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Country program for
Swedish support 2003–2005

Nicaragua



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Country program for Swedish support to Nicaragua 2003–2005

The Swedish regional strategy for development cooperation with Central America for the period 2001–2005 is the basis for this country program. Given the overall objective for the Swedish development cooperation – poverty reduction – the Strategy for Central America identifies economic and social equality, and democratic development as being of special relevance to the region. The Stockholm principles are integrated in the strategy.

A preliminary country program was produced in 2001, with the objective of writing a final country program after the change of government in Nicaragua in 2002. The program has been developed in consultation with the government, representatives for Swedish NGOs in Nicaragua, as well as with other donors (förstår inte vad dom menar med donors) in Nicaragua.

The political setting

The current President of Nicaragua, Enrique Bolaños, went to the polls in November of 2001 with promises of a higher employment rate and the improvement of central governance institutions. A so called pact in 1999, between the former president Arnoldo Alemán and the leader of the Sandinista party Daniel Ortega, included a politicisation of institutions such as the Supreme Court, the Election Council and the Audit Board.

A growing conflict during 2002 between the President and the former President Alemán, who controls the Liberal Party and most of its parliamentarians, lead to a situation that impeded growth and development in many areas. The downfall of Alemán as president of the parliament, amid accusations of corruption, normalised the situation somewhat at the end of the year, but the political and governance situation continues to be fragile.

The agreement reached with the International Monetary Fund (IMF) in November 2002 has provided the necessary foundation for macro-economic stability and a starting-point for renewed economic growth – although the short-term growth prospects are uncertain. How much the poor will benefit is uncertain, but the risks for the poor in the case of macroeconomic deterioration without an IMF agreement are probably greater. The agreement also paves the way for the reduction of Nicara-

gua's external debt through the HIPC initiative. The high internal debt and problems in getting tax measures approved by the parliament complicates the situation. The government must cut down the very high budget deficit and at the same time increase its outlays for implementation of the Poverty Strategy. Without increased support in parliament and generous donor budget support, the equation will not square.

The main trust of the new government's economic policy has been to increase growth in general by creating better conditions for growth – fighting corruption, seeking agreement with IMF and HIPC, increasing competitiveness and trying to reform the judicial system.

The main achievement of the new government has been its fight against corruption, which was widespread under the former government. Alemán is accused of being one of the main actors in several cases of large-scale corruption. The government's general attitude of honesty and transparency increases the relevance of donor support to government institutions, which during the former government was made more difficult.

Nicaragua is dependent on donor support, which during 2002 amounted to about 14 percent of GDP and 34 percent of Central Government Expenditure¹. In a situation with many donors, the need for aid coordination becomes imperative. The new government has shown its willingness to increase donor coordination, which can pave the way for more programme support instead of a multitude of separate projects.

Poverty in Nicaragua

In Sida's Poverty Strategy², poverty is analysed from three different angles: lack of resources, lack of power and lack of security. Reference is made to Annex 1, which contains selected indicators on poverty and economic and social development in Nicaragua and in some other countries with which Sweden cooperates in Latin America.

1. Lack of resources

The GDP per capita in Nicaragua fell drastically during the 1980s from a peak of 1069 USD/capita in 1977 to 419 USD in 1993³. Nicaragua became the poorest country in Latin America together with Haiti. According to a household survey made in 1993, 50 percent of Nicaraguans were income-poor, while 19 percent lived in extreme poverty.

Like in many other countries in Latin America the distribution of income and wealth is highly unequal in Nicaragua⁴. Economic research shows that such an unequal distribution is a clear impediment to economic growth. Inequality also means that general economic growth has a much lower poverty reducing impact than in less unequal countries. Two thirds of the poor live in the countryside where poverty levels are much higher than in urban areas. The poorest regions are the Atlantic Coast and the central and northern parts of the country.

¹ It should be observed that these amounts only reflect aid flows (grants and credits) which are registered in the National Accounts. Total aid, which i.a. includes aid through NGOs, may be 10–15% higher.

² "Perspectives on Poverty", Sida, December 2002

³ Ref. HDR 2000 table 8 (in 1995 US\$). According to the World Bank, Nicaragua's GDP level may be underestimated by about 70% due to statistical errors that occurred during the 1980s. A correction of the National Accounts is expected in 2003.

⁴ The degree of income inequality is measured by the so called Gini coefficient. According to the WDR 2003, Nicaragua's Gini is reported at 60,3%, which would make Nicaragua one of the most unequal countries in the world. However, recent living standards surveys show lower levels of inequality (income inequality at 56% and consumption inequality at 43% respectively according to the 2001 LSMS).

After the deep economic crisis in the 1980s, growth picked up during the latter half of the 1990s. During the period 1994–2001 an average GDP growth of 4,7 percent was achieved implying a per capita growth at approximately 2 percent. Income poverty measured according to Nicaragua's national poverty line fell from 50,3 to 45,8 percent. The incidence of extreme poverty fell from 19,4 to 15,1 percent, which is a positive development especially considering the high degree of inequality. However, due to the strong population growth, about 2,7 percent, the total number of poor people continued to increase (while the number of people living in extreme poverty decreased).

The poor in Nicaragua lack access to educational and health resources. For example, only 79 percent start primary school and 55 percent finish fifth grade. Infant mortality is 40 per 1000 live births and child malnutrition is widespread (20% of children under 5). During the 1990s, several education and health indicators improved. As shown in Annex 1, in spite of Nicaragua's lower per capital income level, the levels of its social indicators are roughly comparable to other countries in the region. Still, especially educational statistics show a very difficult situation and the public expenditure for health and education is low in comparison with Latin American per-capita averages.

Due to changes in the international environment, for example falling coffee prices, and mismanagement of the economy, economic growth has fallen to near zero in 2002 and will take some time to recuperate. The fall in the coffee prices has destroyed one of the most important mechanisms for pro-poor growth in the countryside. Most investments are now made in the capital Managua, with relatively low impact on the overall poverty in the country. The most important problem mentioned in opinion polls is lack of gainful employment. After a bank crisis and lavish government spending during the last regime, the internal official debt and interest payments have grown so much so that government has to cut down considerably on public investment, e.g. in rural infrastructure.

Nicaragua also has problems in being competitive. The country lacks a developed port. Transport between the Pacific and the Atlantic is difficult. The telecommunication system is underdeveloped. The political situation scares off investors. Energy prices are high. Corruption creates disincentives for rational behaviour in production and trade.

2. Lack of power

Having a low income normally also means having low power and less choice. In any dealings with the rich, the poor have less command over the situation. This relation is also evident in dealing with officialdom. Teachers in village schools listen more to the rich than to the poor. The government official gives better treatment to the less poor – often helped therein by corrupt behaviour on both sides.

The judicial system in Nicaragua is a case in point. It has developed in many respects since 1990. But it is still very corrupt and skewed in favour of the rich and the powerful. The poor cannot get what is due to them through the courts, and they are punished more severely than the rich are. The priority given by the new government to the judicial sector is warranted, and can also open avenues for more donor support.

The poor in Nicaragua can express themselves freely (even if few listen). And the press is free, which means that abuses towards the poor can be highlighted. Most of the time, however, the press coverage of the poor tends to see the poor as victims, without much emphasis on the mechanisms that are working to the detriment of the poor.

The poor can vote freely at election time, and thereby express their will, as happened in the national election in 2001 when an overwhelming majority of the poor decided to vote. This does not mean that the electoral system is free of flaws. On the contrary, it is exclusive and expensive. Reforms of the electoral system are also on the agenda of the present government.

There are relatively many NGOs in Nicaragua, about 1900 are registered by the Ministry of Interior. Many of them are directing their work towards improving the political, economical and social rights of the poor. There are sometimes question marks on the extent of the democratic culture within many NGOs, also meaning that the poor cannot always get their voice heard.

Popular participation is a catchword in many projects geared to reach the poor in Nicaragua. And the techniques to get the communities involved have improved over the years. Most of the general consultations by government with civil society do not involve directly the poor. The government system is still very centralised, although decentralisation is always discussed.

The hierarchical structures of political parties have a clearly negative impact on the voice of poor people. Party members are supposed to listen to the heads of the political parties, rather than that the grass-roots are putting demands to the party leadership.

The lack of gender equality in combination with machismo means less power to women in Nicaragua. Female headed households represent 39 percent of the total in urban areas and 19 percent in rural areas. Only half of the pregnancies are desired by the woman. Nicaragua is from a gender aspect a very traditional country, with lack of power and choice for women. The government has not given high priority to the gender and equality issue.

The majority of the population in Nicaragua are children. Their rights are often not respected or considered, and especially girls are exposed to sexual harassment and abuse.

Some groups have definitely less power and resources than others. For example, the ethnic groups living in the Caribbean coastal area are to some extent discriminated against by the dominant "Spanish" group from the West coast. Handicapped people are also very low on the scale in society.

3. Lack of security

Nicaragua is "the most explosive country in the world". Added to the risk for earthquakes and volcanic eruptions are the high incidence of tropical storms like the hurricane Mitch in 1998, as well as drought and forest fires. The poor do not have any choice and often live in badly built dwellings, and often in places where the risk for inundation and landslides are high. The effects of disasters are worsened by the lack of proper building norms and systems for planning and enforcement regarding housing construction in dangerous zones.

One reason for the vulnerability is that the poor deplete the natural resources to survive. With the availability for the poor of technical advice from the government, and with a clearer situation on the issue of ownership of land, the poor could invest in a more sustainable production. The present deforestation leads to higher risks of disaster, lower agricultural production, loss of biodiversity and higher risks for drought in a large part of the country. Lack of clean water and knowledge of proper sanitation techniques increase the vulnerability of the poor.

Nicaragua has a recent history of conflicts. And in conflicts, the poor always suffer disproportionately. The civil war has ended, however, and during the last few years the political conflicts have been solved without violence. But the conflictive history, and the pervasive politicisation of the society, together with the existence of a multitude of small arms, indicates that the risks for violence still exist, especially in the poorer areas. Given the persistent high degrees of income inequality, the risks for violence for economic reasons might increase.

A positive trait is that the army and the police have gradually strengthened their position as guardians of security and general human rights, although much remains to be done in the contacts between the poor and the police. Nicaragua as a poorer country spends less on police and army than for example Guatemala and Honduras, but the security situation is generally much better in Nicaragua.

Intrafamily violence is widespread in Nicaragua. The poverty and the lack of security for girls lead to an extremely high rate of children pregnancies – one quarter of girls under 19 are or have been pregnant. Incest is reported in many cases (but seldom leading to verdicts in the courts). There is a clear correlation between interfamily violence and gender inequality, machismo culture, drinking habits and lack of power and resources.

Nicaragua's Poverty Strategy

Nicaragua has prepared a Poverty Strategy⁵. It has generally been considered to be of good quality compared to other such strategies. The strategy was formally consulted with civil society and other groups in Nicaragua, although many groups claim that Government is not really interested in a truly participatory process.

The strategy has four pillars: economic growth oriented towards the rural areas, investment in human capital, social safety nets for the poorest and improved governance. Overriding themes are ecological vulnerability, social inequality and decentralisation. The strategy has spelt out objectives to be reached during a five-year period (see text box). The objectives are in their turn broken down in more measurable indicators. Most of these indicators can be followed-up by the regular household surveys in Nicaragua.

⁵ Strengthened Economic Growth and Poverty Reduction Strategy, ERCERP

National targets to be achieved by 2005:

- Reduce extreme poverty by 17,5%
- Increase net enrolment in primary education by 11,2%
- Decrease maternal mortality by 13%
- Reduce child mortality by 20% (IMR and U5MR)
- Increase access to reproductive health services for women in fertile age
- Adopt and implement a national plan for sustainable development
- Reduce prevalence of underweight children under five years age by 10%
- Increase sustainable access to safe drinking water by 14% and adequate sanitation by 4,6%
- Reduce illiteracy rate by 19% to 18% in 2004

The follow-up of the strategy is done also by looking at the macroeconomic development, results of individual projects and a follow-up of the strategy as a whole on local and national level. A special project is being developed for follow-up on the local level.

The objectives in the strategy were considered realistic in early 2001 when they were presented. A first progress report on the strategy which was prepared in October 2002 showed positive trends in many areas, although education seems to be a problem area where mixed progress was reported. Unfortunately, the negative economic developments during 2001–2002 have reduced the chances to achieve the 2005 objectives.

The strategy has been criticised for being less clear in the two pillars Economic Growth and Governance. The new government in Nicaragua has on the other hand made these two groups of issues its main development priority. The government has promised to work for a change in the central governance institutions. It has also said that economic growth and exports are major priorities. How the new priorities will be reconciled with the Poverty Strategy is not yet clear.

The Government has identified education as one of three areas with important social implications for the fulfilment of the Poverty Strategy. The National Plan for Education for the period 2001–2015 gives priority to investment in basic education and emphasises aspects of equality, quality of learning, teacher training and decentralisation of the educational system. However, public resources are still not geared towards basic education in poor areas, but rather to higher and secondary education.

Experience from the Swedish cooperation

The governance problems during the last government lead to a movement in the Swedish cooperation away from government institutions that might be affected by mismanagement and/or corruption. However, most of the Swedish cooperation has been in the form of support to more independent central institutions like the Police, and to projects more directly geared to the poor and also to decentralisation and better governance, and democracy and respect for human rights.

On the whole, the projects executed during the last few years have produced good results. Within the health sector, Sweden has supported a change towards a more decentralised and efficient health administration. The positive results from this pilot project will now be generalised to the health system as a whole.

According to an evaluation, the support to the regional and local institutions on the Atlantic Coast has been very successful and will now continue with an increased ambition. Also within the fund for smaller infrastructure works, FISE, Sweden has supported a pilot project on decentralisation. The system will now be introduced on a large scale by FISE. The support to local infrastructure through PRODEL has undergone substantial changes in the cooperation with credit organisations, and the transfer of the project to a private foundation is slowly maturing. Disbursements for PRODEL are now increasing after a general slow-down in 2001 with specific problems with a major credit organisation working for the project.

The support to civil society, for example covering general governance reforms has continued, with a concentration to fewer organisations and longer agreements. The special support to gender equality via Forum Syd is undergoing a process of change from specific projects to support to processes and advocacy. Swedish support to observation of the three elections 2000–2001 has contributed to the fairness of the election processes, to solving political problems and to the highlighting of weaknesses in the work of the Election Council. The police project has had a positive evaluation. One of the major results has been a well-devised reform programme for the police, which has been used as a basis for new support from Sweden and other donors.

The production programme for small and medium farmers, FONDE-AGRO, has had a positive start and has now contracted the organisations needed for technical assistance and credit. One problem is the weaker markets for coffee and milk, which were intended to be the major concentration areas. The post Mitch project for rehabilitation of a road in northern Nicaragua has had major problems of a technical and organisational nature. Sida has had to make drastic changes in the organisation of the project, and the costs have increased by 12 MUSD.

The research programme has developed according to plans, and it has expanded with an IT component (delayed) and a discussion of the future of the university systems.

General considerations

Since 2001 the situation for the poor in Nicaragua has become worse. A banking crisis, a budget crisis, a coffee crisis and the uncertainty created by internal political conflicts have made economic growth in 2002 come to a standstill. With a population growth of 2,7 percent this means a negative growth per capita. The outlook for 2003 is marginally better, and with an implementation of the government's policies, growth could eventually reach 5 percent, which is the target for 2004/2005.

The difficult economic situation means that the government's room for manoeuvre is small. And the internal debt service threatens to crowd out other expenditure in the budget during the period 2003–2004.

The Bolaños government has an agenda of reforming governance institutions and increasing employment and growth. So far, the fight against corruption has been the major focus and has been successful, thereby also giving increasing hopes of more political stability. The next steps of institutional reform are now awaited, not least a reform of the judicial system and the electoral system.

The government's program for increased employment is based on creating the basic conditions for the private sector to invest: an improved judicial system, lower interest rates, investments in infrastructure where this will support private sector growth, and increased availability of technology to increase competitiveness.

The present situation implies an opportunity for donors like Sweden to support improved governance, democracy and respect for human rights. After having participated actively in the dialogue with the former government on these issues, it would now be appropriate to support the initiatives of the new government to reform the governance institutions.

The government has not yet defined unequivocally how it intends to change the situation for the poor. The government's main thrust has been to invite foreign and national investment and to discuss a new strategy of development. How this strategy will be related to the Poverty Strategy is not yet clear. This is an issue of active dialogue between the donors and the government.

Without debt relief through the HIPC initiative and an ongoing programme with the IMF, the government has few chances to succeed. Sweden and Sida should continue to participate in the dialogue with the government, the IMF, and the World Bank on the respective reform issues and on the budget implications.

Upon the agreement reached in December 2002 between Nicaragua and the IMF, the Swedish Government decided to provide general budget support during 2002 amounting to 60 MSEK. Such support is provided to countries, which have established credible poverty reduction strategies. It should be seen as support to economic reforms that reduce economic inequality and poverty. Sweden should consider continued general budget support during 2003 and 2004.

The high income inequality is a motive for Sida to make further analysis and to consider support for initiatives that promote pro-poor growth and increased equality. Sweden has, together with IDB, supported studies of the tax system. Gender inequality is another issue that should continue as a major concern for Swedish support and dialogue, not least in the form of support to civil society advocacy. Children's rights is an area that should be given more attention. The present situation calls for continued Swedish support to programmes directly aimed at improving the livelihoods of poor men, women and children in Nicaragua.

The major risks as concerns the viability of this programme for Swedish cooperation are political and institutional. A major change in the political situation could endanger support to reforms in central governance institutions. It could also lead to a worsening of the economic and social conditions in Nicaragua and thereby endanger other activities financed by Sweden. Also, natural disasters like a new Mitch or a major earthquake as well as external economic shocks could derail the economic recovery program.

Much of the Swedish support goes to institutional change and is dependent on a positive policy environment, especially the support to change in central governance institutions. The design of programme is however reasonably flexible and may be adjusted to changes in the programme environment. The proposed general budget support provides one of the tools for such adjustment.

Objectives for Swedish Development cooperation with Nicaragua 2003–2005

The overriding objective for the Swedish support to Nicaragua is to help create opportunities for the poor in Nicaragua to raise themselves out of poverty. This objective is well in line with Nicaragua's own national Poverty Strategy.

Given the overall Swedish objective of poverty reduction, the Central American Strategy decided by the Swedish government has prioritised the following two objectives which have special relevance to development cooperation in Central America: (i) development of a democratic society and (ii) economic and social equity.

These two objectives provide the framework for defining priorities and areas of intervention in Sida's support to Nicaragua's Poverty Strategy. On the basis of the analysis of experiences from past cooperation as well as the considerations regarding the present development challenges in Nicaragua, the following three thematic areas of interventions have been defined for the Swedish support during 2003–2005:

1. support to democratic and transparent governance through change in central government institutions
2. development of new models and better governance in local institutions that can increase choice and opportunities for the poor
3. interventions that directly or indirectly increase economic opportunities for the poor.

The support to improved governance in central institutions should be given more impetus in the present situation where the government is actively working for positive change in these institutions. This would also strengthen the Poverty Strategy in its Governance "pillar". At the local level, Sweden supports several pilot exercises in increased decentralisation and increased influence for people at the local level.

Among projects aimed at increased economic growth priority, should be given to projects that promote "pro-poor growth", which is one of the main challenges related to the Government's "growth pillar". However, also projects that improve the general pre-conditions for economic growth and poverty reduction, may be supported selectively. Research cooperation is an example of this kind of support.

Increased gender equality will continue as a long-term priority in the Swedish programme with Nicaragua, both as an advocacy issue and mainstreamed in project support. Environmental sustainability is another important issue, highlighted in the Stockholm Declaration, which will be pursued in projects financed by Sweden. Children's rights will be given more attention.

Methods and modalities

Other donors, especially the IDB and the World Bank, have a much higher aid volume than Sweden. Swedish interventions will provide most impact when it is focused on changes in institutions and methods, preferably in close collaboration with the development banks and other donors. Pilot projects, experiments in decentralisation, support to local institutions, support to civil service projects for improvements in governance, support to formulation and implementation of new laws and improved technology have already been successfully tested in the Swedish cooperation.

Sweden plays an important role on the Nicaraguan aid scene. For historical reasons, Swedes and Swedish aid have high credibility. Together with the high degree of delegation to the embassy from Sida, and the flexibility in use of funds, this gives Sweden a comparative advantage when it comes to supporting for example incipient initiatives for change in governance and institutions.

Support to changes in processes and institutions must give attention to mechanisms for donor coordination and possibilities of scaling up. Coordination is also necessary per se in a country with many donors like Nicaragua. Sweden will place great efforts on improving donor coordination in Nicaragua. The aim is to have the government leading the coordination processes, with priority given to sector coordination.

In the sectors where Sweden participates with major projects, like the health sector, the process towards sector program support (SWAP) shall be given high priority. The national and international confidence gained by the new government and its Poverty Strategy indicates that general budget support could be warranted in the short run as well as in a longer perspective, as a complement to the debt relief from the HIPC initiative.

In projects financed by Sweden, four aspects should be given extra attention in the preparation stage: gender equality, environment, childrens' rights and communication aspects.

Considerable efforts are being made by Nicaragua's Government to monitor and follow-up the implementation and impact of the Poverty Strategy. These efforts are supported by Sweden as well as several other donors, e.g. through the MECOVI program which develops methods and capacity for household and other types of poverty-related surveys. The resulting flow of qualitative and quantitative data will provide an improved basis for monitoring and evaluating the overall impact of aid as well as the impact of sectorial programs and projects. It will also provide an interesting tool for dialogue with Nicaragua, e.g. on the links between economic growth and poverty reduction.

Programmes and projects

This country programme is valid for a three-year period, and should guide the choice of what projects to terminate, and in which areas new projects could be considered. The programmes and projects will be presented according to the country program thematic areas.

1. Central governance institutions

Sweden should concentrate on governance support in the areas of democracy and justice.

In the field of transparency, Sweden supports projects against corruption and for increased transparency in procurement. It is an area where other donors are very active, and Sweden could therefore participate but let other donors take the lead.

In the area of justice, Sweden has a history as a donor. It is a politically and structurally complicated area, but basic for increased equality and choice for the poor. The government has created a commission that has made proposals for reform. When the government is ready to consider its proposals, Sweden could be a possible partner. Already, a major new programme has been agreed within the judicial sector, supporting rural judicial facilitators that will bring justice to remote and poor areas. A new programme for judicial observation will be financed together with other donors. As a basis for further support, a sector study will be undertaken.

Sweden has a long history also in supporting democracy projects. Sweden has offered to finance a broad-based discussion in Nicaragua on a future electoral system. Support is given to NGOs working with democracy and human rights. Sweden and Sida should use its position, flexibility and ability to take rapid decisions, in order to support a possible reform process in the field of electoral democracy.

A new long-term agreement has been concluded with the Nicaraguan police for an increased substantial long-term support, and support will continue to the special police stations for women. The police in Nicaragua plays a positive role in protecting human rights, although a lot remains to be done in the reform process.

Support will continue to selected major NGOs for advocacy on governance, democracy, human rights, children's rights and gender equality. A separate gender equality programme through the Swedish NGO Forum Syd will continue. Support is given to the Office of the Ombudsman, with focus on minority rights.

Continued budget support to the general reform programme of the government is foreseen, in cooperation and consultation with the World Bank and other donors.

2. New models and better governance in local institutions that can increase choice and opportunities for the poor

A new agreement with a higher volume has been concluded on continued support to institutional change in the Atlantic Coast. The support aims at strengthening the regional and local authorities. Sida has a close cooperation with IDB and UNDP, also on general donor coordination in the area.

Sweden has in the health sector supported a major pilot project in poor areas, aiming at decentralisation of the health services. Specific contributions are made also in the rural water sector through UNICEF. Through UNICEF, other programs aimed at improving the social and economic situation for young people is being prepared. Given the rising maternal mortality, special action for training midwives is being prepared. The main objective is to continue support to processes and activities within the health sector that will lead to a sector wide support where donor and increased government resources can be used efficiently.

The PRODEL programme supporting local infrastructure, housing improvement and microenterprises for the urban poor has undergone major changes including an ongoing transformation of the programme into a new institution. Continued support to make the new foundation sustainable is foreseen.

Swedish support to local infrastructure through FISE has successfully introduced a new model of decentralisation to the municipalities. The IDB and the World Bank are major donors to the programme. The government is contemplating changes in the programme, and depending on these changes and the possibilities for Sweden to make a difference, a decision will be taken on possible future support.

Projects through OAS for peace building in the North will be terminated when the agreements end. In the OAS projects new models and better governance in local institutions that can increase choice and opportunities for the poor are being tested.

Support is also given to selected local governance projects through Swedish and local NGOs. Besides this a number of Swedish NGOs maintain direct contacts and cooperate in the implementation of projects together with Nicaraguan NGOs.

3. Programmes that directly or indirectly increase economic opportunities for the poor

A first phase of FONDEAGRO, supporting small and medium scale farmers in northern Nicaragua, will end in 2003. Support is given to introduction of new techniques and crops. The project builds on a positive experience in the area from the post-Mitch period. It is foreseen that the project will continue at least to 2010.

A long-term program to develop a critical mass of researchers in the four public universities will continue. It is not directly directed towards economic growth but has a broader incidence. By building research capacity, Nicaragua will get the possibilities to assimilate technology and take part in the global knowledge network. The programme also has the effect of increasing the quality of higher education. The support has been widened to two areas of change: the reform of the whole university system, and the introduction of ICT at the universities.

Apart from higher education and research, Sweden should not embark on other support to the education sector. There are several major donors involved, and the education sector in Nicaragua is also part of the World Bank sponsored programme “education for all”, which means that extra resources will flow to primary and secondary education.

In response to the Stockholm declaration and the Central American Strategy, a new regional programme to increase the sustainable use of natural resources and to diminish risks for detrimental effects of future disasters is developed. Two bilateral programmes have also been started in Nicaragua, one in cooperation with Denmark as the lead donor.

Two smaller projects might be phased out during the period: support to an export and investment promotion agency (CEI) and support to an apex organisation for micro-finance organisations. Export and investments are a major priority for the government, and other donors are interested in the field. Microfinance is important to reach the poor with credit, but the apex organisation could eventually survive without Swedish support.

Sweden has together with other donors supported a successful program through OEA on demining. Through the programme, new areas are opened up for agricultural production. The Swedish support will terminate after the ongoing phase.

Resource allocation

The expected allocation for Nicaragua during 2003 from the regional allocation for Central America is 205 MSEK. Efforts should be made to demonstrate that cooperating partners in Nicaragua have the capacity to implement programs in a speedy and efficient way which would improve the chances for increased allocations during the period 2003–2005.

The planned distribution of funds during 2003 between the three main program areas is shown below:

Programme areas	
Central governance support	
Justice, democracy, general reform, transparency, police reform, gender equality, human rights	17%
Local institutions	
Atlantic Coast, health, water, local infrastructure, peace building, civil society	51%
Selected growth programs	
Smallholder agriculture, research, demining	31%
Total	100%

In addition to funds received from the regional allocation, Sida has proposed that general budget support at 60 MSEK per year should be provided during 2003 and 2004 provided that Nicaragua proceeds with the economic and institutional reforms agreed with the IMF and the World Bank.

Nicaragua receives additional flows of Swedish support; e.g. through the direct cooperation between Swedish NGOs and their Nicaraguan counterparts. The contributions from Sida to this kind of cooperation between Sweden and Nicaragua amounts to 15–20 million SEK per year.

Sida's capacity

In line with Sida policies, a concentration is made on support to larger projects with longer agreement periods. Recently, an agreement with increased amounts has been entered into on support to the Atlantic Coast. The research programme has been expanded. The next phase of the FONDEAGRO project is planned to be for five years with an increased amount. Instead of several environmental projects, only one but large has been started within the bilateral programme. Of the different projects supported through OEA, one concerning rural judicial facilitators will now be scaled up to reach one third of the municipalities in Nicaragua, while the other two projects are terminated.

However, the support to ongoing processes and governance changes often consists of smaller projects, at least in the beginning. One example is election observation, where projects are smaller and necessarily short-term. Support to new activities, for example the support to a fund for

fighting corruption, is of a pilot character, and therefore small and short-term. For several of the most important governance processes in Nicaragua, the most important support is political. The idea is in these cases not to prepare long-term projects but to give timely moral, political and to a minor extent financial support.

Naturally, small short-term projects use more of Sida's (mainly the embassy's) capacity. And sometimes the embassy uses its scarce human capacity on projects and processes that do not involve spending any money at all. For example dialogue on issues like reform of the electoral system, corruption, transparency, gender equality, projects and strategies for the development banks, the government's poverty strategies and donor coordination do often not imply financing or projects. But the use of Sida's capacity on these activities can be cost-effective given the results in the form of policy changes, better projects through the development banks etc.

In the Nicaragua program, the aim is to have a portfolio where the bulk of the money is spent on a limited number of larger, long-term projects. This will make it possible to use capacity for processes of change, pilot projects and important non-project activities. Out of the disbursement estimates for 2003, 61 percent of the planned disbursements are for 15 large and long-term projects⁶. The activity planning aims at increasing this percentage during 2004.

The country programme for Nicaragua for the period 2003–2005 is based on the assumption of no change in the personnel set-up at the embassy and no increase or possibly a decrease in headquarter's use of capacity. From 2006 and onwards, the possibility to substitute one Swedish programme officer with a Nicaraguan programme officer should be contemplated.

⁶ In this context we have defined "large and long-term projects" as projects with an agreement period of at least 3 years and a total budget not less than 15 MSEK.

Annex 1

Selected Socio-Economic Indicators

(based on the Human Development Report 2002 unless otherwise indicated)

Indicator	Nicaragua	Guatemala	Bolivia	Honduras
Income poverty, % of population ¹	45,8	33,8	34,3	53,0
Extreme poverty, % of population ²	15,1	10,0	14,4	24,3
GNP per capita, USD ³	430	1660	1010	760
Gini coefficient, % ⁴	60,3	55,8	44,7	56,3
Share of income (or consumption) by 20% poorest, %	2,3	3,8	4,0	2,2
Health expenditure; USD per capita ⁵	20	16	14	n.d.
Education expenditure; USD per capita ⁵	20	28	59	n.d.
Children in primary school, % of age group ⁶	79	81	99	–
Maternal mortality rate per 100.000 births	150	190	390	110
Infant mortality rate per 1.000 born	113	115	144	116
Under 5 mortality rate per 1.000 born	45	59	80	40
Births attended by specialized health professionals, %	65	41	59	54
Access to clean water, %	79	92	79	90
Illiteracy rate, %	34	31	15	25

¹ Nicaragua: National poverty line, LSMS 2001; other countries international poverty line 2 US\$/day

² Nicaragua: National poverty line, LSMS 2001; other countries international poverty line 1 US\$/day

³ Based on World Development Report 2000 (to be updated)

⁴ Ref. page 3, footnote 5 regarding the level of inequality in Nicaragua

⁵ Data refers to 1996–97. Source: table 3.2 in "Nicaragua Public Expenditure Review"; World Bank December 2001

⁶ UNESCO Institute for Statistics, Assessment 2002

Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.



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