; it will include elements of local culture, the use of native languages as well as emphasis in achieving proficiency in the Spanish language.

112. The Education Ministry began to transfer some decision-making in education to local councils as early as 1993. Recent evaluations indicate this reform has produced limited benefits, due to its novelty and the lack of information and educational standards. To strengthen this approach the government will add training activities for local administrators, teachers and parents.

113. As the educational system expands its coverage, improves its quality, and becomes more decentralized, it will need a different managerial structure and a coherent transmission of information for monitoring and evaluation. The national level will move towards normative and supervisory roles. A year ago, the government, along with representatives of different groups (parents, NGOs, teachers, intellectuals, public and private universities, MECD, INATEC, CNE) developed a new strategic plan to better articulate the various educational subsystems that functioned with little relationship to the productive pattern and economic development of the country. It is now developing a National Educational Plan, an operational document that will prioritize the costs and actions that stem from the agreed strategy.

114. **Health.** In spite of improved indicators, the health system is still plagued by resource misallocation, inadequate management, and poor services. The system remains highly centralized, with weak technical and administrative norms, and lacks modern management tools and capacity. All of these contribute to a low access to services, especially in the poorest areas, resulting in poor health outcomes. The strategy thus focuses on: (a) increased coverage and quality of services for women, children, and adolescents, (b) behavioral changes at the household level, and (c) the modernization of the sector, partly by decentralizing and increasing the participation of private sector service providers.

115. The expanded coverage will focus particularly on the primary level, where the poorest sectors of the population have the greatest need for health services. 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. The main targets for the coverage and quality enhancement are thus women of reproductive age, adolescents and children. These new centers, the focus of virtually all public health services, will be better-equipped and better-managed. As the World Bank has noted, the *system* or *strategy* is not so much at fault as poor implementation. Besides better management practices, new ways to provide services in remote areas are being developed, as are 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.

116. For the immediate future, nine new health posts and two hospitals will be rehabilitated on the Atlantic Coast, as well as one in San Juan. These priority areas are among the poorest in the country (see 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.

117. The effectiveness of this effort will depend on a better integration of reproductive healthcare services into the primary health clinics 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 for secondary treatment, and expanded provision of vaccines and other similar medication.

118. One key to better health for the poor is changed behavioral patterns. Prior assistance efforts were often wasted because of perverse or poor behavioral actions. 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; the Education Ministry will assist in placing these into appropriate educational curriculum. Innovative programs have been developed to provide financial incentives to poor parents to follow better health practices. Parallel activities will provide more and better health information to policy makers in communities, as well as support for municipal programs that emphasize better waste disposal practices, and the importance of prenatal care. Ultimately, of course, the expanded and more

relevant educational system should bring rich rewards in better health. Our analyses all show the strongest explanatory factor for child health is the mother's education.

119. As noted, the key to better health provision will ultimately be better management. The program of hospital autonomy will be expanded and deepened; hospitals need the authority to ensure staff and medicines are readily available and well-used. Moreover, the strategy will encourage the provision of both private and community involvement in health services. The objective, a pluralist system far more responsive to the poor, will also allow the government to focus its actions on the areas where public health service has been scarce or nonexistent. These changes will require the ministry's regulatory and normative roles be strengthened by law, and one is now being drafted. The government will also define the minimum health services to be guaranteed by the state. This will have an obvious impact on the poor since it is they who will require the guarantees be honored.

120. **Nutrition.** Nicaragua's high levels of child malnutrition continue despite major investments in nutrition programs. The problem has been that previous efforts focused on food distribution, not on the causes of malnutrition. Some of the determinants of malnutrition include low income, high incidence of diarrhea, low education of the mother, lack of safe water, overcrowded housing, and the spacing of births. The new strategy, focused on the chronic malnutrition problems of children under two years of age, will be immediately directed at the household level and communities. Over the medium term, the focus will be on improving inter-institutional coordination to address the problem in a more sustained manner.

121. The previously mentioned educational campaigns will be complemented by some direct interventions focused on preventing chronic malnutrition and monitoring the development of young children as well as pregnant and breastfeeding mothers. The programs for expectant mothers would include monitoring their weight gain, iron supplements, and providing other prenatal support as well as during breastfeeding. The elementary school and literacy programs curricula will be revised to include instruction in preventive measures and overall hygienic practices. The addition of vitamin A to sugar, iron to wheat flour, and iodine to salt are underway, but minimum standards need to be established, particularly for areas where malnutrition is prevalent.

122. In the medium term, the government will improve the inter-institutional coordination of the many actions that have an impact on nutritional levels. The focus will be to use an array of methods to promote better preventive health practices while improving the coverage and quality of health services and safe water.

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

124. 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.

125. High rural population growth rates mean the increased youths may not be absorbed in rural labor markets, even in the most favorable scenario of current agricultural policy. Rural-urban migration and migration to foreign countries reduce underemployment, particularly among the poor, and remittances from relatives abroad contribute to family income but are rarely sufficient to exceed the poverty threshold. At the same time, the further progression of the agricultural frontier and the occupation of marginal areas will lower average productivity and cause ecological deterioration.

126. As noted earlier, reproductive healthcare services will therefore be integrated into primary health services. The integrated approach has dual objectives of improving family planning while reducing mortality rates, and strengthening the basic social fabric. Key to the first is better basic health services, including family planning, for women and adolescents, the increased coverage of basic and emergency obstetric services, nutritional improvements, and expanded access to safe water and basic sanitation. The second objective would be to change behavior patterns within families and among vulnerable groups. The goal would be to reduce the violence and family disintegration that go typically hand-in-hand with economic crisis. A formal and non-formal education program will be undertaken, the latter with the participation of NGOs, community leaders and municipalities, to encourage self esteem, responsible paternity and maternity, and unity of families. Activities to prevent or penalize family violence and assist victims will also be developed.

E. Third Pillar: Better Protection for Vulnerable Groups

127. Poverty limits the capacity of the poor to weather crises. And disasters often perpetuate poverty through reducing the poor's welfare, particularly their food intake, while increasing school drop-outs. They often require the sale of the few assets the poor have. This vulnerability requires the establishment of safety nets to provide a minimum level of protection, particularly for the extremely poor who have no incremental resources to call on. Special protection must also be afforded for youngsters (especially children under five years of age) and other particularly vulnerable groups, such as the aged and the disabled. The government has put women in the center stage of these efforts because they usually underwrite the welfare of the household.

128. To reduce the vulnerability of the poor, the SPRS is moving on three fronts. First, the government is strengthening public institutions responsible for social safety nets, such as the Ministry of the Family (MIFAMILIA), 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, needs strengthening. The different types of assistance delivered by the government and others to these groups --e.g., consumption and production transfers, seasonal employment, or prevention mechanisms (community-based

insurance schemes, disaster mitigation) is being evaluated; pilot assessments are underway in selected neighborhoods.

129. This will lead to the second front. Based on this improved information, the government will be improving the focus and scope of its various assistance programs. At present there is a wide variety of programs (economic, social infrastructure, protection of human capital) directed to vulnerable groups; there is considerable scope for better integration of the many different programs to avoid duplication and increase their efficiency. Some new programs (called social safety nets) will reinforce these existing programs --while avoiding duplication-- by providing incentives to the extremely poor who use these programs. 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.

130. Third will be strengthening of the institutional capacity of local governments and communities to reduce vulnerability and strengthen social bonds at local levels. Traditionally, Nicaraguan safety nets have been rooted in informal familial, religious, and community institutions. The government will try to strengthen and support these local, community-based institutions to enhance the sustainability and effectiveness of social protection, particularly in the near future.

F. Fourth Pillar: Good Governance and Institutional Development

131. Good governance is essential for both economic growth and poverty eradication. Transparent, clear rules combined with an independent, able judiciary provide a strong 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 turn to democracy; it now has a democratic system of participatory, accountable government, with strict observance of 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 were resolved, decentralization of the state administration has begun, and freedom of expression prevails. Nevertheless, the nation's governmental structures and processes, judicial independence and the rule of law all need strengthening.

132. 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.

133. Consolidating Nicaragua's democracy will require continued efforts to develop independent, efficient and effective democratic institutions. The National Assembly, the judiciary, Comptroller's General 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 modern, responsive civil service.

134. 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 expanding access of the poor to the legal system. Judges need more training, more equipment, streamlined procedures, and the time to develop a culture of judicial integrity and prestige.

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

136. The government efforts to fight corruption and strengthen ethical values is embodied in a plan developed by the National Integrity Committee (CNI) in 1999, as a joint effort of civil society and the state. This provides the basis for a comprehensive legal framework on integrity - the revision of existing and drafting of new legislation, as well as the strengthening of the National Assembly, the judiciary and the Comptroller's General 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.

137. 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

138. **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 phenomena 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.

139. 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. Actions to reduce ecological vulnerability, however, will be adopted and undertaken without delay. These actions entail the establishment of better policies, institutional changes and specific projects and programs to protect natural resources and the environment.

140. The keys to reduce ecological vulnerability will be integrated in the Nicaragua Environmental Plan 2000-2005, now being developed by the Ministry of the Environment and

Natural Resources (MARENA). After approval, it will become Nicaragua's environmental policy. The Plan, in addition to the evaluation and updating of environmental policies, will also coordinate the efforts of government institutions and civil society towards the rehabilitation of river basins and contaminated areas, reforestation, and to establish special practices for the handling of sloping terrain and the agricultural frontier. A national environmental information system will be developed. Legislation to improve the use of waste resources, modernize the mining, forest, and fishing framework, 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.

141. Better reservoir and water management will be needed for sustainable development. 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 responsive practices.

142. In spite of these efforts, future, major national disasters are likely. The government will prepare a geographic information system to map natural threats, and develop early alert systems, geological and warning maps, and improve its monitoring of volcanoes and areas in danger of landslides. These activities, combined with education and better spatial planning, will likely reduce the land-extensive activities in fragile rural areas that have increased the nation's environmental risks.

143. **Social equity.** Virtually all of the SPRS will encourage increased social equity. Better education, health, and nutrition for the poor, as well as a stronger control over their reproductive health will all go far to reduce the large gaps in welfare. Programs to reduce the especially vulnerable will provide some elements of social justice so necessary to their fully joining Nicaraguan society. On the margin, expanded water and sewerage coverage will ensure the poor join the many other citizens that enjoy these key services. Nevertheless, the wide consultations undertaken as the SPRS was developed, revealed important groups of citizens that might not benefit from these targeted efforts without special programs --some indigenous inhabitants, orphans, the handicapped, and abused women.

144. Part of the specific social equity strategy will be to review legislation --laws 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.

145. **Decentralization.** Decentralization is an integral part of Nicaragua's modernization and reform process. Local governments have proven far more responsive to the poor and their needs

as the success of funds that have supported local decision-making (e.g., FISE) prove. Municipal governments will therefore ultimately play an active role by opening spaces at the local level for participation and inclusion, particularly of the poor, inducing important behavioral changes, and shared responsibilities. This implies a process of continued strengthening of local governments.

146. 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 capacity, and better monitoring and evaluation of performance. SNIP will be assisting many municipalities as they improve their project preparation and planning capacity. The new environmental responsibility as well as that for planning and preparing municipal investments will require staff capacities, fiscal support systems, and local tax collection and fiscal procedures be significantly strengthened.

147. The decentralization efforts with likely 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. MEDIUM TERM POVERTY REDUCTION PROGRAM

A. General Aspects.

148. The prior chapter outlined Nicaragua's strategy. This chapter reviews the macroeconomic program, the structural, and institutional and other major reforms linked to these goals, as well as some projects and programs that the government, with the assistance of multilateral and bilateral donors, will be undertaking over the next three years. These latter will be reviewed and revised annually as project/program progress, as well as progress in meeting poverty goals, is evaluated. Finally, the HIPC debt relief is estimated and the additional or accelerated poverty-related programs that could thus be financed are presented.

B. Macroeconomic Framework

149. The government's first pillar, a broad-based, real GDP growth of about 5.5 percent yearly (2.9 percent in per capita terms) is not only key to its poverty goals, it is realistically attainable over the next decade. Moreover, it is consistent with a slow reduction in inflation from 8 percent this year to 3 percent in 2003, and a more sustainable balance of payments current account (see annex table 2). Important to this expansion will be a conducive framework, particularly fiscal and monetary management and policies consistent with declines in inflation. It will also aim at a steady reduction in the use of foreign savings by the public sector. The proposed framework was discussed with the staff of the IMF. Further discussions will take place on a regular basis to continue refining the framework.

150. Prudent public sector management will result in a reduction of the central government deficit after grants, from 6.4 percent of GDP in 2000 to 3.1 percent in 2003⁶ (see Table 5). The

⁶ Given the ongoing reduction of the public sector (e.g., sale of electricity and telephone company, leasing of water and port activities, reform of social security), the most helpful future monitor of fiscal management is central government operations.

reduction in the deficit will stem in part from a relative drop in capital outlays as a result of privatization and declining reconstruction needs.

Table 5. Central Government Operations

	2000	2001	2002	2003
	(percent of GDP)			
Current revenues	25.1	24.6	24.6	24.6
Current non-interest expenditures	17.0	17.1	17.3	17.3
Capital expenditures	14.8	16.6	14.3	15.8
Deficit, after grants	6.4	8.2	2.9	3.1

Source: Central Bank of Nicaragua and Ministry of Finance

151. In 1999, foreign savings amounted to almost US\$170 per capita, the great majority of it in the form of foreign grants and soft loans. During the next three years, exports (f.o.b.) are expected to grow at annual rates of more than 9 percent, driven by expanded private activity, open trade policies, and recovery from recent adverse trends in terms of trade. Imports (f.o.b.), which reached record levels in 1999 with “Mitch” recovery assistance, are projected to rise at a rate 4 percent less. That, combined with debt relief and privatization receipts could reduce the need for foreign savings to a more sustainable level. The external current account deficit could be reduced from 38.3 percent of GDP in 2000 to less than 30 percent in 2003. And far more of the deficit would be financed by private investment and portfolio flows. Finally, the government intends to allocate a substantial part of its privatization receipts in 2001 to foreign reserves, raising them to well over the equivalent of three month’s imports. This prudent action would also serve as a major safety net for extraordinary shocks.

C. Structural and Other Major Reforms

152. Creating a climate conducive to this economic growth will depend on a series of structural reforms, most of them underway, to ensure the private sector expands as expected and the state is more focused on public social services. Other major actions, while not of a structural nature, will ensure that these services --and the growing regulatory and social protection responsibilities of the state-- are concentrated even more on the poor. Annex V details all the proposed actions incorporated in the SPRS, but a selective description follows.

- Last year the Assembly passed three key laws; modern banking and bank supervision laws, and a law to strengthen --and ensure the autonomy of-- the Central Bank. These transformed the legislative base of the nation’s financial system. The Superintendent of Banks and Financial Institutions, while still being strengthened, is preparing and issuing a series of norms based on the new legislation. The authorities are now drafting legislation to serve as the base of a new deposit insurance scheme, and fully expect this to be in operation within a year.
- Within a few months, 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 already being extended to further ministries. SIGFA, and the use of a “single fiscal account” has not only improved fiscal management, it has greatly enhanced the transparency and understanding of government operations.

- Governmental decentralization will require new legislation. Legislation to standardize and guarantee the fiscal accounting of municipalities and to establish a municipal civil service will be presented to the Assembly next year.

153. The creation of a capable and secure civil service and better fiscal management will be important, but so will the tools of rational control they will provide. The national system of public investments (SNIP), for example, has given the economic policy makers a greater capacity to ensure well-designed capital programs and projects are 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 will be soon strengthened and expanded by decree.

154. Targeting the agencies of government on social programs 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:

- The sale of the partitioned electricity firm as well as the telephone company continues apace; controlling shares in both will be sold this year. The remainder should be completely sold next year.
- After a tariff revision, major urban water systems will also begin to be offered for concession this year; in addition concessions will be offered to lease and manage major ports starting this year.
- The remaining government shares in BANIC, a large commercial bank, will be sold this year. Subsequently, 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 5,000 annual construction subsidies for the poor (not including the houses to be built for those left destitute by hurricane Mitch). Both actions, however, will reduce even further direct governmental responsibilities.
- 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 is also likely to soon pass legislation that will create a supervisory authority for these new pension funds and their administrators. 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; lengthening the terms of financial instruments, increasing national savings, and deepening equity markets.

155. These actions will require major strengthening of regulatory agencies. And these agencies can also be useful in directing private efforts towards the poor. For example, a draft law submitted to the Assembly would permit the Superintendent of Banks to change prudential norms to permit banks to lend to farmers using non-real estate collateral. This would permit private banks to increase their lending to the many small farmers with uncertain land titles. Banking legislation to expand the Superintendent's umbrella over new banks, to be created from rural credit cooperatives and financial NGOs, would also expand access to rural credit.

Programs are now under consideration to expand rural electrification, telephony and water/sewerage in areas unattractive for private investors.

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

- School decentralization will continue; by the end of next year, all schools will be autonomous. A new law to encourage parental participation in education is under consideration by the Assembly.
- Key changes in educational quality and relevance are also proposed. Secondary education will be reformed, and vocational and tertiary education will be transformed to respond to the nation's needs for trained human resources. Primary education standards will be validated and disseminated.
- A program to grant more autonomy to hospitals and clinics will also continue apace. Legislation will be drawn up and 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; increasingly leaving health service provision for more fortunate Nicaraguans to the private sector.
- Primary teachers will receive incentive pay supplements linked to their performance; by 2002, 18,000 such teachers should be within this new system. By then a program to construct rural teachers' housing should be well underway. Equally, 330,000 rural primary students will receive free scholastic material this year; the government's goal is to expand their access to books by 2 percent a year.

157. Better targeting will come from a more intense use of the poverty map. These changes, important as they are, will not be the sole instruments to reduce Nicaragua's poverty, and they will do little alone to ensure the government's poverty goals are met. More important, perhaps, will be the 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.

D. Better Governance and Institutional Building

158. 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 contracts and purchases will be implemented. A major effort is now underway to develop a standardized, modern public purchasing system consistent with the law, to train and equip purchasing agents throughout the public sector, and to develop an inspection system to monitor purchases. The Assembly will soon be considering legislation to reform the Comptroller's General powers and responsibilities.
- The Assembly will also soon consider a draft law to provide access to virtually all public documents. To ensure published fiscal data are more comprehensible, all ministries will be

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, inclusive format within two years. Finally, to improve accountability, a new law on 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. A new penal code was recently passed by the Assembly. Two further draft laws, on penal procedures and organic legislation to establish the powers and responsibilities of public prosecutors, will be sent this year to the Assembly. These will be followed by a series of programs to train, equip, and strengthen the judicial system.
- The Environmental Policy and Action Plan (PANic) for 2000-2005 will be the basis for a National Sustainable Environmental Development Strategy to be finalized next year. This latter, in turn, 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.
- Modern legislation will also be required by virtually all productive sectors of the economy. New mining, fishing, forestry, and water legislation has been drawn up will be considered by the Assembly soon. A law to protect the nation's biodiversity is being drafted. And a new system of arbitration tribunals to settle land disputes has already been put in place and should be fully operative before year end. This would complement an accelerated land registration/cadastre modernization program.

159. But legislation or plans are only the beginning. In many cases those ministries and agencies that administer them must be institutionally strengthened and their staff better-trained. Three examples --in forestry, the judiciary, and social protection-- underline the challenge. In forestry, the Agriculture and Forestry Ministry (MAGFOR) will 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 do all these operations well will require years of training, external support, and adjustments.

160. New legal and institutional frameworks will do little alone to develop stronger social protection systems; institution-building --and projects directed to this end-- will remain a near-term governmental priority for this pillar. As this governmental capacity is strengthened, the most vulnerable will have a complement to the efforts of civil society, particularly NGOs, in the provision of effective social safety nets.

E. Programs by Strategic Components and Sectors

161. 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 goals. Since the government program 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 expand its recurrent outlays on a wide area of

activities if it is to meet its poverty goals. 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.

162. The project and program portfolio presented to the Consultative Group in May 2000 has been revised as a part of the poverty reduction strategy exercise. It is now about US\$1.1 billion in outlays for the years 2001–2003, or US\$380 million yearly (see Table 6 and Annex Table 3). About half the portfolio has assured financing--both domestic and foreign-- and much of the remainder is being discussed with possible donors. The portfolio has been grouped in the table below into the four pillars of the SPRS and cross-cutting themes. A recent report by the government to the nation included a brief profile of 47 projects or programs contained in the portfolio.⁷ What follows is an example of some of these projects.

Table 6. SPRS Public Investment Program, 2001-2003

	3-year total	2001	2002	2003
	(percent)		(US\$ million)	
Total	100.0	360.7	378.1	397.9
Economic growth	39.1	139.0	146.0	159.6
Human capital investment	31.3	119.8	117.1	118.7
Education	22.3	84.7	82.2	86.8
Health	8.1	32.3	32.2	28.0
Population and nutrition	0.8	2.7	2.7	3.9
Social protection	15.0	50.6	57.7	61.7
Governance	0.2	2.1	0.5	0.2
Cross-cutting themes	14.4	49.2	56.8	57.7
Environment	8.6	22.6	39.4	35.9
Decentralization	5.8	26.6	17.4	21.7

Source: SNIP; Annex VI

163. Nicaragua's recent rapid agricultural expansion will be difficult to sustain. 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 curriculum, more secure land titling, and better health will have major impacts on agricultural productivity. But the government also plans, on some more direct programs. A project costing US\$37.6 million --which is the first phase of a US\$150 million, 15-year program-- would begin 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,

⁷ "Estrategia Reforzada de Reducción de la Pobreza", May 18, 2000, Anexo V.

agricultural technology knowledge and innovation system. This program is being financed by the World Bank, COSUDE and IFAD.

164. This would be complemented by a US\$64.5 million project creating a demand-driven fund for small farmers run by the Rural Development Institute (IDR), an institution focusing on poorer, rural areas. The fund would assist in supporting productive investments selected at the local level. It will enhance the competitiveness of small and medium-size farms producing staples 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 the quality of production processes and 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 was wage employment; this income doubled between 1993-1998 while agricultural self-employment declined by a third. A US\$53.3 million project for livestock development and a US\$46.3 million more traditional agricultural extension/rural development project would focus on the development of commercial agriculture for small and medium size producers.

165. 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 formulation with the support of the World Bank with an estimated cost of around US\$40 million.

166. 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 project (US\$ 30 million) would expand the coverage and quality of the rural health system --providing everything from staff training to medicine; from vehicles and communication equipment to rehabilitation of building. The target would be poor, rural areas, and the focus would be to improve maternal/infant and adolescent care provided by primary and a few secondary health posts. Another US\$ 32 million project would expand the number of rural, primary health posts as well as provide equipment for them. A smaller project (US\$ 3.3 million) would immunize almost 1.7 million females from smallpox; the major facilitator for this and the prior project would be the expanding rural health posts. Two programs, one for US\$24 million, another costing US\$9 million, would use these primary health centers, as well as other information vehicles, to disseminate information and assistance on family planning and better health and sanitation practices to avoid contagious diseases. A US\$37 million project would bring potable water and better sewerage practices to 500,000 residents (water only) in rural areas; another US\$20 million project would finance improved waste disposal and sewerage service in about 25 poor municipalities.

167. Some of the most important programs will be in education; our effort to improve the productivity, the health, the nutrition, and the social defenses of the poor depends 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 projects. One, for almost US\$130 million, would greatly expand the number of new and rehabilitated schools, as well as their equipment. A second, US\$19 million program would equip the schools better, particularly with the tools needed to train secondary students in the natural and physical sciences now so much in demand. Improved educational quality will be enhanced by a US\$90 million project 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. This project would partly incorporate the many intersectoral links that will make rural students more prepared for future work, health, and environmental challenges. Another, US\$11 million project would focus on adolescents, greatly expanding practical technical training in the country. Finally, a US\$8 million project would assist the modernization of the sector, emphasizing strongly capacity building in the municipalities, as well as a better coordination between education and other central ministries.

168. 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 Social Supplementary 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 presently 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 million innovative program will address the high opportunity and transport costs the poor face, as well as attempt to change family behavior. Rural poor children in particular, would receive specific scholarships to attend primary school, and the transport and other costs required by the poor to take children and adolescents for health care, would be reimbursed through the program. Another US\$15 million program now underway, helps create and strengthen community parent organizations. Using these organizations it is expanding family awareness of preschool children's needs --e.g. better early childhood development through intellectual stimulation and nutritional requirements, providing key nutritional supplements to participating families. Three smaller programs (US\$5–6 million a piece) would enhance the earning capacity of women affected by natural events, spouse abuse, and mental disorders; train the handicapped for productive employment; and generate new economic activities in municipalities affected by "Mitch" and other recent natural disasters.

169. In the area of governance the program to enhance the efficiency and transparency of public purchases and contracts will put in force the new Law for Public Purchases and Contracts. It will improve all processes involving state purchases of goods and services as well as the contracting of private sector services or construction of public and social infrastructure. The program would include training for purchasing agents, development of set procedures for procurement, including purchases and leasing of assets and property, and inspection systems. This program counts with financing from the IDB and other donors amounting a total of US\$33.5 million.

170. In the cross-cutting issue of decentralization, the second rural municipal development project objective is 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 project is also consistent with the regional environmental strategy. This project is to be financed by World Bank with an estimated cost of US\$12 million over the next three years.

171. 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\$100 million. Finally, the national risk reduction program was authorized by the National Assembly in March 2000, under Law 337, with the multiple objectives of setting up mechanisms for preventive actions to avoid disasters, coordinating strategic responses when they occur, and improving preparedness at the local government and community levels. An important objective of this program is to improve the capacity of all levels of government to deal with disasters promptly and effectively. The development of early warning systems is also an important component of the program.

F. Financing the SPRS

172. The government's poverty strategy, of course, is far more than a series of project outlays; it includes a better focus of *all* government outlays on the poor. To better guide fiscal decisions, government outlays have been divided into those directed towards the poor, and those not. A three-year fiscal program, consistent with a major reduction in the fiscal deficit was prepared. Poverty-related government outlays will rise from 53 percent of the total (excluding interest) this year to almost 64 percent by 2003; from below 17 percent of GDP to more than 21 percent. Understandably, government current outlays must rise; from 17.0 percent of GDP this year to 17.3 percent in 2003 (see Table 7). Nevertheless, poverty-related capital outlays will rise from 65 percent of capital expenditures to more than 80 percent as infrastructure reconstruction requirements are replaced by poverty-related investments. By 2003, more than one fifth of Nicaragua's GDP will be spent on poverty-focused programs, about US\$115 per capita.

Table 7. Central Government Outlays and Poverty-Related Outlays

	2000	2001	2002	2003
	(Percent of GDP)			
Total non-interest outlays	31.8	33.7	31.6	33.1
Current	17.0	17.1	17.3	17.3
Capital	14.8	16.6	14.3	15.8
Poverty-related outlays	16.9	21.0	21.5	21.1
Current	7.4	7.3	8.0	8.0
Capital	9.6	13.7	13.5	13.1

Source: Central Bank of Nicaragua and Ministry of Finance

173. Much of this effort, however, would not be possible were it not for the expected HIPC debt relief. Nicaragua has had its debt rescheduled and reduced in the past; the most recent

rescheduling followed hurricane Mitch. Hence the HIPC relief would take full effect only in 2002. Nevertheless, it will be crucial to the success of the SPRS and the 2005 targets established by consensus.

174. The table below shows the expected distribution of the debt relief over 2001–2003 and the key programs the authorities would be able to initiate or expand with its financing. To ensure a careful monitoring and auditing of the HIPC-related outlays, the authorities will be transforming the Supplementary Social Fund (FSS) into a HIPC-financed fund, designed to administer the listed programs. As noted, the fund was originally designed as a “bridge” until the HIPC relief was received, and it already incorporates sophisticated monitoring and evaluation systems.

Table 8. Allocation of HIPC Funds

	2001	2002	2003
	(In percent of total HIPC debt service relief)		
Total HIPC debt service relief	100	100	100
1. Education programs of FSS	20	5	5
2. Health programs of FSS	20	5	5
3. Social safety net program	5	14	15
4. Increased coverage of social services in key municipalities	45	58	51
5. Development of Atlantic Coast	2	5	10
6. Implementation of SPRS	2	2	2
7. Social Investment Fund (FISE III)	1	1	1
8. Urban poverty reduction	5	10	10

175. Eight “**second-generation**” programs would be financed within the newly-revised FSS framework. Most of them have been developed based on prior experience and interaction with donors with their broader experience. Most are demand-driven, and all have more rigorous monitoring and evaluation systems.

176. The first program is one to extend and strengthen school autonomy while improving teacher retention and attendance in rural areas -- a key program of ongoing FSS that supports a 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. A third program, the social safety net, will be expanded from 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) as well as providing budget support for schools and health posts in specific targeted areas.

177. 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 incremental HIPC funds.

178. 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 better, and strengthen the regional offices of the education and health ministries. Implementation of the total SPRS will be costly; monitoring and evaluation systems must be developed and applied, greater rural participation in the program encouraged, and SNIP's capacity --as well as that of some monitoring units in line ministries and NGOs--strengthened. But most of the funds for SPRS 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. Finally, a new program, targeted to poor urban areas, will begin. It will finance day-care centers, special attention for children and adolescents at risk, informal vocational training, and some 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.

VII. MONITORING AND EVALUATION OF IMPACT

179. The establishment of a participatory monitoring and evaluation system is an important component of the SPRS. The sections that follow elaborate upon key points of this system.

A. What to Monitor and Evaluate

180. The government will evaluate the evolution of poverty and assess the SPRS performance in reducing poverty, based on the targets and intermediate indicators noted in Chapter IV. Selected SPRS programs and projects --particularly those in the HIPC-related Supplementary Social Fund-- as well as those specifically chosen by their potential impact on poverty indicators will also be monitored and evaluated. 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 PRGF.

B. Setting up the SPRS Monitoring and Evaluation System

181. Institutional coordination is essential to guarantee the transparent and efficient monitoring and evaluation of the SPRS. The Technical Secretariat of the Presidency (SETEC), BCN, MHCP and MINREX, will lead the inter-institutional coordination effort. This effort will also require the strong support of civil society representatives and the donor community to build up capacities for a participatory and effective system of monitoring and evaluation.

182. The monitoring and evaluation system will build upon the existing government structures and upon the available instruments to measure poverty and SPRS programs. BCN will track key macroeconomic variables, the MHCP will plan and monitor the government's budget, and SETEC will monitor the physical and financial performance of public investment through the SNIP including programs financed through the supplementary social fund (SIG-FSS). The National Institute of Statistics and Census (INEC) will collect and process socio-economic

statistics, including household surveys that measure the living standards of the population (e.g., Living Standards Measurement Survey and Demographic and Health Survey, and other more specific surveys).

183. 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 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, which is already operating to monitor both physical and financial aspects as well as the results of projects financed through the FSS. This, in turn, will provide the basis to build an information system to monitor the implementation of the SPRS, including the use of funds freed by the HIPC Initiative.

184. 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 SPRS implementation to make them more accountable and efficient.

185. Besides government institutions, CONPES will play a decisive role as coordinator of civil society's participation in the monitoring and evaluation processes and in its use of relevant information. The follow-up of the agreements made at Stockholm has encouraged the international community to participate in the formulation, monitoring and evaluation of the SPRS. Annual progress reports, of course, will be widely shared with all parties.

186. The assistance of the donor community in building up human and technical capacities will be fundamental, as will be its support in improving the identification and coordination of data and reporting needs. Some donors are already providing technical and financial assistance to set up monitoring and evaluation systems for the SPRS. These include MECOVI, a program to improve living conditions surveys, PRANAFP which provides technical support to CONPES, and a project to support the SPRS implementation program currently being formulated with IDB assistance.

C. Evaluation of Poverty Evolution and Overall SPRS Impact

187. A central theme in the strategy involves monitoring the evolution of poverty and evaluating the overall SPRS impact. This will be essential to reorient program efforts and readjust priorities.

188. The country already has a statistical base, which will serve as starting point for the monitoring and evaluation of SPRS programs. After 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, and the two demography and health surveys conducted in 1993 and 1998. A qualitative study on poverty was carried out for the first time in

late 1999, which provides information on people's perception of their poverty status and barriers to slip out of poverty.

189. 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 SPRS formulation process.

190. 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 will serve as basis for developing the SPRS statistical system. The government will be working to set up an annual system of multi-purpose household surveys aimed at measuring a set of key variables regarding income, employment and other determinants of poverty levels. Some methodologies have already been used in the country for this purpose. One example is the methodology developed by the Social Protection Safety Net Program to predict poverty at the household level through a very limited set of 60 variables, most of them selected from the LSMS database.

191. At the same time full reviews of the SPRS 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. These surveys will be carried out every 4 or 5 years to obtain an in-depth picture of the evolution of poverty and its determinants at both national and local levels. Quantitative surveys also will be complemented with qualitative methods of measurement.

D. Monitoring and Evaluation of Key SPRS Programs

192. One basic component of the SPRS involves monitoring and evaluation at the program and project level. The government will concentrate its efforts on establishing an efficient system for monitoring programs, and to carry out qualitative studies to determine program beneficiaries' satisfaction. Evaluations of results of selected programs will take place periodically. Together with the evaluation of the physical and financial aspects, these will be key to rank programs and establish priorities. The monitoring and evaluation of the HIPC-related Supplementary Social Fund will be done annually, with an audit of the resources generated by debt relief and how they were applied, including annual evaluations of the Supplementary Social Fund and of its various components' effectiveness.

193. This will require both revisions and improvements to the present system. The government's present monitoring and evaluation systems 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.

194. Some institutions, however, 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 will be 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 SPRS programs. In addition, there are some innovative experiences of monitoring and evaluating social programs. Some of the most notable examples are those implemented by FISE and the Supplementary Social Fund. 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.

195. During the next five years Nicaragua will concentrate its efforts on monitoring and evaluating programs closely tied to its nine specific national targets and intermediate targets, the keys to eradicate poverty, in addition to the effort on the HIPC-related Supplementary Social Fund. The next few months will be used to systematically link program results indicators with specific physical and financial performance indicators. The follow-up of these indicators will be the basis for the preparation of the SPRS annual progress reports.

196. Another important component of the SPRS is the 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.

E. Schedule of Activities and Institutional Responsibilities

197. At present SETEC is coordinating the review of programs already underway. This process will be completed in 2001 and will include qualitative surveys aimed at measuring program beneficiaries' satisfaction. Additionally, SETEC is planning to set up a second round of evaluations to take place and be completed prior to the SPRS overall evaluation. This new round would include evaluations of program results and impact conducted, preferably, by independent national experts. This effort will require the financial support of the donor community.

198. The SPRS will be integrally revised before 2005 by the government, CONPES, and international donors. This review will include an evaluation of the SPRS' overall impact on poverty, mostly linked to the ten targets and based on the most exhaustive and specialized surveys (i.e., LSMS 2004, DHS 2003), and a performance evaluation of selected programs. Civil society participation in this process will be guaranteed through CONPES participation.

199. The continuing monitoring and evaluation of SPRS programs will also be a coordinated effort by several governmental institutions. SETEC will lead this process and will be responsible for consolidating the information produced by various sources, coordinating evaluations of SPRS programs and reporting SPRS performance in regard to specific targets.

VIII. NEXT STEPS

200. As explained, this paper was developed through a process of broad consultation. The outline, first drafts, and key chapters were discussed not only within CONPES but with some affected groups and interested donors. Nevertheless, its circulation to the international community will likely generate stronger interest in the SPRS, so press conferences and other media instruments will be used to ensure an even wider understanding of its contents. The consultation process will then be geographically broadened, with SPRS presentation and discussions held at the regional and municipal level, particularly in the poorer areas of the country. This should provide important feedback as well; on the poor's specific concerns and priorities, and their suggestions and insights. This new element of the consultative process will be vital if the proposed decentralization --and the expected greater responsiveness to the poor-- is to succeed.

201. Second will be the refining of the macroeconomic framework, and the development of closer links among macroeconomic, budgetary, and program/project management. Using the new fiscal information systems, the totality of public expenditures will be more closely analyzed, along with the efficiency and effectiveness of broad expenditure programs. A link will then be made to the specific goals of the SPRS and its various program/project components. Finally, a revised, detailed projection of both will be made over the next few years. The goal will be a quantum improvement in the efficiency of the state. The World Bank will be assisting in this task, which should begin in November.

202. This top-down analysis will be complemented by efforts to implement and refine the nation's bottom-up evaluation; the monitoring and evaluation of the SPRS and its many programs and projects. A few intermediate indicators, used to denote progress in meeting SPRS targets, will be refined. The FSS-SIG model will be expanded to ensure more rapid and accurate cost data is generated. Training and institution-building, linked to the implementation of the new system, will be expanded, particularly in the evaluation units of the line ministries executing the SPRS. Finally, the greater synergy stemming from improved governmental coordination will be tapped. Intersectoral communication systems, linked to the new monitoring and evaluation process, will be strengthened. The IDB has offered to join this monitoring and evaluation effort with technical and financial support.

203. All of these efforts will require better and more accurate data, particularly if the SPRS is to be implemented and evaluated in a participatory manner. The ongoing efforts to improve the transparency of --and access to-- fiscal data have been mentioned earlier. These will be complemented by a standardization of relevant government surveys and development of a social statistics data base. SPRS publications will be used to disseminate this data both more accurately and widely.

204. These efforts should lead to a better coordination among the donor community as well. The plethora of small projects with very specific goals will be slowly replaced by fewer, broader programs that can better integrate the multitude of actions required if poverty is to be reduced. The analysis leading to this shift already has started and will be concluded next year, based on the top-down and bottom-up reviews. The results will be reflected in the 2002 budget.

205. One step will be to transform the FSS into a HIPC-related fund. The FSS' management information system is among the best in the public sector and was developed to monitor the array of programs and projects it finances. And because the FSS was designed to finance projects proposed and executed by line ministries, its evaluation of these programs and projects has been objective. The limited HIPC resources in 2001, however, will mean that the full transformation will occur only toward the end of that year.

206. The progress of the SPRS will be evaluated annually, jointly with the multilateral financial institutions as well as key donors. The annual evaluation report will be discussed with CONPES and then forwarded to the international community. Besides reviewing program and project progress --of the whole SPRS as well as the FSS-financed programs-- the annual process will include an evaluation of target achievement, using intermediate indicators, but where available (e.g., school coverage, mortality data) based on the targets themselves. An audit of the HIPC-supported FSS outlays would also be included. Annex Table 5 provides a more detailed account of the work plan concerning the SPRS in the next year.