

Nicaragua: Change and Continuity



Preface

The poverty reduction strategy responds to a legitimate concern for the problem of persistent and high poverty in many developing countries. The PRSPs intend to reduce poverty through a participatory and result-oriented strategy that seeks to meet the needs of each country by bringing together both government and civil society in finding long-term solutions to the country's poverty problems. The commitment of the donors is to support the strategy with resources and debt relief.

The Swedish International Development Cooperation Agency, Sida, has requested the Institute of Social Studies (ISS) in The Hague, The Netherlands, 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 submitted in 2003 provided an in-depth analysis of the PRSP process itself, assessing in particular the processes 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 country reports are supported by a detailed and systematic stakeholder analysis, including the stock taking 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 by governments, civil society and the donor community. Additionally, a thematic report on a special issue is presented. In 2003 it referred to a detailed analysis of the decentralization process of budget management and its impact on the poverty reduction strategy.

'Pro-poor growth' is the central theme of the 2004 reports. It was chosen in response to one of the main complaints by several actors in the three countries. Those actors have pointed out that the process of consultation and PRSP design lacked a deep analysis of the relation between the PRSP and economic reforms, so as to assure that the implementation of economic policies be consistent with the poverty reduction objectives. Hence, we asked ourselves how the PRSPs in the three countries define the relation between growth and poverty reduction and whether the proposed policies can effectively promote pro-poor growth. The thematic report for 2004 concentrates on the potential of *local* economic development processes to achieve pro-poor

growth. It should be emphasized that the PRSP management process is continuous and susceptible to frequent changes. The data collection (particularly the interviews) was carried out between April and July 2004, but the document was updated until December 2004.

The five reports aim to make a contribution to existing evaluations of the PRSP process through the regional focus and an impartial assessment, given that the ISS has not taken part in the process of design, implementation and financing of the strategies.

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December 2004

Evaluation of Poverty Reduction Strategies in Latin America – 2004

Executive Summary

"Nicaragua: Change and Continuity"

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Introduction

The present country study observes some continuity and several novelties in relation to the fight against poverty in Nicaragua. First, and following the country analysis initiated in 2003, the report assesses the ongoing policies and projects related to the fight against poverty. Secondly, it analyses recent changes of considerable significance that have taken place in Nicaragua. The most important are the Law of Budget Transfers to the Municipalities, the arrival by Nicaragua at the completion point of the HIPC Initiative and the recent publication of the Operational National Development Plan (PND) 2005-2009. Finally, and considering that pro-poor growth is the central theme of the 2004 reports, this document assesses the extent to which the ERCERP, the PND and the Operational PND support pro-poor growth, introducing into the discussion a number of policies capable of stimulating this kind of growth.

After having obtained debt relief in the HIPC context, Nicaragua has, with the publication of the PND and the Operational PND, entered a stage which could be described as "second-generation PRSPs". The considerable effort of institutional development and of planning that has been carried out by the country, and of which these plans are part, has been analyzed focusing on three main aspects. *First*, if the policies proposed could effectively be implemented, would they directly contribute to the reduction of poverty? The present report's assessment is not very optimistic in this respect. A *second* question concerns the government of Nicaragua's real capacity, both administrative and financial, to implement these policies. On the one hand, and particularly in relation to implementation capacity, the plans (especially municipal development plans) and the mechanisms for decision making are so complex that implementation is bound to suffer as a consequence of difficult administrative procedures. This may in the long run affect their effectiveness in reducing poverty. On the other hand, the financial resources available are far from sufficient to carry out what is proposed, particularly the social policies. A *third* aspect concerns the pressures that these structures and procedures are bound to exert upon the state bureaucracy and its professional capabilities. Public administration, particularly at the municipal level, is not characterized by an abundance of well trained and qualified staff. It will be therefore necessary to allocate resources both to hiring staff with greater qualifications and to training existing staff who do not have those qualifications.

Economic, social and political changes?

One of the main justifications for the introduction of the new plans is that, in the three years since the ERCERP was introduced, Nicaragua has undergone considerable economic, social, political and institutional changes. This was echoed in an evaluation made by the government: "[the ERCERP] has always been seen as a live document, subject to changes that reflect the country's realities".

On the political front, the country has experienced a significant loss of stability; in spite of this, however, economic achievements were better than in 2003, although with a poverty reduction agenda that is still incomplete and subject to delays. One of the main causes of the crisis lays in the ad-hoc and inconsistent alliances into which the government entered. Currently the President of Nicaragua has neither the support of the party that brought him to power, the PLC, nor that of the opposition party, the FSLN. This creates difficulties for governing and for obtaining the parliamentary support needed to implement the government programme. The Nicaragua Executive thus finds itself in a situation of great isolation and political weakness. In turn, the Judiciary continues to experience one of its most difficult moments. For five months starting at the end of 2003, the Supreme Court had no President, no Vice-President and no chambers; two Appeals Courts could not function; and, perhaps worst of all, there was a generalised mistrust of the judiciary system. As for the National Assembly, it barely functioned in the first part of 2004, delaying the approval of relevant legislation, especially that connected with the structural reforms agreed between the Executive and the International Monetary Fund. In the second part of the parliamentary year, however, the National Assembly approved relevant legislation, such as the Laws regulating Judicial Careers and Municipal Careers, and the revision of the Law of Budget Transfers to Municipalities. This contributed towards creating an atmosphere of greater cooperation for the budget debate.

Economic results have been in line with the targets set by the authorities in the PRGF, despite the delays in the implementation of some of the structural reforms which are part of that agreement, and despite some deviations particularly in fiscal policy, that have since been corrected. This allowed Nicaragua to reach the culmination point of the Highly Indebted Poor Countries (HIPC) Initiative on the 23rd January 2004 and to obtain a reduction in its external debt of approximately US\$5,400 million (equivalent, in present value terms, to about US\$4,000 million).

During the period 2001-2004, the international community has exempted Nicaragua from paying a total amount equivalent to US\$806.6 million as repayment of the country's external public debt. Budget resources amounting to US\$202 million per year were liberated for other uses than buying US dollars to repay the external public debt. According to the policy guidelines of the Group of 7 (G-7), when it approved the enhanced HIPC Initiative, in Cologne, in June 1999, these resources should have been exclusively assigned to financing projects aimed at reducing poverty in Nicaragua. In practice, however, only a part of these resources has been assigned for this purpose. Spending of HIPC resources associated with the ERCERP over the same period amounts to approximately 253 million dollars, or around 40 per cent of total HIPC relief. The rest has been used to pay internal debt, through transfers from the National Budget to the Central Bank, for obligations acquired towards the national financial system, particularly payments for bonds auctioned and the restructured debt associated with bank failures.

In *per capita* terms, the part of the national budget associated with expenditure in the social sector (i.e. Expenditure in education, health, housing, culture and sports, and social welfare) reached in 2003 a level approximately equivalent to that of 2000 (around US\$75, or 10.2 per cent of GDP); there have been some increases in relation to previous years, particularly in education and, to a smaller extent, health. On the other hand, the resources assigned to pay both external debt (already benefiting from HIPC relief) and internal debt (mainly by repurchasing the bonds auctioned by the Central Bank of Nicaragua) rose from US\$25 in 2000 to US\$68 in 2003 (around 9.0 per cent of GDP). Over the same period, expenditure *per capita* on security and defense also rose, from US\$13 to US\$15.

In terms of the structure of government expenditure, in 2003 expenditure in education accounted for 15.5 per cent of all expenditure, one percentage point lower than in 2002; health expenditure, at 11.6 per cent, also decreased one percentage point in relation to the preceding year. In compensation, the payment of interests and repayment of principal to foreign and domestic creditors of the central government increased by 8 per cent, from 23.6 per cent in 2002 to 32.0 per cent in 2003.

There has been progress in the implementation of some of the policies and programs mentioned in the 2003 country report and some important structural reforms have been implemented. There has been significant progress in relation to public sector management (modernization of the SNIP and SIGFA, some steps in the implementation of SINASIP, implementation of the Single Account where all state income from domestic resources and foreign loans is recorded), and in the formalization of citizen participation (approval of the Law for Citizen Participation, reinforcement of Departmental or Regional Development Councils, continuing implementation of the PASE program). However the CONPES, far from having been reinforced, was unable to reach its potential as a space for consultation and citizen participation, and if anything has weakened. The Social Protection Network has continued its activity, and has carried out a third impact evaluation, as well as an analysis of the costs of its first phase.

Among the structural reforms carried out, and especially meaningful from the point of view of poverty reduction, is the Law for Munici-

pal Transfers, as such transfers, especially to the poorest municipalities, play an important role in poverty reduction. Nevertheless, both the constraints imposed on the State by the principle of fiscal neutrality and the introduction of a very complex municipal planning system, requiring very qualified staff in the municipalities, may create bottlenecks that hinder the effective and progressive transfer of resources necessary to improve the situation of the poor.

The new poverty reduction agenda

The new agenda for economic growth and poverty reduction shows a clear bias towards support to the enterprise sector rather than social welfare. It includes competitiveness objectives and is based on a view of development that assumes growth should take place first, followed by distribution through spread effects or trickle down. Policies aimed at increasing competitiveness can be found in all development proposals of the government.

The PND contains a broad and high-quality diagnosis of the situation of Nicaragua. The diagnosis refers to unsustainable situations that the country faces. These include fiscal, external, environmental, social, institutional and political situations of non sustainability. The PND argues that sustainability depends on GDP growth and on the growth of exports. The key assumption of the PND is that the economy will grow on a sustainable basis at rates of 5 to 6 per cent per annum for a sufficiently long period (the projections made in the PND refer to a period of 25 years) to double *per capita* income and make the country fiscally sustainable. In the same way, a sustained growth rate of exports of 15 per cent per annum will make sustainable the balance of payments situation. These growth rates will also help reduce open unemployment to 4 per cent, at which point real wages may begin to rise. All this depends on obtaining HIPC relief and renegotiating the internal debt.

The PND provides a useful analysis of the problems that must be faced in coming years if the country is to aspire to a better future. From the point of view of its impact upon poverty and poverty reduction, however, it is little more than a collection of promises that are very difficult to realize. Its main weakness is that it does not face the most serious obstacle: the distribution of income. The PND is based on the explicit assumption that, in order to be able to redistribute incomes in favor of the poor, the economy must first grow; in other words, poverty reduction is dependent on economic growth.

Partly responding to demands from the donors, in October 2004 the government published the *PND Operativo* (OPND), based on the PND but with a greater operational character and giving greater emphasis to poverty reduction policies. The preparation of the OPND includes a broad and genuine process of public consultation at the departmental level, including mayors, Departmental Development Councils and representatives from Municipal Development Councils. In these meetings, which took place in all departments, the presenta-

tion of the PND was normally followed by an indication of the plan's implications for the department, in terms of public investment, and by a discussion aiming to collect suggestions concerning both the plan and its local aspects and implications. The process of public consultation that fed the formulation of the *PND Operativo* suffers, nevertheless, from some significant weaknesses, the most important of which is the lack of a genuine discussion at the national level of the PND, its basic assumptions and its principal consequences. Except a discussion by the CONPES and a few discussions at the sectoral level, there has been no serious in-depth discussion at the national level either of the PND or of the options it proposes. As a consequence of this, there is at the national level in Nicaragua very little awareness and even less ownership of the PND and the *PND Operativo* than was the case with the ERCERP. Despite the fact that the National Assembly has now more members informed about and interested in development and poverty, the debate between government and assembly is now even less intense than when the ERCERP was formulated. Discussions at the departmental level could never replace a national debate about the national aspects of what is, after all, a national plan proposal. The government seems to have wasted an important opportunity when it avoided this debate.

The *PND Operativo* contains eight chapters, opening with a presentation of the (just-mentioned) participation process associated with its preparation and continuing with the presentation of the program for the period 2005-2009, including what would be implemented in relation to enterprise development and competitiveness as a strategy for poverty reduction; to territorial development, and policies relating to financial services, property rights, trade and infrastructure; and human development and a social policy seen as integral and sustainable. It then refers to public expenditure and financing, to macro-economic aspects and finally to implementation and monitoring systems.

The *PND Operativo* includes poverty reduction and employment generation among its explicit objectives. Two very positive aspects of the plan that deserve a special mention for their potential impacts on poverty reduction are the clarification and strengthening of property rights over land and improved access to credit for farmers and small enterprises. In keeping with its operational character, this plan goes into precise detail in relation to the costs and to the monitoring indicators for each policy of project. On the other hand, however, it shares the PND's basic assumptions about development and reaffirms the same postulates concerning competitiveness and economic growth as factors that condition the reduction of poverty. The *PND Operativo* again assigns the first priority to the growth of the productive sector, seen as the engine of development that will create the jobs and the wealth necessary to free the country from poverty. The *PND Operativo* also states that, for such growth to happen, Nicaragua must become internationally competitive so it can attract investment and get advantages for its products. The emphasis therefore remains on enterprise development and on poverty reduction by trickle down, and much of what was said about the PND applies also to this plan.

The development model underlying these plans suffers from some important weaknesses. First and even taking into account the success stories, the Latin American experience indicates that trickle-down is in

general insufficient, and that income concentration tends to increase. Secondly, this development model assumes the existence of a modern and entrepreneurial productive sector, which tends to be very scarce in countries like Nicaragua. In the third place, approaches of the type "first growth; then distribution" ignore the important fact that income redistribution is one of the main factors of success of economic growth policies – as has been demonstrated by the cases of Japan, first, and the Asia 'tigers', afterwards. Finally, the emphasis laid on competitiveness does not take into account that competitiveness is not an instrument for the state but for private enterprise. The state's role is largely one of facilitator, and of trying to persuade private firms to behave in certain desirable ways. Logically, if a trickle down mechanism is expected to reduce poverty, in the long run poverty reduction depends on the private sector and not on the state. One consequence of this is that, since firms decide how the problem of poverty reduction is going to be approached, they will define when enough growth has taken place, and distribution may start. This means that there is a conflict between the short term of competitiveness, and the longer term of poverty reduction, which may never arrive. The lack of instruments for the state to intervene in the economy, which is a consequence of more than a decade of structural adjustment, tends to aggravate this problem.

To conclude we could say that Nicaragua's planning and regulation efforts are laudable but there seems to be a lack of coordination between different policies. For example, the Decentralization Policy and the Law of Municipal Transfers seem to have been designed in completely separate ways and each ignores the existence of the other. Something of the same kind occurs, though not quite to the same extent, in relation to the ERCERP and the PND, which do not seem to be stages in the same process.

Donor Coordination

In this section two aspects are analyzed: Progress in coordination with and among donors and the benefits of budget support (BS) in terms of efficiency (transaction costs) and ownership.

In the beginning of 2003, the government took the initiative to develop a new scheme to improve coordination among donors. After the First Forum of "Coordination of International Cooperation" in February 2003, the Government issued a decree to create nine round tables for sectoral coordination, led by ministers with the participation of donors and representatives of civil society. Currently there are five round tables at the national level: Health, Education, Production and Competitiveness, Governance and Infrastructure.

A generalized opinion among donors is that communication has improved since the round tables have been implemented; more information is exchanged about plans and programs that are being developed in each sector. Nevertheless, certain donors suggest that some round tables work well (health and education) and others do not (governance, productivity and competitiveness). They mention that a good number of round tables are not functioning well due to lack of political support or organizational capacity on the side of the recipient government. Donors find that participation of civil society in the roundtables should be improved. Sometimes the government does not allow them to participate and in other cases the so-called representatives of civil society are not true representatives. Operationally, coordination has been more difficult, even though there are some co-financing agreements with multi-lateral banks, and occasionally two or three donors get together to fund a project.

The movement towards budget support seems to be an autonomous process, promoted by the headquarters of an increasing number of donor agencies and without a close relation to PRSPs. The donors who favour it most include the UK, Denmark, Norway, The Netherlands, the UK, Sweden, and Switzerland. Others have recently moved in this direction (Germany, Finland, Ireland and the European Union), and others are still considering it as a possibility or applying it only in exceptional cases (Belgium, Canada, Japan). Although Holland and Switzerland have considered moving in this direction, they are currently channelling their resources through the SSF (Social Supplementary Fund). Switzerland acts in this way due to the political uncertainty and based on the fact that the *Budget Support Group*, BSG, does not have an agreement with the government and Holland has done so

since there is not yet a policy matrix with indicators. Sweden, on the other hand, believes that the contribution to the SSF only gives an apparent assurance about the use of funds, since money is fungible.

Where coordination has been most effective is in defining policy conditions in the BS framework. An agreement with the IMF has proved to be the most important preliminary condition for the concession of budget support and donor co-financing has extended conditions to include those formulated by the World Bank and the Inter-American Development Bank. Although the current government has taken to heart the responsibilities imposed by IMF conditionality, this practice of policy conditionality is considered excessive by some government segments. The non approval of some laws may have a negative impact upon the achievement of the monetary and fiscal targets set by the IMF, hence endangering BS.

Is there pro-poor growth in Nicaragua?

Strategy analysis

When trying to define pro poor growth in Nicaragua, a brief survey indicates that there is no consensus about what pro-poor growth means and that there is no ongoing national debate around this concept. Most people tend to identify this concept with another, less rigorous but better known concept, which was used in the ERCERP: the concept of broad-based growth. On the other hand, it must be pointed out that particularly civil society organizations have begun to criticize income concentration, the inequities of the tributary reform put in place since May 6th 2003 and the vision of economic growth that is presented in the National Development Plan (PND), regarding stronger competitiveness and the development of eight clusters. This implies at least some awareness of the fact that what is being criticized is **not** pro-poor.

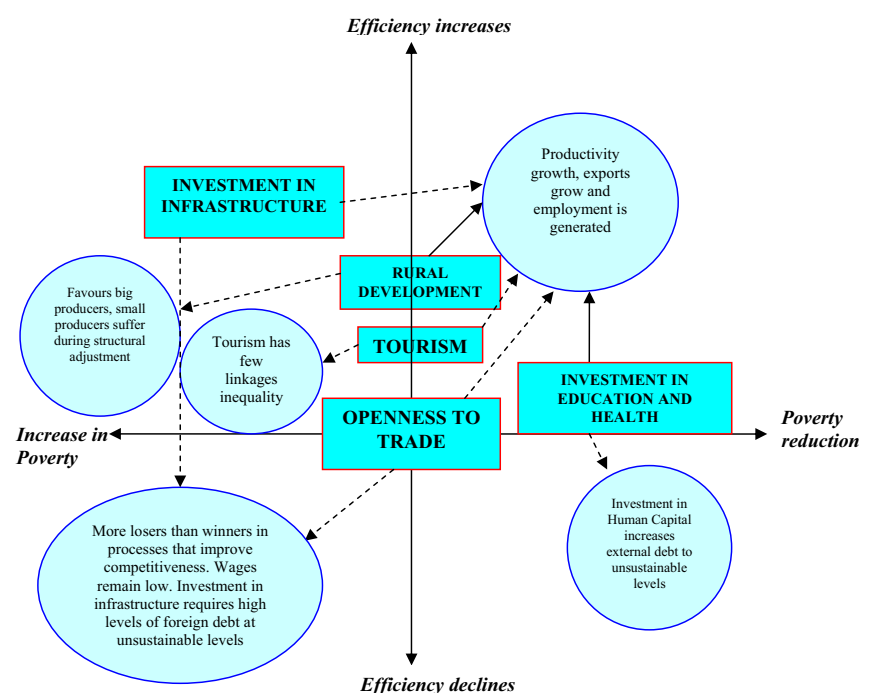
Broad based economic growth is the most important pillar in the ERCERP, despite that it is only broadly characterized in the strategy document. It rests on the implementation of a program of sustainable economic stabilization and structural reform, which includes the privatization of state-owned companies that provide public services; modernizing and integrating the rural economy; encouraging small and medium enterprises; developing the Atlantic coast; and promoting strategic productive conglomerates. The strength of this pillar will depend on the dynamics of the private sector. For the authors of the ERCERP, ultimately it is the private and not the public sector that will create more jobs, higher income and wealth in Nicaragua. The strategy lays considerable stress on rural development, because poverty tends to concentrate in rural areas, and because of the growth potential of these areas, with their abundant if underutilised factor endowments. It also considers that agriculture and small and medium enterprises have considerable potential to reduce unemployment and under-employment, because of the labour intensive nature of production in these sectors.

The objectives of the PND and the *PND Operativo* regarding poverty reduction and income generation through employment appear to be more ideological than practical. The PND lays considerable emphasis on competitiveness, the development of competitive advantages and the creation of clusters in regions with potential. Its shortcomings lie in the fact that it does not indicate how these goals are to be attained, or how the country's limited investment capacity should be used in this pursuit. The PND does not present a Government strategy to deal with poverty and income inequality, since it only envisages a scenario in

which private investment would reach the potentials identified by the Plan and, through some sort of trickle down, alleviate poverty. In areas where there is no potential, people are expected to migrate in search of better opportunities.

Our assessment of the policies included in Nicaragua's National Development Plan suggests that we should not be too optimistic about its results. As in Honduras and Bolivia, the strategy seems promising, but the potential impact of these policies in terms of pro-poor growth is highly uncertain. Graph 1 gives a summary picture, indicating clearly the diverging paths these policies could eventually lead to. Greater economic integration (through CAFTA) could deliver modest pro-poor growth gains, but there are obvious losers to further trade integration, particularly producers of basic grains who are mainly poor farmers. If we also take into account the potential market loss for textile exports once the multi-fibre agreement has ended, the pro-poor benefits become even more uncertain. Investment in infrastructure should improve competitiveness in the country, but its positive impact will not be in the short run. In addition, these investment plans require high upfront financing, most likely with money borrowed abroad, which could again affect Nicaragua's debt sustainability. The development of the tourism sector could generate more employment, although it is not clear to what extent this will favour job creation for low-skilled (poorer) workers. If progress can be made with land reform in Nicaragua, the proposed rural development policies make agricultural production more pro-poor. If the land tenure problem is not resolved and access to rural credit for poor farmers cannot be ensured (and the National Development Plan is far from clear as to how to resolve these issues), then the upshot could well be that plans for agricultural development will only benefit large scale farmers and that agricultural modernization will result in the further impoverishment of many small farmers.

Graph 1 Taxonomy of Pro-poor Growth Policy Proposals (revised PRSP) in Nicaragua



Conditions for pro-poor growth in Nicaragua

Without intending to propose an alternative strategy for Nicaragua's development, we present below some topics that should be taken into consideration when formulating policies aimed at promoting growth that genuinely favours the poor.

Nicaragua has two ways of maintaining or reinforcing its international competitiveness: improving productivity and competitiveness of its producers – both agricultural and industrial - or maintaining real salaries at such a low level that domestic and foreign enterprises can make profits and therefore compete despite low productivity levels. The second path would be one in which the country specialises in poverty, and its viability requires that poverty be maintained. Assuming that this is not an alternative, the central theme in the government agenda should be to increase competitiveness in agricultural and industrial sectors. But how can an increase in competitiveness benefit the poor?

Among the policies to foster competitiveness and economic growth, there are some that have a greater potential to benefit the poor:

- Encouraging the development of a diversified industrial structure, so as to stimulate the direct or indirect creation of jobs and the transfer of technology, and to decrease the vulnerability of the country to economic shocks.
- Facilitating access to credit for small scale enterprises in the agriculture and industrial sectors, in order to improve their technological base and increase employment opportunities for the poor.
- Supporting medium and small enterprises in technological transfer.
- Investing in primary, secondary and technical education in order to improve the quality of life and the productivity of workers.
- Attracting foreign direct investment and supporting the creation of linkages between foreign and local enterprises, for example by sub contracting, in order to maximize the employment multiplier effect.
- Investing in the construction and in the maintenance of infrastructure (roads, public services, telecommunications and ports).
- Stimulating economic activities aimed at the domestic market, especially the production of wage goods.
- Reforming and strengthening the judicial system and increasing fiscal equity to eliminate negative incentives towards investment.

- Improving and strengthening the system of property rights to stimulate investment.
- Adopting an income redistribution policy, both to influence poverty reduction directly and to stimulate economic growth.
- Reducing the vulnerability to natural disasters, to protect the poor and to stimulate and preserve the country's economic development.

These examples clearly indicate that there is a broad set of policies and instruments that could be used as part of a pro poor growth strategy. It is essential to discuss these policies and instruments, as well as the meaning of the concept of pro-poor growth and its implications for Nicaragua in 2005.

Conclusions

The title of this document "Change and Continuity" seems justified. The PND and the *PND Operativo* propose a different strategy than the ERCERP: more focused on competitiveness and growth than on the reduction of poverty, proposing reforms in the public sector that eliminate barriers to growth, and expecting contributions from the private sector which would bring a radical change of mentality and behaviour, although no clear mention is made on how to bring about these changes.

Continuity is expressed in the fact that the government continues to assign a relatively low priority to poverty reduction. This is made evident for instance through the decline in social expenditure financed by the central government with the treasury's own resources. The main priorities are also very clear: payment of the internal and external debt, stabilization and macroeconomic consolidation and increasing international reserves. The problem is that this guarantees neither economic growth, nor poverty reduction.

This second generation strategy shows more ownership by the government than the original PRSP, although such ownership does not extend to Parliament or to political parties, and is weak among civil society. Operationally it would be preferable for civil society to have strong ownership not only of the strategy, but of the programs and projects for poverty reduction.

Donors share responsibility both for the continuity and for the changes in the strategy. On the one hand they ask the government to come up with new strategies, particularly the *PND Operativo*, and they are prepared to accept this new plan as a replacement for the ERCERP, despite the deficiencies in the national debate and the consequently limited ownership by Parliament and civil society. On the other hand, an important group of donors is planning to give or has already given BS, apparently after they have concluded that it is a priority of the Government to reduce poverty and that the Government is capable of implementing policies aimed at such reduction - although, as this report clearly indicates, there are reasons to doubt both premises.

Nicaragua has succeeded in reaching the HIPC culmination point, achieving what the international financial institutions consider a good performance in the context of the PRGF and in the adoption of structural reforms. This predominantly macroeconomic program gives

priority to macroeconomic stability, particularly of the financial system, and to fiscal strengthening, relegating social expenditure to a secondary position.

Nicaragua is showing stronger macroeconomic indicators, although it is still uncertain how the country will avoid falling again into excessive debt, particularly since the changes that are required to make the economy less vulnerable and to improve income equality require projects with high levels of financing whose benefits will only become obvious in the long term.

Efforts continue to be made to improve coordination between donors and to establish more effective mechanisms of control and monitoring of the ERCERP. This is the case of budgetary proposals such as the medium term expenditure framework and initiatives to improve the quality of public expenditure. Nevertheless some of the factors that constrain these initiatives, such as political instability and governance problems, have deteriorated in the recent past and will most likely have negative effects upon fiscal management. This is further complicated by the fact that these processes require capacity building that can not be attained in the short run.

It is urgent to take the opportunity provided by the *PND Operativo* to initiate a broad and open debate at all decision making levels in the country. For this debate to succeed it must be clear, from the outset, that the Government is willing to listen and to introduce significant, even radical changes in the document and in the concrete policies associated with its implementation. It is vital that this debate focuses on what pro-poor growth implies, the kind of economic growth that is needed for Nicaragua and how such growth can be used to reduce poverty.

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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