

Nicaragua Executive Summary



Preface

Poverty reduction strategies respond to legitimate concerns about the problem of persistent and high poverty levels in many developing countries. The international community has provided new incentives to poor countries to develop so-called Poverty Reduction Strategy Papers (PRSPs) which should lay down nationally defined strategies to reduce poverty. The strategy should be based on a participatory process of consultations between the government and civil society and should take a long-term perspective. This way sufficient national ownership should be created to yield the necessary commitment to effectively implement the policies geared at poverty reduction. The commitment of the donors is to support the strategy with financial resources and debt relief.

The Swedish International Development Cooperation Agency, Sida, has engaged the Institute of Social Studies (ISS) in The Hague, to monitor and evaluate the PRSP processes in the three Latin America countries eligible for debt relief: Bolivia, Honduras and Nicaragua. The study will be carried out over a period of 5 years, beginning in 2003.

Each year, five reports will be elaborated, including three country reports, one regional report and a thematic report. The country reports for 2003 provide an in-depth analysis of the PRSP process itself, assessing in particular the process of consultation and policy dialogue with civil society and to what extent these have laid the basis for a broad-based and effective poverty reduction strategy. The analysis of the country reports is supported by a detailed and systematic stakeholder analysis, including the stock-taking of the views of local actors through visits to several municipalities in the three countries. A comparative analysis of the experience in the three countries is presented in the regional report, highlighting lessons to be learned for governments, civil society and the donor community. The thematic report for 2003 focuses on the process of decentralization and participation as part of the PRSP process. It is important to remember that the PRSP process is a continuous process, subject to frequent changes. Information for this report was collected (and interviews were conducted) between April and July 2003, though the report has been updated to include developments through November 2003.

The five reports aim to make a contribution to existing evaluations of the PRSP process through the regional focus and an impartial assessment of the PRSP, resulting from the ISS's complete independency in the process of design, implementation and financing of the strategies.

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Coordinador

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1. Introduction

In the context of the decisions made by the Group of 7 countries and assumed by the International Financial Organizations, coordinated by the International Monetary Fund (IMF), the Government of Nicaragua formulated a Strengthened Poverty Reduction Strategy (ERRP), in August 2000. The strategy was approved by the IMF and the World Bank (WB) in December 2000, at which time Nicaragua reached the decision point of the Highly Indebted Poor Countries Initiative (HIPC). The formulation of the strategy was preceded and followed by a process of broad public consultation and discussion, which ended with the formulation of a final version – the Strengthened Economic Growth and Poverty Reduction Strategy (ERCERP or Nicaraguan PRSP) – dated July 2001.

This report first reviews the conditions under which the Nicaraguan PRSP has been formulated and adopted, by giving a summary presentation of the political, economic and social context in the country at that time. This is followed by an analysis and evaluation of the public consultation process associated with the formulation of the ERCERP, by an evaluation of the poverty diagnosis underlying the strategy and of its contents. There follows an evaluation of the implementation of the strategy, paying particular attention to the management of public expenditure and to the monitoring mechanisms for the strategy. The role of donors is then analysed, some lessons are drawn and some recommendations made. This report is based on primary and secondary information collected between January and November 2003 by an ISS team and in the evaluation by the same team of the processes associated with the production of the Nicaraguan PRSP.

2. The political, economic and social context of the PRSP in Nicaragua

The formulation and approval of the Nicaraguan PRSP did not take place in a void, but in a political, economic and social context that inevitably exerted an influence upon the strategy.

The political context

In its first year of government, the Liberal administration that took power on the 10th January 1997 tried to implement its own national economic plan, without interference from the international financial organizations, especially the IMF and the WB. However, in March 1998 it was forced to request the IMF for a second arrangement under the ‘Enhanced Structural Adjustment Facility’ or ESAF.

Towards the end of 1988 hurricane Mitch struck Central America. At the end of 2000, in the context of ‘post-Mitch’ national reconstruction, the Constitutionalist Liberal Party and the Sandinista National Liberation Front Party, its main opposition, initiated a round of negotiations that concluded with what the Nicaraguan people normally call ‘the pact’. This was an agreement that strengthened the control of the parties over the main public institutions, such as the Supreme Court of Justice, the Contraloría General de la República (equivalent to the Office of the Comptroller General) and the Supreme Electoral Council, before the general elections of November 2001. As part of the liberal-sandinista pact it was agreed to decrease the percentage of votes that would lead to a candidate being elected on the first scrutiny – so as to avoid a second scrutiny – and to appoint the then President of the Republic as a member of the National Assembly upon his stepping down.

This was the political environment in which the PRS was formulated, in a process coordinated by an IMF official that at the time performed the function of Technical Secretary to the Presidency.

The economic context

Nicaragua faced during the eighties one of the most difficult periods of her history. A combination of adverse political circumstances, an unsustainable economic policy and large scale natural disasters combined to reduce production by approximately 20 per cent in the period 1983–1989, bringing it back to 1950 levels, and to increase inflation to 33,656.8 per

cent in 1988. The country was forced to rely heavily on foreign assistance and to default on its repayments of foreign debt.

Since 1988, the Nicaraguan economy was subjected to a series of structural adjustment programmes aimed at restoring a macroeconomic balance that had been seriously compromised. After a hyperinflation period that reached its peak in 1988, the gradual restoration of fiscal discipline increased macroeconomic stability from the beginning of the nineties, with inflation falling to some 10 per cent and a moderate fiscal deficit. The reforms that took place during the nineties had some contractionary effects on production, and the economy practically stagnated during the period 1990–1993. From 1994, however, production began to experience consistently positive growth rates, although these were not very different from the population growth rate, as a result of which the social conditions under which most Nicaraguans lived showed little improvement. Between 1994 and 2001 the average rate of growth of GDP has been 4.9 per cent, which means that over the same period *per capita* GDP has grown at an annual rate of 1.8 per cent.

The administration of the Nicaraguan economy during the period 1997–2000 was strongly influenced by a three-year agreement between the government and the IMF, approved in March 1988 and valid for the period 1988–2000, and by the international assistance associated with the Central American Reconstruction Programme implemented in 1999–2001, to help the countries in the region cope with the destruction caused by hurricane Mitch in December 1988.

During the period 1997–2000, the average annual rate of growth of the economy was 5 per cent. Nominal GDP reached US\$3,953 million in 2000. On the supply side, economic growth relied mainly on agriculture, trade and construction; on the demand side, on public investment and exports. GDP growth accelerated in 1999 (to 7.0 per cent) but, because of the end of the post-Mitch reconstruction programme and of unfavourable international circumstances, it slowed down to 4.2 per cent in 2000, 3.0 per cent in 2001 and an anaemic one per cent in 2002. In the latter year, Nicaragua had a total population estimated at 5.3 million, and some 45.8 per cent of all people had an income not exceeding one US dollar per day. Overall unemployment (both open unemployment and the unemployment equivalent associated with under-employment) amounted to 26.3 of the active population, which means that a little more than half a million economically active Nicaraguans generated no income that year.

Agriculture and exports are no longer the growth engines of the economy. The liquid foreign reserve holdings of the Central Bank have fallen as a result both of the lack of an economic agreement with the IMF and of the serious deterioration in the country's terms of trade, and the interim foreign debt relief, although important, is not enough to allow the best possible progress in the struggle to reduce poverty.

Faced with the anaemic economic growth mentioned above, the government tried in several ways to increase tax revenues, achieving a marginal increase of 0.6 of GDP in 2002. At the same time monetary contraction became deeper, thanks to an increase in internal debt caused by the auction of Negotiable Investment Certificates (CENIs), issued by the Central Bank to avoid a drastic fall in foreign reserves. The public is

The making of the ERCERP takes place in a context characterised by post-Mitch reconstruction, pre-electoral alliances and strengthening of party control over public institutions. Economic growth is anaemic, economic reform is slowing down, and the progress achieved in social indicators has lost momentum.

gradually changing its currency holding preferences, seeking refuge in the US dollar. In this context there were no big inflationary pressures or exchange risks, because the government succeeded in coping with the problems caused by its lack of liquid foreign currency with the help of private sector funds.

The social context

From the social point of view, during the nineties and despite all the problems and difficulties which Nicaragua has faced, demographic indicators reflected some modest improvements in the social situation of the Nicaraguan population. Life expectancy increased from 66.1 years in 1993 to 68.0 in 1998. The infant mortality rate fell from 48.0 per thousand live births in 1993 to 39.5 in 1998, but there was a significant increase in the maternal mortality rate over the same period, from 98 to 121 per 100,000 recorded live births. Finally, the first results of the reproductive health strategy, which is a component of integral primary health care, expressed themselves as a decrease in the birth rate from 38.0 to 35.3 per thousand people and in an average annual reduction of 2.2 per cent in the fertility rate, which fell from 4.9 to 4.4 children per woman in the period 1993–1998.

Indicators relating to the labour market, to food and nutrition also revealed some progress. In 1998, active population amounted to 34.6 per cent of the total population. Of these, 75.2 per cent were fully employed. Between 1993 and 1998, real GDP grew at an average annual rate of 4.3 per cent. This meant that the open unemployment rate fell from 17.8 per cent in 1993 to 13.2 per cent in 1998. Over the same period, the equivalent unemployment rate associated with under-employment fell from 13.1 per cent to 11.6 per cent.

The same growth in production also led to an average annual increase of 2.4 per cent for the purchasing power of the average monthly salary, which meant that between 1993 and 1998 it went up from 119.1 per cent to 124.5 percent of the cost of the basket of basic goods. Social security coverage grew at an annual rate of 4.6 per cent, but the number of people covered remained a small proportion of the economically active population: 15.6 per cent in 1998, against 15.3 per cent in 1993.

Due to the increase in real wages and in food production, the average daily calorie intake grew from 1,729 kilocalories in 1993 to 1,799 in 1998, while the daily intake recommended by INCAP, the Nutrition Institute of Central America and Panama, is 2,200 kcal. Despite this increase, child malnourishment remained a serious problem, indicated by the fact that in 1998 the percentage of children younger than 5 years with excessively low weight was 19.7.

As for education indicators, the illiteracy rate went from 23.0 per cent in 1993 to 23.6 per cent in 1998, which is partly explained by the decrease over the same period in the percentage of children enrolled in primary education, from 78.9 per cent to 73.1 per cent. The main challenge in relation to the improvement in primary education is the implementation of the National Education Plan, which includes among its aims increases in the provision of pre-school education, in the number of schools that offer education up to the sixth grade, and in the number of classrooms built and replaced each year.

There are other indicators that reveal a deterioration in the standards of living of the population. The growing scarcity of housing, especially low-income housing, led to 45.5 per cent of the total population in the country living in overcrowded conditions in 1998; furthermore, 38.4 per cent of the population had no access to drinking water, 67.7 per cent of the urban population had no sewage disposal and 52,2 percent had no electricity.

3. Characteristics of the consultation process and participation and ownership by the stakeholders

The formulation of the ERCERP started with discussions and consultations at three levels: (a) within the government; (b) with civil society; and (c) with representatives of foreign donors, both bilateral and multilateral.

The public consultation may be characterised as a ‘top-down’ process, led by the government, but broad-based. The government, particularly through the SETEC – the Technical Secretariat of the Presidency – has retained the initiative throughout the whole process and has largely determined who took part in the public consultation process. Civil society participated in the consultation mainly through the National Council for Social Economic Planning or CONPES, both in working committee and in plenary meetings. In this process, the government received strong support from the main donors, both bilateral and multi-lateral. This support took the form of technical and financial assistance, studies and support documentation, seminars and workshops, comments to the strategy or to some of its main points, etc.

The main stakeholders involved in the public consultation include various kinds of civil society organisations, such as NGOs, trade unions, employers’ associations, peasant organisations, the University, political parties and municipalities. Donors have also played an active part in the process. On the other hand, poor farmers and minority ethnic groups were not represented in the public consultation.

To sum up, the interim strategy document was formulated by the government with the fundamental – and expressly avowed – objective of fulfilling the requirements of the HIPC initiative; it was drafted (in English) in a relatively closed process which did, however, benefit from some public consultation; and the interim document was in turn – though not very enthusiastically – submitted to public consultation.

The consultation process was broad-based, but there was not much time for it, and there are clear indications that the government carried it out without much interest. Unlike the government and the donors, civil society organisations had little say in this process; much of the feedback generated by the consultation failed to be incorporated in the final document; and the poor, both urban and rural, were assigned a secondary role in the consultation.

As a result, many of those who took part in the process, especially civil society organisations, do not feel that they were listened to and do

The government organises a broad-based consultation, but civil society and NGOs complain about the speed of the consultation process, the lack of discussion of the document and the non-incorporation of their contributions. Institutionally, the main achievement is the organization of the CONPES as a consultation organism.

not identify with the final document. Besides, they criticised this document, for its poverty diagnosis and for the measures proposed to fight it. Consequently, the appropriation of the strategy by civil society is rather low. The strategy is regarded as a document that offers, at least potentially, opportunities that cannot be wasted, but there are few illusions about its capacity to initiate a significant process of social change.

As to the question of the government's commitment to the strategy and the extent of its real ownership, there seems to be no strong commitment on the government's part, such as there is, for instance, in relation to the triennial agreement with the IMF. This lack of commitment to the ERCERP is very clear when we take into account the criticisms that the strategy has received from personalities very close to the government or to the President of the Republic, or the terms in which the National Development Plan, recently proposed by the government, is formulated. The NDP was proposed as an alternative rather than as a complement to the strategy; it implies a very different investment logic from that advocated in the ERCERP.

In fact, the highest degree of commitment to the ERCERP seems to be found among the donors: the multilateral donors, because the ERCERP is, to a very large extent, their own creation; and the bilateral donors, because they find in the strategy an argument to support a government whose fight against corruption they espouse, and at the same time see it as an opportunity to commit the same government to adopt a policy orientated towards poverty reduction.

It seems clear, on the other hand, that some important steps have been made towards an institutionalisation of public consultation. Regardless of the limitations under which it functions at present, the creation of CONPES is an important step forward which should not be underrated. The same may be said of the acquisition by the executive – but also by civil society and the public at large – of what could be described as a 'culture of public consultation', and of the steps taken to design and implement structures and institutions aimed at stimulating and facilitating public consultation, and the national and local levels.

4. The poverty diagnosis and the contents of the ERCERP

Poverty diagnosis

The description given in the ERCERP of the worsening social conditions of the Nicaraguan population, based on three household surveys that measured the standard of living, emphasizing the multi-dimensional nature of poverty and presenting the point of view of the poor themselves about their situation, represents a major advance in the characterization of poverty in Nicaragua. Methodologically, the ERCERP follows the guidelines of the World Bank in the definitions of poverty and extreme poverty used. The method used to define poverty is based on relative consumption levels, which has some disadvantages.

Three aspects of poverty, mentioned in the strategy document deserve a special reference. First, the document maintains that poverty has decreased slightly between 1993 and 1998, and that this reduction has taken place mainly in rural areas (with the exception of the rural areas in the Atlantic regions, where extreme poverty increased), as a result of agricultural growth during this period. Secondly, there are large differences between the incidence of poverty in urban and in rural areas. As the ERCERP states, 'in relative terms, poverty and extreme poverty remain overwhelmingly rural. Two out of three people in rural areas are poor, compared with one out of three in urban areas'. Thirdly, the regional incidence of poverty is very unequal, as can be easily seen in the poverty map. The poverty map presented in the ERCERP gives a useful and interesting idea of the spatial incidence of poverty and allows, at least in principle, the development of policies which take spatial differences into account. Despite this, however, the definition of poverty in consumption terms, the map's exclusive concentration on extreme poverty and the fact that it is based on data from 1988 seriously constrain its potential usefulness.

Unfortunately, and despite a good discussion of the factors that determine Nicaragua's low economic growth – and therefore help explain poverty in the country – the ERCERP does not contain an analysis of the causes or the dynamics of poverty. The document shows no awareness of the role played by differences in power, exclusion, the impact of structural adjustment, unequal access and other variables of the same ilk in determining poverty. A gender perspective is also almost completely lacking. The reason why these omissions are important is

In its analysis of the determinant factors of poverty, the strategy shows no awareness of the role played by differences in power, exclusion, the impact of structural adjustment, unequal access and other variables of the same ilk. A gender perspective is also almost completely lacking.

that, if these variables are absent from the diagnosis, it can hardly be expected that a strategy based on the same diagnosis will attack the root causes of these problems and solve them in a sustainable way.

The contents of the strategy and the measures to reduce poverty

The contents of the strategy do not really represent an innovation when compared with previous strategies, for two main reasons. First, its orientation is subordinated to the IMF's restrictive monetary and fiscal policy. The PRGF is not much more than an ESAF with a little more social expenditure. One would therefore be led to think that in Nicaragua macroeconomic stabilization is more important than a policy of economic growth aimed at reducing poverty. Secondly, in practice the ERCERP brings together, in a supposedly new programme, things which were already being done before. In practice, the programmes that have been included in the strategy coincide to a large extent with programmes and projects that were already being implemented. Besides, a large part of these are infrastructure projects. This detracts from the strategic character of the ERCERP.

For its contents, the strategy does not really represent an innovation when compared with previous strategies, since its main objective is to ensure macroeconomic stability.

Instead of assigning priority to an increase in production or to new incomes generated by and concentrated in the country's poor, or to a reduction in the current inequality in the distribution of income, the ERCERP merely emphasises assistance to the poor. It is based on economic growth, but always within the constraints imposed by the need to preserve macroeconomic stability, that is stability of the exchange rate and of the consumer price index. The strategy does not deal satisfactorily with the key problems of income distribution, fighting exclusion, or of the sectors where economic growth should be concentrated.

The ERCERP also does not follow the guidelines in the gender chapter of the World Bank Manual: there is no chapter or even section of the document dedicated to gender questions; almost no data are disaggregated by gender; the gender dimension is not integrated in the analysis of poverty, and gender is not treated as a cross-cutting theme. Gender does not seem to be a relevant category in the analysis of poverty, or in the design of policies, or in the allocation of budgetary resources. The only way in which women are taken into account as subjects of the strategy is as abused women.

To conclude, the ERCERP does not seem to be the most appropriate framework to reduce poverty in the medium term. It continues to be necessary to discuss an economic policy that will stimulate economic growth and guide it towards those sectors in which it will have the most impact over poverty. The economic policies currently being implemented by the government, with the approval of the IMF, do no more than seek macroeconomic stability. This assessment coincides with those of the main stakeholders, particularly the organisations of civil society: NGOs, trade unions and producers' associations.

5. The implementation of the ERCERP: 2001–2003

The poverty reduction strategy of Nicaragua contains a set of policies aimed at facilitating the coordination of government actions to stimulate human development in Nicaragua. In practice, the policies proposed and adopted have faced some institutional limitations, related with the centralisation of functions and resources, and with the insufficient qualification of human resources in central and municipal administrations.

One of the most serious constraints on the implementation of the strategy is the lack of institutional capacity in the public sector, due to the loss of human resources trained in public management. As a rule, when a new government takes over, it tends to replace not only civil servants in 'trust' positions, but also high level technical staff and even analysts in middle positions. Foreign cooperation has thus served to train staff for each new government; the public sector thus acts like a large school of public administration, funded by foreign aid. This is one of the main reasons why the approval of the Civil Service Law is so urgent. The law will help stabilize the civil service cadre and lay down the basis for a professionalisation of civil servants.

The first year of implementation of the poverty reduction strategy was characterised by a very unfavourable economic environment: the fiscal deficit before foreign aid amounted to 10.5 per cent of GDP, private real investment fell by 7.5 per cent in relation to 2000, and domestic debt towards the private sector grew close to US\$1,500 million, after the fraudulent bank failures that took place at the end of the nineties.

Despite the unfavourable environment, the strategy registered modest improvements in the reduction of poverty in 2001. In that year, 45.8 per cent of all the population were poor, which represents a reduction of 2.1 per cent in relation to 1998. The actual number of poor people did, however, grow by 83,200, due to population growth. Besides, the inequality in the distribution of consumption remained practically constant, the Gini coefficient having gone from 0.44 in 1998 to 0.43 in 2001.

Despite the efforts made by the government in various sectors, the ERCERP has not succeeded in becoming a true national objective or in gathering around itself a true national consensus. Not even the government seems very committed to it, as is indicated by the diversion, in the National Budget, of resources freed from the payment of external debt to pay the internal debt, owed mainly to the country's financial groups.

Among the most serious constraints on the implementation of the strategy are the lack of institutional capacity in the public sector, a very unfavourable economic environment and the fundamental fact the ERCERP has not succeeded in becoming a true national objective.

Besides, poverty reduction does not appear as a primary objective in the recently proposed National Development Plan, which further reveals a very critical attitude on the government's part towards the ERCERP. On the other hand, as has already been mentioned, civil society does not own the strategy either.

The poverty reduction strategy has never been a part of the PRGF programme agreed with the IMF, which restricts itself to monetary and fiscal policies aimed at a contraction of internal demand, and even less of the above mentioned National Development Plan, officially proposed in September 2003 to be discussed with civil society within a period of one year. Thus, and despite the efforts made by the authorities to involve the population in the implementation of the ERCERP, it cannot be said that the objectives of ownership, involvement and participation of the country in the implementation of the strategy have been reached.

6. The role of donors

Donors have clearly supported the ERCERP and the coordination among donors has been on the increase in recent years in Nicaragua. Although this coordination had started already before the strategy, the ERCERP, both by its content and by its processes, has had a positive impact upon coordination among donors, and between them and the Government of Nicaragua.

In turn, the present government has shown willingness to coordinate the efforts of donors, in order to increase the efficiency and effectiveness with which aid funds are used. This indicates a growing appropriation by the government of the assistance provided by foreign donors. On their side donors, who increasingly trust the government's intentions, are in general also willing to cooperate. For its contribution to the more explicit formulation of objectives and strategies, the ERCERP has probably had a positive impact upon this process.

On the other hand, and until now, the ERCERP has not given rise to any changes in the modalities of cooperation. It has rather been the fact that there is a new PRGF agreement that has led some donors to provide budget support for the ERCERP. Other donors are also considering sectoral support, but this is due more to the growth in trust between donors and government and to the existence of sector plans for the next four or five years.

Something similar occurred with the ten priority programmes and projects to be financed with 'HIPC resources' and other donor support. Most of these projects were already being implemented with the support of some donors, particularly the IDB and the World Bank. The government created a mechanism for the management and monitoring of these projects through the FSS, which is also used to monitor the use of the 'HIPC funds'. In this case, the ERCERP has provided the opportunity for the change, rather than causing it.

The ERCERP has had a positive impact upon coordination among donors, and between them and the Government of Nicaragua. Until now, the strategy has not given rise to any changes in the modalities of cooperation.

7. Achievements, limitations and challenges of the ERCERP

The formulation and implementation of the ERCERP have made it possible to obtain a better idea of human poverty in Nicaragua and (although less) of its causes. They have also helped identify a number of economic and social indicators that make it possible to evaluate measures and policies aimed at poverty reduction. However, seen as an instrument to fight poverty, the ERCERP loses effectiveness because it is based on an imperfect diagnosis of the causes of poverty, its design was largely determined by foreign consultants, the opinions of the poor and miserable in the country have not been taken into account and no advantage has been taken of the inputs of civil society organisations to formulate, assess and improve the strategy.

Despite all the declarations of interest, the ERCERP is a strategy that is really owned by nobody in Nicaragua, except maybe by some donors. Civil society, much consulted but little listened to, finds in the strategy practically none of its contributions, and fails to identify with it. Paradoxically, the government also does not own the strategy, except as a means to relieve the country's external debt. Rather than reducing poverty, it seems more interested, in the short run in paying off the internal debt, and in the long run in economic growth. The economic growth pillar of the strategy, which was initially the least developed, now threatens to replace the poverty reduction strategy altogether.

The implementation of the ERCERP has been hampered by the lack of political will to decentralise functions, resources and political power, from the central administration to the municipalities. The social ministries and the ministry of agriculture have been decentralised, but the resources and the functions of the central government remain strongly centralised.

Although the main indicators reveal that the ERCERP has made good progress during the initial period of its implementation, the results would probably have been better if there had been a correct allocation of the resources freed by the interim relief of the foreign debt under the HIPC initiative, if the government would facilitate a greater ownership by the population of poor municipalities of the programmes and projects aimed at raising their standard of living, and if the IMF had the political will to integrate the strategy with the policies of adjustment of internal demand and of structural reform of the economy, at least evaluating the impacts of these policies upon the poor.

The formulation and implementation of the ERCERP have provided a better understanding of human poverty in Nicaragua and (although less) of its causes. Its contents assign the main priority to macroeconomic aspects and there is no attempt to assess the impact of economic policies upon poverty. Nobody in Nicaragua really feels ownership towards the strategy, except maybe some donors.

One of the most serious weaknesses is the lack of complementarities between the IMF's economic programme and the poverty reduction strategy. This manifests itself in the lack of evaluation of the impact upon the poor of certain economic measures aimed at strengthening fiscal management, and in the diversion of resources that have become available as a result of interim external debt relief under the HIPC initiative, towards the repayment of domestic public debt contracted by the Bank of Nicaragua, instead of allocating them exclusively to the implementation of policies and projects aimed at poverty reduction. In addition, it must be noted that the ERCERP relies exclusively on economic growth to reduce poverty, and fails to deal with crucially important policies such as the reduction of the inequality in the distribution of income, or of where future economic growth should be concentrated among the economic activities and economic agents of the country.

8. Lessons and recommendations

Below we indicate some of the main lessons that may be drawn from the experience with the ERCERP in Nicaragua.

To improve the implementation of the ERCERP in the short term requires the formulation of an economic growth policy agenda, based on the selection of productive activities by the entrepreneurs, owners of large, medium-sized and small firms. For this to happen it is necessary to restore confidence among the various producers' associations as the initial step in a national production strategy aimed at increasing incomes in agriculture and developing the agro-industrial sector.

In this way, the central theme of the government's day-to-day economic management would be the increase of entrepreneurial competitiveness, through more and better technical education, greater transfer of technology to micro and small enterprises, provision of long-term financing and improvement of the country's infrastructure. Without that central theme, the impact of the free trade agreement that is currently being negotiated with the United States of America will be felt first by an already precarious labour market and, second, by the agricultural and livestock sector, which will face unfair competition from North American producers who, besides being efficient, benefit from substantial subsidies.

Poverty is reduced by creating more and better jobs, but this cannot be done through the creation of large free trade areas spread around the country, with firms that do not pay taxes to the State and take advantage of cheap, untrained and unqualified labour. The typical production model of free trade agreements is the 'maquila', or industry that processes products for export. This type of foreign direct investment will only generate more jobs and a greater rate of growth if it is articulated with local production chains, if it possesses and transfers an appropriate technology which does not harm the environment and if it ensures the creation of jobs and suitable wages for the economically active population. Given sufficient political will, these activities can be regulated.

It is necessary, on the other hand, to start a process of reduction of inequalities in income distribution. This in turn requires reviewing and improving the system of land ownership, reducing the average tax load for people in the lower income strata (thus reducing also the regressiveness of the tax system), increasing social expenditure in favour of the poor, through the appropriate allocation of the resources made available

by debt relief, and by helping the owners of micro, small and medium enterprises gain access to the conventional credit market.

In the handling of public finance, it is not enough for the government to be transparent in the use of public funds, it must also be transparent in the formulation of the national budget and in the establishment of explicit relations between the budget and policy objectives. The international community, which at present helps Nicaragua predominantly through the mechanisms of debt relief, should not tolerate the IMF's indulgent acceptance of the diversion of resources destined to the reduction of poverty towards the payment of the internal public debt to the national financial system, under the pretext of maintaining macroeconomic stability.

It is also necessary to formulate, approve and implement a medium term expenditure framework, for at least three years but with annual components, in order to improve the allocation of resources, both national and those provided by the international community, to increase transparency in allocation and to increase the effectiveness of the fight against poverty. Public projects should not emphasise social assistance to the poor, since such projects only alleviate poverty without solving the underlying situations. For this reason, preference should be given to sustainable productive projects carried out by and for poor communities, which will effectively reduce these communities' poverty.

Even more important is to ensure that civil society participates fully in the fight against poverty. Civil society should fully own not only the strategy but also the programmes and projects aimed at reducing poverty. It should contribute to improve the fight against poverty, with the support not only of the government, but of all political forces in the country. In that sense, the National Council for Social and Economic Planning needs not only good will from the part of the government, but an effective political support so that civil society organizations will be able to make the contributions needed to advance in the resolution of this problem.

It is vital that not only the use of HIPC funds in the 10 priority projects, but the strategy in general and also the implementation of the budget be effectively monitored. It would be desirable for civil society organisations and the international community to be involved in this monitoring, but the main role should be played by the National Assembly. Donors could, in a coordinated way, support the idea that the National Assembly should take on this function, and provide support to the Assembly to help carry it out. They could also promote debate on the achievements and setbacks of the fight against poverty in society at large, through support to civil society organisations.

Donors can also play a crucial role in ensuring that the funds committed to programmes and projects aimed at poverty reduction are properly used, including those funds made available through debt relief under the HIPC initiative. They can help the government formulate a public policy framework that will tend to stimulate effective economic growth and poverty reduction, and establish the minimum requirements that the budget must fulfil in order to guarantee at least the achievement of poverty reduction targets. In these crucial functions, bilateral donors must maintain their intellectual independence and their critical attitude

towards the international financial organizations, especially when these try to present the crudest macroeconomic discipline as if it was poverty reduction. Sida, with its prestige and its combination of technical competence and commitment towards the development of Nicaragua, could play a particularly important leadership role.

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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