

Sida Country Report 2003

Nicaragua



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1. Summary

The government of President Bolaños, which took office in January 2002, has proved its dedication to fight the widespread corruption and to introduce sound macro-economic policies in spite of weak parliamentary support and a politically manipulated judicial system.

During 2003 the government managed to comply with the adjustments agreed with the IMF and the World Bank and thereby paved the way for a major reduction of foreign debts. In spite of poor economic growth and the need to reduce the budget deficit, the government succeeded in improving a number of important poverty indicators by giving priority to the social sector. The country, however, remains the second poorest country in Latin America and one of the most donor dependent countries in the world. It is estimated that some Millennium Development Goals, such as halving the extreme poverty, will be achieved, while others, such as access to reproductive health care services, chronic malnutrition and illiteracy are very unlikely to be achieved.

Nicaragua remains a country burdened by large foreign debts even after the debt reduction received by reaching the HIPC completion point. In addition, the country has considerable domestic debts.

The donor community requires that Nicaragua introduce new legislation to reduce the political influence in the judicial system, to reform the Elections System and to create a modern and merit-based civil service.

In 2002 and 2003, important tax reforms were passed through the Parliament, increasing the domestic resource flow substantially and reducing some of the most glaring shortcomings of the tax system.

In October 2003, Nicaragua hosted a successful meeting of the Consultative Group, during which a draft National Development Plan and a framework on how to improve the co-ordination and harmonisation of donor support were presented.

During 2003, Sweden disbursed 210 MSEK from the country allocation, 60 MSEK in budget support and 12.2 MSEK in additional NGO-support. A major part of the support was provided within the Human Rights and Democracy sector, while important contributions were also made to the Infrastructure Sector, the Social Sector, and the Nature sector and for Research. The intention is that gradually, an increasing proportion of the Swedish support will be spent on a limited number of larger, long-term projects.

On 30 June 2003, Sweden and Nicaragua signed a new Agreement on Development Co-operation, valid for the period 1 June 2003 – 31 December 2005.

Nicaragua's poverty reduction strategy, anti-corruption issues, and donor co-ordination issues are among the most important dialogue issues.

2. Strategic Development Trends

2.1 Poverty Reduction: Overall Trends and Perspectives

Nicaragua is the second poorest country in Latin America due to a history of civil war, natural disasters, oppression, corruption and mismanagement of the economy. During recent years, efforts have been made to address poverty related issues and improve living conditions for the poor. According to the Living Standard Measurement Survey, LSMS, the proportion of the population classified as poor was 50.3% in 1993, 47.9% in 1998 and 45.8% in 2001, while the proportion of extremely poor was reduced to 15.1% in 2001. In particular the present Government, under the leadership of President Bolaños, has taken important measures to improve the accountability and transparency and to implement Nicaragua's Poverty Reduction Strategy (ERCERP)¹.

As part of the undertakings of the ERCERP, the Government has been forced to improve the serious macroeconomic imbalances left by previous Governments. This has been achieved in spite of the fact that the economy has grown at a slower pace than anticipated. During the four-year period 2000–2003, the average growth was 2.6%, which is equivalent to the population growth. In addition, by protecting the social sectors from budget reductions, there have been improvements in the indicators on health, education, salaries, and access to medicine, drinking water, drainage and sewerage.

Annual Progress Reports on the implementation of the ERCERP have been presented. The second report, issued in November 2003, provides a review and analysis of the government's implementation of the strategy to date. It notes actions undertaken during 2003, aimed at improving macro-economic stability and public sector management while simultaneously shielding the poverty spending to achieve the targets agreed in the program. Poverty spending in real terms showed an increase during the 2001–2003 period, from 40.7% of total spending in 2001 to 55.9% in 2003. The main characteristics of poverty spending in 2003 have been increased capital spending and a priority given to health, education, housing and drinking water.

¹ Estrategia Reforzada de Crecimiento Económico y Reducción de Pobreza (ERCERP), was completed in July 2001 and rests on four pillars and three cross-cutting themes. The pillars are: a) Growth and Structural Reform; b) Investment in Human Capital; c) Protection for Vulnerable Groups; and d) Governance and Institutional Development. The cross-cutting themes include: a) Environmental Vulnerability; b) Social Equity; and c) Decentralisation.

Continued efforts to improve the efficiency in public spending, to further reduce tax evasion and to stimulate production are needed to reduce poverty. For this reason, the Government carried through a consultation process in 2003 to prepare a National Development Plan, PND, the draft of which was presented to the international community at the Consultative Group meeting in October 2003. The draft Plan draws on the ERCERP and aims at strengthening Pillar I of the poverty strategy, emphasising the need to promote broad-based growth by enhancing the country's physical infrastructure, improving access to credit and land and providing an adequate climate for private investment. The draft includes an integrated vision for social development, but has been criticised for its failure to propose ways to reduce social and economic inequity.

The Government has also started to work on a revised poverty strategy, which will be based on the PND. A policy matrix, to be attached to the revised strategy, will serve as a point of departure for the policy dialogue between the Government and the donors.

According to the Preliminary Report for the CG-meeting, it is likely that all indicators – except for the illiteracy rate – could achieve the 2005 targets established in the ERCERP. However, achieving the Millennium Development Goals (MDGs) in 2015 will require added efforts. The fact that the GDP has only been growing at the same pace as the population growth, 2.6% per year, during the last four years, means that a growth rate of over 5.0% in the coming years will be necessary in order to achieve the targeted reduction of extreme poverty by half by 2015. An even faster pace would be required to achieve other goals. MDGs goals that may be achieved are those related to extreme poverty, under-five mortality, access to water, and access to sanitation. Targets for universal primary enrolment, maternal mortality and infant mortality are not likely to be reached, while targets for access to reproductive health care services, chronic malnutrition and illiteracy are very unlikely to be achieved.

Income distribution is very unequal in Nicaragua. According to the Second ERCERP Progress Report, the wealthiest 20 percent receive 58.5% of total revenues, while the poorest 20 percent receive 4.1%. Likewise, social development continues to be determined by unequal access and low quality of services, and is severely affected by the government's budget limitations in addressing all demands in the social area.

During 2003 initiatives were introduced in the health sector based on the General Health Law, approved in 2002 that promote equity in access to health care for vulnerable groups. The formulation of a new National Health Plan and Health Policy was also initiated. However, great weaknesses persist in terms of resource allocation, health management and the provision and access to services. Although investments towards the reduction of child and maternal mortality have been prioritised by the Ministry and by donors, the services do not reach the most vulnerable groups. Availability of safe water and sanitation is still low in the rural areas.

The official statistics on HIV/Aids show a rapid rise of the epidemic. The incidence of HIV/Aids has doubled in two years, and there is a tendency towards an increase in the proportion of women being infected.

The quality and coverage of formal education have increased, but is still low. It is estimated that the enrolment rate is 85% for primary school and 40% for secondary school. Many children do not have access to education due to long distances, poor family economies and scarce public resources. To deal with this problem, Nicaragua has joined the World Bank's Fast Track Initiative, with support from the donor community.

In UNDP's *Human Development Report 2003*, Nicaragua has a Human Development Index, which results in a rank of 121 out of 175 countries, which is an inferior position than the one reached in 2002. The budget allocated to health and education is the lowest in the Central American region².

2.2 Macro-economic Development

Since 1991, a large number of public enterprises have been privatised, the inflation has been reduced to acceptable levels and the foreign debt considerably reduced. The average annual economic growth 1996 – 2003 has been about 4%, which together with a population increase of 2.6% has provided a small (on average about 1.5%) increase of GDP per capita. In 2002 and 2003, the growth has, however, been limited to 1.0% and 2.3%, respectively.

The reasons for the low economic growth during recent years, has been the Mitch emergency (October 1998), the global recession, the sharp fall of the international coffee prices (2000) and the bank crisis (2000–2001). GDP per capita was estimated in 2003 at 754 USD, which is much lower than in the 1970s, but better than in the 1980s.

Income and wealth are very unevenly distributed in Nicaragua even in comparison with other Latin American countries and the Gini coefficient was in 2001 estimated at 0.56. The unemployment is about 11%, but the underemployment is widespread and estimated to amount to 36%.

The large deficits in the trade balance and the government budget makes the country very dependent on foreign support and private transfers from Nicaraguans living and working abroad, in particular in USA and Costa Rica. It is estimated that private remittances amounting to 800 MUSD were sent to Nicaragua in 2003.

The Poverty Reduction and Growth Facility, PRGF, agreement, which Nicaragua reached with the IMF in December 2002³, allowed an increased flow of external resources, including interim HIPC relief, needed to support public policies and to finance the public investment program. The country managed to meet the conditions for 2003 laid out in the agreement and thus successfully reached the completion point of HIPC in January 2004. This means that the country will receive debt reductions corresponding to 72% of the net present value of the multilateral and bilateral public debts.

² Statistical Yearbook 2002, United Nations Economic Commission for Latin America and the Caribbean, ECLAC.

³ The decision point for the HIPC-initiative was reached at the end of 2000, while the national poverty reduction strategy was developed in 2001 and approved by the World Bank and IMF in September the same year. Before obtaining the PRGF, the Government also had to introduce monetary and fiscal reforms to improve the public finances, which in 2001 had shown the most disproportionate fiscal deficit in Latin America.

In addition to the large foreign debts, Nicaragua is also burdened by considerable domestic public debts⁴, which were estimated to amount to 1,5 billion USD in 2003, corresponding to 35% of GDP, as compared to the international debt which amounted to 6,5 billion USD before reaching the HIPC completion point.

An important achievement during the 2002–2003 period was the approval of two tax reforms, the Law for Broadening the Tax Base, approved in July 2002, and the Law for Fiscal Equity, approved in April 2003. The implementation of these laws has not only allowed for an increase in revenues, but also reduced exonerations, exemptions and special treatments in the application of taxes, thereby achieving greater equity among taxpayers and greater orientation towards the objective of stimulating exportable production. It is estimated that the combined additional tax yield of these reforms will amount to about 2.4% of GDP on an annual basis.

The inflation rate has shown a declining trend during recent years and was limited to 6% in 2003. A major reason for this improvement was the increased monetary supply produced by the reduction of the internal debt.

Increased investments are important in order to improve economic growth and reduce unemployment. According to United Nations Economic Commission for Latin America and the Caribbean, ECLAC, foreign investments grew between 2002 and 2003 from 174 MUSD to 241 MUSD, i.e. by 38.5%. The growth took place in particular in the “zona franca” areas and was concentrated to textiles and clothes.

Negotiations regarding a free trade agreement, CAFTA, between USA and the Central American countries were initiated in January 2003 and terminated in December of the same year. The main purpose of the agreement is to increase the trade between the participating countries in order to stimulate economic growth, increase employment and thereby reduce poverty. It will not, however, allow free movement of labour.

Before being implemented, the agreement has to be approved by the parliament in each of the participating countries. Critics of the agreement claim that the export subsidies for US agricultural products may result in a loss of markets for the small producers in Central America and therefore lead to increased unemployment and poverty in the rural areas.

2.3 Political Development, Good Governance and Human Rights

The political system is unpredictable and unstable. The present government has made serious efforts to combat corruption within the public administration and these efforts culminated with the sentencing of former President Alemán to 20 years imprisonment for corruption. The sentence split the Liberal party in a majority, which is fighting for the liberation of Alemán and a minority (blue and white fraction), which supports the Government. Although the Sandinistas used their influential position in the judicial system to support the sentence, they later formed an alliance with the Liberal Party, leading to a temporary move from

⁴ The domestic public debt is mainly due to the costs of the war in the 1980s, compensation to those who had their properties confiscated by the Sandinistas in the 1980s and compensation to those who lost their bank assets during the bank crisis in 2001 and 2002.

prison to house arrest of Alemán and leaving the Executive in a weakened political position. Although this alliance has subsequently been broken, a high degree of uncertainty remains.

The anti-corruption policy of the government also continues to be threatened by forces used to benefit from the system. The fact that other former public officials accused of corruption has been released shows the weakness of the judicial system.

According to Transparency International's 2003 report on the perception of corruption, Nicaragua has position 88 out of 133 countries investigated.

The main problem of the judicial system is its lack of political independence, resulting in lack of impartiality and manipulation by dominant political parties. The political influence is divided between the two major parties, but mainly in the hands of the Sandinistas. During the last quarter of 2003 the President announced his intention of introducing a judicial career law, which would reduce the political influence in the field of justice. The Supreme Court had already presented a draft in early 2003 and the two major political parties each presented their own Commission Report, reflecting their continued struggle for political control over the judicial branch of Government. When the Executive presented its draft to the Parliament in early 2004, political manipulation and strong opposition by the two major political forces provoked a crisis and froze discussions.

A major political debate took place about the necessity to reform the Elections System and to postpone the municipal elections from 2004 to 2006. All political forces agree upon the necessity to introduce reforms, including ways to reduce elections' costs, but it has so far not been possible to agree upon common ideas for this. There is no change of date for the municipal elections, so they will take place as scheduled in November 2004.

A civil service reform programme has been underway since 1999, with the aim of creating a more modern, efficient and merit-based civil service. A civil service law that provides the legal framework for this reform was approved in December 2003.

The Consultative Group meeting, mentioned above, was a great success for the Government, to a large extent due to good preparations and to the leadership and co-ordination role played by the Government. The inclusion of the civil society in the conference itself meant a step forward.

Regarding human rights, the main problem and challenge for Nicaragua is that due to the poor economic circumstances, some economic, social and cultural rights can not be fulfilled. In some cases, where the public authorities for economic or other reasons do not assume their responsibilities, the national and international NGOs, as well as some multilateral and bilateral donors, are addressing the problems.

The rights of women and children are violated to a high degree. Violence within the families is frequent as well as sexual abuse directed towards women and children. Almost 100 women are killed every year by their partners. The Health Ministry considers the violence and sexual abuse within the families as a problem of public health having serious consequences for the development of the country.

Children and adolescents are among the most vulnerable persons in the overall poverty situation facing Nicaragua. High levels of malnutrition, poor living conditions, lacking health service infrastructure, child labour and difficult access to the education system are some of the effects of the human rights violations.

Women run more than a third of the households. Interestingly enough, the majority of these households are in the hands of grandmothers. Women at the age of 60 years or more are to a high degree responsible for the welfare of their grandchildren, since many of their adult children are obliged to search for employment in the cities or abroad.

A major problem consists of an old-fashioned legislation, prohibiting abortions. Abortions are only permitted if the mother's health is in serious danger. In February, a major political debate arose concerning a 9-year-old Nicaraguan girl, who became pregnant after being raped. The family's decision to have an abortion was supported by Human Rights and women's groups, but was in fact illegal and criticised by the Church, government officials and certain media.

A manual on sexual and reproductive health (*Manual para la vida*), has caused controversy and discussion during 2003. The intention was that this would be a useful handbook for teachers, in a country where the teenage pregnancies score highest in Latin America. The manual was made public in September, but was withdrawn by the Ministry of Education, after having received severe criticism by the Church and conservative groups. It was planned to appear in a new edition in October 2003, but has so far not been published.

The respect for the civil and political rights in Nicaragua is comparatively good. The Police, which previously was the most denounced public institution, is going through a major modernisation process. In general, the public sector struggles with financial shortfalls, which result in poor attendance and bureaucratic and time-consuming administration, which often leads to violations of human rights.

The organisations and movements of the civil society have the right to express themselves freely and have the right to freedom of association. Only the workers' unions within the duty-free industrial areas (*zonas francas*) have reported difficulties and violations against the International Covenant on Civil and Political Rights. The civil society is frequently consulted by the government on specific human rights issues of national interest, while it also has taken on an active role as scrutiniser of these issues.

2.4 Development Co-operation and Partnership

Nicaragua is one of the most donor dependent countries in the world. The report prepared for the Consultative Group stated that total donor disbursements in 2002 reached 490 MUSD, which is equivalent to 94 USD per capita. Among the multilateral organisations, the most important ones are the IDB, the World Bank and the European Community, while Japan, Sweden, Germany, USA, Denmark, Spain and the Netherlands provide a large share of the bilateral support. In 2002, Sweden was the largest bilateral donor after Japan.

During the first half of 2003, the Government presented a framework on how to improve the co-ordination and harmonisation of the resources obtained from co-operation. The objective is to make a more effective use of the resources and thus obtain an increased impact on poverty reduction from these programmes and projects. The process consists of creating government led round tables for co-ordination in the different sectors (social, governance, production, health, education, etc), which will provide opportunities for dialogue between government, donors and civil society.

The initiative includes a plan to prepare sector development strategies, investment priorities and improved co-ordination within the existing programmes, aiming at the development of Sector Wide Approaches, SWAPs, in the health, education and rural development sectors. The main challenge for the government in this work is the shortages of human resources and institutional capacity. Nevertheless, this effort reflects an increasing ownership from the part of the government and positive reactions have been received from the donor community, the private sector and the civil society.

In its dialogue with the government, the donor community stresses in particular the importance of de-politicising the judicial system and the need to elaborate policies in order to address inequality. The absence of a well-functioning judicial system undermines private sector confidence and thereby limits investments, which are necessary to increase sustainable growth and thereby reduce poverty.

The World Bank and IDB prepared a Country Procurement Assessment Review (CPAR) and a Country Financial Accountability Assessment (CFAA) in 2003. In addition to being prerequisites for the first Poverty Reduction Support Credit to Nicaragua, these documents will increase the transparency in the use of public funds and thus be useful in the elaboration of the SWAPs.

The Government has worked towards improving the sustainability of the economy, transparency and improvements in the social sectors. The international community has supported the Government in these efforts by supporting the fight against corruption, the strengthening of institutions, and by providing interim foreign debt relief, technical assistance and resources for public investment.

Like-minded donors have started discussions with Government on in order to better co-ordinate general budget support to be provided to Nicaragua. The purpose is to elaborate a joint mechanism for terms and procedures on general budget support. An important part is to elaborate an adequate performance assessment framework, based on the revised Nicaraguan poverty reduction strategy. The drafting of a Joint Financing Arrangement started during the first half of 2003. It is expected that the instrument will be in place from 2005.

3. Swedish Development Cooperation

3.1 Strategic Assessment and Considerations

The development co-operation with Nicaragua is guided by the Regional Strategy for Central America and the Caribbean for the period 1 January 2001 – 31 December 2005; the Agreement on Development Co-operation for the period 1 June 2003 – 31 December 2003; the three-year Country Programme (2003 – 2005); and the annual Country Plan.

In the revision of the Country Programme, which was undertaken at the end of 2002, the analysis of poverty as well as the formulation of objectives and selection of methods and modalities was based on Sida's new Policy for Poverty Reduction. Special efforts were made to support the development of Nicaragua's capacity and methods to monitor and follow-up the outcome of its poverty reduction strategy, ERCERP.

The intention indicated in the Country Programme is that the bulk of the funds would be spent on a limited number of larger, long-term projects, since this would give room for separate support to processes of change, pilot projects and important non-project activities. In the Country Plan for 2003 it was planned that a total of 15 large long-term projects (exceeding 15 MSEK and with agreement periods of three years or more) would cater for 61% of disbursements during the year. The Country Plan for 2004 forecasts that the major 15 contributions will cater for almost 73% of the disbursements.

Important dialogue issues are the implementation of Nicaragua's Poverty Reduction Strategy; political and economic governance; anti-corruption issues; and Nicaragua-led donor co-ordination. The Embassy has prepared a matrix of central dialogue themes for each area of co-operation, indicating the objectives and level of priority for each theme.

3.2 Overall Country Programming Review

The allocation to Nicaragua for 2003 in the beginning of the year amounted to 205.0 MSEK, while the planned disbursements, including 17.5% over-planning amounted to 241.0 MSEK. The actual disbursements from the country allocation were 210.0 MSEK, which required a supplementary decision. In addition, 60.0 MSEK were disbursed as budget support and 12.2 MSEK in NGO-support.

Out of the 210.0 MSEK disbursed, 70.0 MSEK were assigned to the Human Rights and Democracy sector, including demining (for which

76.4 MSEK had been planned, including over-planning); 39.6 MSEK for the Social sector (for which 42.0 MSEK had been planned); 21.4 MSEK for Research (29.0 planned); 41.5 MSEK for the Infrastructure sector (59.8 planned); and 37.5 MSEK for the Nature sector (31.2 planned). In addition, a planned allocation had been made of 2.5 MSEK for PDF and PK-fund activities, for which the actual disbursements were recorded under the sector for each individual activity.

No evaluations were foreseen in the Country Plan for 2003, but one, referring to FondeAgro, was actually carried out. A total of 18 assessments had been planned for 2003, of which 13 were initiated during the year. Out of the 13 initiated, 6 were completed.

No decision was made for contributions of more than 2 MSEK that had not been included in the Country Plan. However, 14 such decisions were taken in respect of contributions of less than 2 MSEK, the majority of them being contributions within the Project Development Fund.

During 2003, it was planned that sector departments at Sida were to make use of 13 SAK-weeks. The actual outcome was 6 SAK-weeks.

No major changes are expected as regard priorities within the next few years. However, it is foreseen that the Embassy will put more emphasis on issues related to equity in Nicaragua in 2004. It appears adequate to work closely with like-minded donors on this matter and preferably with a regional approach. More attention should also be given to gender equality and to the rights of the child.

3.3 Follow-up of Country Programme Performance

3.3.1 Democracy and Human Rights

Within the democracy and human rights areas, including the judicial and transparency sectors, Sida collaborates with various public institutions as well as with the civil society.

During 2003 a study on the judicial system to identify future co-operation was performed successfully. This will lead to a closer dialogue with potential co-operating partners including the Supreme Court and related justice institutions. It is expected that the Embassy will receive proposals to support a process of change aimed at improving political independence, efficiency and accessibility of the system to the poor.

The programme for Access to Justice in Rural Areas was expanded to 24 additional municipalities. The Supreme Court has taken actions to improve the sustainability of the program.

The Atlantic Coast program has continued to consolidate the institutional capacity of the Autonomous Regions of the Atlantic Coast. The passage of the Autonomous Internal Regulations, the Law on Property Demarcation and the Budget Transfer Law imply that regional and local governments need to strengthen their political, institutional and administrative capacity to undertake increased responsibilities and manage larger budgets. The program has initiated a direct transfer of funds to the implementing partners, given the higher level of institutional capacity demonstrated during the last year.

Sida collaborates with the Swedish NGOs working in Nicaragua and with the Nicaraguan civil society in projects focused on education and legal consultancy in human rights with particular emphasis on women

and children as well as on participation and local democracy. Diakonia and Forum Syd ended their programs in 2003 and will continue working with new programs from the beginning of 2004. The focus will mainly be the same (i.e. institution building, human rights, participation and local democracy), but Diakonia has announced a larger contribution than previously to different actions that improve the possibilities of their counterparts to influence the national, regional and local political agenda.

Regarding gender equality, the main strategy is to mainstream it in all projects and programmes as well as in the dialogues at all levels. About ten organisations in civil society, experts on promotion of gender equality, receive support for projects and actions aimed at equality through the Gender Equality Program run by Forum Syd. This program also supports the mainstreaming of gender equality in youth organisations and the capacity building in gender issues for a broader group of civil society organisations. Besides this, the Embassy also give support to a smaller number of other civil society organisations for projects aiming at influencing the public opinion as well as for lobbying activities regarding new laws and policies defending and promoting gender equality and women's rights.

In 2003, Sida signed a joint agreement, together with Denmark, with the Office of the Ombudsman of Human Rights. The support to this institution is important, because of the specific objectives of its program and since lack of public interest has resulted in a shortage of funds for the Office.

During 2003, plans were being prepared for a consultancy study to be carried out in 2004 that will focus on the situation of the rights of the child in Nicaragua.

Sweden, together with seven other donors, supports the government-led Anti-corruption Fund. The project has been extended by six months until the end of May 2004. A new project proposal with clear objectives linked to the political development and the overall political agenda is being elaborated in close communication with the donors and other public institutions.

Sida supports the implementation of the five-year modernisation and development plan (2001–2005) of the National Police of Nicaragua. The support is provided over a three-year period, 2002–2004, and amounts in total to 31.5 MSEK. The plan envisages the creation of a democratic, efficient police force with a clear mandate to uphold the protection of the citizens in a state governed by the rule of law. It builds on the experiences gained during the previous co-operation period, 1998–2001.

The implementation during 2003 was, in general, done in a satisfactory way, although some activities were delayed. The Swedish National Police Board is providing technical support and advice and has successfully completed several missions to Nicaragua during 2003. Discussions were initiated in early 2003 on the possibility of providing additional resources in order to expand the number of police delegations to be constructed in rural areas.

Through a three-year agreement, co-financed by four other donors, Sweden provides support to the "Network of Services for Women, Children and Adolescents Victims and Survivors of Family and Sexual

Violence". This project includes support to special police stations for women and children as well as to centres for the attention of victims run by civil society organisations, co-operating through in the "Women's Network against Violence". The public authority "Nicaraguan Women's Institute" also receives support in order to do policy work and consciousness raising activities.

A mid-term evaluation of the project was presented in March 2003. The evaluation showed a number of weaknesses in the project, but the overall assessment was positive. Sweden assumed the donor co-ordination role in September and initiated discussions among the Nicaraguan counterparts and the donors on how to continue the work in this area, perhaps as part of the general support to the National Police Force.

The landmines planted during the war, and unexploded ammunition left behind, are still a major problem particularly in northern Nicaragua. Sweden has supported the OAS Mine Action Program in Nicaragua since 1996. In July 2002 the embassy and the OAS signed an agreement on further support in two municipalities along the border between Nicaragua and Honduras. The Swedish contribution also finances information and prevention of mine-accidents in the communities and the support to victims of mine accidents through a special program providing vocational training in order to facilitate economic reintegration. As a tangible result of the demining program, a decrease in accidents mutilating children and adults has been noticed during the last years.

The de-mining is performed by the Nicaraguan army and supervised by international observers from South America. Other major donors to the program are Denmark, Norway, Canada and the United States. The OAS program is included in the Nicaraguan plan for mine action elaborated and co-ordinated by the National Commission for Mine Action. Nicaragua is expected to be free of landmines by the end of the year 2005.

At the beginning of 2003, OEA proposed a change in the program in order to make it possible for Nicaraguan deminers to participate in international monitoring. Nicaraguan militaries have successfully concluded their first monitoring mission at the border between Peru and Ecuador.

By the end of 2003, the second phase of the Program for Technical Co-operation with OAS closed operations. The program started in 1996 as an effort to consolidate peace and reconciliation in 12 municipalities in central-northern Nicaragua with high levels of post-war conflict and very limited presence of local state entities. A main challenge during the second phase was to strengthen the long-term sustainability and the local ownership. The final report of the program is delayed and the final results analysis meeting has not been held yet.

As the program was coming to its end, more attention was given to the analysis of the results and the effects. An LFA-workshop was held in March focusing on how to report achievements of results, fulfilment of objectives and impact. It was decided at the last annual meeting that Sida will not commission an evaluation, but resources were provided for OAS for its systematisation of experiences in promotion of peace, reconciliation and development in Nicaragua during the last 15 years.

3.3.2 Social sectors

a) The health sector reform and the move towards a Sector-wide Approach

In 2003 it was decided to extend the agreement for PROSILAIS⁵ until December 2004 in order to reach the objectives of the project and give the Ministry time to prepare a proposal for new Swedish support within the framework of the upcoming National Health Plan, Health Policy and SWAP. The Ministry presented a first proposal for new support in September 2003, which was assessed by two external consultants. The assessment recommended further elaboration, and the Ministry has assumed this task.

Considerable progress was made in PROSILAIS during 2003, although implementation was affected by changes in the Ministry of Health, internal restructuring, the government's ambivalent decentralisation strategy and the Ministry's budget constraints. An external assessment of PROSILAIS in 2003 showed that it has become an integrated part of the structures of the Ministry and contributes to the strengthening of these structures. It was noticed that many of the elements produced and developed by PROSILAIS have achieved technical sustainability at the decentralised levels. In effect, the health management model put in place by PROSILAIS has been a very important input for the formulation of the National Integrated Health Care Model, which is underway.

The new Minister of Health as of March 2003 has demonstrated interest in promoting a SWAP and has sent a letter of intent in this respect to the donors. In November 2003 a SWAP Development Fund was established at the ministry, with co-financing from Sweden, the Netherlands, Finland and the UK, based on a road map which includes key activities for the development of a SWAP. Competence building concerning the implications of a SWAP is the cornerstone of the road map. The Netherlands assumed the role as a link between the donors and the Ministry for all matters concerning the Fund. The establishment of the fund was an important step towards further donor co-ordination and harmonisation.

In addition to the above mentioned donors, the World Bank, IDB, USAID and Canada have expressed their interest in co-ordinating the preparations of new support within the framework of the upcoming national health plan and a SWAP and have planned for a joint mission during 2004.

Sector co-ordination was strengthened through the establishment of Roundtable meetings after some initial confusion concerning the viability of the ministry's old co-ordination bodies. Two Roundtable meetings were organised during 2003, one to define its functions and one to discuss the progress of the formulation of the National Health Plan and Policy. The donors elected Sweden as a link between the donors and the roundtable. The Netherlands and IDB were elected to represent the donors in a consultative committee, which will give input and support to the formulation of the National Health Plan.

⁵ Sida has supported the Nicaraguan health sector reform since 1992 through PROSILAIS. The Ministry of Health, the SILAIS (Local Integrated Health Care System) and the Municipalities implement the project with technical assistance from UNICEF and PAHO. The project aims to improve the health status of the population in six out of 17 SILAIS with special focus on vulnerable groups, by strengthening the capacity of the decentralised health care system based on community participation, social mobilisation methods, inter-institutional collaboration and evidence-based planning.

Important achievements were reached in 2003 in terms of co-ordinating the dialogue between the donors and the Ministry of Health. In preparation for the Consultative Group meeting, the donors within the social sector prepared a joint statement on the National Development Plan.

The elaboration of a project proposal for the strengthening of the midwife function in Nicaragua continued during 2003. The Ministry of Health made an important achievement in terms of improved ownership for the project formulation and implementation. The project will not only educate professional midwives, but also improve their opportunities and possibilities to exercise their profession.

b) Support to Social Sector Development through UNICEF

From April 2003, support is provided to UNICEF's Country Programme through the following projects and components: (1) Water and Healthy Environment, (2) Education for Citizenship and Peace, and (3) Strengthening of the National and Local Health Systems (which includes social communication and prevention of STI/HIV/Aids among adolescents). The contribution amounts to 48,5 MSEK for four years. The Swedish support is co-ordinated with support from the Netherlands. In order to improve the efficiency and quality of their support, the donors have decided to have joint review meetings, monitoring missions, field visits and reporting, and as far as possible adhere to the internal reporting formats, mechanisms and timing of UNICEF.

c) Support to Regional Programme for the Improvement of Living Conditions Surveys (MECOVI)

Sweden is supporting the second phase of the Regional Programme for the Improvement of Living Conditions Surveys (MECOVI) in close collaboration with a number of other donors and the World Bank. The second phase covers the period 2002–2005 and the Swedish contribution amounts 10 MSEK. The MECOVI project aims to strengthen the National Statistics and Survey Institute (INEC) by creating a national system for living standard surveys. During the latter part of 2003 a System for Indicators with a Gender Focus (Sistema de Indicadores con Enfoque de Genero, SiEG) was developed through MECOVI. The statistics generated through MECOVI have been instrumental for the follow up of the ERCERP.

d) Support to the Emergency Social Fund (FISE)

Sweden is terminating its support to FISE after having contributed to the creation of a positive and receptive environment for decentralisation of the institution. The termination date of the program was postponed until July 2004, due to some delays in the execution of minor infrastructure projects in health and education. FISE has submitted a proposal requesting a continuation of Swedish support, but since the proposal does not identify any added value different from what other donors are already providing to the institution, this request has been turned down.

3.3.3. Infrastructure, private sector and urban development

a) Prodel

Sida has supported Prodel since it started in 1994 as a development program linked to the “Nicaraguan Institute for Municipal Promotion” (INIFOM). By the end of 2003, the assessment of the proposal for a third phase was completed and presented to Sida’s Project Committee. In January 2004, the Director-General decided on further financing, amounting to 85 MSEK, for the coming five years. Out of this amount, 54.5 MSEK is a conditional loan.

The fundamental change in the third phase is that an independent institution, Fundación Prodel, has been constituted to preserve the revolving funds as well as the model for local development. The overall objective for Prodel, to improve the living conditions for poor families and to support local development, is maintained. Institutional development of Fundación Prodel itself is part of its five-year plan and it is foreseen that the new institution will be operationally and financially sustainable at the end of this agreement period.

The transition from a program to an institution was long and at some moments complicated, but in spite of this Prodel fully accomplished the foreseen results for 2003.

b) Infrastructure

The main activity in the field of infrastructure has been the road Yalaguina-Las Manos, which is a 43 km long portion of the Inter-American highway that connects with the Honduras border in Las Manos. This is the first completely rebuilt road out of the three that were destroyed by Hurricane Mitch. The project faced technical problems due to the use of improper asphalt, soil erosion and heavy rains during the construction period and a considerable amount of work had to be redone. This, together with management problems, increased the initial budget significantly. The road, which took 3 years to complete, was finished by June 2003.

c) Amunic

Sweden provides support to Amunic, the Association of Municipalities in Nicaragua, to create a National System for Prevention, Mitigation and Attention of Disasters, SNPMAD, which is part of the larger project “Prevention of Natural Disasters”. The project has two components, i) capacity building in the municipalities for identifying and preventing exposure of the population to risks of natural disasters, and ii) a fund for constructing preventive public works in the municipalities.

During 2003, Amunic attained its goals by contributing significantly to the de-centralisation of the SNPMAD, and by integrating in the municipalities’ annual plans the issue of how to manage and provide assistance in the event of disasters. More than 25 municipal works have been satisfactorily completed with the fund with the support of a consulting firm, which is also training local personnel in the design, supervision and construction of the works.

d) CEI

Support has been provided for the institutional consolidation and financial sustainability of CEI (Centro de Exportaciones e Inversiones) since 1994. The co-operation ended in March 2003 and the final report, presented by UNDP in August 2003, indicates the following results of the project:

1. 95% achievement in establishing the strategic role of CEI, which entails:
 - a) Organisational change to export oriented activities,
 - b) Strengthening of the marketing and commercial information unit,
 - c) New web page and the publication of the Exporters' Directory 03-04,
2. Establishing strategic alliances with local and foreign organisations.
3. Improving the country image abroad.

The government decided some years ago that CEI should only promote exports and created a new agency, Pro-Nicaragua, for the promotion of foreign investments in the country. The government budget for CEI was reduced by 50% in spite of the importance of export promotion of Nicaraguan products.

e) ASOMIF

Support has been provided to the institutional strengthening of the microfinance sector in Nicaragua since March 2002 through ASOMIF (Association of Microfinance Institutions in Nicaragua). The project activities will end in March 2004. The narrative and financial report to December 2003 concludes that through the support, ASOMIF achieved the following goals:

- Improved the image of the microfinance and the conditions for the approval of the Law for Micro-financial Associations,
- Continued increasing its membership with 3 new affiliates in 2003, comprising an association with nearly US\$80 million in portfolio and 170,000 clients.
- Strengthened its relations with the regional associations and organised the Redcamif event in Managua in March 2003.
- Organised a seminar on rural microfinance and remittances and a seminar regarding gender in microfinance.
- Established with the participation of some MFI's, the credit information company "Sin Riesgo".

The main weakness of ASOMIF is the low compliance of its associates with their member fee to ensure sustainability.

3.3.4 Natural resources and environment

During 2003, the Ministry of Agriculture drafted a new National Strategy for Rural Productive Development, which was widely discussed by representatives of government, producers and donors. Besides, the World Bank and the EU have promoted the possibility of developing a SWAP

in rural development, which Sida is encouraging. It is evident that the government is very concerned with the issue of increasing productivity and competitiveness of agriculture, in the context of the CAFTA.

a) FondeAgro

FondeAgro is an agricultural led rural development programme implemented in six municipalities, with the objective to increase the income of farmers and their families by improving their productivity and the quality of their main products, coffee and milk.

In December 31, 2003, Fondeagro ended its first phase with 4,738 families benefiting from one or more components of the programme. About 1,800 families received technical assistance; 980 had received credit; about 1,400 participated in the Household Economy component; and about 850 were in the process of receiving land titling.

During 2003, Fondeagro devoted considerable efforts to develop marketing and producers associations as an important complement to the other services offered. Some initial results can be observed already: links with agro-industry, export markets, and improved quality of milk and coffee.

Sida's Project Committee met on November 14, 2003 to discuss the extension of the project by a second phase. A number of issues were then raised which needed further clarification, such as the legal entity of Fondeagro, the cost effectiveness and sustainability. It was therefore recommended to have a new PC meeting after revision of the document in early 2004. Meanwhile, the project has been extended by six months, i.e. until the end of June 2004.

b) Small Project Fund

The Small Project Fund, SPF, administered by the Technical Secretariat of MARENA (Ministry of Environment), received 125 project proposals during 2003. After applying the eligibility criteria, the Technical Secretariat found that 43 of the proposals were viable: 15 for conservation of natural resources, 15 in reduction of contamination, 5 in eco-tourism, 5 in bio-diversity, and 3 in environmental education. These selected projects are planned to start during 2004, with a total budget of USD2 million.

By the end of 2002, 28 new projects were approved for execution during 2003 of which two ended during the same year. Since three projects continued its activities from 2002 the net implementation for 2003 was 29 projects. As of December 2003, 110 projects had been implemented.

In 2003, Danida decided to prolong its support for the programme until 2005 and Finland announced its participation by providing an initial co-financing of USD 500,000.

3.3.5 Research co-operation

The research co-operation with Nicaragua includes four state universities (UNA, UNI, UNAN-León and UNAN-Managua) and CNU, The National Council of Universities. During 2003 research groups at the public universities have grown stronger and a number of students are expected to finalise their PhD thesis in the near future. Most of the groups have maintained links with researchers from the Swedish counterparts and an

increasing number are becoming involved in regional projects. UNA for example, has developed collaboration with regional organisations such as CATIE and compared to other research and teaching organisations in Nicaragua UNA professionals more often use literature in other languages, participate in international scientific meetings, and have greater contacts with scientists outside of Nicaragua.

At UNAN-Leon much of the health research has social influence and many of the research groups have integrated their activities within the community of Leon. A major part in the diagnosis of infectious diseases, detection of pesticide skin contamination and upgraded laboratory and epidemiological techniques carried out in UNAN-Leon are unique in Nicaragua, and therefore constitute a very valuable asset for the country as a whole.

At UNAN-Managua a multidisciplinary research group has been established to work with environmental issues, mainly in the Managua area. The program is co-ordinated by the two research centres CIRA and CIGEO, which have established a good co-operation. One example of a successful collaboration between the universities in Nicaragua is the ICT project, which is co-ordinated from UNI. By identifying common needs between the universities it has been possible to solve problems that not only have benefited the universities but also the whole country. Furthermore, the co-ordination from UNI has made it possible to build on UNI's earlier experience in the field of data communication.

A prerequisite for a successful and sustainable development of higher education in Nicaragua is that this process is strongly supported by the government. The National Council of Universities (CNU) plays a crucial role in drawing up a national policy for higher education and research in Nicaragua.

3.4 Brief Account of some of the Sida Support to Regional Co-operation Programmes of Relevance for Nicaragua

3.4.1 Regional programme on natural resources and the environment

The main objective of this programme, which was launched in 2002, is to contribute to poverty reduction in rural areas and reduced ecological vulnerability through regional co-operation. The activities are complementary to bilateral projects and intended to create platforms for dialogue and joint policy development based on shared problems. Sida's main counterparts are regional institutions or organisations.

Centro Agronómico Tropical de Investigación y Enseñanza (CATIE) in Costa Rica has adopted a new long-term strategic plan with a clear focus on poverty alleviation. The organisation receives core support for applied research, education and outreach activities, which has a high impact and provides the region with trained manpower. CATIE is also responsible for the Focuencas project, which is a natural resources project with focus on Nicaragua and Honduras.

Support is also given to *Prisma* in El Salvador, an independent think-tank, focusing on the relationship between rural poverty and the management of natural resources; the regional organisation for disaster prevention, *Cepredenac*, in Panama; the *Central American Commission for the Environment and Development (CCAD)*; and the two higher education institutions *Earth* in Costa Rica and *Zamorano* in Honduras.

A new agreement, amounting to 24 MSEK, was signed in 2003 with CATIE for core support during the 2003–2005 year period. The main area of dialogue with CATIE was how to secure long-term core financing and the need for a financial plan for the institution. A three-year agreement was signed with Prisma that amounted to 4.5 MSEK.

The agreement regarding support to the Focuencas project is running until December 2004 and a continuation is being discussed with CATIE. An in-depth dialogue has taken place with various stakeholders in both Nicaragua and Honduras about the main objectives of the continuation and how the project can become more strategically important in the management of natural resources at local level.

3.4.2 Regional Health Programme

Sida's Regional Health Sector Program for Central America (2002–2005) is channelled through the Pan American Health Organisation (PAHO) and is divided into the following areas: gender and intrafamily violence, youth and sexuality, social exclusion, tobacco, mental health and occupational health. Due to the similarities in health indicators between the Central American countries, Sida wishes to promote systematic exchange of experience within the region, sharing results, ideas and best practices. The program has gradually become more integrated into the national health sector reforms in the region. In Nicaragua, the regional program has been instrumental in providing knowledge and lessons learnt in the areas of violence and adolescents into the PROSILAIS project.

In 2003, a regional seminar was held in Honduras with participation of staff from the health ministries of the Central American countries, from the PAHO offices and from Sida and the Swedish Embassies in the region. At the meeting it was decided to improve the integration between the regional programme and the bilateral programmes and to develop action plans on how to ensure that this is done.

3.4.3 Regional Programme for Culture support

The bilateral support to the Nicaraguan Institute of Culture, for support to the National Library, Public Libraries and for the restoration of the Convent San Francisco in Granada, was concluded after approximately 15 years. One activity, the documentation of the whole process to refurbish the convent, will not be concluded until late 2004 and final reports are still to be presented and discussed.

Further support to development of the National Library Ruben Dario and the community libraries is part of Sida's regional support to libraries that started in 2002.

Internal problems and administrative shortcomings at the National Institute of Culture have delayed the implementation of the program in Nicaragua during 2003. At the annual meeting an agreement was reached on special monitoring and evaluation of the development of the program in Nicaragua.

Further support to museums and patrimony, as part of a regional program, was initiated in 2003.

Like in previous phases of the Swedish support to libraries and museums, the Swedish Royal Library and the Swedish Historical Museum are Swedish institutional counterparts.

3.5 Office and Administrative Issues

3.5.1 Current resources and staffing

The Embassy has a staff consisting of 23 persons, including the Ambassador, the Counsellor/Economist, the Head of Administration, two Programme Officers, the Regional Officer/Advisor (environment), the Associate Bilateral Expert (BBE), the Sida-financed secretary/assistant, two National Programme Officers, 6 administrative staff, 4 supporting staff and 4 cleaners/gardeners. During 2003 the Ambassador, Counsellor/Economist and the Head of Administration have been exchanged.

3.5.2 Measures for quality assurance

In October 2003, the Quality Assurance team from Sida visited the Embassy. Quality assurance at the office will be strengthened according to the advice by the team, including definition and introduction of the controller function and the reinforcement of the knowledge of Plus.

The Inspectors from the Ministry for Foreign Affairs and The Swedish National Audit Office have visited the Embassy during the year. Their reports will also give input to the improvement of the quality of work at the Embassy.

3.5.3 Bottlenecks

The major administrative bottleneck at the Embassy has been the frequent disruptions in the computer network. During the year building work has been performed at the residence and at the office, causing considerable inconvenience to the staff. Due to the dilapidated state of these two objects the building work will continue.

Annex 1

Fact sheet

Selected Socio-Economic Indicators

(based on the Human Development Report 2003 unless otherwise indicated)

Indicator	Nicaragua
Income poverty, % of population ¹	45,8
Extreme poverty, % of population ²	15,1
GNP per capita, USD ³	779
Gini coefficient, % ⁴	0,584
Share of income (or consumption) by 20% poorest, %	2,3
Health expenditures, USD per capita ⁵	20
Education expenditure; USD per capita ⁵	20
Children in primary school, % of age group ⁶	79
Maternal mortality rate per 100,000 births	150
Infant mortality rate per 1,000 born	36
Under 5 mortality rate per 1,000 born	43
Births attended by specialized health professionals, %	65
Access to clean water, %	79
Illiteracy rate, %	33,2

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 Nicaragua Development Policy Review, Concept Paper. The World Bank. By Ulrich Lächler, 2003

⁴ Data refers to 2000. Table 1.2 in "Segundo Informe sobre Desarrollo Humano en Centroamérica y Panamá, 2003, PNUD/ Proyecto estado de la region, San José, Costa Rica, ISBN 9968-806-23-4

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

⁶ UNESCO Institute for Statistics, Assessment 2002

Annex 2

Portfolio Review Nicaragua 2003

	MSEK
Country Allocation	205,0
Totally Disbursed from Country Alloc.	210,0
Disbursed in budget support	60,0

Results per sector	FC 2003	DISB 2003	FC 2004	FC 2005	FC 2006
HR/Dem	76,4	70,0	92,3	79,1	40,5
Social	42,0	39,6	45,0	47,8	28,3
Infra	59,8	41,5	30,5	24,5	24,5
Natural Res.	31,2	37,5	46,7	47,0	40,0
Research	29,0	21,4	25,5	26,0	54,0
Other	2,5	0,0	4,2	0,0	0,0
Total from country allocation	241,0	210,0	244,2	250,4	187,3
Budget support	60,0	60,0	60,0	80,0	80,0
Grand total	301,0	270,0	304,2	330,4	267,3

Assessments 2003	Planned	Initiated	Completed
Forum Syd (Equity)	1	1	0
Forum Syd (Demo)	1	0	0
Civil Society	3	1	1
Diakonia	1	1	1
Judicial Observation	1	0	0
HR-ombudsman	2	1	1
Midwifery	1	1	0
UNICEF	1	1	1
SPS Health	1	1	0
PRODEL III	1	1	0
AMUNIC	1	0	0

FONDEAGRO	1	1	0
Social Science	1	0	0
ICT University	1	1	1
Total	17	10	5

Decisions on contributions not included in the country plan

Under 2 MSEK		14	(PDF)
Over 2 MSEK		0	
	Planned	Completed	
SAK-weeks	13	6	

Annex 3

Strategic documents

Planned and completed assessments:

Assessment on support to the Social Sector Development through UNICEF (Agreement signed in May 2003 with an amount of 48.500.000 MSEK for the period 2003–2006).

Assessment on support to the Fund for Health SWAP Development, channelled through the Embassy of the Netherlands and administered by the Ministry of Health. (Agreement signed with an amount 1.500.000 SEK for the period 2003–2005).

Assessment on support to the Justice Sector undertaken in October 2003.

Reports

Segundo Informe sobre Desarrollo Humano en Centroamérica y Panamá, 2003, PNUD/Proyecto estado de la region, San José, Costa Rica, ISBN 9968-806-23-4

Evaluations

Evaluation of Fondeagro Phase I, 2003.

Mid-term evaluation of the Small Project Fund (SPF), Danida, March/April 2003.

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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