

## Nicaragua: Poverty Reduction Strategy Paper

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# **Republic of Nicaragua**

# **National Development Plan**

**November, 2005**

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## Acronyms and Abbreviations

AFP	Pension Fund Administrators
AMUNIC	Association of Municipalities of Nicaragua
AN	National Assembly
ANITEC	Nicaraguan Association for Textiles and Clothing
AP	Protected Areas
APRENDE	Action for Teaching and Development
ASOMIF	Nicaraguan Association of Microfinance Institutions
BAVINIC	Nicaraguan Housing Bank
BCN	Central Bank of Nicaragua
CABEI	Central American Bank for Economic Integration
CAP	Center for Attention to the Public
CBI	Caribbean Basin Initiative
CC	Civil Coordinator
CDD	Departmental Development Councils
CDI	Child Development Center
CDM	Clean Development Mechanisms
CDU	Councils for University Development
CEDEP	Center for Productive Development
CEDES	Center for Social Development
CEI	Center for Exports and Investments
CENAGRO	National Agricultural Census
CENIT	Tradable Negotiable Investment Certificate
CETREX	Center for Export Procedures
CFAA	Country Financial Accountability Analysis
CGR	Office of the Comptrollers-General of the Republic
CICO	Community Childcare Center
CNC	National Commission on Competitiveness
CNE	National Energy Commission
CODE	Center for Emergency Operations
CONADES	National Council for Sustainable Development
CONAPAS	National Commission for Water and Sanitation
CONAPINA	National Council for Protection and Attention to Children and Adolescents
CONAPRO	Confederation of Professional Associations of Nicaragua
CONPES	National Council for Economic and Social Planning
COSEP	High Council for Private Enterprise
CPS	Service Providers Centers
CSJ	Supreme Court of Justice
CTI	Technical Committee for Investments
CTM	Commission for Municipal Transfers
CUT	Treasury Single Account
CZF	Free Trade Zone Corporation
DAI	Importation Tariff Rights
DFI	Direct Foreign Investment
DGA	General Customs Office
DGI	General Revenues Office
DHS	Nicaraguan Demographic and Health Survey
DR-CAFTA	Central American Free Trade Agreements with the USA and the Dominican Republic
EAP	Economically Active Population
ECLAC	Economic Commission for Latin America and the Caribbean

ECODESNIC	Nicaraguan Strategy for Conservation and Development
EFA - FTI	Education for All – Fast Track Initiative
ENACAL	Nicaraguan Water and Sewage Utility
END	National Strategy for Decentralization
ENEL	Nicaraguan Electricity Utility
ENTEL	Nicaraguan Telecommunications Utility
ENTRESA	Firm for Electricity Transmission
EPN	National Port Authority
ESS	Health Sector Strategy
EU	European Union
FCR	Rural Credit Fund
FISE	Emergency Social Investment Fund
FNI	Nicaraguan Investment Financier
FODIEN	Fund for Development of the Electricity Industry
FOGADE	Deposit Guarantee Fund
FOMAV	Roadways Maintenance Fund
FOSOVI	Social Housing Fund
FSS	Supplementary Social Fund
FTA	Free Trade Agreement
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
GTZ	German Technical Cooperation
HDI	Human Development Index
HDI	Human Development Index
HIDROGESA	Hydroelectric Generation Corporation
HIPC	Reinforced Initiative for Highly Indebted Poor Countries
IDA	International Development Association
IDB	Interamerican Development Bank
IDR	Institute for Rural Development
IEC	Specific Tax on Consumption
IGV	General Sales and Service Tax
ILO	International Labor Organization
IMF	International Monetary Fund
INAA	Nicaraguan Institute for Water and Sewage
INAFOR	National Forestry Institute
INATEC	National Institute for Technical Training
INEC	National Institute for Statistics and Censuses
INETER	Nicaraguan Institute for Territorial Studies
INIFOM	Nicaraguan Institute for Municipal Development
INIM	Nicaraguan Women’s Institute
INPYME	Nicaraguan Institute for Support to Small and Medium Business
INSS	Nicaraguan Social Security Institute
INTA	Nicaraguan Institute for Agricultural Technology
INTECNA	National Technological Institute
INTUR	Tourism Institute
INVUR	Institute for Urban and Rural Housing
IR	Income Tax
IVA	Value Added Tax
LSMS	Living Standards Measurement Survey
MAGFOR	Ministry of Agriculture and Forestry
MAIS	Model for Integral Healthcare

MARENA	Ministry of Environment and Natural Resources
MCA	Millennium Challenge Account
MCD	Mechanisms for Clean Development
MECD	Ministry of Education, Culture, and Sports
MHCP	Ministry of Treasury and Public Credit
MIFAMILIA	Ministry of the Family
MIFIC	Ministry of Industry and Commerce
MIGOB	Ministry of Governance
MINREX	Ministry of Foreign Affairs
MINSA	Ministry of Health
MIPYME	Micro, Small, and Medium Business
MITRAB	Ministry of Labor
MTI	Ministry of Transport and Infrastructure
NBFI	Non-Banking Financial Institutions
NDP	National Development Plan
NGO	Non-Governmental Organization
OAP	Office for Public Administration
ODA	Official Development Assistance
OEP	Office for Public Ethics of the Presidency
ONDL	National Office for Clean Development
OPEC	Organization of Petroleum Exporting Countries
PAINAR	Program for Integral Attention to Children and Adolescents at Risk
PAININ	Program for Integral Attention for Children and Adolescents
PANIC	Nicaraguan Environmental Plan
PASE	Program for Appropriation, Follow-Up, and Evaluation of the SGPRS
PBSS	Basic Healthcare Service Packet
PDDH	Office of the Procurator for Defense of Human Rights (Ombudsperson)
PDLCA	Program for Local Development of the Atlantic Coast
PDM	Municipal Development Plan
PESA	Special Program for Food Security
PGIRCI	Gradual Integral Plans for Reducing Industrial Pollution
PGR	Office of the Procurator General of the Republic
PINE	Integral Program for School Nutrition
PIP	Public Investment Program
PMSS	Program for Modernization of the Health Sector
PN	National Police
PNC	National Program for Competitiveness
PRGF	Poverty Reduction and Growth Facility
PSTAC	Public Sector Technical Assistance Credit
PYMEs	Small and Medium Businesses
RAAN	North Atlantic Autonomous Region
RAAS	South Atlantic Autonomous Region
RINAS	Net Adjusted International Reserves
SETEC	Technical Secretariat of the Presidency
SGPRS	Strengthened Growth and Poverty Reduction Strategy
SIBOIF	Superintendence of Banks and Other Financial Institutions
SIEPAC	System for Electrical Integration for Central America
SIGFA	Integrated System for Financial Management and Auditing
SILAIS	Local System for Integral Healthcare
SINAP	National System for Protected Areas
SINAPRED	National System for Disaster Prevention



SINASID	National System for Follow-Up of Development Indicators
SINIA	National System for Environmental Information
SISEP	Superintendence of Public Services
SIUE	Integrated System for Executing Units
SNIP	National System for Public Investments
SPM	Forestry Planning System
SPNF	Non-Financial Public Sector
SREC	Secretariat for Economic Relations and Cooperation
SSN	Social Safety Net
SYSODA	System for Official Development Aid
TELCOR	Telecommunications and Mails – Regulatory Body
UCRESEP	Coordinating Unit for Public Sector Reform
UIP	Public Investments Unit
UNDP	United Nations Development Program
UPANIC	Nicaraguan Union of Agricultural Producers
USA	United States of America
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
UTD	Departmental Technical Units
UTIP	Territorial Units for Public Investment
VUI	Single Wicket for Investments
WB	World Bank
WFP	World Food Program
WTO	World Trade Organization

## **Executive Summary**

### **Participation and adjustments to the new reality**

1. In January 2004 after a long process of structural adjustment and fiscal discipline, Nicaragua finally achieved the relief of more than 80 percent of its foreign debt under the Highly Indebted Poor Countries initiative (HIPC). Support from the international community and Nicaraguan society enabled this process to move forward within the frame of the Strengthened Growth and Poverty Reduction Strategy (SGPRS, 2001). This allowed the formulation of strategies and development programs with participatory processes to define priorities and establish commitments in the implementation and monitoring of national and territorial goals and action plans. The SGPRS led to institutional reforms in the public administration that included the State's political, administrative, and financial decentralization.

2. The National Development Plan (NDP) is the culmination of a process of participatory planning and consultations from the bottom up that facilitated the incorporation of objectives, targets and indicators for economic growth and poverty reduction. The NDP also incorporates new elements and analytical methods to make the necessary adjustments on the economic and social policy and to adhere to international commerce and free trade agreements that will facilitate accelerated economic growth and poverty reduction, which remain the fundamental objectives of the NDP.

3. Despite some progress with the SGPRS, there has been a slow economic growth and thus the fight against poverty has not been highly effective. The result of the initial consultation process was the NDP proposal, designed to overcome the shortcomings of the SGPRS, and presented to the Nicaraguan people in September 2003 and to the international cooperation community at the Consultative Group meeting later that same year. Specific and general recommendations were received and incorporated into the NDP implementation process.

4. The objective of the NDP is sustained high levels of economic growth by supporting local development through the formation of human capital and social protection, democratic governance with wide citizen participation, equity, government transparency and accountability, and modernization of the State to take advantage of global commerce and regional free trade agreements.

### **Furthering the reforms and revitalizing the economy**

5. The implementation of the SGPRS provided an economic revitalization in a context of low inflation, exchange rate stability, and declining interest rates. However, the increase in per capita income and the reduction of poverty levels have not turned out as expected. The SGPRS did not foresee the negative effect of the fall in coffee prices and other agro-export products, the record high oil prices, and the repercussion of the 2001 banking crisis on the internal debt.

6. The NDP responds to the need to review the SGPRS and to carry out new reforms with the purpose of accelerating and increasing economic growth, employment generation and be able to reach the millennium development goals. The Government is pursuing greater efficiency in the public administration through a decentralized and fiscally sustainable structure. Municipal

decentralization is not limited to fiscal transfers, but includes the regulatory legal framework, the development of strategic and administrative capacities at the local level, and fiscal neutrality.

### **Poverty reduction through production development**

7. The consultations process showed that the most pressing demand for the majority of Nicaraguans is employment generation and economic growth. The NDP gives priority to actions that improve the investment climate and promote productive development -considering the competitive potential of the territories- giving a better position to Nicaragua in the trading world through increased foreign investment. The NDP seeks three general objectives: higher incomes and reduced poverty, higher and better employment, and increased investment and exports.

8. The NDP establishes a more effective regulatory framework, promotes competition and a legal framework that guarantees property rights and lower domestic transaction costs. The strategic vision is to foster efficient relationships between producers, suppliers, consumers, and support industries in the territories so the private sector can maximize its value added and employment. Some of the strategic economic clusters under development are coffee, beef and dairy products, shrimp farming, tourism, light manufacture, forestry, energy generation, and other products like fruits and vegetables, oilseed, cocoa, and plantains (cooking bananas), subject to new private sector developments and initiatives, such as out-sourcing.

9. The importance the NDP gives to production and employment is complemented with actions to improve Government services to facilitate production processes and private investment, improve infrastructure, and maintain stable economic policies. The NDP includes prioritized core areas: regulatory framework, property rights, financial services, export promotion and attraction of investment, increased productivity through cluster promotional development, rural development, and environmental sustainability. It also underlines investments in electric generation based on renewable resources.

10. The NDP is based on territorial development making it necessary to decentralize the provision of public goods and services for efficiency and administrative reasons, promoting competition and consumer protection, and establishing a quality control systems and certifications in line with world market standards taking advantage of free trade agreements and the Central American Customs Union.

### **Formation of human capital and efficient social spending**

11. Despite efforts to increase both social current and capital spending, Nicaragua is still far from meeting its poverty reduction goal, particularly in rural areas where most of the population lives below the poverty line.

12. The education sector has made progress with decentralization and autonomy processes. Nonetheless, a great number of children are still outside of the education system, with the proportion of them not attending school being six times higher among households living in poverty. The actions in education are aimed to improve and expand infrastructure, adjust the curriculum to the demands of the productive system in order to increase productivity, and improve the qualifications of the teaching staff and improve their living standards; all within

education models including participation of the parents.

13. The health sector policy guarantees universal access to basic services to increase life expectancy and quality of life, with a new approach to service provision that improves quality and efficiency, prioritizing preventive health and promoting healthy household and community behaviors.

14. The labor policy is aimed at improving work and social conditions, guaranteeing the rights of workers and eradicating child labor. It also emphasizes the technical training for the economically active population to increase their productivity and adaptability.

15. The social protection policy is aimed at social inclusion and reducing inequalities, particularly among households and communities in vulnerable conditions. This is being implemented by the Solidarity Development System that groups the main social protection provision programs and projects.

16. The establishment of Service Provider Centers (CPS) strategy is amongst the proposed initiatives with the objective to facilitate access and improve the quality of public services for the rural population, increasing the impact of public spending.

### **Investment in infrastructure**

17. The public investment policy is geared to reduce the indexes for productive and social marginalization, such as geographic isolation (due to an insufficient network of highways and rural roads), lack of access to drinking water and sanitation, housing, and poor access to energy and telecommunications and other basic social services.

18. The investment policy objective is to improve the quality of investments, the efficiency of spending and social participation to: a) further the economic growth of the territories; b) improve competitiveness to facilitate private investment; and, c) reduce gaps in poverty levels to reach the millennium development goals.

19. To achieve the objectives mentioned above, the government has initiated the strengthening of the public investment system with emphasis on pre-investment process and the capacity for project formulation and monitoring in order to have an investment portfolio with the greatest impact on the economy and the standard of living of the population.

### **Governance**

20. Good governance centers on establishing broad and permanent processes for national dialogue to deal with the most important issues. It also aims at strengthening the institutions and systems for citizen participation and consensus building, governmental reforms, improving public services delivery, and promoting transparency and accountability. In response to citizens' and municipal demands decentralization is a process to strengthen local governments and their regulatory framework. Governance also seeks to strengthen other branches of government and reform their legal framework in response.

## **The NDP, fiscal discipline, stability and economic growth**

21. The fiscal policy actions are directed at achieving long-term sustainability of public finances to maintain low inflation levels and stimulate economic growth. The process to transform the national budget into the main instrument directed at fostering competitiveness and productivity in the economy was initiated and it was proposed to reduce the combined public sector deficit after grants, from -5.3 percent of GDP in 2001-2005 to -1.4 percent in the next five-year period.

22. It is expected that under a less adverse international setting and under the stimulus of the economic development policies, the economy will grow at an average annual rate of no less than 4.5 percent during the 2006-2010 period. Under the full implementation of the NDP, it is estimated that GDP growth, in real terms, will be above 5.0 percent for the 2010-2020 period, with the consequent recovery of per capita income.

23. The effect of fiscal discipline and economic growth on the balance of payments is important, but also debt relief, increase in family remittances and foreign investment. It is estimated that the current account deficit will drop at an average annual rate of 3.0 percent, from 18.0 percent of GDP for the 2001-2005 period to 15.2 percent for the next five years.

24. More favorable international prices for export products, a boost in the production of non-traditional products, the opportunities from free trade agreements, and sound public policies will speed up, in the medium term, exports growth. Nevertheless, the impact of high oil prices, raw materials and capital goods imported will bring the commercial deficit above the 2001-2005 period average.

25. The medium term perspectives for resource allocation take into account: a sustained growth of GDP based on the comparative advantages of the territories; opportunities from free trade agreements; the prioritization of policies, programs, and projects with social impact that will facilitate achieving the millennium development goals; and to structure a better targeted social safety net.

26. Positive aspects that facilitate the financing for the NDP priorities are: a better financial situation after the HIPC debt relief; the inclusion and approval of the Millennium Challenge Account initiative; more and better available export markets; the impact of higher economic growth on fiscal revenues and tax reforms to be implemented; the accumulation of external resources still pending disbursement equivalent to more than 20 percent of GDP; and, the increase of private and direct foreign investment.

## **Redirecting resources for development**

27. Regarding the financial requirements for reaching the objectives and targets of the NDP, a costing of the required financial resources was made. Based on unit costs, projections were made for reaching the millennium development goals in the social areas (expanded scenario) and for the actions involved in supporting production, investment and employment generation for the 2006-2010 period. The projections of the expanded scenario compared to the ones for available resources under the PRGF (base scenario) provide a gap that indicates a shortage in reaching

some of the goals originally established. The NDP prioritized according to sectoral gaps, with an estimated total of about US\$187.2 million annually to be invested in infrastructure and support for the private sector. Even with these described changes, social spending continues to represent the greatest portion of overall spending.

28. As explained further on, the redirecting of resources to reach the objectives of the NDP includes new mechanisms for channeling international cooperation. The policy assessment matrixes of the Joint Financing Agreement, signed in May 2005, are included in the subset of the overall actions and are an integral part of this plan.

29. The table below presents a summary of the financial strategy, showing the specific sector gaps as national priorities, and where resources from the international cooperation should be directed. It is understood that a greater gap represents a higher priority in order to speed up the pace for economic growth, to reach the millennium development goals, and poverty reduction.

Nicaragua: Financing Scenarios 2006-2010									
Sectors	2006-2010				Financial Gap		2006-2010		
	Base Escenario <sup>1/</sup>		Expanded Scenario <sup>2/</sup>		Accumulated	Average	Base	Expanded	Gap
	Accumulated	Average	Accumulated	Average					
	(1)	(2)	(3)	(4)	5 = (3-1)	6 = (4-2)			
	<b>Million of Dolars</b>				<b>GDP Percentage</b>				
<b>Total NFPS Spending</b>	<b>8,016.8</b>	<b>1,603.4</b>	<b>8,802.8</b>	<b>1,760.6</b>	<b>786.1</b>	<b>157.2</b>	<b>27.6</b>	<b>30.3</b>	<b>2.7</b>
Interest	556.3	111.3	556.3	111.3	0.0	0.0	1.9	1.9	0.0
<b>Total Primary NFPS Spending</b>	<b>7,460.4</b>	<b>1,492.1</b>	<b>8,246.5</b>	<b>1,649.3</b>	<b>786.1</b>	<b>157.2</b>	<b>25.7</b>	<b>28.4</b>	<b>2.7</b>
<b>I. Prioritized Spending</b>	<b>3,986.2</b>	<b>797.2</b>	<b>4,922.2</b>	<b>984.4</b>	<b>936.1</b>	<b>187.2</b>	<b>13.7</b>	<b>16.9</b>	<b>3.2</b>
Social <sup>3/</sup>	2,545.8	509.2	2,726.3	545.3	180.5	36.1	8.8	9.4	0.6
Productive y Environmental	384.2	76.8	650.4	130.1	266.3	53.3	1.3	2.2	0.9
Infrastructure	1,014.9	203.0	1,478.2	295.6	463.3	92.7	3.5	5.1	1.6
Governance	41.4	8.3	67.3	13.5	26.0	5.2	0.1	0.2	0.1
<b>II. Complementary Spending<sup>4/</sup></b>	<b>4,030.6</b>	<b>806.1</b>	<b>3,880.6</b>	<b>776.1</b>	<b>-150.0</b>	<b>-30.0</b>	<b>13.9</b>	<b>13.3</b>	<b>-0.5</b>

1/: Updated with new projected macroeconomic framework as of September 2005, and the National Budget 2006. 2/: Relation to GDP in previous scenarios remains constant (16.9% of GDP in 2005-2009, the annual average GDP is US\$4,693.8 million). 3/: Excludes social infrastructure. 4/: Includes defense, citizen security, branches of government, public debt, and others.

Source: SETEC.

## NDP's Contributions

30. In short, the NDP, as a strategy for economic growth and poverty reduction, seeks to balance the country's development policies. It recognizes the progress made, the challenges and the financial requirements necessary for meeting the main development goals within realistic limitations imposed by fiscal discipline and economic sustainability. The policies and actions found in the NDP are the result of a thorough participatory process that included every department of the country and the Atlantic regions. From this process, it can be noted that public policy must be focused in the formation of human capital in the medium and long term; and employment generation and improved income level in the short term.

## **Introduction**

### **Background**

31. Nicaragua was one of the first countries to formulate a national poverty reduction process, known as the Strengthened Growth and Poverty Reduction Strategy (SGPRS, 2001), which has allowed the country to continue receiving further financial assistance from the international community and to reach the completion point of the HIPC Initiative in January 2004.

32. The SGPRS, emphasizing on social policies, sought economic growth, equity and poverty reduction, based on four pillars: i) broad-based economic growth and structural reform; ii) investment in human capital; iii) greater protection for vulnerable groups; and, iv) good governance and institutional development; having three crosscutting themes: equity, ecological and environmental vulnerability, and decentralization.

33. In 2002, a broad process of consultation began in order to review and evaluate the consistency of the SGPRS in terms of its capability of meeting the needs of the population and obtaining a social and economic agreement making a new proposal (NDP) viable and implementing institutional reforms essential for speeding up economic growth and strengthening the democratic process.

34. Despite some progress made in the implementation of the SGPRS, a feeling of frustration has prevailed due to the slow economic progress and slight effectiveness in the fight against poverty. Thereby, a proposal for a National Development Plan (NDP) was presented to civil society in September 2003 and to the international community at the Consultative Group meeting in October 2003.

35. This NDP has a long-term vision, emphasizing a balance between social and productive policies to achieve faster and higher growth rates and levels of employment in line with the growth of the economically active population. The NDP balances the formation of human capital with actions promoting production, emphasizing economic growth as the basic means to reduce poverty.

36. Given the existing structural shortfalls, the NDP evaluated the SGPRS making it more integral, sustainable, cost-effective and maximizing the impact of scarce resources, with a territorial view incorporating the economic, social, and natural potentials of every department and region in the formation of public policies.

37. After the 2003-2004 intensive consultations, broad citizen participation, new technical contributions, review of the assumptions for reaching the country's goals and shocks in the national and international settings, lead to the Operative National Development Plan (NDP-O) 2005-2009, presented in September 2004 to civil society and the international community, which provided new recommendations that were incorporated by mid 2005. Nevertheless, it was still necessary to incorporate the reviews for the medium term macroeconomic framework negotiated with the IMF.

38. The transition from the SGPRS to the NDP is characterized by the double challenge of

building a competitive setting that attracts higher investment levels generating more and better employment and higher incomes; and pursuing sustained social development.

39. The NDP works towards consolidating the reforms undertaken and raising the coverage and quality of basic social services, while the private sector, based on the economies of scale, takes advantage of cluster development, trade opportunities and a greater availability of human capital.

### **SGPRS – Progress and Challenges**

40. The implementation of the SGPRS, during 2001-2004, showed progress as well as challenges. The macroeconomic program (PRGF) generated economic stability, facilitated productive revitalization, increased international reserves and exports in a context of low inflation, exchange rate stability, and declining interest rates. It is important to note that direct foreign investment surpassed the Latin American average and Nicaragua was one of the most dynamic economies in terms of international trade.

41. In the 2000-2003 period, the economy desaccelerated at an annual average rate of 2 percent, affecting the per capital income. The drastic fall in coffee prices, the increasingly high oil prices, the internal debt from the financial banking crisis, and the indemnization bonuses, explain in part the resulting weak economic performance. Nevertheless, in 2004 the country experienced a significant GDP growth rate recovery of 5.1 percent and increase in per capita income of 7 percent. In terms of balance of trade, the terms of trade deterioration meant a loss of foreign exchange of about 20 percent of GDP over the last five years and generated inflationary pressures.

42. The HIPC Initiative has allowed the release of resources from debt payment to poverty reduction, yet fiscal sustainability is still critical. The unforeseen expenses from the financial banking crisis forced the government to dedicate resources to domestic debt service, which would have otherwise gone to poverty reduction. Other factors contributing to the increase in domestic debt were the high costs of compensatory payments for expropriated properties, and the poor financial situation of the Nicaraguan Social Security Institute (INSS), having to renegotiate the domestic debt while maintaining fiscal discipline, and increasing poverty spending. The critical fiscal sustainability represents one of the most important problems of the country; future re-negotiations of all outstanding domestic debt will be needed.

43. The social sector increased spending has resulted in some improvements within the expected objectives of the SGPRS. There has been progress in many areas, compared to 1998 levels, as can be noted from the output indicators shown in the table below. For instance, both infant and maternal mortality fell and the number of people with access to drinking water has increased. Nevertheless, this progress has not been as fast as projected. On the other hand, although there was a slight salary improvement, the informal sector, characterized by high poverty level probably has not benefited from the recent progress.

44. Looking at the intermediate indicators established in the SGPRS, only 8 of the 20 goals included were met in 2004 (Progress Report, Annex 4). This performance occurred despite the increase in poverty spending as a percentage of GDP compared to 1998 levels (from 8.3 to 11.6



percent) and an increase in poverty spending as a percentage of total government spending from 52.5 percent in 1999 to 57.7 percent in 2004, slightly below the 60 percent goal.

45. The impact of the additional poverty spending was limited by the slow economic growth and the consequent impact on per capita GDP. The government was also needed to attend other national crisis, demands and natural disasters, like the financial banking crisis and hurricane Mitch.

<b>Nicaragua: Progress with the Implementation of the SGPRS y Millennium Development Goals</b>								
Goals	1998	1999	2001	2002	2003	2004	Goals	
							2004	2015
Percentage of people in extreme poverty	17.3		15.1				16.0	9.7
Net rate of primary schooling	75.0	75.0	81.1	84.7	83.5	82.6	82.0	90.0
Infant mortality rate	40.0		31.0				32.0	20.0
Mortality rate of children under 5	50.0		40.0				37.0	24.0
Maternal mortality rate	106.0	118	115.0	96.0	83.0	96.0	93.0	22.0
Access to drinking water	65.5	67.2	70.2	71.3	73.2	75.8	73.9	100.0
<b>Memo:</b>								
Poverty spending (% GDP)	8.3	11.5	11.4	10.2	11.4	11.6	11.6	
Poverty spending (% budget)		52.5				56.8	57.7	60.0

Source: II Progress Report, p. 47; III Progress Report, Annex 4. Mortality rate from CIA Handbook.

46. The implementation of the SGPRS indicated that poverty reduction not only depends on increased social spending, but requires higher sustainable economic growth, implying increased production and exports to generate employment and higher income.

### **The NDP – A Review of the Poverty Reduction Strategy**

47. The NDP emphasizes economic revitalization through the generation of employment and the adoption of cost-effective approaches to reach the long-term development goals. There is a more dynamic private sector since 2004, with greater investment levels, a higher GDP growth rate (above 5 percent) and higher exports (an increase of more than 23 percent) in that year.

48. The NDP approach, balancing a productive strategy and direct measures to promote human development, allowed identifying new and better procedures and structural reforms over the next five-year period reducing transaction costs, increasing labor and capital productivity, promoting economies of scale in strategic sectors, improving respect and the credibility of Governmental institutions, and effective poverty reduction spending.

49. Synergies are being sought between public and private investment, along with the strengthening of the citizen participation system, the operational and municipal adjustments in public administrations, and political, administrative and financial decentralization of Government.

50. The NDP, through participatory processes is promoting increased efficiency through: economies of scale, development of clusters, fulfilling the potentials of the territories, rural development favoring the poor, strengthening small and medium businesses, taking advantage of free trade opportunities, and public services (clarifying property rights, improving financial

services, simplifying paperwork procedures, etc) facilitating investment and business practice and improving the productive, social, and environmental infrastructure for better competitiveness.

51. Private sector investment decisions determined by market signals are being supported by public investment programs in infrastructure, social and environmental programs, policies and incentives to improve business competitiveness and employment generation.

52. Social policy profiles were analyzed and reviewed to progressively meet the millennium development goals and to introduce poverty reduction policies having a greater impact on the population. Citizen consultations for social sectors policies and laws were undertaken; priority was given to programs to capacitate the most vulnerable part of the population, focusing on families aiming to break the intergenerational poverty cycle.

53. The sectors of health, education, and water made progress in defining objectives, policy actions, and laws linked to their respective specific five-year plans and millennium development goals. The 2001-2005 indicators progress is mixed: fulfilling some, falling short in others, irrelevance of some, and funding limitations, which led to the reformulation of the respective goals and indicators for the 2006-2010 period.

54. Participatory construction of the sectoral and territorial plans is a fundamental value added aspect of the NDP. Unlike previous consultation processes based on pre-prepared documents (top-down process), the NDP was the result of an intensive and extensive dialogue organized at the municipal level and concluding at the national level, described as an inverted pyramid (bottom-up process). Development councils at the departmental level were established and cabinets were set up to define their respective local strategic planning. The above bottom-up process has facilitated ownership and coordination of stakeholders -civil society, private sector, and government-. The international cooperation harmonization and alignment action plan has also facilitated resource allocation with the establishment of sector forums or sector tables for coordination purposes in order to reach the NDP and the millennium development goals

55. The NDP is formulating and implementing a medium-term expenditure framework and a public investment policy based on desired results and impacts. It emphasizes investments in infrastructure and energy, necessary to increase productivity and employment. The MHCP made a review of public spending for 2004 with the objective to improve prioritization and assignment in budget formulation.

56. The NDP requires an overall increase in spending as contemplated in the PRGF, and there are additional resources from preferential treatment programs like the Millennium Challenge Account (MCA), the Puebla-Panama Plan (PPP), the Joint Financial Agreement on budget support recently signed in May 2005, as well as the G-8 additional recently announced debt relief initiative. The inclusion of Nicaragua into the MCA is due to the recognition given for its fight against poverty and corruption, the improvement of transparency and accountability, economic freedom and good governance. The PPP has provided for the implementation of infrastructural projects increasing competitiveness, like the Central American logistical system and others in the energy field.

57. Nicaragua, as part of its development strategy, has made progress in opening up to trade, foreign investment, productive diversification, and macroeconomic stability, which complements the opportunities for economic growth and regional integration. For this purpose, the Central America, Dominican Republic free trade agreement with the United States was ratified by the National Assembly in October 2005 and progress was made on the project of the Central American Customs Union. The NDP, however, goes beyond the public spending vision, it implies the implementation of public policies and other actions such as paperwork simplification, legal reforms reinforcement, and facilitate the private sector transactions.

## Chapter 1: Citizen Participation

### 1.1 The Will of the Country

58. The NDP changes the traditional approach to planning for a permanent process of participation establishing the opportunities and mechanisms designed for reaching consensus on the priorities and commitments. The NDP uses participatory planning along with reforms for the functional and territorial adjustment needed by public administration and the decentralization of the political, administrative, and financial institutions.

59. In early 2003, a process of citizen participation was organized to reach a social and economic agreement favoring changes in the public administration. This process took into account governmental responsibilities as a promoter and facilitator of economic development.

60. In February 2003, local leaders and civil society organizations were invited to participate in the NDP construction the process with the firm political commitment to establish clear rules, define responsibilities and reach lasting agreements among different stakeholders (public and private) and different sectors (social and economic). At the same time civil society independently developed initiatives and processes —pursued by economic and social sectors, with a national and local scope— to develop participatory processes.

61. From a broader perspective, the NDP is the culmination of a long process that began in 1992 with the Strategy for the Conservation and Development of Nicaragua, the formulation of the “Visión de Nación,” the consultations for SGPRS in 2000-2001, the 2001-2015 National Education Plan, the Common Work Plan for the education sector (PCT) for the 2004-2006 period, and the 2004-2015 National Health Plan.

62. The National Education Plan formulated with ample consultation and published in March 2001, had the purpose of establishing the principles, guidelines, and priorities for education over the long term, and it promoted a participatory process for articulating the educative subsystems among themselves and within the social and economic setting. The National Health Plan, formulated for the 2004-2015 period and published in September 2004, has the fundamental purpose of guaranteeing the equitable and universal right and access to a set of basic health services to increase life expectancy and quality of life of the population.

63. The NDP proposal presented in September 2003 to Nicaraguan society has a symbiotic relationship to both plans for health and education since it is the framework for achieving substantial gains in poverty reduction. The goals of these sector plans are essential to increasing productivity and generating synergies with the economic policy efforts to be undertaken during the next five-year period.

64. With these policies, the goal is to reduce the service provision cost, adjust the education curriculum to the demands of society, improve social inclusion indexes, increase the efficiency of targeted expenditures in poverty reduction, and improve labor productivity.

65. In the territories, the formulation of the strategic and sector plans for 15 departments and two atlantic regions represents one example of the high degree of citizen participation and

participatory planning. This process sought to lay the basis for decentralized action, which would ensure to take into consideration the priorities of the local communities with greater efficiency and ownership. Like the sector plans, the territorial ones are the basis of the NDP and poverty reduction.

66. The local initiatives resulted from the citizen participation system and the “bottom up” public-private dialogue. This process has been developed with the formation of development councils already established in accordance with the Law for Citizen Participation.

## **1.2 The Participatory Process in the NDP Construction**

67. The ample level of society participation facilitated the NDP process to validate different alternatives to reconcile the supply and demand of public goods and services, from which mechanisms were adopted to facilitate the decision making process for the efficient use and destination of public investment.

68. The NDP is the result of a complex participatory process that can be broken down chronologically into four main stages, detailed below.

69. **First stage: the vision of nation (February-September 2003):** It started with an invitation to social and economic stakeholders in the departments and regions to discuss and define proposals about economic development and poverty reduction.

70. In this stage —dedicated to setting up the mechanisms for dialogue— the sessions for consensus, planning, and management were organized throughout the country, giving birth to what later were known as the Departmental Development Councils. Two important results from this stage were:

- a) Some departments made progress, faster than others, in integrating their participatory management processes for development (Matagalpa, Chinandega, Madriz, and RAAN);
- b) The setting up of Sector Forums or Coordination Tables led the initial work for the Proposal of a National Development Plan presented in September 2003 that included two annexed documents: “Contributions from the Territorial Consultations” and “Contributions from the Sector Consultations” that allowed to identify and compared governmental, territorial, and social and economic sectors priorities.

71. In July 2003, the “National System for Coordination, Participatory Implementation, Monitoring, and Evaluation of the SGPRS and the NDP”, known as PASE system, was set up to improve the levels of coordination, information, and citizen participation, and the basis for the Departmental and Regional Development Councils (CDD and CDR). As a result of improved citizen participation, a series of meetings known as Montelimar I, II, and III were undertaken to discuss the guidelines for the departmental development plans that were later formulated and presented to the Executive Branch by representatives from all sectors of civil society, the private sector and government, both at the national and local level.

72. In 2004, the PASE system supported the CDD and CDR (Regional Development Councils)

to formulate their strategic municipal and departmental development plans in line with national guidelines of the NDP. The Public Investment Program (PIP) since 2004 incorporated the portfolio of prioritized projects of the territories into the National System for Public Investment (SNIP), and continues to develop local capacities for the formulation of programs, projects and local priorities to be included in future national budgets. Since May 2004, working sessions were held by the councils to discuss priorities for the sector matrixes incorporated in the NDP and to elaborate future agenda.

**73. Second stage: consultations about the proposal (September 2003 – March 2004):** Facilitated the systematization of the proposals made by the government, civil society, private sector, and territories was established for reaching agreements on priorities and strategic guidelines. This allowed for presenting the NDP proposal to the Consultative Group meeting in October 2003 and to initiate visits to departments and atlantic regions to publicly present the public investment program and collect from the councils their respective development plans, later incorporated into the Operative National Development Plan, presented in September 2004.

**74. Third stage: making it operational (March – September 2004):** To have the national, sector and territorial plans with specific actions, goals, responsibilities, and operational budgets with defined funding sources negotiated with the international community.

75. Operative matrixes were developed including goals, institutional and sector action plans, indicators, and expenditures that incorporated local demands and negotiations between stakeholders at the local and central level. The above concluded with a meeting in Managua, at which each of the Departmental and Regional Development Councils held bilateral negotiations with governmental Ministries. Members of the international cooperation community, invited as observers, were satisfied by the degree of participation and openness in this process.

76. In 2004 the governmental sector institutions and autonomous entities were integrated into cabinets at the departmental and regional levels with the objective of overcoming the great dependence on the central level for defining local institutional plans. Cabinets for production and competitiveness, social affairs, and governance were established in each department. The above facilitated the coordination with local governments, social leaders, and economic sectors, which resulted in the Departmental and Regional Development Councils.

**77. Fourth stage: second phase of operation, underway (September 2004 to the present):** characterized by the institutionalization of mechanisms, procedures, norms and facilitating dialogue within government and the private sector, meaning implementation with civil society participation.

78. Meanwhile, three groups were formed for: a) the integration of Executive Branch institutions; b) the development of the productive clusters implementation agreements; and, c) the establishment of entities for dialogue between the public and private sectors.

79. In September 2004, the Operative National Development Plan (NDP-O) was officially presented to civil society and some of the Departmental Development Plans were presented to the National Assembly's SGPRS Follow-Up Commission. The production and competitiveness cabinet promoted economic sectors agreements, particularly those involving clusters. The action

matrixes and support programs for production, transformation, commercialization, and business commitment was of particular importance to these agreements.

80. In 2004 y 2005, strategic departmental worklines and the prioritized public investment portfolio were identified. The PASE system implementation was crucial for assuring technical and methodological support, facilitating formulation of departmental and regional development plans and incorporation of investment projects in the National Budget.

81. Development Councils were established and obtained financial support for setting up technical management and staff. Fifteen departments and the two autonomous regions have improved strategic planning instruments with the contribution of local participants.

82. The National Council for Economic and Social Planning (CONPES) assisted in the formulation of the NDP since its first draft in December 2002, the operative version in September 2004 and the current one. During its 2003-2004 sessions it analyzed the infrastructure, competitiveness, decentralization, and social affair policies. In 2005 CONPES continued to follow up the implementation of the NDP and had technical meetings with MHCP, SETEC and other institutions about budget, policies and procedures at the local and the national level. CONPES incorporated territorial representatives and cabinet ministers into its organization. The future agenda includes the strengthening of the participatory system in conformity with the system participation law and to improve coordination between the national and local level, follow-up and monitoring.

### **1.3 Coordinating Sector Forums Process, and Harmonizing and Aligning Cooperation**

83. The government and the international community established a mechanism to ensure the efficient use of internal and external resources through the establishment of Sector Forums (or Tables) in 2003 and the Global Donor Forum in 2004. An opportunity for dialogue among governmental institutions, different Branches of Government, international financial institutions, cooperation agencies, and civil society was facilitated and has allowed for an increased harmonization and alignment of cooperation resources in conformity to national priorities and policies.

84. In October 2004, during the Third Forum for Coordination of Cooperation, the NDP-O was presented as part of the coordination dynamic. It is in this context that the NDP evolves towards a concrete plan, with the purpose of furthering the proposals and achievements made in the implementation of the first poverty reduction strategy (SGPRS), seeking to adopt new modalities for cooperation and monitoring and evaluation mechanisms.

85. In November 2005, the IV Forum for Coordination of Cooperation was undertaken with the objective of analysing the progress and outcomes of the sectoral wide approaches and the harmonization and alignment action plan. Sector wide approach program are being developed for rural development (PRORURAL), for MIPYME (PROMIPYME) and to improve competitiveness (PROCOMPETITIVENESS), for environmental and natural resources (PROAMBIENTE), for social protection (Solidarity), and governance and justice sector. Others are being implemented already in the education and health sectors.

86. *Health Forum*, led by MINSA, established the conditions for the sector-wide approach and participated on the consultations of the National Health Policy 2004-2005, the National Health Plan 2004-2015, and the Five-Year Health Plan 2005-2009. In January 2005, a Code of Conduct was signed with the objective to govern relations between MINSA and the international cooperation partners. In August 2005, a memorandum of understanding was signed to establish the regulations for the common financial mechanism of the called FONDSALUD (Nicaraguan Health Fund).

87. *Education Forum*, led by MECD, created the conditions for the implementation of sector-wide approach programs (SWAp), already in operation. The following policies and programs for the short and medium term were submitted for discussion and review: policies for elementary and middle education, financing, action plan linked to results, and fiduciary agreements. A Common Work Plan (PCT) was formulated for 2005-2008. Work continues to be done on fiduciary and financial harmonization, and a case study has been presented of the sector experiences. The MECD presented the progress report on the implementation of policy actions and budgetary execution for 2004 and the agenda for 2005.

88. *Production and Competitiveness Forum*, led by the Ministry of Industry and Commerce (MIFIC), has established three sub-forums: productive rural development, medium and small enterprises (MIPYME), and environmental and natural resources. The strategy for productive rural development has been formulated and the Code of Conduct was signed in September 2005. It also has facilitated an ongoing dialogue about policies and actions in support of clusters.

89. *Infrastructure Forum*, led by the Ministry of Transportation and Infrastructure (MTI), has established three sub-forums: transportation and infrastructure, energy, and water and sanitation, which are working on their respective five-year plans as well as reviewing public investment plans, funding, project selection criteria, and establishing a baseline for supply and demand in the sector. The water and sanitation sub-forum coordinated by CONAPAS (National Commission for Water and Sanitation) reviewed the Water and Sanitation Sector Strategy to continue its implementation and financing.

90. *Governance Forum* has facilitated the technical work and coordination among the different institutions and branches of government involved (the Office of the Comptroller, The Supreme Court of Justice, National Assembly, MIGOB, the Police, and the Attorney General Office). It has developed workshops on the sector-wide approach and established four sub-forums: justice, reform and modernization of the State, citizen security, and decentralization. Each sub-forum is coordinated by the institution with the respective legal mandate for its competence and leadership and has facilitated the follow-up and evaluation of the country's commitments for the sector. The agenda for this Forum includes the integration of other institutions, implementation of the reforms the judicial carrier law, an integrated justice information system, sustainability of the citizen participation system, improvements in human rights issues, and better coordination on the fight against corruption by all branches of government.

91. The sub-forum for justice, coordinated by the Supreme Court of Justice (CSJ), is working on publicizing its Sector Plan for Justice containing the national objectives (effective, efficient, and equitable justice system) and five strategic lines of work: reducing retardation of justice, promotion of impartial justice, increased juridical security, better access to justice system,



improved administrative management, and specialized services to victims of intra-family violence.

92. The sub-forum for citizen security and defense, coordinated by MINGOB, is working with technical assistance from international experts on a sectoral plan and on the Citizen Security Law. It also facilitated the consultation process on the White Paper on Defense. The sub-forums for Decentralization and Reform and Modernization of the State have initiated their respective agendas in July 2005.

93. *Social Protection Forum*, coordinated by the Ministry of Family, facilitated the discussion of the National Policy for Social Protection and will establish its own technical secretariat.

94. Also, since October 2004 the Global Forum was activated with the objective of discussing at the highest level of both government and cooperation the main political, governance, social and economic issues; the implementation and monitoring of the NDP; and the financing of the goals and indicators established and millennium development goals.

95. In reference to international cooperation coordination, harmonization and alignment, in May 2005, the government signed a Joint Financial Agreement on Budget Support with donor representatives, which establishes the principles and mechanisms to finance prioritized goals and policy actions that will improve the impact on poverty reduction, inequality and good governance. This agreement will facilitate the disbursement of US\$80.9 million for 2005 and US\$88.0 million for 2006. The government, through the Ministry of Foreign Affairs (MINREX) formulated and is implementing the Action Plan on harmonization and alignment for international cooperation.

## Chapter 2: Evolution of Poverty and NDP Goals

### 2.1 Evolution of Poverty

96. Nicaragua continues to further its efforts towards greater economic development as a basic condition for poverty reduction. After a major deceleration of GDP growth rates in the 2000-2003 period, the economy has responded positively to the flows of foreign investment in the last few years.

97. GDP growth rate in 2004 was 5.1 percent, slightly above the estimated in the SGPRS, although the rates in 2002 and 2003 were significantly lower than originally projected. Immediate effects included a 7 percent increase in per capita income in nominal terms, the creation of more than 50,000 jobs and poverty spending was above the established goals.

98. A look at the progress with the intermediate indicators during the 2003-2004 period shows that many were approached by more than 90 percent, particularly with respect to the indicators for education and drinking water. It should be noted that the indicators for health have shown a tendency to be below the goals, mainly because of delays in programs associated with budgetary limitations.

99. In spite of this, further progress was made with the programs for social protection, rural roadways, drinking water and rural electrification. There have also been agricultural programs with major effect on the production of basic grains and other products, increasing food supply in rural zones and the exports, which reached record levels in 2004, and to maintain the tendency in 2005.

100. In relation to the evolution of poverty, a fourth living standards measurement survey was undertaken in 2005 with the assistance of the World Bank and its results will be available in the first quarter of 2006. The last survey was taken in 2001 and its results were reported on in the 1<sup>st</sup> and 2<sup>nd</sup> Progress Reports. According to the survey, the tendency is towards reducing the levels of poverty, as percentage of population, if compared with the levels recorded in 1998.

101. Taking into account relative levels of consumption, the data show that poverty fell by 2.1 percentage points, while extreme poverty fell by 2.2 points. Nevertheless, the data show that the absolute number of poor remained constant with respect to 1998. When measured according to the income method, overall poverty is 51.9 percent and extreme poverty is 23.2 percent. In terms of consumption, the poverty level is 45.8 percent, or 2.3 million people.

102. The survey also showed that there is more poverty and extreme poverty in rural zones. Two of every three persons in rural areas are poor, compared to one in three in urban areas. Nevertheless, it is in these regions where the greatest rates of reduction (in comparison to 1998) were seen, with the exception of the central rural region where extreme poverty increased.

103. The reduction of rural poverty is mainly associated with increased production of basic grains and other essential foods and not with export products, which saw major drops in their prices. Nonetheless, the increase in export production in the 2003-2004 period has contributed to improving living standards in these zones. In the future, the development of clusters based on

the potential of the territories will speed up the reduction of poverty in many rural areas.

104. The lowest rate of poverty in percentage terms is in Managua, where two of every ten people are poor. The recovery and expansion of the economy in the service sector in this city, particularly commerce, contributed to a notable reduction of poverty in comparison to 1998. The expansion of water, sanitary, and electricity services had the same effect.

105. The foreign investment in construction, the textile industry, and tourism and greater subsidies for social services by the government in recent years had an effect on poverty levels during 2003-2004, not only because of the creation of jobs but also because the salaries in these sectors are above the legal minimum wage.

**Table 2.1 Evolution of Poverty**

Item	Extreme Poverty				Poverty			
	1993	1998	2001	Change 1998-2001	1993	1998	2001	Change 1998-2001
<b>Percentage of the Population</b>								
<b>National</b>	19.4	17.3	15.1	-2.2	50.3	47.9	45.8	-2.1
Urban	7.3	7.6	6.2	-1.4	31.9	30.5	30.1	-0.4
Rural	36.3	28.9	27.4	-1.5	76.1	68.5	67.8	-0.7
<b>Managua</b>	5.1	3.1	2.5	-0.6	29.9	18.5	20.2	1.7
<b>Pacific</b>								
Urban	6.4	9.8	5.9	-3.9	28.1	39.6	37.2	-2.4
Rural	31.6	24.1	16.3	-7.8	70.7	67.1	56.8	-10.3
<b>Central</b>								
Urban	15.3	12.2	11.1	-1.1	49.2	39.4	37.6	-1.8
Rural	47.6	32.7	38.4	5.7	84.7	74.0	75.1	1.1
<b>Atlantic</b>								
Urban	7.9	17.0	13.1	-3.9	35.5	44.4	43.0	-1.4
Rural	30.3	41.4	26.9	-14.5	83.6	79.3	76.7	-2.6

Source: INEC/LSMS 1993,1998, and 2001

## 2.2 Objectives, Goals, and Indicators

### *Introduction*

106. The participatory construction process of the NDP showed the need to review the country's goals and development objectives for the coming years. One of the main things put forward by civil society, and the private sector was the need to expand the objectives originally set forth in the SGPRS in order to meet the demands from Nicaraguan society. In particular, objectives associated with the productive sector were identified, like job creation, investments in support for the productive sector, and the resolution of property conflicts.

107. The NDP incorporates these objectives so that the authorities and actors for development can monitor the progress in the actions to support economic growth and productive development. The consideration of these objectives is in line with the complementarities that there must be between policies to promote human capital and policies for productive development.

108. Besides incorporating new objectives, it was also necessary to review the original goals of the SGPRS in order to update them in light of the progress made up to 2004, the new information available, and the revised perspectives for the national and international economy for the 2006-2010 period.

109. In general terms, the NDP indicators are divided into three big groups: productive, human capital, and governance. These indicators also reflect the national priorities, the commitments acquired by the country in international conventions and treaties like the Millennium Development Goals, and cooperation commitments such as the Joint Financing Agreement. The objectives and goals of this plan are congruent with the matrixes for budget support agreed on by the government and the cooperation community, as well as with the sector-wide and territorial approaches that underlie this plan.

### ***Main goals and indicators***

110. The main objective of the NDP is economic growth and poverty reduction. Specifically, it is expected that the economy growth at an annual rate of about 5 percent in the long term, and the percentage of Nicaraguans living in extreme poverty will fall from 15.1 percent in 2004 to 11.5 percent in 2010. To achieve this, it is necessary to continue increasing social expenditure, public policy efficiency, and international community support.

111. Since poverty reduction is conceived from the perspective of greater generation of wealth, included among the productive indicators are growth of the GDP, employment, exports, and investments.

112. To support productive development, the idea is to facilitate the conditions and the setting for the development of new businesses. For this reason, indicators referring to the regulatory framework and paperwork time, such as the number of days it takes to register a firm, the time needed to legalize properties, and the number of cases of attending consumers' claims, have been included. The NDP also includes actions for attracting investment into the country.

113. Priority goals in productive policies are the reduction of uncertainty about the rights and legal order for property ownership and improved financial services. Lastly, goals regarding food security and sustainable environmental development were incorporated. Table 2.2 shows the revised and expanded goals and indicators that define the priorities of the NDP, and among the main changes with respect to the SGPRS, it indicates:

114. Social goals: it incorporates the performance of indicators in recent years and an updating of the costs for the goals. It shows the original SGPRS in parentheses. The net rate for schooling will increase from 82.6 percent in 2004 (76.4 percent in 2000) to 90.5 percent in 2010 (the original goal was 83.4 percent in 2005). There is a follow-up to the indicators for preschool and secondary education. The gender perspective is also incorporated with the rate of students finishing primary school. The original SGPRS goal of reaching an illiteracy rate of 10 percent in 2015 is maintained, and on the way to this, the NDP proposes reaching 15.6 percent in 2010.

115. For the health sector, the proposal is to reduce maternal mortality from 88.6 deaths for

every 100,000 live births in 2004 to 63 in 2010, a 25.6 percent reduction in contrast to the 12.3 percent put forward in the SGPRS for the 2000-2005 period. To do this, the coverage of institutional births, prenatal care, and coverage for early detection of pregnancy will be increased. Infant mortality is programmed to drop from 31 per 1,000 live births in 2001 to 27 in 2010 (SGPRS: from 40 in 1998 to 32 in 2005). Mortality among children under 5 years of age is expected to go from 40 in 2001 to 33 in 2010 as a result of implementing the plan (the original target in the SGPRS for 2005 was 37).

116. The drinking water sector has revised goals in order to achieve 83.5 percent of total water coverage in 2010, starting from the base of 75.8 percent recorded in 2004. The original SGPRS goal was to reach 75.4 percent in 2004. Similar adjustments were made for coverage and access to safe water in urban and rural zones and for sanitation and sewer systems.

117. In the social sector, indicators for social protection that were not included in the first strategy have been incorporated in order to increase the percentage of protection centers that are accredited from 13.3 percent in 2003 to 100 percent in 2010. The number of provisions of attention for children, adolescents, and youth at social risk will increase to 210,000 by 2010. Another target is to have 160,000 youths in the program for group counseling on violence to 2010.

**Table 2.2. Goals and Indicators NDP 2006-2010**

National Goals 2010	Indicators	Base year 2004	Goal 2006	Goal 2007	Goal 2008	Goal 2009	Goal 2010 <sup>5/</sup>	Goals 2015
<b>POVERTY</b>								
Reduce extreme poverty	<i>Reduce extreme poverty from 15.1% in 2001 to 11.5% in 2010*</i>	15.1 LSMS (2001)	14.3				11.5	9.7
<b>MACROECONOMIC PERFORMANCE</b>								
Increase GDP	Gross Domestic Product (GDP)		3.7	4.3	4.6	4.8	5.0	
	Annual percent increase of exports	20%	15%	15%	15%	15%	15%	
<b>ECONOMIC INFRASTRUCTURE</b>								
Provide support infrastructure for production	Number of kilometers contracted by FOMAV for highway maintenance /1	543	1,200	1,400	1500	1800	2000	
	New installed capacity with renewable energy (MW) /1	0	10	10	20	30	40	
<b>REGULATORY FRAMEWORK AND PAPERWORK PROCEDURES</b>								
Facilitate business management in regards to paperwork and bureaucracy	Days to register a new firm	28	15	7	3	1	1	
	No. of new firms registered in the Single Wicket for Investments in Managua /1	471	650	700	750	800	850	
	Weeks to legalize purchase-sale of properties	8	5	4	3	2	2	
	No. of new cases investigated and ruled on in matters of	400	500	500	500	500	500	

National Goals 2010	Indicators	Base year 2004	Goal 2006	Goal 2007	Goal 2008	Goal 2009	Goal 2010 <sup>5/</sup>	Goals 2015
	consumer protection /1							
<b>PROPERTY RIGHTS</b>								
Reduce uncertainty associated with property ownership	Land area (km <sup>2</sup> ) in cadaster in the Departments of Chinandega, Estelí y Madriz /1 Increase area in cadastre by 12,065 km <sup>2</sup> by 2010, modernizing the Cadastre and Public Registry for Property	0	904	3,212	3,811	8,762	12,065	
	Properties legalized	400	700	13,900	20,800	45,300	60,429	
	No. of cases ruled on for farming cooperatives and collectives that received titles during the period from 1980 to April 1990 /1	50	300	300	350	350	350	
<b>ACCESS TO FINANCIAL SERVICES</b>								
Improve equity by expanding access to financial services, especially for small and medium business and for low-income groups	No. of loans under US\$50,000, excluding loans for consumption and credit cards /1		Setting baseline and norms for quantifying and giving follow-up to the indicator	Percentage increase of loans to be defined in 2006				
<b>INVESTMENT ATTRACTION</b>								
Increase investment attracted by the investment agency by US\$140 million in 2010	Investments attracted in millions of dollars	30	66	82	109	130	140	
<b>FOOD SECURITY</b>								
Incorporate into the special program for food security (PESA) 7000 families from the 16 municipalities in the dry zone.	No. of families incorporated into the PESA		3,000	1,000	1,000	1,000	1,000	
<b>SUSTAINABLE ENVIRONMENTAL DEVELOPMENT</b>								
Promote sustainable development, incorporating the environmental and natural resource management dimension into the policies and strategies for the economic, social, and institutional development of the country /2	Surface area of protected areas under approved management plans as percentage of total area of protected areas (%) /1	16.0	31.7	35.0	40.0	45.0	50.0	
	Functioning of Municipal Environmental Management Units (UGAM)	12	32	32	32	32	44	

National Goals 2010	Indicators	Base year 2004	Goal 2006	Goal 2007	Goal 2008	Goal 2009	Goal 2010 <sup>5/</sup>	Goals 2015
<b>EDUCATION</b>								
Increase average years of schooling of the population between 10 and 19 years of age	<b>Increase the Net Rate of Primary Schooling from 82.6% in 2004 to 90.5% in 2010 *</b>	82.6	85.7	87.2	88.7	90.3	90.5	100% access to primary education
	Increase the Net Rate of Preschool Education from 30.8% in 2004 to 39.2% in 2010	30.8	33.9	35.3	36.4	38.1	39.2	9-year average schooling for the population between 10 and 19 years of age
	Increase the Net Rate of Secondary Education from 40.1% in 2004 to 49.7% in 2010	40.1	43.2	44.8	46.9	48.3	49.7	
Rate of children finishing primary education by sex	Increase the rate of children finishing primary school by sex from 66% in 2004 to 72% in 2010. Broken down by gender: Girls Boys	66.0	68.0	69.0	70.0	71.0	72.0	100% of children finish primary education
		70.2 62.0	71.1 64.5	72.4 65.8	73.1 67.1	73.9 68.4	74.2 69.7	
Reduce illiteracy among persons 10 and over <sup>1</sup>	Reduce illiteracy rate among persons 10 and over from 18.7% in 2001 to 15.6% in 2010 <sup>1</sup>	18.7 LSMS (2001)	18.0				15.6	Reduce illiteracy rate to 10%
<b>HEALTH</b>								
Reduce maternal mortality	<b>Reduce maternal mortality from 88.6 per 100,000 live births in 2004 to 63 per 100,000 in 2010 *</b>	88.6	83.0	75.0	67.0	65.0	63.0	Reduce the maternal mortality rate by ¾ by 2015 compared to 1994. (22 per 100,000 live births by 2015)
	Increase coverage of institutional births from 51.3% in 2004 to 66% in 2010 (annual average increase of 3,300 institutional births)	51.3	57.7	60.2	62.6	64.0	66.0	
	Increase coverage of prenatal care from 64.5% in 2004 to 84% in 2010 (average annual increase of 3,900 prenatal controls a year)	64.5	78.0	80.0	81.0	83.0	84.0	
	Increase coverage of early detection of pregnancy from 30.2% in 2004 to 46% in 2010 (average annual increase of 3,500 early prenatal controls a year)	30.2	38.0	40.0	42.0	44.0	46.0	

National Goals 2010	Indicators	Base year 2004	Goal 2006	Goal 2007	Goal 2008	Goal 2009	Goal 2010 <sup>5/</sup>	Goals 2015
Reduce infant mortality <sup>3 4</sup>	<b>Reduce infant mortality from 31 per 1,000 live births in 2001 to 27 per 1,000 in 2010 *</b>	31 NDHS (2001)		30			27	Reduce the infant mortality rate and that for children under 5 by 2/3 by 2015, compared to 1994.  (20 per 1000 live births and 24 per 1000 live births among children under 5)
	Increase immunization coverage (%) for children under 1 year 1 dose of BCG from 87.8% in 2004 to 99% in 2010	87.8	93.0	95.0	97.0	99.0	99.0	
	3 doses of antipolio from 79.8% in 2004 to 95% in 2010	79.8	92.0	93.0	94.0	94.5	95.0	
Reduce mortality among children under 5 <sup>3 4</sup>	<b>Reduce mortality among children under 5 from 40 per 1000 live births in 2001 to 33 per 1000 live births in 2010 *</b>	40 NDHS (2001)		39			33	
	Reduce the proportion of deaths from diarrhea in children under 5 from 9.1% in 2004 to 6.3% in 2010	9.1	7.4	7.2	7.0	6.5	6.3	
	Reduce the proportion of deaths from acute respiratory infections in children under 5 from 17.6% in 2004 to 7.8% in 2010	17.6	9.3	8.9	8.7	8.0	7.8	
Reduce the unmet demand for family planning services among women with a spouse between 15 and 19 years of age <sup>3</sup>	Reduce the unmet demand for family planning services among women with a spouse between 15 and 19 years of age from 19.8% in 2001 to 17.0% in 2010 <sup>4</sup>	19.8 NDHS (2001)		18.0			17.0	
Reduce the unmet demand for family planning services among women from 20 to 24 years <sup>3</sup>	Reduce the unmet demand for family planning services among women from 20 to 24 years from 17.0% in 2001 to 15.4% in 2010 <sup>4</sup>	17.0 NDHS (2001)		16.0			15.4	
	Increase the percentage of women of childbearing age who have access to family planning from 16.1% in 2004 to 29% in 2010	16.1	27.0	27.5	28.0	28.5	29.0	
	Rate of use of safe contraceptive methods in MEF (the unmet demand for family planning services is based on this indicator)	64.1 (2003)	66.0	67.0	68.0	69.0	70.0	
Reduce chronic malnutrition among children under 5 <sup>3</sup>	Reduce chronic malnutrition among children under 5 from	17.8 DHS (2001)	16.5				12.8	Reduce chronic malnutrition



National Goals 2010	Indicators	Base year 2004	Goal 2006	Goal 2007	Goal 2008	Goal 2009	Goal 2010 <sup>5/</sup>	Goals 2015
	17.8% in 2001 to 12.8% in 2010							among children under 5 from 17.8% to 7.0 % in 2015
<i>Detain the propagation of HIV/AIDS and start reversing it in 2015 *</i>	Rate for prevalence of HIV/AIDS	13.8 (2003)	16.1	16.6	17.0	17.5	18.0	
	Percentage of persons with HIV/AIDS with treatment (of those warranting treatment)	21.0 (2003)	85.0	85.0	85.0	85.0	85.0	
	Percentage of schools with teacher counselors, teachers and students trained in basic education about HIV/AIDS	0	21%	26%	31%	36%	41%	
<b>SOCIAL PROTECTION</b>								
Increase coverage of initial education for children under 6 in conditions of poverty	Number of children under 6 in extreme poverty attended to by integral programs for social protection.	104,000	87,000	87,000	87,000	87,000	87,000	
Increase the percentage of Centers for Special Protection accredited in the System for Attention from 13.3% in 2003 to 100% in 2010	Percentage of accredited centers to provide special protection services	13.3 (2003)	35.1	56.8	78.4	78.4	100	100% of Special Protection Centers accredited
Increase number of sessions for attention to children, adolescents, and youth at social risk to 210,068 in 2010	Increase coverage of attention for children, adolescents, and youth at social risk		86,250	114,058	143,895	176,265	210,068	Access for children, adolescents, and youth to social protection programs
Increase schools under the Education for Life Program from 25% in 2003 to 100%	Increase number of students included in the Program for Individual Violence Counseling from 8,800 in 2004 to 35,300 in 2010	8,800	13,400	18,300	23,500	29,200	35,300	Attend to 2% of school population under modality for individual attention
	Increase number of students included in the Program for Group Violence Counseling from 40,000 in 2004 to 160,000 in 2010	40,000	60,700	83,000	107,000	133,000	160,000	Attend to 10% of school population under modality for group attention
<b>WATER AND SANITATION</b>								
Increase national water coverage	<i>Increase national drinking water coverage from 75.8% in 2004 to 83.5% in 2010 *</i>	75.8	79.3	80.4	81.5	82.5	83.5	Increase national water coverage to 90%
	Increase urban drinking water coverage from 95.1% in 2004 to 96.4% in 2010	95.1	96.3	96.3	96.3	96.3	96.4	

<b>National Goals 2010</b>	<b>Indicators</b>	<b>Base year 2004</b>	<b>Goal 2006</b>	<b>Goal 2007</b>	<b>Goal 2008</b>	<b>Goal 2009</b>	<b>Goal 2010<sup>5/</sup></b>	<b>Goals 2015</b>
	Increase safe water coverage in dispersed rural areas from 48.5% in 2004 to 65.8% in 2010	48.5	54.5	57.4	60.2	63.0	65.8	
Increase national access to wastewater service and sanitation	Increase national access to sanitation from 87.1% in 2004 to 90.0% in 2010	87.1	88.1	88.6	89.6	89.6	90.0	Increase national sanitation coverage to 95%
	Increase urban population access to wastewater service in urban areas from 35.1% in 2004 to 43.4% in 2010	35.1	40.4	41.2	42.3	42.7	43.4	
Reduce index for unaccounted for water	Index for unaccounted for water at the national level	56.0	52.0	50.0	48.0	46.0	44.0	

\* The goals and indicators presented in italics and bold type are Millennium Goals.

<sup>1</sup> From the Living Standards Measurement Survey (LSMS).

<sup>2</sup> Preliminary

<sup>3</sup> From the National Demographic Health Survey (NDHS).

<sup>4</sup> Funding for the LSMS 2009 is not assured.

<sup>5</sup> The international goals proposed to 2009 have been calculated based on the necessary behavior in order to meet the international commitments to 2015: meeting these figures depends on mobilizing additional resources.

### ***Millennium development goals***

118. In 2000 at the Millennium Summit, the member-States of the United Nations reaffirmed their commitments to continue working for sustainable development and poverty reduction, setting millennium development goals to this end. These came out of agreements reached at international summits during the last decade, most of which were incorporated in the NDP.

119. There are eight millennium goals<sup>1</sup> and they are subject to a given profile for economic growth and public spending. The lower rates of growth and the adjustments made to public spending not foreseen in the SGPRS, particularly in the public investment program, led to a review of the goals and spending levels in the framework of the macroeconomic program.

120. To estimate the cost of these goals, with support from international agencies an analysis was made of the unit costs using the real costs based on the procurement and contracting records of the institutions in charge of providing the services that bear on them as a basis. The effect of the sector reforms and the accelerated institutional reform in order to achieve them was also considered.

121. In the education sector, the millennium development goals include primary education for all and the promotion of gender equity and the empowerment of women.<sup>2</sup> This means that by

<sup>1</sup> The millennium goals are: i) eradicate extreme poverty and hunger; ii) assure primary education for all; iii) promote gender equity and the empowerment of women; iv) reduce infant mortality and mortality among children under 5; v) improve the health of women by reducing maternal mortality; vi) fight HIV/AIDS, malaria, and other illnesses; vii) ensure environmental sustainability; and, viii) develop global associations for development.

<sup>2</sup> Their indicators are: the net rate of primary schooling, the proportion of students starting the first grade that reach the fifth, and reducing the illiteracy rate among people from 15 to 24 years of age.

2010, there will be primary enrollment of 1,056,000 students. Considered in this is the improved quality and relevance of teaching, providing attention to families in extreme poverty with subsidies to cover the private and opportunity costs of education, and a review of the processes and methods for initial and ongoing formation of teaching staff and school administrators.

122. The projected cost for making primary education universal responds to the policy put forward by the Ministry of Education (MECD), according to the EFA-FTI initiative.<sup>3</sup> To estimate these costs, first the enrollment by grade (1<sup>st</sup> to 6<sup>th</sup>) for 2003 was calculated, considering the repeat and passing rates for each year and the expected effect of the EFA-FTI initiative. The second step was to estimate the evolution of overall primary enrollment in terms of each form of school administration. The third step was to estimate the total recurrent costs for primary education, for which the projected number for enrollment was multiplied by each year and for each administrative form.

123. Once the recurrent costs for universal primary education were estimated, other costs were included, like the initial investment in the schools, replacement of textbooks, infrastructure, replacement of student desks, minimum maintenance of educative facilities, construction of new schools, support for the educative demand, and the program to retain primary school dropouts.

124. In the health sector, the millennium goals include the reduction of infant mortality and mortality among children below 5 years of age, improving women's health by reducing maternal mortality, and fighting HIV/AIDS, malaria, and other illnesses. In addition, the millennium goal for reducing extreme poverty includes an intermediate indicator for the reduction of the prevalence of underweight children under 5.

125. The goals and indicators established for Nicaragua are consistent with the millennium goals for reducing infant and maternal mortality. Nevertheless, other additional intermediate indicators have been established, like an increase in prenatal controls, increased early detection of pregnancy, increased coverage of 5-in-1, polio, and BCG vaccines for children under 1 year, and the proportion of deaths caused by diarrhea and respiratory infections. A bigger problem than the prevalence of children under 5 with low weight is chronic malnutrition, and so a goal for its reduction has been introduced.

126. Regarding the goal for fighting HIV/AIDS, efforts are being made to reach it and for this, Nicaragua has managed to access global funds for HIV/AIDS and malaria. As part of this strategy, intermediate indicators were introduced, like the percentage of persons with HIV/AIDS being treated, the percentage of schools with staff trained about HIV/AIDS, and the percentage of students trained.

127. To estimate the costs of these goals, the most common causes of maternal and infant mortality and mortality among children under 5 were analyzed, as well as the latest figures for the coverage of services for family planning and malnutrition. The unit costs<sup>4</sup> for attention from services connected to the intermediate health indicators were calculated and assumptions were

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<sup>3</sup> Education For All – Fast Track Initiative.

<sup>4</sup> Mostly includes disposable materials, laboratory tests, cost of hospitalization, and medicines related to attention for each of the selected services.

made that the behavior of maternal and infant mortality and family planning<sup>5</sup> will maintain the same tendency.

128. To reach the goals, it is necessary to increase the coverage of the intermediate indicators to levels much higher than what is being projected to 2010, and the quality of the services must improve. It is difficult to attribute costs to this. This estimate does not include efficiency or the needs for infrastructure improvement at the first and second levels of attention, and this implies a lower bound of the costs to reach the goals.<sup>6</sup>

129. Based on the results of the costing, the conclusion is that the country does not have the necessary financing or funding to reach the goals set for 2010 and 2015, especially if the current economic setting and the short- and medium-term perspectives are taken into consideration.

### **2.3 Funding**

130. After the analysis of the levels of poverty and the definition of the goals for the next five-year period, it was necessary to establish a funding strategy. This strategy consists of preparing sector budgets with the resources considered in the macroeconomic program agreed on with the IMF. This determined the base scenario in which the velocity of spending (average annual spending) continues at its historic pace.

131. Considering that it is necessary to increase the efficiency of public spending in order to increase public savings and these efforts will not be enough to reach the goals already committed to, it was considered of strategic importance to put forward an expanded scenario in relation to financing. This scenario is backed by the existence of resources pending disbursement, by arrangements for obtaining foreign cooperation, and by extraordinary resources from special cooperation initiatives (for example, the MCA, budget support and the G-8 additional debt relief) that are not included in the base scenario projections (section 7.4).

132. To determine the level of public sector spending, a study was made of the shortfalls in social services, measured by the difference between the services possible to provide with the current budgets and the resources needed to reach the development goals. This allowed for making a relationship between the budget and the cost of the millennium goals, and it was determined that under current budgetary constraints, some of them are not viable even with drastic changes in efficiency.

133. Under these terms, the social demands coming out from the consultations were prioritized in order to establish a reinforced scenario, selecting the programs proposed that have a high strategic content, that have greater social and economic impact, and that are within the competence of the public sector.

134. The increase in supply of social services poses the need to consider budgetary expansions

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<sup>5</sup> The most common family planning method is sterilization; however, it was not possible to calculate unit costs since most these procedures are done during a caesarean or birth, and no statistics area available for knowing with what frequency this occurs, and so therefore, it would be an under-estimate.

<sup>6</sup> Much of the infrastructure for the first level of attention lacks the basic conditions for adequate attention (lack of water, latrines or toilets, electricity) and many of the hospitals have gone beyond their useful life.

in order to increase the coverage of the basic services of health, education, drinking water, and housing; to increase the number of teachers and healthcare workers; and, to consider bringing salaries more in line with the cost of the basic shopping basket. The spending gap also reflects the expansion of budgets in order to sustain the social policy directed at the most vulnerable sectors. Because of all this, recurrent spending in these terms would be expanded.

135. The expanded scenario also considers that if additional resources can be spent, then, about 50 percent of the increase in spending should go to roadway, energy, port, and airport infrastructure, drinking water, and housing in order to make a quicker contribution to the country's competitiveness. The priority on the formation of capital in the economy is associated with the greater potential of the territories, but it also favors the opening up of the economy to the outside.

## **2.4 A Plan to reduce inequality among Nicaraguans**

136. The relationship between inequality and economic growth has been a topic subject to intense debate in the last decades. The existence and evolution of income inequality among Nicaraguans is a source of concern since this inequality may affect the evolution of the economy and social stability. This makes inequality a cross-cutting theme in the NDP, which is addressed in each and every chapter. First, given the importance of social policies aimed at increasing human capital (table 2.3), the country will continue redistributive policies that will directly address the vulnerabilities of the poor by improving and augmenting the provision of fundamental tools needed for development.

137. In this context, the provision of social services through the Service Provision Centers (defined on chapter 4) will improve the State's efficiency in the provision of basic social services and increasing coverage. The very concept of directing public services based on exclusion, such as lack of access to water, education, housing, electricity among others, it is oriented at reducing inequalities among the population. The commitment of the NDP to reach the Millennium Development Goals is a compromise to improve the social indicators that affect to the poorest of society, such as infant and women's mortality, family planning services, illiteracy rates, primary education, housing, basic infrastructure and access to water among others.

138. In policies aimed at improving production, this Plan takes into account the demands and needs of smaller and more vulnerable producers who are facing competition from the markets. Medium and smaller firms are considered a cross-cutting theme, which includes policies and actions aimed at promoting and improving access to credit, technical assistance and technology innovation among others.

139. In rural areas, where most of poverty and inequality is concentrated, public transfers and differentiated policies by level of income and wealth of the producers are established, with the objective of advancing those who are at the bottom of the income distribution. There are policies directed to resolve the needs of these producers, such as the "libra por libra"<sup>7</sup> transfers,

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<sup>7</sup> Pound per Pound: A credit program which started in 1998 where smaller farmers (about 1.5 Ha) receive agricultural certified inputs and at the end of the harvest farmers have to repay in equal amounts in the form of seeds, hence the name.

improving access to technology, production transformation and promotion of producers' associations.

140. With respect to land regularization, the NDP proposes the systematic solution of property conflicts from an integral perspective that solves problems in specific rural and urban areas, most of which are extreme poor. Empirical studies have demonstrated that such conflict resolution benefit the poorest, which lack the access to services necessary to solve their property problems.

141. The policies presented here promote association among producers so that those smaller and isolated ones can benefit from savings coming from services that they cannot reach individually. The identification and strengthening of specific productive clusters, such as tourism and coffee will have a positive impact on income distribution, because of the important role played by small and medium producers in such sectors.

142. Civil participation is defined as an important strategic objective, one in which public policies, actions and programs are consulted widely. Governmental decentralization, the municipalization of education, the increase in Central Government transfers to municipalities, and the formation of the Development Councils are just examples of actions to strengthen mechanisms aimed at improving the dialogue between the government and civil society.

143. Empirical studies have demonstrated that inequality also discourages foreign direct investment. As a result, inequality may have an impact on the future evolution of the economy and growth rates. From a political economy perspective, this Plan explicitly incorporates the main conclusions from the modern debate between freedom and equality. Among the most important propositions is that the problem of poverty should be viewed beyond the level of income to be measured by any poverty line, and more as an issue of capabilities offered by a specific environment to the citizens in order to improve their lives. Neither the absolute intervention of the State in imposing perfect equality, nor the laissez faire notion of the market are considered as the right solutions to solve the inequality problem or the lack of freedom. The Plan maintains that in Nicaragua, the level of inequality are so deep, that the market system itself will be unable to resolve at the speed required to generate the social and economic stability needed for sustainable long-term growth.

144. In order to achieve development in the form of a more free and equal society, more market and better governmental interventions are needed. It is a system that combines freedom –to markets and private property- with equality, along with public mechanisms that prevent market power concentration and ensures competition based on contracts. The objective is a system that ensures stability and social welfare, maintaining the individual's responsibility and the resolution of conflicts in the pursuit of the common good.

145. The NDP reiterates that an exclusive economic growth in which just a small number of firms benefit leaving outside the vast majority, is not consistent with the ethical principles and commitments to secure a prosperous society, one in which the development opportunities are equal for all.

### **Chapter 3: Economic Growth for Poverty Reduction**

146. The participatory consultation process indicated that the main economic demand from the population is the creation of permanent productive jobs. In reaching this goal, private sector leaders and workers organizations stressed the importance of the consolidation of the Rule of Law, juridical security, and efficiency in the provision of public services.

147. There is also consensus that “the sustained reduction of poverty cannot be achieved without rapid economic growth.” This was noted since the SGPRS and makes that the policies for sustainable production dealt with in this NDP should be complemented by the policies for human development and social protection.

148. The global strategy of the NDP is to improve the business environment to take advantage of the competitive potential of the territories, promote productive development, and have Nicaragua inserted itself into global trade currents. This strategy has three national goals: (a) increase income and reduce poverty; (b) generate employment and sustainable economic growth; and (c) increase private investments and exports.

149. The interplay of actions and policies necessary for the country to enter world and regional trades and to ensure transformation in rural areas includes measures to increase competitiveness and measures to guarantee food security and transform the traditional patterns of production.

150. This effort is framed in initiatives to correct high transaction and production costs, for this, the policies promote a regulatory framework that would foster clear rules for competition and a legal framework that would establish and guarantee private property rights in a market economy.

151. Since there is a high correlation between the financial system and economic growth, the NDP aims at readjusting the financial system to international norms for supervision and prudential regulation. It is necessary to integrate the multiple governmental funds for credit and to promote the development of new products that will develop the market, balance risks, and improve conditions in order to incorporate a large section of society currently not served by financial markets.

152. It is necessary to acknowledge that the national economy under current conditions has not been able to create the opportunities for employment and income with the magnitude and quality called for by society, and so the NDP proposes to improve the policy for export promotion and attraction of investments. Nevertheless, to take advantage of these opportunities, it is necessary to overcome a series of constraints in its business climate that reduce competitiveness and innovative capacity.

153. It is important to note that a policy aimed at improving export capacity does not enter into contradiction with the development of the domestic market and the demands from the most vulnerable groups, but instead offers opportunities for both markets in an open economy.

154. The NDP promotes free trade agreements and the consolidation of regional integration processes, in particular, the Customs Union will facilitate the free movement of goods and services regardless of origin, the elimination of border posts, the establishment of common

customs and tariffs policies, the harmonization of taxation, and a common regional and external trade policy. This will increase trade volume.

155. The productive strategy fosters relations among suppliers, consumers, producers and industries in the territories along production lines where the private sector can maximize its value added. Standing out among these are coffee, beef and dairy products, shrimp farming, forestry, tourism, light manufacture, and other products (vegetables and fruits, oilseed, cocoa, plantains, etc.).

156. The strategy does not represent “betting on winners,” since the government will facilitate a business climate that would benefit all actors so that economic agents make decisions based on market signals for going ahead with their activities at some point along the value chain.

157. The economies of scale and clusters development is to establish a new way of working in which the public and private sectors intervene jointly in the formulation of policies and investment decisions in order to create jobs, improve incomes, and expand foreign and domestic markets.

158. The productive strategy is formulated around seven priority core areas: (a) regulatory framework; (b) property rights; (c) financial services; (d) export promotion and attraction of investment; (e) increased productivity through the development of clusters; (f) rural development; and, (g) environmental sustainability.

159. The policies for these priority core areas provide special support to the Medium and Small Enterprises (MIPYME, which represent the majority of the business in the country. The actions focus on public-private dialogue and international cooperation in order to support clusters that would enable the spread of technologies and reductions of costs. Second-floor financial institutions will be strengthened so that they provide quality services with value added for MIPYME, and a business environment and regulatory framework to support competitiveness will be promoted. There are excellent opportunities in this sector for generating greater gender equity and opportunities for the youth.

160. Another cross-cutting theme regarding economic development has to do with the development of Technology of Information and Telecommunications. Nicaragua has signed important compromises at the World Summit of Information Societies, and has worked on the inclusion of policies and actions aimed at fulfilling such commitments. A special Council in this topic has been formed, with ample participation of government agencies and private institutions. Among such actions is the elaboration of a comprehensive strategy delimiting financial requirements for the development of information and telecommunication societies, the improvement of market conditions for technological and internet service providers, as well as the increase in public schools’ internet access.

161. The productive and environmental program has a cost of US\$650.4 million for the 2006-2010 five-year period (US\$130.1 million annual average) with a US\$266.3 million gap with respect to currently available funding. Part of this financing is included in the 2005 and 2006 budget and new programs and modalities for cooperation with sectoral wide approach are being developed to facilitate resources. The table below presents a summary of the costs for the



strategy for economic growth, by prioritized core areas.

**Table 3.1. Total Costs for the Economic Growth Strategy:  
Productive and Environmental Sector 2006-2010**

(millions of dollars)

Priority core areas	Base Scenario (1)	Expanded Scenario (2)	Gap (3=2-1)
<b>TOTAL</b>	<b>384.2</b>	<b>650.4</b>	<b>266.3</b>
Regulatory framework and paperwork procedures	4.1	13.7	9.6
Property rights	58.3	100.3	42.0
Financial services	13.1	22.2	9.1
Export promotion and attraction of investments	6.2	33.1	26.9
Support for development of clusters	20.5	43.7	23.1
Rural development	244.1	365.4	121.3
Environmental sustainability	37.8	72.1	34.3

162. The implementation of public actions in support of the productive and environmental sector will be monitored by means of indicators detailed in the previous chapter on The Evolution of Poverty, Goals, and Funding.

### **3.1 Regulatory framework and paperwork procedures**

163. Studies and analyses of the national situation have reiterated the importance of the State to facilitate the proper evolution of markets. Work for this was done around three objectives: i) facilitating business management by reducing the time for government paperwork procedures; ii) a legal and institutional framework for the implementation of the policy for competitiveness; and, iii) establishing an integrated system for quality that includes standardization, accreditation, and metrology.

164. To reduce time from paperwork procedures with the objective to reduce transaction costs. Public efforts for achieving this objective centers on three specific actions: i) implementing a program to simplify administrative procedures; ii) modernization of mercantile legislation; and, iii) improving the customs system.

165. One of the most important structural reforms is to provide a legal and institutional framework to promote competition. Interventions for this are made with five specific actions: i) a legal framework on the theme of competition; ii) identifying and eliminating anti-competitive practices; iii) strengthening municipalities' capabilities for conflict resolution that benefit producers and consumers; iv) including the theme of competition in the primary and secondary curriculums; and, v) implementing a system of information at the service of the consumer.

166. The above two efforts will combine with an integrated system for quality that includes standardization, accreditation, and metrology: key aspects for bringing the export offering and domestic consumer goods in line with international standards. This objective will be reached with the following activities: i) pushing for the legal framework for standardization and operation of the quality system, the strengthening of the Center for Information on Technical

Obstacles to Trade (CIOTC) and the national prize for quality; and, ii) implementing the international system for units (SI) and expansion of the national metrology laboratory.

167. The cost for this sector is US\$13.7 million, with a gap of US\$9.6 million with respect to currently available funding. This additional amount is mainly directed towards activities to facilitate business by reducing paperwork procedures.

**Table 3.2. Economic Growth: Costs for Regulatory Framework and Paperwork Procedures 2006-2010**

(millions of dollars)

Core area/Objectives	Base Scenario (1)	Expanded Scenario (2)	Gap (3=2-1)
<b>Regulatory framework and paperwork procedures</b>	<b>4.1</b>	<b>13.7</b>	<b>9.6</b>
1 Facilitate business management by reducing the time for paperwork procedures	1.8	8.3	6.5
2 Legal and institutional framework for competition policy	1.2	2.7	1.5
3 Establish integrated system (SI) for quality with standardization, accreditation, and metrology	1.1	2.7	1.6

### 3.2 Property rights

168. Among the measures for institutional strengthening is the definition of property rights, the absence of which has been identified as one of the main constraints to developing the country. Estimates are that only 30 percent of properties in the agricultural sector are duly registered and entered into the land cadastre (mapping). The property problem has also had adverse effects in urban areas and other areas of the economy. To solve these problems, a program with six lines for action, detailed below, will be undertaken:

169. Modernization and expansion of the cadastre and registry, integrating them functionally, and the participation of different institutions involved in the solution of property rights (Ministry of Finance, Institute of Territorial Studies, Institute of Property and the Supreme Court).

170. Legal ordering of property, a process to clear up, certify, and issue titles will be supported in order to solve the problems stemming from the issuing of titles and other legal instruments during the different processes for assigning State lands and properties, particularly during the transition process (February-April 1990).

171. Establishment of a framework of incentives in order to give more dynamism to land markets, which includes: i) a system of information on real estate prices and transactions, reforms to the taxation framework so it that favors the intensive and efficient use of land; and, ii) the development of efficient mechanisms for acquiring rural properties, and expanding financial services to small and medium producers through property regularization.

172. Development work of institutional capacity for the provision of land administration services; the policy frame for land will serve to articulate the ordering and regularization of property rights which will be the basis for implementing a national program for land

administration that includes the following actions: i) reducing institutional dispersion; and, ii) strengthening of a single institution in charge of administering, regulating, and organizing.

173. Establishment of a legal and normative framework that would give more dynamism to land market, which includes: i) mechanisms for access to land by small and medium producers; ii) mechanisms that give more dynamism to the land market and the use of land as collateral; iii) reforms to the laws for cadastre and the public registry; and, iv) the design of a land policy that includes protected areas and indigenous communities, and the recognition and definition of property rights for indigenous communities, pushing ahead with the implementation of the demarcation of the communities in the Bosawas Reserve, Awas Tingni, and other zones of the Autonomous Regions.

174. The cost for this sector is US\$100.3 million, with a gap of US\$42.0 million with respect to currently available funding. This additional amount is for the activities to modernize the registry and cadastre and to establish a legal framework for making land market more dynamic and equitable.

**Table 3.3. Economic Growth: Costs for Property Rights 2006-2010**  
(millions of dollars)

Core area/Objectives	Base Scenario (1)	Expanded Scenario (2)	Gap (3=2-1)
<b>Property Rights</b>	<b>58.3</b>	<b>100.3</b>	<b>42.0</b>
1 Modernize cadastre and public registry for property (cadastral sweep)	25.0	49.8	24.8
2 Legal ordering	9.7	10.7	1.0
3 Establish frame for incentives to make the real estate market more dynamic	0.0	14.7	14.7
4 Develop institutional capacity to provide land administration services	19.0	19.0	0.0
5 Establish legal and normative framework to make the real estate market more dynamic	1.1	1.1	0.0
6 Recognize and define property rights for indigenous communities	3.5	5.0	1.5

### 3.3 Financial services

175. The policy for financial services has the objective of having a more competitive financial market with a more transparent system that would reduce the risks of bankruptcy and insolvency, would lower the cost of credit, and increase access to a greater number of clients, especially small and medium producers.

176. The above mention includes the expansion of access for small and medium business and low-income groups will be promoted through the following actions: i) the establishment of a new legal and supervisory framework for microfinance activities that includes the approval of a law for associations; ii) the application of a normative framework to improve credit information systems, along with the strengthening of the system for a risk bureau of the Superintendence of Banks (SIBOIF) and the promotion of competition for credit information markets in the private sector; iii) the development of a legal framework for protection of consumers of financial services; iv) the design of technical assistance programs for microfinance institutions; and, v) the

establishment of a modern legal and regulatory framework for the development of the financial cooperatives activities.

177. The improvement of the institutional framework for State credit entities, implementing the necessary institutional reforms for the ordering of the credit resources of the Rural Credit Fund (FCR), Institute of Rural Development (IDR), and the Nicaraguan Investment Fund (FNI), improving efficiency in resource allocation and timely attention under competitive conditions.

178. The reduction of risk and expansion of collateral capacity by means of actions for: i) improvements to the legal framework for pledge guarantees with a Law for Real Moveable Property Guarantees, complementing the modernization of the public registries; and, ii) improvements to the legal framework for fiduciary activities that includes a Law for Trust Funds.

179. The establishment of incentives to leverage the growth of small and medium investments, which consists of the creation and development of Risk Capital Funds with three fundamental aspects: i) prioritizing investments in sectors with high profitability in the domestic market and export activities; ii) developing business training programs in the sector for small and medium business; and, iii) complementing actions with other promotion funds.

180. The total cost is US\$22.2 million, with a gap of US\$9.1 million with respect to currently available funding. This additional amount is mainly for the creation of a framework of incentives for the growth of small and medium investments.

**Table 3.4. Economic Growth: Costs for Financial Services 2006-2010**  
(millions of dollars)

Core area/Objectives		Base Scenario (1)	Expanded Scenario (2)	Gap (3=2-1)
<b>Financial Services</b>		<b>13.1</b>	<b>22.2</b>	<b>9.1</b>
1	Expand access to small and medium business and low-income groups	0.0	7.4	7.4
2	Improve institutional framework for State credit entities	0.8	2.1	1.3
3	Reduce risk and expand capacity for collateral	1.3	1.7	0.4
4	Establish a frame for incentives in order to leverage the growth of small and medium investments	11.0	11.0	0.0

### 3.4 Export promotion and attraction of investments

181. Given the insufficient domestic savings and the vulnerability in the current account, direct foreign investment and national capital investments are development priorities because of their positive impact on competitiveness, the creation of new and better jobs, the transfer of technology and managerial know-how, and the generation of foreign exchange. Below are the main actions:

182. To promote an increase in the value of exports through: i) the promotion, strengthening, and diversification of the country's export supply; ii) the development of research capacities and market intelligence; iii) the simplification of paperwork procedures for exports with the

development of an Export Gateway; and, iv) the certification and reduction of risks for exporters, establishing mechanisms that help overcome the barriers of quality and certification.

183. To increase the investments attracted by the Investment Promotion Agency (PRONICARAGUA): i) visits from investors; ii) promotion of investment through the diplomatic representations abroad; iii) offer world-class facilitation and post-sale services; iv) monitor normative and administrative aspects related to investment processes; v) update the policies for investment promotion; and, vi) improve Nicaragua’s image as a good place to do business.

184. The total cost is US\$33.1 million, with a gap of US\$26.9 million with respect to currently available funding. This additional amount represents a substantial increase for market intelligence activities that would improve competitiveness and the image of the country as a good place to do business.

**Table 3.5. Economic Growth: Costs for Export Promotion and Attraction of Investment 2006-2010**  
(millions of dollars)

Core area/Objectives	Base Scenario (1)	Expanded Scenario (2)	Gap (3=2-1)
<b>Export Promotion and Attraction of Investments</b>	<b>6.2</b>	<b>33.1</b>	<b>26.9</b>
1 Increase the value of exports	4.6	20.2	15.6
2 Increase direct private investment by means of the investment promotion agency	1.6	12.9	11.3

### 3.5 Increased productivity through the development of clusters

185. One way to ensure the sustainable generation of employment and poverty reduction is through the development of private activity and the strengthening of productive and commercial interrelations. The vision of clusters has been adopted to increase productivity and develop the territories’ economic potentials. For example, sectors like beef and dairy products, shrimp farming, tourism, coffee, light manufacture, and forestry have been able to execute actions that are complemented with public investments.

186. Clusters are already being developed in specific geographic zones and represent the entranceway to the territory. In the short and medium term, these will produce different benefits: (a) linkages between all local actors, producers, processors, and providers of goods and services; (b) taking advantage of the market openings with better quality goods and services; and (c) reduction of costs for implementing government policies and actions.

187. The total cost is US\$43.7 million, with a gap of US\$23.1 million with respect to currently available funding. This additional amount is for reinforcing the development of seven prioritized clusters in activities of association, market intelligence, international fairs, and clean technology, among others.

**Table 3.6. Economic Growth: Costs for Support to the Development of Clusters 2006-2010**  
(millions of dollars)

Core area/Objectives	Base Scenario (1)	Expanded Scenario (2)	Gap (3=2-1)
<b>Support for the Development of Clusters</b>	<b>20.5</b>	<b>43.7</b>	<b>23.1</b>
1. Tourism: paperwork, tourism products, associativity, country image	7.8	15.3	7.5
2. Coffee: associativity, promotion, quality, clean technology	1.4	6.5	5.1
3. Beef and dairy products: associativity, training centers, quality, clean technology	5.8	5.8	0.0
4. Shrimp farming: special markets, provision of inputs, associativity, clean technology	0.6	4.0	3.4
5. Forestry: management plans, business services, associativity, clean technology	4.5	10.6	6.1
6. Light manufacture: social and environmental responsibility, regulatory framework, training centers	0.3	0.8	0.5
7. Other products: associativity and clean technology	0.1	0.7	0.6

188. It is expected that the growth and evolution of the different clusters explained below is the responsibility of the private sector. The participatory planning process and consultations of the NDP with business leaders pointed out a series of activities, investments and policies to be provided by the government, which are explained in the next sections.

### 3.5.1 Tourism

189. Tourism has become one of the most dynamic sectors of the economy, with annual increments of 15 percent in the number of visitors, and so it is necessary to continue fostering investment in tourism by improving infrastructure, sanitary systems, waste management, and paperwork procedures at border posts, among other actions. The strategy centers on promoting and marketing tourism in order to position Nicaragua in international markets, taking advantage of our natural and cultural resources.

190. In order to improve the offering of lodging and other tourism services, there will be continued promotion of private investment by means of a system of fiscal incentives, without compromising public finances. Investments in infrastructure in zones with potential will be facilitated, complementing private efforts.

### 3.5.2 Coffee

191. Coffee has been the locomotive force for rural development in the north and central zones, and it continues to be one of the main export products with great potential of value added due to specialty markets. In order to boost this sector, actions will be implemented to improve the capacity for commercializing differentiated coffee through the promotion of quality coffee at national and international events. Associations among producers, roasters, and exporters will be promoted. The programs for training and technical assistance will be strengthened. Foreign investment will be promoted along with entry into international markets in order to position Nicaraguan quality coffee.

192. In addition, technological upgrading and the diversification of production on the farms is

promoted, as is the generation and use of renewable energy and eco-tourism with the promotion of the Coffee Tourism Route and specialized tourism in coffee-growing zones.

### **3.5.3 Beef and dairy products**

193. Nicaragua is the largest and most dynamic beef producer and exporter in Central America. Exports showed an average increase of 8.4 percent over the last four years. Cheese exports increased by more than 50 percent from 2002 to 2003.

194. Public actions center on technical assistance for good ranching practices, traceability and sanitary conditions, promotion of technical services for the certification of farms and association among ranchers, and promoting technical education.

195. Information about markets will be provided. The registry for denomination of origin for dairy products will be made operational. Regional laboratories will be reestablished and research will be done in order to develop brands and quality seals. Organic beef and its byproducts will be promoted and there will be a push to certify firms that meet sanitary and environmental standards.

### **3.5.4 Shrimp farming**

196. Shrimp farming has maintained itself as one of the main economic activities in the primary sector, representing 41 percent of fisheries exports and 6.8 percent of total exports in 2003. Eighty percent of these exports go to the United States of America.

197. Among the strategic guidelines having a better regulatory framework and improving electricity and water services are prioritized. The participation of local, regional, and foreign industries in the provision of inputs and services promoted in rounds of negotiations between providers and producers and increased field research for feed technology.

198. In addition, government will aid the private sector in lowering production costs through research, the dissemination and adoption of better practices for larvae quality, growth diet, pond water quality and the implementation of good crop management practices.

### **3.5.5 Forestry and wood products**

199. The development of this cluster presents two big challenges: i) conserving the environment; and, ii) making exportable high value wood products of good quality at a good price. To do this, it is necessary to attract investments in forest plantations, promote the sustainable management of forest goods and environmental services, implement commercial management plans and management plans in protected areas, promote technological upgrading with the establishment of technological centers, and prevent and control forest fires.

200. In addition, there will be promotion of centers for business services, forestry research and technological innovation, and productive diversification (eco-tourism), which includes promoting wood products, and public institutionality will be modernized in order to develop the competitiveness of this sector.

### **3.5.6 Light manufacture**

201. A number of obstacles to be eliminated have been identified in order to develop light manufacture with value added. Efforts will be focused on promoting a better setting for business development that would give more impetus to investment, diversification, and strengthening of the production value chain by means of a regulatory framework with a new Law for Free Trade Zones that would promote the expansion of the industrial park.

202. To promote exports from free trade zones, investments will be promoted through strategic alliances and the incorporation of new national and foreign investors into the value chain, developing an integral program to strengthen the business capacity of the MIPYMEs so that they can respond to the demands for the required goods and services.

203. It is also necessary to have a workforce qualified with technical skills and people who can be at the mid-level of command, as well as firms that are certified in issues of Corporate Social Responsibility (CSR). Actions will center on three specific areas: i) raising the standards and practices for CSR; ii) fostering the evolution of the industry towards a greater use of skilled labor, developing training programs for mid-level employees and technicians; and, iii) facilitating diversification towards other industries (textiles, electronic components, services) with value added and coordinating with the academic sector for the development of curriculums in line with the needs.

### **3.5.7 Other products (oilseed, fruit, cocoa, plantains, and others)**

204. As part of the promotion of the development of clusters, during the consultation process, small and medium producers of oilseed, fruits, cocoa, and plantains began to associate, and proposed the following activities: i) promote the implementation of plans to reduce the contamination of fruits and vegetables; ii) arrange for the promotion of export crops of fruits, vegetables, and others by means of quality programs; and iii) support marketing.

## **3.6 Rural Development**

205. The fight against poverty is based on strong economic growth, supported by a modern and competitive export sector and improvements in the domestic market. New policies are required in the rural sector, which besides agriculture, are complemented by agro-industry and food processing that responds to consumer demands. In this respect, throughout 2004 and as part of the consultative process, the government elaborated a Strategy for Rural Development, which was widely discussed in the territories. In this section the main elements of this strategy are summarized.

206. The strategic objectives for the rural sector seek to assure the economic and social well-being of rural communities and their participation in the formulation and implementation of policies. This will be achieved with the articulation of a policy for sustainable development that is equitable, has cultural identity and a gender approach, and is environmentally-friendly.

207. The policy for rural development is crosscutting and serves as an operative instrument for



the productive policy, allocating resources and organizing institutions in order to support activities that promote employment, the development of clusters, and the competitiveness of the territories, mainly benefiting small and medium farmers.

208. The general policy guidelines that have been stated like regulatory framework, property ownership, financial services, business climate, etc. will have an effect on rural development, an promoting an enterprise vision, improving competitiveness, and lowering transaction costs.

209. Rural development gives priority to aspects of food security. Measures are being taken to expand the coverage and quality of food security programs which will have an impact on rural residents and they promote the production of alternative foodstuffs in line with the agro-ecological zones with the delivery of inputs and the setting up of micro-irrigation and water harvesting systems, particularly in dry zones.

210. In relation to agricultural technology, the process of the technological innovation of products and processes for added value is being sped up throughout the productive chain. Within the actions for animal and plant health and safe food, the health status of the country will continue to be preserved with the strengthening of an efficient system for health-sanitary services in line with international standards in order to enable access to markets.

211. The policy promotes better integration of the most developed urban and rural areas, both physically, economically and socially, particularly the Caribbean Coast. Health, education, and social infrastructure services are being extended to the poorest and most dispersed populations through Service Provider Centers (see chapter on Human Development and Social Protection) to address productive and social marginalization in those territories.

212. The legal and institutional framework strengthens the policy for the gender approach, promoting the access of women to land, their associations, and their participation in business development and commercialization.

### ***Typology of producers and instruments for implementation in rural development***

213. In order to implement the policy for rural development, rural families were classified according to their net capital: i) extremely poor families; ii) poor families with basic productive capacities; iii) medium-scale producers; and, iv) large-scale producers. For each of them, the constraints, the objectives in order to improve their condition, the instruments to be used, and the resources required to finance the policy have been identified.

214. The rural development strategy makes a balance of the different strata of producers, giving them differentiated treatment to enable buffering the negative effects of trade opening on the smallest, upgrading those with the opportunity to do so, and maximizing advantages for the most efficient.

215. *Extremely poor producers (approximately 120,000 families).* Their main constraints are property ownership and the quality of their assets and their land. They have weaknesses for accessing basic technologies and very low levels of education and health. They generally live in conditions of isolation because of a lack of all-weather rural roads. For this segment, the policy

will consist in providing them with basic levels of nutrition, health, education, safe water, food security, and minimum income in order to improve the future for their children and to take advantage of positive opportunities opened up by growth. The instruments to implement this consist of direct transfers, seeds and inputs like the pound-per-pound program (“libra por libra”), and other social programs to provide attention to children.

216. *Poor producers with basic productive capacities (185,000 families)*. Their main constraints have to do with land ownership, access to financial services, the product they market, and access to markets. These families have low educational levels, abilities, and skills, little command of and access to technology, and they generally live in conditions of isolation. The objective for this segment is to increase their income through a program to revitalize their businesses with links to dynamic and profitable markets. Among the instruments are actions to promote association and strategic alliances with firms that have access to markets and direct transfers granted by the IDR to invest in changing over their production system.

217. *Medium-scale producers (59,000 families)*. The main constraints for this segment are legal problems to do with property ownership, lack of capital, the scale of their business, access to bank credit, entrepreneurial and technological weaknesses, and few links to markets. The objective is to make them entrepreneurs with flexible and diversified businesses, linking them with dynamic firms and with the market, and having them have the capacity to compete with differentiated products according to consumers tastes and with greater value. This objective requires a program of risk capital investments that would facilitate access to low cost capital. This requires the organization of a guarantee fund with the objective of expanding the collateral capacity and reducing creditors’ exposure to risk. These producers and their businesses require levels of knowledge and skills in modern management, organizational processes, and market intelligence.

218. *Larger-scale producers (33,000 families)*. This group is made up by families with more economic resources and their main demand is macroeconomic, political, and social stability. The objective for this group is to make their businesses into quality firms linked to international distribution chains and local small and medium businesses. The instruments for this segment are macroeconomic stability, a competitive real exchange rate, development of productive economic infrastructure, telecommunications, simplification of paperwork procedures, establishment and compliance with systems for standardization and quality, development of banking services, and improvements to the registry for property and to the laws for bankruptcy, moveable property guarantees (pledges), trusteeships, risk centrals, and capital markets, among others.

219. The policy for rural development includes priority core areas for the productive strategy, with emphasis on rural zones and the different segments of poverty. In defining these costs for the strategy, only the costing for things to do with agricultural technology, sanitary health, forestry development, credit, and transfer for small and medium rural residents was considered, for a total cost of US\$365.4 million and with a gap of US\$121.3 million with respect to currently available funding.

**Table 3.7. Economic Growth: Costs for Rural Development 2006-2010**

(millions of dollars)

Core area/Objectives	Base Scenario (1)	Expanded Scenario (2)	Gap (3=2-1)
<b>Productive Rural Development</b>	<b>244.1</b>	<b>365.4</b>	<b>121.3</b>
1 Technological innovation for agriculture	21.1	36.5	15.4
2 Agricultural sanitation-health and food safety	33.2	54.7	21.5
3 Forestry development	17.4	18.3	0.9
4 Credit and transfers	172.4	255.8	83.5

### 3.7 The Development of a Special Region: the Caribbean Coast

220. The Caribbean Coast represents an extensive part of the national territory and due to its characteristics and origins, it constitutes a special zone and therefore it is necessary to articulate a policy towards its interior and another towards its exterior. Towards its interior, it is necessary to articulate actions and policies to facilitate production, exports, and infrastructure, taking advantage of the regions natural resources of land, water, forests, flora, and fauna and especially its multiethnic human resources who speak English and Spanish. Towards the exterior, taking advantage of the integration of Nicaragua into the Central American system and also taking advantage of integration into the Caribbean system, facilitating commerce and integration. Priority will be put on the following actions, coordinated by the Regional Planning Commissions:

221. Progress in establishing property rights and territorial and environmental zoning with the demarcation of the lands of indigenous communities. With respect to the environment, priority will be put on plans for community and municipal zoning, the management of protected areas and coastal zones, and regional environmental territorial zoning.

222. Productive development and expansion and improvement of infrastructure to facilitate connection with the rest of the country and abroad (improve and modernize airports, municipal landing strips, sea and river ports, and highways), which includes the construction of an inter-municipal roadways and waterways network, highways to connect to the national roadway system (already under improvement), the modernization of the El Rama port and navigation through the Escondido river, and the expansion of the electricity grid and telephone network.

223. In governance, the recognition of the bodies for regional administration and institutional strengthening, reinforcing the presence of the Executive Branch and Judiciary in the region, and strengthening local and regional governments and centers for higher education. The decentralization policy will facilitate the integration of the central, local, and regional governments and decentralized public investment. Also, the central government, with the regional governments, will promote a closer relationship with the commonwealth of Caribbean nations.

224. For the development of human capital, the autonomous regional systems for education and health will be established and programs to prevent drug use will be developed. For both productive and social actions, the fundamental basis will be the policies, actions, and proposals

that have already been synthesized in the respective regional development plans presented by the Regional Councils of the RAAS and the RAAN in 2004 and 2005.

### **3.8 Environmental Sustainability**

225. Nicaragua has adopted the commitment to adopt policies and actions for sustainable development. At the Earth Summit (1992), the commitment was made to begin the process of transition towards a new international regime in environmental matters. This was reconfirmed in the Millennium Declaration of 2002.

226. The strategy for environmental sustainability has the objective of promoting sustainable development and natural resource management in the policies and strategies for economic, social, and institutional development, and this means putting forward a series of actions that are described below.

227. Reform the General Law for the Environment in order to harmonize economic development with the environment, including measures for the protection, recovery, and mitigation of natural resources; the establishment of payment mechanisms for environmental services; mechanisms for clean development; and environmental services-for-debt swaps; and, promoting the economic valuation of services generated by ecosystems (fixing and capturing carbon; protecting hydrographic basins; genetic diversity of wildlife flora and fauna, etc.).

228. To promote the capacity for developing national scientific knowledge, backed by local biological diversity, the valuation of genetic resources, and intellectual property rights. Legislation related to the establishment, regulation, and administration of the National System for Protected Areas (SINAP) will be reviewed for its profitable management and its links with economic activities, according to vulnerability, and also to promote individual and collective environmental education in the formal and informal frameworks.

229. The compliance with the Gradual Plans for Reducing Industrial Pollution is being guaranteed, as well as the establishment of the polluter-payer principle in the National Policy on the Integral Management of Solid Wastes. The implementation of the Strategy for the Integral Management of Coastal Zones is necessary in order to conserve the biodiversity of marine coastal ecosystems and for the socioeconomic development of the coastal population.

230. Complementary to this, the national and local public institutions that have to do with reducing and managing risks and territorial zoning are being strengthened and there will be a geographical information system that enables the identification of natural threats together with early warning systems, geological and threat maps, and there will be improved surveillance of volcanic areas and areas with the potential for landslides or landslips.

231. The strategy includes taking advantage of environmental benefits in order to support the setting up of clusters with the corresponding measures for protection, conservation, and restoration. In coffee, the reduction of pollution from “sweet waters” (discharges from depulping operations) will be promoted with the implementation of clean technologies and the management of micro-drainage basins. With beef and dairy products, norms and procedures for the environmental management of slaughterhouses and municipal abattoirs will be developed. In

shrimp farming, the management plans for the protected areas of Padre Ramos and Estero Real will be prepared and implemented. In tourism, eco-tourism investments will be promoted in protected areas.

232. The cost of this priority core area is US\$72.1 million, with a gap of US\$34.3 million with respect to currently available funding. This additional amount is for the modernization of the legal framework in order to take advantage of the opportunities from CAFTA, the monitoring, surveillance, and control of natural resources, territorial zoning, and environmental education.

**Table 3.8. Economic Growth: Costs for Environmental Sustainability 2006-2010**  
(millions of dollars)

Core area/Objectives	Base Scenario (1)	Expanded Scenario (2)	Gap (3=2-1)
<b>Environmental Sustainability</b>	<b>37.8</b>	<b>72.1</b>	<b>34.3</b>
1 Promote environmentally sustainable development and natural resource management within the policies and strategies for economic, social, and institutional development	37.8	72.1	34.3

## **Chapter 4: Development of Human Capital and Social Protection**

233. Nicaragua has the second lowest GDP per capita in Latin America. It also has high levels of public debt and fiscal deficit, which translates into a low availability of public financial resources to respond to the immense needs of the population, particularly their social needs.

234. Poverty level measurements have been taken through the Living Standard Measurement Surveys (LSMS) in 1993, 1998, 2001, and the most recent in 2005, which will be available at the beginning of 2006. From data available in 1993, 50.3 percent of the population was living in poverty and 19.4 percent in extreme poverty. The LSMS 1998 showed a reduction by 2.4 and 2.1 percentage points, respectively, for the percentage of poor and extremely poor. This trend continued for 2001, with the percentage of people living in poverty falling to 45.8 percent, with 15.1 percent in extreme poverty, indicating a statistically significant reduction in relation to 1998 of 2.1 and 2.2 percentage points, respectively.

235. The reduction in poverty from 1998 to 2001 is partly explained by the increased income with a 6 percent increase in the per capita GDP, going from US\$743.9 in 1998 to US\$788.2 in 2001.

236. With regards to the evolution of poverty by area of residence, the surveys show that poverty and extreme poverty continue to be predominantly rural. All three surveys show the percentage of poverty in rural areas as double that of urban areas, and it is worse with extreme poverty, up to 5 times more prevalent in rural areas than in urban areas.

237. The population's dispersion into more than 7,000 small, isolated, rural localities with less than 2,500 inhabitants constitutes a challenge in targeting scarce financial resources. A perverse cycle between productive shortfalls, poverty, and marginal access to public services has been created. Without innovative changes in terms of policy, programs, and budgetary increases for the social sectors, it is not viable for Nicaragua to aspire to meeting a significant number of the Millennium Development Goals.

238. With human capital being the most valuable resource and the key to development with equality, in recent years major efforts have been made to improve it. The social sector as a whole has begun a process of modernization and institutional strengthening, which includes restating and reformulating policies, along with redefining the legal framework for orienting sector affairs and the prioritization of interventions. Standing out among these is the approval of the law, policy, and National Plan for Health; the law for Educative Participation, the Education National Plan, and the Common Plan in Education; the Policy for Social Protection; the law for Occupational Health and Safety; and the law for Acquired Labor Rights.

239. Public sector investments have also been directed at expanding coverage and improving the state of the infrastructure and equipment in the service provider units. Nevertheless, investment capacity is insufficient given the magnitude of these great social challenges, and more strategic articulation is required.

240. Complementary to the strategy for economic growth set forth in the previous chapter, social policy has the objective of developing human capital so that people can acquire health,

abilities, skills, and capacities necessary for living a dignified and productive life. This helps strengthen democracy and governance.

241. Having an effect on these factors is essential in order to raise the levels of competitiveness and increase investment. In this frame and as part of the new initiatives, the strategy for the establishment of Service Provider Centers (CPS) is going ahead. The objective is to facilitate access and improve the quality of public services by providing attention for the rural population from centric localities surrounded by other smaller ones, where more people can receive attention and the necessary services at a lower unit cost, thereby increasing the impact of public spending on the living conditions of the poor.

242. The principles underlying the policy for human development and social protection are:

- **Complementarity:** awareness of the complementary nature of the processes for economic growth and social development. Economic growth is considered a necessary, but insufficient condition for eradicating poverty, and poverty is seen as an obstacle on the development process of a country.
- **Effort of all:** overcoming poverty is only possible with the effort of all. Therefore, trust and reciprocity in the collaboration of the private and public sectors and between the Central Government and the municipalities is fundamental for improving the provision of social services.
- **Decentralization:** as a strategy for improving social investment, the transfer of responsibilities and resources to the local authorities and the handing over of faculties for control and oversight to individuals and communities constitute an important element for improving the living standards of the population.
- **Integrality:** the articulation of the social actions is a fundamental requirement for achieving the efficiency and impact sought after in the social area. Beyond the traditional sectoral visions, the inter-institutional intersections of the strategy are the result of the implementation of better articulated policies that call for more coordination in order to be successful.
- **Sustainability:** favor social programs that allow for giving more force to the capacities of the beneficiaries so that in the short and medium term, the continuation of the programs can be guaranteed, incorporating those persons marginalized from the productive system into the market.
- **Double targeting:** the targeting criteria of spatial poverty must be complemented with targeting criteria of economic potential, migration, and social and productive marginalization of the area.
- **Equity:** the level of distribution of income and wealth shall be improved, and work will be done to reach levels of gender equity and the equity between ethnic and age groups.

- Transparency: increase public information about the use of resources, particularly in the social area, with information systems that assure the publicizing information about allocation and destination of the resources, with independent audits that measure the impacts of the social programs.

#### **4.1 Education**

243. The 2001-2005 period was characterized by irregular behavior of the indicators for coverage and by the strengthening of the process of modernization of the sector that aims to make education more relevant to social demands and competitiveness. The education policy is contributing to the development of human capital so that persons acquire knowledge, abilities, and skills for living a dignified and productive life in the frame of ethical and moral values.

244. Progress has been made along this line with the decentralization of the education system and school autonomy. In 2002, the Law for Participation in Education was approved. It fosters citizen participation in the administrative, financial, and academic affairs of the study centers. For administering education at the municipal level, the signing of agreements between the Ministry of Education and local governments continued.

245. The National Education Plan was prepared. It stems from the formulation and implementation of a sector-wide approach (SWAp) that has resulted in significant progress in the coordination and planning of international cooperation. The incorporation of Nicaragua into the Education for All initiative (EFA) will allow for expanded coverage and greater quality of primary education. However, the availability of resources to implement this initiative has yet to be made concrete.

246. The education sector has made significant progress in attracting donations and it depends less on loans, and this was reflected in the 2005 budget. Along this line, cooperation from the European Union has been significant. Despite advances made in the sector, it is estimated that approximately 800,000 children are outside of the educative system, with the number of children not attending school six times higher among homes living in poverty. These households are also affected by illiteracy and they have a low average number of years of schooling.

247. The strategies that govern interventions in the sector are:

- Expanding the offering and encouraging demand: access, adaptability, and equity with the increased coverage of services, with emphasis on preschool, primary, and secondary education; increased number of centers with the school-parents program; improved infrastructure; implementation of the teacher training system; and, transformation of the teaching training schools into institutes for higher education.
- Educative transformation: relevance and quality through flexible strategies in the context of the demand in the setting; the implementation of content in line with competencies with technological and vocational programs; consolidation of open educative modalities; improvement of the quality of life of teaching staff; and, strengthening of the intercultural bilingual program in the autonomous regions.



- Improvement of governance: participation, results, accountability, and efficiency through the consolidation of the process of the municipalization of education; incorporation of the public schools into the regime of educative participation; modernization of the central structure of the MECD; implementation of the system of educative information; and, application of the national system for evaluation of quality.

248. The total cost for the education sector is US\$1,043.3 million for the 2006-2010 period, with a gap of US\$48.5 million with respect to currently available funding (base scenario).

**Table 4.1. Costs for the Education Sector 2006-2010**  
(millions of dollars)

<b>National Goal</b>	<b>Base Scenario (1)</b>	<b>Expanded Scenario (2)</b>	<b>Gap (3=2-1)</b>
<b>Education</b>	<b>994.8</b>	<b>1,043.3</b>	<b>48.5</b>
1 Educative transformation: relevance and quality	92.5	97.0	4.5
2 Expansion/diversification of offering and encouragement of demand, access, and equity	747.1	783.5	36.4
3 Improvement of governance: participation, results, accountability, and efficiency	155.2	162.8	7.6

## 4.2 Health and Nutrition

249. The increased coverage of health and the improvement of the indicators, particularly those for morbidity and mortality, continues to be a challenge. In recent years, the behavior of the indicators has been irregular, explained in part by the weaknesses in the records systems, limitations in access to services, especially in rural areas, and lack of resources.

250. Progress in the sector includes the approval of the General Law for Health in 2002 and its regulations; the formulation of the new sector policy 2004-2015 and its respective plan; and, the five-year health plan 2005-2009. These instruments will serve as guides in order to materialize the established objectives. The Health Sector Strategy (ESS) was formulated with a sector-wide approach, and progress was made with a Code of Conduct, a memorandum of understanding and a joint funding for the sector.

251. Based on the evaluation of the seven models for primary attention in health that exists, the new Model for Integral Attention in Health (MAIS) was formulated. It established an approach in relation to attention and the provision of services that is oriented towards better equity, quality, and efficiency, putting priority on prevention and promotion in the household, family, and community.

252. Progress has also been made with hospital modernization, especially in planning, management, and quality. The process for procurement, supply, and distribution of medical inputs has been strengthened. The purchase of private services; programming and budgeting as the basis for the deconcentration of services to the level of the Local Systems for Integral Healthcare (SILAIS) has also been making progress.

253. Policy in the sector is oriented towards guaranteeing the right and equitable and universal access to a set of basic health services in order to increase the life expectancy and quality of life of the population. In this context, the strategies to follow are:

- Improve coverage and quality, particularly at the primary level, in order to attend to the poorest population that has lower coverage, putting priority on services for women of childbearing age, children under 5, and adolescents. The actions include: implementation of the MAIS; rationalization of the network of services; provision of the basic packet of services to prioritized populations; increasing the offering of maternal houses; integrating family planning services and basic obstetric care; and, improving the treatment of illnesses prevalent among children.
- Increase promotion and prevention in order to promote changes in behavior, incorporating the community into health management; and, developing the national strategy for communication and action in health, which will provide information and education in order to favor changes to healthy habits and behaviors.
- Further the sector reforms, strengthening the leading and regulatory role of the Ministry of Health and improving coordination with other institutions and actors. Institutional capacities, accountability, the mechanisms for follow-up and evaluation, and the system for supplying inputs will be strengthened.
- Improve inter-institutional coordination in order to complement the actions by different sectors and increase the efficiency and efficacy of the programs in order to have a greater impact on the population.
- Develop innovative strategies in health in the autonomous regions of the RAAN and the RAAS, adapting the Basic Package of Health Services (PBSS) to the population of the regions, implementing the model for healthcare and consolidating the processes of deconcentration.

254. The total cost for the expanded demand of the health sector is US\$1,202.6 million for the 2006-2010 period, with a gap of US\$62.7 million with respect to currently available funding (base scenario).

**Table 4.2. Costs for the Health Sector 2006-2010**  
(millions of dollars)

<b>National Goal</b>	<b>Base Scenario (1)</b>	<b>Expanded Scenario (2)</b>	<b>Gap (3=2-1)</b>
<b>Health and Nutrition</b>	<b>1,139.9</b>	<b>1,202.6</b>	<b>62.7</b>
1 Improve coverage and quality	951.3	1,003.7	52.4
2 Increase promotion and prevention in health	5.7	6.0	0.3
3 Further the sectoral reforms	126.3	133.2	6.9
4 Improve inter-institutional coordination	0.1	0.1	0.0
5 Develop innovative strategies in health in the autonomous regions of the RAAN and the RAAS	56.5	59.6	3.1

### 4.3 Training and Formation

255. The workforce is characterized by a low level of qualification rooted in high levels of illiteracy, low levels of schooling, and limitations in access to education and technical training, which in turn has a negative impact on productivity and income levels.

256. Despite having executed different training programs, the system is still in its early stages and technical formation has mainly been in administrative areas. The offerings of both training and technical formation have been insufficient and with low coverage and they are not linked to the real demands of the economy.

257. While a strategy is defined to respond to the demands, the technical high school diploma has been established with specializations in agricultural, tourism, or industry. A new modality with distance education has been implemented that facilitates having those who have completed primary education enter a technical course of studies. A new educative model is being piloted in three agricultural technical education centers.

258. Policy for the sector is oriented at generating a workforce with the necessary abilities and skills to enter the market in a competitive way. The following lines of action have been established:

- Improve the quality, pertinence, and relevance of the offering of technical and professional formation through the design and implementation of a flexible National System for Training and Formation that offers learning programs related to productive development and the socioeconomic characteristics of the territory.
- Expansion of capacities and improved access to technical formation and training with an increase in the number of students, especially the poorest, at the different levels and in the different modalities for formation; increased coverage and pertinence of labor training in firms that contribute the 2 percent to INATEC; and, improvement of the basic infrastructure and equipping.

259. The cost for the expanded demand from the training and technical formation sector is US\$182.4 million for the 2006-2010 period, with a gap of US\$13 million with respect to currently available funding.

**Table 4.3. Costs for the Training and Technical Formation Sector 2006-2010**  
(millions of dollars)

National Goal	Base Scenario (1)	Expanded Scenario (2)	Gap (3=2-1)
<b>Training and Technical Formation</b>	<b>169.4</b>	<b>182.4</b>	<b>13.0</b>
1 Improve the quality, pertinence, and relevance of the offering of technical and professional formation	30.8	30.8	0.0
2 Improved access to technical formation and training and expanded capacities	138.6	151.6	13.0

#### 4.4 Labor Sector

260. Nicaragua has been integrating into the world economy through free trade agreements and/or treaties, reaffirming commitments regarding internationally recognized labor rights like the right to association, organization, and collective bargaining and the right to acceptable working conditions. Special attention will be put on the minimum age for entering work. Because of the high rates of poverty among other factors, child labor represents a problem. A survey in 2000 showed that there are 253,057 children and adolescents actively working.

261. At present, the labor market does not have an adequate legal and institutional framework, which is reflected in a situation of labor vulnerability and social and occupational insecurity, especially in the informal sector of the economy. From that perspective, the labor sector has begun a process of modernization with the approval of laws, regulations, and norms to improve labor administration. In 2004, the Law on Labor Health and Safety and the norms for health and safety for work in the textile *maquila* were approved.

262. The policy actions are oriented at improving socio-labor conditions, guaranteeing workers' rights, and eradicating child labor, thereby contributing to take advantage of the opportunities presented by the opening up of trade. The following strategies will be developed to meet the challenges in this sector:

- Improve working conditions and health and safety for workers with a view to the free trade treaties by strengthening inspection capacity and legal reforms in harmony with international conventions.
- Prevent and reduce child labor and protect adolescent workers with the development of a strategic plan; determine what are the worst forms of child labor and eliminate them; and the regulation of adolescent labor.
- Strengthen institutional and legal conditions for the labor market with the modernization and expansion of public services for employment; strengthen municipal capacities for the execution of public works; and, create a system to follow-up the labor market.

263. The total cost for the prioritized labor sector is US\$29.1 million for the 2006-2010 period, with a gap of US\$13 million with respect to available funding.

**Table 4.4. Costs for Labor Sector 2006-2010**  
(millions of dollars)

National Goal	Base Scenario (1)	Expanded Scenario (2)	Gap (3=2-1)
<b>Labor Sector</b>	<b>16.1</b>	<b>29.1</b>	<b>13.0</b>
1 Improve working and health and safety conditions for workers in view of the free trade treaties	10.5	11.1	0.6
2 Prevention and reduction of child labor and protection for adolescent workers	0.1	1.2	1.1
3 Strengthening of institutional and legal conditions for the labor market	5.5	16.8	11.3

#### **4.5 Social Protection**

264. Although the rates of poverty and extreme poverty have declined over the last four years by 2.1 percentage points, a major population group is still living in conditions of vulnerability with limited access to social services, productive options, and income, above all in rural and marginal urban areas.

265. It is also estimated that more than 600,000 children and adolescents face a situation of risk because of the violation of their rights, and more than 4,000 are in Special Protection Centers, in some cases as a shelter from their condition of poverty.

266. Going from social assistance to social protection, in 2003 the government approved the National Policy for Social Protection and the Solidarity System for Development in order to implement it. In this frame, the interventions directed at this group have evolved towards integral attention and towards decentralized management, the strengthening of the legal and institutional framework, the redesign of programs, the establishment of models for attention, the definition of the System for the Provision of Special Protection Services, the expansion of coverage, and the consolidation of opportunities for dialogue in the Forum for Social Protection.

267. The objective of the policy is “to contribute to the social inclusion of people, households, and communities in conditions of vulnerability so that they partake of the benefits of development in a sustainable form.” The Solidarity System for Development groups together the programs and projects that provide social protection services. Solidarity with the poorest and most vulnerable is a compromise on the development of future generations in order to contribute to revert the inter-generational transmission of poverty. For the above, the five-year solidarity plan 2005-2009, approved by the social cabinet in May 2005, will be implemented.

268. Programs will be executed for the delivery of benefits to those persons who lack the resources and the appropriate means for subsisting in minimum conditions of well-being. Priority is put on improving the nutritional and educative level of children living in poverty and vulnerability; preventing and providing attention for violence in its different manifestations, which affects children, adolescents, and youth at social risk; and, developing flexible mechanisms for dealing with crises.

269. The interventions in social protection are directed at:

- Strengthening the institutional and regulatory framework with the Solidarity System for Development, organizing activities at the local level, maximizing the impact of public investment, and reducing duplication of efforts and errors of inclusion and exclusion in the selection of beneficiaries.
- Increase the coverage of programs for transfers and the provision of nutritional and education services to poor children from 0 to 5 years of age through the consolidation and expansion of programs for attention to children in their different modalities of intervention. One of the actions is taking advantage of backyard economies and the networks of promoters, as well as the early detection of disabilities.

- Increase the coverage of programs for transfers and the provision of services for the education of poor children from 6 to 13 years of age, favoring households with primary school age children that are outside the education system, contributing to having the families value and take advantage of the yields from the education of their children.
- Increase the coverage of the programs for transfers for the occupational formation of poor adolescents and youth from 14 to 18 years of age as a mechanism for the formation of human capital and its entry with qualifications into the labor market.
- Increase the coverage of the programs for the provision of services to children, adolescents, and youth at social risk and for those requiring special protection with the consolidation of an appropriate system for special protection in order to reconstitute the rights of children and adolescents; the promotion of corporate sponsorship and social responsibility; the expansion of programs for providing attention to and preventing youth violence; and, the establishment of management and coordination mechanisms with the governments of the autonomous regions, especially for attention to problems of drug dependency.
- Strengthen mechanisms for the attention to groups in a situation of chronic poverty, offering agile and sustainable responses to eventual socioeconomic crises.
- Improve the conditions of basic infrastructure for the provision of social protection and special protection services with the construction, replacement, repair, rehabilitation, and basic equipping for deteriorated units.

270. The total cost for social protection is US\$268.8 million for the 2006-2010 period, with a gap of US\$43.3 millions with respect to available funding.

**Table 4.5. Costs for the Sector of Social Protection 2006-2010**  
(millions of dollars)

National Goal	Base Scenario (1)	Expanded Scenario (2)	Gap (3=2-1)
<b>Social Protection</b>	<b>225.5</b>	<b>268.8</b>	<b>43.3</b>
1 Institutional strengthening and norms for social protection	28.9	34.4	5.5
2 Increase coverage of transfers and provision of nutritional and educative services for poor children from 0 to 5 years of age	105.4	125.8	20.4
3 Increase coverage of transfers and provision of services for the educative formation of poor children from 6 to 13 years old	20.1	23.9	3.8
4 Increase coverage of transfers for the occupational formation of poor adolescents and youth from 14 to 18 years old	13.8	16.4	2.6
5 Increase coverage and provision of services for children, adolescents, and youth at social risk who require special protection	24.8	29.6	4.8
6 Establish mechanisms for attention to groups living in chronic poverty.	30.2	36.0	5.8
7 Improve the conditions of basic infrastructure for social protection and special protection services	2.3	2.7	0.4

## **4.6 Social Security**

271. The low coverage of social security continues to be a challenge to be dealt with and in recent years, this coverage has remained at approximately 16 percent of the Economically Active Population (EAP). Coverage for the informal sector is significantly low for different reasons like labor instability, low incomes, and the high cost for the worker to enter social security.

272. The provision of medical services for illness-maternity has been expanded to another 41,000 beneficiaries over the last two years. Coverage of dependants for integral services for breast and cervical cancer and for services to children under 12, have been incorporated into the system. The accredited healthcare units have significantly improved attention for work-related accidents and evaluations have been made of all medical insurance firms, and this has increased the control and quality of the granting of health insurance benefits to the users.

273. In order to improve the quality of life of the elderly, the Plan for the Health of the Elderly began in Managua in 2002, giving coverage for 77 illnesses, and attention for retirees has increased by more than 60 percent in the last two years.

274. The policy aims to expand benefits and increase the coverage and quality of social security, providing integral protection for workers and their family members.

275. The guidelines that will govern social security are:

- Improve the quality of the services with the issuing of norms and regulations for the different branches of attention and the surveillance and control of the quality of health services.
- Expand geographic coverage to the informal sector and expand medical insurance.
- Improve social security benefits and services by increasing the amount of pensions and health services and expanding the program for the prevention of professional risks.
- Institutional strengthening, adjusting the legal framework for social security, improving finances and administrative efficiency, and strengthening institutional planning.

## **4.7 Costs for the Development of Human Capital and Social Protection**

276. These programs were conceived based on the sectors and territories' demands, needs of the population and the funding available to the public sector and budgetary projections for the 2006-2010 period. In addition, the costs for covering the prioritized demand for each sector were estimated and this responds to the five-year sector plans in the case of education and health. The total costs for the expanded scenario for the 2006-2010 period is US\$2,726.3 million, with a gap of US\$180.5 million with respect to available funding (base scenario).

**Table 4.6. Total Cost for Human Development and Social Protection**  
(millions of dollars)

<b>National Goal</b>	<b>Base Scenario (1)</b>	<b>Expanded Scenario (2)</b>	<b>Gap (3=2-1)</b>
<b>TOTAL</b>	<b>2,545.8</b>	<b>2,726.3</b>	<b>180.5</b>
Education	994.8	1,043.3	48.5
Health and Nutrition	1,139.9	1,202.6	62.7
Training and Technical Formation	169.4	182.4	13.0
Labor Sector	16.1	29.1	13.0
Social Protection	225.5	268.8	43.3

#### **4.8 Service Provider Centers (CPS): Improving the Cost-Effectiveness of the Policy**

277. The dispersion of the population into more than 7,000 small and isolated rural localities with less than 2,500 inhabitants constitutes a challenge for the economic and social development of Nicaragua. Given this situation, the strategy for the establishment of the Service Provider Centers (CPS) was formulated with the objective of providing secure access to basic public services to the greatest number of rural residents, especially families and communities in dispersed and isolated areas with the most precarious indicators for social and economic well-being.

278. With this strategy, it is expected to increase access to services by the population of the territories excluded until now, increase the social impact of public spending, take advantage of the social capital of the communities and the local governments, strengthening distributive justice in the local sphere.

279. The establishment of the CPS strategy is part of the process to decentralize social policy and to strengthen local planning. It also fosters the participation of non-governmental organizations active in local social development.

280. The CPS articulate social attention in small localities selected using criteria for accessibility and population concentration. These localities have less than 2,500 and more than 100 inhabitants, they are located no more than three kilometers from an all-weather road, and they have infrastructure, albeit minimal, for education and health. They are surrounded by a greater number of similar communities and the idea is that these centers radiate their services out to more communities and persons.

281. Using data from the last population census, the strategically located communities were selected by means of an algorithm for research operations known as the p-median. Of the existing localities, the first 58 that met the selection criteria were selected. Of these, 56 have a system of connectivity that enables them to attend to other nearby localities, having a radius of real impact on 1,085 localities with a total population of 400,000 poor people.

282. The strategy for the CPS has made progress in seven municipalities with an investment of US\$5.9 million and has the following lines of action:



- Establishing a body for national and local coordination and development to attend the specific needs of the CPS, highlighting the role of the local governments.
- Improvement of efficiency in access and quality in the provision of basic services in dispersed rural localities with a socially marginalized population by means of the execution of projects in health, education, water and sanitation, social protection, housing, roads, rural electrification, communications, community development, and production that will contribute to reaching the goals for the social and productive sectors.

**Table 4.7. List of Localities Selected in the PND for CPS**

<b>Departament</b>	<b>No.</b>	<b>Localities CPS</b>	<b>Departament</b>	<b>No.</b>	<b>Localities CPS</b>
Chinandega	1	Cinco Pinos	Nueva Segovia	29	Jalapa
	2	Posoltega		30	Macuelizo
	3	Puerto Morazán		31	Murra
	4	San Francisco del Norte		32	San Fernando
	5	San Pedro del Norte	33	Dipilto	
	6	Santo Tomás del Norte	Madriz	34	Las Sábanas
León	7	Achuapa		35	San José de Cúsmapa
	8	Quezalguaque		36	San Juan de Río Coco
	9	El Jicaral		37	San Lucas
	10	Santa Rosa del Peñón		38	Telpaneca
Managua	11	El Crucero		39	Totogalpa
	12	Villa Carlos Fonseca		40	Yalaguina
	13	San Francisco Libre		Estelí	41
Rivas	14	Altagracia	Boaco		42
	15	Cárdenas		43	San Lorenzo
	16	Moyogalpa		44	Santa Lucia
	17	Potosí	Chontales	45	Comalapa
	18	Tola		46	Cuapa
Carazo	19	La Conquista		47	El Coral
	20	La Paz de Carazo	48	La Libertad	
Matagalpa	21	Rancho Grande	49	Villa Sandino	
	22	San Dionisio	RAAS	50	Bocana de Paiwas
	23	San Ramón		51	El Ayote
	24	Terrabona		52	El Tortuguero
Jinotega	25	San Sebastián de Yalí		53	Karawala
	26	El Cuá		54	La Cruz de Río Grande
	27	La Concordia	55	Laguna de Perlas	
	28	Santa María (NS)	Río San Juan	56	El Almendro
		57		Morrito	
			RAAN	58	Prinzapolka

Source: SETEC, with support by UNFPA

### Map of Locations of Service Provider Centres (CPS)



## **Chapter 5: Public Investments for the Productive Development of Human Capital**

### **5.1 Infrastructure for Development**

283. Lack of basic infrastructure produces barriers to accessing public and private goods and services that are essential for economic and social development. This marginalization is associated with productive shortfalls, creating a perverse circle between high mortality rates, low life expectancy, low productive capacity, and high unemployment.

284. Identifying the productive potential (Annex 3) of the territories and their lack of services or marginal access to services is key in order to get a multisectoral strategy for the integral development of infrastructure in each territory. In this regards, the infrastructure policy centers on actions and investments to reduce the indexes of productive and social marginalization, like geographic isolation, overcrowding, highway and road networks, ports and airports, drinking water and sanitation, and lack of access to electricity and telecommunications.

285. The principal objectives of the investment policy are as follows: (a) promote balanced economic growth for all territories, according to their potential; (b) increase competitiveness through public investments that foster private investments; (c) reduce social gaps, thereby enabling the country to reach the millennium development goals; (d) promote inclusion and social participation in decision-making; and (e) increase the efficiency of the investment process.

### **5.2 The investment policy: economic growth and human capital development**

286. The government formulated a long-term strategic plan for the National System of Public Investments (SNIP) that establishes the basis for the new public investments policy that takes into consideration elements to improve the public investment processes in the short and medium term.

287. This improvement means strengthening the pre-investment process, ignored for many years, and having a system that improves capital investment quality. Training programs for public officials at the central and territorial levels in the use of pre-investment guidelines are being implemented.

288. To improve the formulation of investment policies, technical capacity is being strengthened to monitor and evaluate investments. A pre-investment unit was organized and a pre-investment fund is being established so that the government can have a project bank backed up by the respective studies and designs. Special or more complex projects will require the contracting of specialized firms for the pre-investment studies and designs.

289. The guidelines for formulating and prioritizing projects for each sector are being established and publicized, which will allow the permanent update of the investment portfolio facilitating funding requests to cooperation agencies and prioritizing national objectives.

290. The formulation process of the Public Investments Program (PIP) is being strengthened to

guarantee a technical ruling on each application and homogeneity of information according to pre-established guidelines. The mechanism for a multi-year PIP is also being improved in line with the national and territorial development plans.

291. Regarding the implementation of the investment program and its monitoring, mechanisms for physical and financial follow-up are strengthened with the establishment of new norms for scheduling and physical-financial execution in the investment bank registry ([www.snip.gob.ni](http://www.snip.gob.ni)). The compliance to register prior to disbursements will continue and there will be mid-term, final, and ex post evaluations of investments. For these evaluations, all investment projects will have an analysis of fiscal burdens in the future.

292. All these activities for improving decision-making in relation to public investments must be framed within the objective of increasing investment quality. An improved quality of public investment will allow public resources to have greater impact, thereby improving living standards for more Nicaraguans with the few available resources. The improvement in capital investment quality in the long term will have a positive impact on economic growth and development of human capital.

293. Below are the prioritized public investments for the 2006-2010 period and their respective costs. The breakdown of the actions is on Annex 1.

### **5.2.1 Highways, rural roads, ports, and airports**

294. In light of the opportunities from the free trade agreements, infrastructure is vital for the development of the country. The potential greater volumes of trade and services from these treaties depend on the national transportation network. It is necessary to plan for the support of an advanced system of paved roads for the development of productive clusters and strategic regional plans. The expansion of inter-regional trade must be fast and with reliable access to ports and airports, and must include the extraction and recreation industries. This inter-regional strategic plan will be interconnected with the regional networks of unpaved roads and incorporate the rural and urban development targets of the regions.

295. The main objectives of the investment plan in roads and highways can be summed up as improving the efficiency and cost-effectiveness of the movement of people and merchandises inside the country and beyond, attaining a balanced development of the different regions according to their potential to assure competitiveness, greater political and administrative integration and the provision of social services in isolated rural areas.

296. The policy for investments in highways seeks to develop projects with strategic importance; some of them have been already delayed for decades like the Southern Coastal Highway and the roads from Acoyapa to San Carlos, Nueva Guinea to Bluefields, and Río Blanco to Puerto Cabezas, among others.

297. Special importance will continue to be given to improve secondary highways that connect with main roads. Along this line, there is the implementation of a special plan for surfacing roads with interlocking pavers (adoquines) with low maintenance costs, labor intensive and local materials usage, while facilitating transportation and communication for isolated

communities. For tertiary rural roads, the Institute for Rural Development will continue channeling demands from producers to improve this network.

298. The government is committed to finding a solution to the problem of road maintenance funding. It will continue to look at different options so that the Road Maintenance Fund (FOMAV) can operate in a sustainable way and maximize the useful life span of the roads to be maintained. The National Assembly is in the process of analyzing the proposed FOMAV draft law.

299. Regarding the ports program, in the short term, investments at El Rama port are under way to keep it operational, and take advantage of the opportunities of regional trade agreements, but it might be necessary to have a new port on the Atlantic Coast. El Rama port is a temporary solution (10 years) for handling commercial cargo from and to the Atlantic, and could become a commercial and industrial center for the development of free trade zones and high-value food products.

300. Regarding airports, work is underway to finalize the expansion and modernization of the international airport in Managua, and expansions are planned for Bluefields and Puerto Cabezas airports so they can provide international service. The airports at San Carlos and Corn Island are being upgraded to facilitate the increase of tourism. The airstrip in Nueva Guinea will be reactivated, and the design and construction for the one in San Juan de Nicaragua will begin.

301. The total cost for the roads, highways, ports, and airports expanded program is US\$500.3 million for the 2006-2010 period, with a gap of US\$220.5 million with respect to available financing (base scenario). This represents the biggest gap in relation to the objective of seeking a better balance between the social and productive sectors.

## **5.2.2 Social Infrastructure for the Development of Human Capital**

302. The main objective for social development is to have Nicaraguans attain their rights, freedoms, and basic conditions in order to fully realize their human potential. But the situation of poverty, inequality, and social exclusion in which most of the population lives makes difficult to attain this purpose. These conditions not only affect those facing these situations, but all of Nicaraguan society, its economy and social and political stability. The social dimension is an integral and basic part of the economic and political dimensions, which can only be separated in a technical analysis, but which in reality interact simultaneously.

303. Social development and investment in human capital are necessary conditions for a sustainable long-term economic growth. In terms of political governance, only to the extent that citizens are well educated, healthier and receive benefits from a good public administration, there will be credibility in democratic institutions and governance.

304. The social investments program has some fundamental objectives, among them: (a) increase rural population with access to basic sanitation; (b) increase access to safe water in dispersed rural areas; (c) improve the net rate of preschool, primary, secondary, and technical-vocational schooling; (d) contribute to reducing maternal and infant mortality and mortality among children under five; (e) contribute to attention for vulnerable groups with the provision of

infrastructure; (f) co-finance community works and prevention and mitigation of risks, and (g) further the decentralization process, the training of local stakeholders, and the development of social capital in the communities.

### ***Water, sanitation, health, and education***

305. The progress expected in the investment program for water and sanitation will benefit the population with a better water distribution system in sectors of the capital city and others like Juigalpa, Boaco, Granada, San Carlos, and Bluefields. It also includes the establishment of an information system that will enable the State-run company to keep better records for consumption, technical losses (leakage), and default payments. Furthermore, the investment program will increase the coverage of sanitation services for the rural population. Efforts have already begun to fully clean up Lake Managua and to protect Lake Nicaragua. The total expanded cost for this sub-component is US\$315.6 million, US\$68.2 million more than the base scenario.

306. Investments in health during the period include the improvement and equipment of 300 health posts and 30 health centers associated to the Service Provider Centers and also the replacement of hospitals that have already outlived their useful life. The expanded cost is US\$172.5 million as compared to the historic amount of US\$137.8 million.

307. Investments in education include the expansion of the Education For Life Program and the information processing capacity for education, the replacement of 600 classrooms a year, and the strengthening of the municipal secretariats for education as a support to the decentralization process. A total expanded cost of US\$207.6 million is considered necessary to complement the actions and get closer to the millennium development goals, having a gap of US\$35.3 million.

### ***Housing***

308. Nicaragua has a high housing deficit in both quantitative and qualitative terms of more than a half million homes. The reasons are: more than 45 percent of the population has a low income; high rate of unemployment, lack of access to credits, and institutional weaknesses. It is estimated that the prioritized demand for 2006-2010 for housing amounts to US\$103.8 million with a gap of US\$69.3 million. The Government has undertaken a program to build homes with US\$25 million in financing from IDB. The Institute for Urban and Rural Housing (INVUR) is now developing a National Housing Plan that will set up policy and actions to enable the private sector to participate in the development of housing projects.

### **5.2.3 Environmental Infrastructure**

309. If one expects to increase the GDP growth rate by means of an irrational exploitation of the natural resources, the result will be unsustainable and environmental deterioration with serious and long lasting consequences for the future performance of the national economy.

310. Good management of natural resources constitutes an important force behind the sustainability of productive activity, particularly agriculture. If current trends continue, the agricultural frontier will reach the Caribbean Coast, only remaining part of the forest of protected

areas, despite incursions already noted. There is a real risk of losing the country's biological diversity and forest reserves. Deforestation is also creating water imbalances and soil degradation that reduce productive alternatives. There will also be more flooding in low-lying coastal areas, affecting wetlands and estuaries and the wealth of hydro-biological resources.

311. The actions for environmental infrastructure include strengthening the infrastructure of national parks, reserves, and protected areas with control stations, signposting, paths, etc. Another element of the environmental policy deals with the improvement of public services like laboratories for environmental certification, among others. The total expanded demand in this area is US\$53.5 million, with a gap of US\$13.8 million.

#### **5.2.4 Energy**

312. Despite the abundance of renewable energy sources, energy generation in Nicaragua is highly dependent on fossil fuels. About 66 percent of it is generated from fossil fuel thermal plants (25 percent bunker, 29 percent diesel, and 12 percent gas). Only 16 percent is generated by hydroelectric plants, 12 percent by geothermal plants and the remaining 6 percent from biomass. Nicaragua, the country with the greatest abundance of renewable resources, is the one in Central America most dependent on fossil fuels, slightly above Guatemala (65 percent thermal energy), El Salvador (49 percent), Honduras (43 percent), and Costa Rica (17 percent), the most energy independent country.

313. The high concentration in thermal plants is the lack of investment in any kind of generation for more than 10 years (1983-1993). By 1993, demand had increased substantially, the plants were obsolete and insufficient, and power cut-off was constant. In response, investments were made in thermal plants to provide quick low-cost response given oil prices at that time as compared to renewable energy projects that would require greater long term capital investments.

314. The total generation capacity in Nicaragua is 571 MW, 55 percent of this is managed by the State through ENEL (Nicaraguan Electricity Firm). By 2002, the peak demand was 422MW and the total energy produced that year was 2,401 GWh. The average price was US\$11.3 cents per KWh. According to generators and commercializers, the demand for energy in 2005 is growing at a rate above 8 percent, putting pressure on the energy supply if investments in renewable energy are not made. In a recent World Bank study, electricity supply was identified as an important barrier to development.

315. Studies made by the National Energy Commission have determined that getting medium-scale projects underway like San Jacinto Tizate (66MW), Larreynaga (20MW), and others can reduce dependence on fossil fuels considerably. Conservative projections for the evolution of oil prices demonstrate that the entry of about 50MW of renewable energy could reduce the marginal costs to the generation system by about US\$110/MWh in 2010 to US\$83/MWh, with return rates for these specific projects of approximately 30 to 35 percent.

316. The energy policy is based on the following objectives:

317. Promote the generation of energy based on renewable and environmentally-friendly sources. Legislative reforms and detailed actions are described in the annex. Special emphasis

will be given to geothermal and hydroelectric generation. The existing norms for promoting the entry of wind-powered generators will also be reviewed. This will allow for reducing the cost of generation in accordance with international standards and will enable increased productivity for national industry.

318. Reduce the legal and administrative barriers that hinder the entry of investors into the sector. The current policy for electricity generation is framed in a scenario of mixed public and private participation. The State is the main generator of energy and the owner of major generation plants, especially hydroelectric, and so it is necessary to have private co-participation to reduce energy deficits and costs, and will allow for increased efficiency, productivity, and savings of foreign exchange.

319. Increase national energy coverage. This includes extending the distribution grid, especially to localities without service and which, because of their productive characteristics, could make a qualitative leap in terms of their productivity. Special attention will be given to regions with low coverage, like the central region and the Caribbean Coast.

320. Specific legal changes. Promulgation and enforcement of regulations to promote private investment in small- and medium-scale hydroelectric projects; implement the Law for Renewable Energy to enable the sector to have the legal framework for the protection and regulation of investments; promulgation of the Law for Waters to establish the regulatory framework for the management and administration of water resources with a modern and rational vision; reforms to the Law for the Energy Sector to promote purchases of energy through long-term agreements, fostering the financing capacity of potential generators.

321. In relation to tariffs, an integral review of the tariff system will be made so that policies for subsidies to vulnerable sectors do not compete with the country's competitiveness objectives. It is also necessary to analyze the legal introduction of the concept of commercializer to promote competition and thereby reduce tariffs.

322. In relation to rural electrification, it is necessary to make legal changes to facilitate the transfers of assets from public programs to commercializers and provide services to rural communities; and support the functioning of the Development Fund for the Electricity Industry (FODIEN).

323. The total cost is US\$125.0 million as compared to the base scenario of US\$103.4 millions and includes, in addition to the expansion of rural electricity, the increase in generation capacity with renewable sources, with a gap of US\$21.7 million.

### **5.2.5 Systems for Promotion, Monitoring, and Evaluation**

324. The lack of information can become an obstacle for correctly orienting investments and public policy to generate the desired impact. Therefore, managing information systems and pre-investment become a priority to facilitate decision-making —either in government, private investors, or financial agencies—.



### 5.3 Total Cost for Productive and Social Infrastructure

325. The table below shows a total cost of US\$1,478.2 million, with a gap of US\$463.3 million with respect to the base scenario for the 2006-2010 period.

**Table 5.1. Costs for Plan in Infrastructure 2006-2010**  
(millions of dollars)

<b>Item</b>	<b>Base Scenario (1)</b>	<b>Expanded Scenario (2)</b>	<b>Gap (3=2-1)</b>
<b>Total</b>	<b>1,014.9</b>	<b>1,478.3</b>	<b>463.3</b>
Highways, roads, ports, and airports	279.8	500.3	220.5
Water and sanitation	247.4	315.6	68.2
Health	137.8	172.5	34.6
Education	172.3	207.6	35.3
Housing	34.5	103.8	69.3
Energy	103.4	125.0	21.7
Environmental infrastructure and monitoring systems	39.7	53.5	13.8

## **Chapter 6: Governance and State Reform**

### **6.1 Governance for the 2001-2005 Period**

326. Since 2001, the Government has taken policy actions to strengthen governance<sup>8</sup> and further transparency with the drafting and approval of laws related to State procurement and contracts, access to information, the creation of a Single Treasury Account (CUT), and increased coverage of the Integrated System for Financial Management and Auditing (SIGFA). Actions were also implemented in relation to reforms in the judicial sector, the strengthening of property rights, the integrity of public officials, and human rights.<sup>9</sup>

327. From June 2002 to December 2003, actions were taken to strengthen the transparency of public affairs with the implementation of a strategy to promote values and prevention, improving capacities and internal controls, and setting up the Office for Public Ethics.

328. The objectives of the policy for governance and State reform are:

- Establish broad and permanent processes for national dialogue;
- Strengthen institutions and systems for citizen participation and concertation;
- Reform and modernize the State, improving the delivery of public services, transparency, and accountability;
- Decentralization as a process to strengthen local governments and their competences;
- Strengthen Branches of Government and reform the legal framework, according to sectoral demand.

329. Notwithstanding the political crisis of 2005, some progress was made with regards to interinstitutional coordination and with other branches of government, especially at the technical level, and issues like the implementation of the processal penal code, improvements in access to justice with additional public defendants selected in open contests, and the strengthening of the departmental development councils. The future agenda includes the integration of other institutions and branches of government into the process, to continue the process of better access to justice and the reform and implementation of the judicial career law, to have an integrated information system for justice, improve human rights issues and an integral anticorruption strategy by all branches of government.

### **6.2 The National System for Participation and the Pursuit of Concerted Agreements**

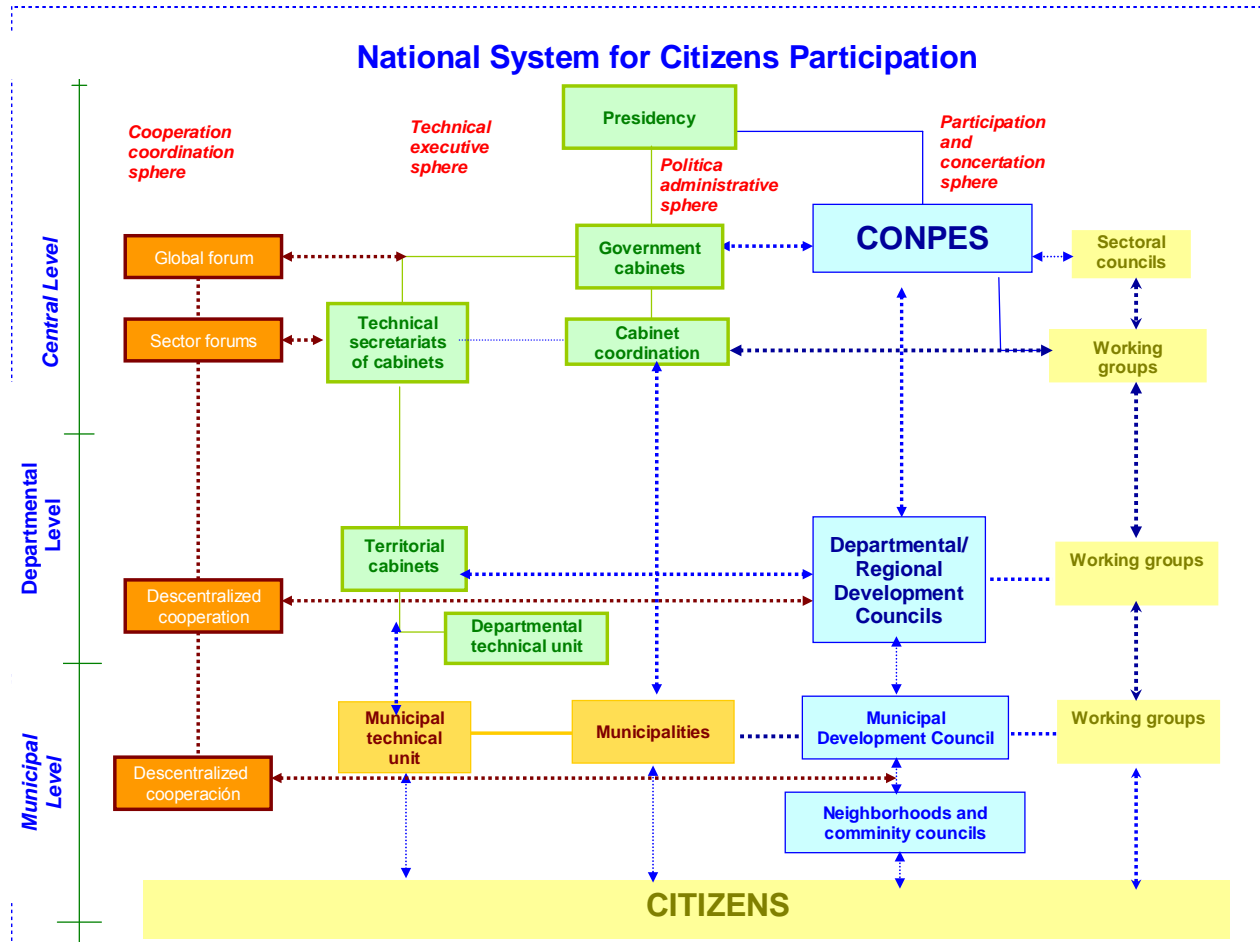
330. The System establishes the mechanisms for relations between government, civil society, private sector, and international community in order to define the objectives and priorities of public policies, laws, and strategic development plans that facilitate public and private decision-making. This system is structured on three territorial levels and in four spheres of governance. The territorial levels are municipal, regional/departmental, and national. The spheres of governance are political-administrative, technical-executive, participation and concertation, and coordination of cooperation.

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<sup>8</sup> Government of Nicaragua, Strengthened Economic Growth and Poverty Reduction Strategy, Annex 5: Matrix of Policy Actions, pp. 211-213.

<sup>9</sup> Ibid.

331. The political-administrative is the central sphere of the system and refers to the political will necessary for the system to work. The technical-executive is oriented towards guaranteeing the integration, coherence, and productivity of the different institutions in carrying out their functions.



332. The third sphere refers to the opportunities/spaces for participation and is oriented towards having an articulation of the social demands with the competences and functions (offering) of public institutions. The fourth sphere facilitates the dialogue between government and the donor community under the national plan for harmonization and alignment of cooperation, the sector forums and cooperation mechanism for the channeling of resources.

333. There are a number of laws that support<sup>10</sup> the institutionalization of citizen participation, and the harmonization of the system, facilitating participation of the different levels of government, civil society and economic sectors.

<sup>10</sup> Laws 28, 40, 261, 290, and 475

### **6.3 Reform and Modernization of Public Administration**

334. In recent years, there has been major progress with State reform. In 2001, a number of laws, regulations and initiatives were consolidated, like the strengthening of prudential norms and banking supervision, the privatization of the State telecommunications firm, the design and expansion of SIGFA, the implementation of a system for monitoring poverty spending, and the reorganization of ministries and key agencies in order to have a more efficient public sector.

335. During the 2002-2005 period, transparency and integrity were strengthened, systems for prevention and control in the institutions of the executive branch were established, the law for probity of public servants<sup>11</sup> was approved, the law for reform and additions to the penal code<sup>12</sup> was approved, and the drafts for the laws for access to information and the development of the State were published.

336. The law for civil service<sup>13</sup> with its regulations<sup>14</sup> was approved and progress was made in fiscal reform with the drafting of the law for fiscal responsibility<sup>15</sup>, the formulation of the medium-term expenditure framework<sup>16</sup>, the strengthening and reorganization of the General Revenues Office (DGI), the improvement in revenue projections for the General Office for Customs (DGA), and the General Office for the Treasury. Administrative measures are also being taken to have a better control of public spending.

337. One of the most important things in the area of reform and modernization during the 2001-2005 period was the strengthening of citizen participation with the establishment of the National System for Public Participation and Coordination.<sup>17</sup> In late 2004, the Office for Public Administration (OAP) was set up under the Technical Secretariat, and will be in charge of the strategic directing of public sector reform and decentralization to the municipalities.

#### ***Reforms in the Executive Branch***

338. The purpose of the reform and modernization of the Executive Branch is to have a public administration at the service of its citizens that responds to their demands for goods and services.<sup>18</sup> An agile, de-bureaucratized, decentralized, and fiscally sustainable structure is required, with ethical and trained public servants and officials.

339. The Executive must have a proactive and facilitating relationship with the market and the private sector to foster economic development and competitiveness, taking into account local development initiatives and citizen participation. Following is the description of the strategic areas for the reform and modernization of Public Administration for the 2006-2010 period and the most relevant policy actions.

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<sup>11</sup> Law No. 406 published in *La Gaceta* No. 243 and 244, December 21 and 24, 2001.

<sup>12</sup> *La Gaceta* No. 121 of 28/06/02

<sup>13</sup> Law 476, *La Gaceta* No. 235 of 11/12/2003

<sup>14</sup> Decree 87-2004, *La Gaceta* 153 of 6/8/04.

<sup>15</sup> Presented October 2004 to the National Assembly.

<sup>16</sup> Proposal for legal reforms presented to the National Assembly in October 2004.

<sup>17</sup> Operative NDP, Chapter 5: Governance, September 2004, pp.

<sup>18</sup> See Operative NDP, September, 2004, p. 153.

340. Strengthen financial management by: i) consolidating and expanding the SIGFA to all levels of government, including universities, autonomous and decentralized entities, and State-run firms; ii) channel and register all donor funds to public sector entities by means of the Single Treasury Account (CUT); and, iii) standardize procurement documentation in all agencies of the central government, 42 municipalities, 16 autonomous agencies, and other institutions.

341. Strengthen the formulation, implementation, and monitoring of fiscal policies: i) revise the pension reform to reduce fiscal impacts; ii) legal reform in parametric aspects of the social security system; iii) approve and have in effect: (a) a Taxation Code that establishes a system of fines and sanctions and detailed faculties that allow the administration to obtain information from third parties and (b) a Customs Law that is consistent with the Taxation Code and the Code of the Central American Customs Union (UAC); iv) approve and regulate the Law for the Administrative Career of the DGI and the DGA consistent with the Law for Civil Service and establish a new information processing system for customs, including outsourcing, equipping and communications; v) approve the Law for Financial Administration in accordance with international best practices, legal framework for the prevention of excessive fiscal deficit, the adoption of stable taxation policies and international standards for accounting for the public sector through this law and related ones; and, vi) gradual formulation of the medium-term expenditure framework.

342. Improve the productivity of the technical-executive management of the government: i) the Civil Service law will be implemented by incorporating into the Administrative Career on the basis of transparent procedures, 5,000 employees by 2007; and, ii) through the OAP, Law 290 will be updated to give the Executive a more agile and functional organization in line with the NDP.

343. Improve the delivery of services through deconcentration of bureaucratic paperwork procedures and making these more agile. Centers for Public Attention (CAP) will be established in the departmental capitals under the OAP, where public paperwork procedures with the greatest demand (passports, identity cards, payments for services, etc.) will be offered with improved quality and under the same roof.<sup>19</sup>

344. Strengthen the participatory planning and monitoring of public policies with the following actions: i) improve coordination through harmonization and alignment with donors; ii) strengthen the National System for Public Investment (SNIP); iii) strengthen and publicize the system for evaluation and monitoring of public policies; iv) strengthen coordination capacities about communication and civic participation; and v) strengthen the Departmental and Territorial Cabinets by increasing their decision-making powers.

345. Ensure the full operation of OAP including its leadership in the process for reform and modernization of Public Administration and decentralization to the municipalities, promoting coordination in the implementation of economic and social policies in the territories; establishing, parallel to CAPs, the Centers for Productive Development (CEDEP) and the Centers for Social Development (CEDES), which will, at sector and the territorial levels

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<sup>19</sup> Ibid, Part B.2.b.

guarantee the application of the criteria and priorities for investment in line with the potential of each territory and its demand; promoting complementarity and avoiding duplications, exclusion, and additional costs in activities that do not add value to economic development and poverty reduction.

#### **6.4 Decentralization**

346. In decentralization, the intermediate level of government will be strengthened and the competences will be determined for the central and municipal governments to avoid overlaps and duplications. With respect to citizen participation, communication between departmental/territorial development councils and access to information about public management will be strengthened.

347. A national strategy for decentralization (END) linked to the broader process of institutional reform and modernization and aligned with national priorities, will be designed. An inter-institutional executive committee coordinated by OAP and made up by MHCP and SETEC will be established for its implementation and to assure greater impacts in the quality and efficiency of the services provided.

348. With respect to transferring competences and responsibilities to municipalities, there will be a quantification of the resources allocated for the different competences, precisely defining their nature and origin. Estimates will be made about average costs for groups of competences in diverse territorial conditions, thereby determining the possible financial implications associated with the transfers of competences. It is expected to review the Law for Municipalities in order to make the transfers fiscally sustainable, assigning responsibilities for municipal expenditure equivalent to the resources transferred, allowing for a reduction in central government spending on things that are the competence of municipalities and reflecting these administrative applications in the National Budget.

349. The intermediate departmental and regional is fundamental for the decentralization process because it allows to joint groups of competences that, by their very nature, would be atomized at the municipal level. The strategic importance at this level is articulating the territories with the processes for planning and public investment. In addition, to support poverty reduction, improve local governance and local economic development with citizen participation to reach the millennium development goals.

350. Success with this new perspective for the decentralization process does not only depend on progress with public institutions, but requires as well progress in effective citizenship participation. The Law for Citizen Participation has provided opportunities for the intervention of civil society in public administration. This takes place at the municipal levels through the Municipal Development Councils, at the departmental/regional level through the Departmental/Regional Development Councils, and consolidation at the national level with CONPES.

351. The transfer of competences and resources from the central level to the regional and municipal levels requires having capacities to fulfill their new mandates, consequently there will be actions for technical assistance and training.

## 6.5 Other Institutional Reforms

352. The big challenge as a country is to consolidate the Rule of Law, which will make possible to develop a democratic system, and strengthen institutions and the different Branches of Government. The NDP puts forward the need to lay out the basis for establishing a dialogue, from which there will be proposals for reforms to the Executive, Judicial, and Electoral Branches and will be discussed with the different social sectors.

353. Along the road of reforms, it is first necessary to build consensus about the principles and objectives. To overcome the problems, it is necessary to agree a short-, medium-, and long-term agenda based on the basic principles of independence, efficacy, transparency in information, statistics, accountability, and impartiality and subordination to the law and the justice system. An agenda of institutional policies and mechanisms to be implemented will be established that will include institutional, organizational, administrative, or legal aspects.

354. The objective of the Law for the Judicial Career and Service is to establish the regulatory framework for labor relations of the officials and employees of the Judiciary. The law establishes disciplinary responsibility and professional requirements for entry into the administration of justice system.

355. Another element is the functioning of the Judicial School at the postgraduate level for training future judges and magistrates, inspectors, procurators and other judicial officials to enter into the judicial career. These officials will receive continuing education directly or through agreements with foreign universities or from highly qualified judges and magistrates.

356. Another element is the separation between the judicial career and the legal practice as a lawyer or public notary. This measure has the objective of safeguarding the inviolability of the defense of an individual in any legal case and his rights through the organization of the justice administration service with officials protected with a legal statute that ensures their permanence, and professional and moral recognition in that function.

357. Notaries would become State officials authorized to attest publicly in accordance with the laws for contracts and extra-judicial acts, independently of the exercise of the profession as lawyers. Regarding the formation of human capital, reforms in law studies will be promoted as is a diversified final year and to establish a system for professional association. The establishment of a code of professional ethics for lawyers, judges, and notaries will regulate moral integrity in the exercise of their attributes as lawyers, judges, notaries, magistrates, and judicial officers.

358. It is necessary to support the establishment of an Administrative Commission that separates the jurisdictional function from the administrative one so that in an independent and autonomous manner, it takes charge of the Judicial Branch administration, operational and budgetary organization.

359. It is important to link the tasks of the Public Registry and the Cadaster (property mapping) to have a reliable information source and harmonized urban regulation with trained personnel.

The modernization of the Registry means making reforms to civil and mercantile legislation in regards to the value of electronic documents and digital signatures. The objective is to guarantee protection, reliability, ease of access, and agility in the services of the Public Registries for Property and Mercantile matters and for the above purpose, the Supreme Court has sent a new Law for Public Registries to the National Assembly for its approval.

360. To reduce the judicial burden, the proposal is to implement as soon as possible alternative methods for resolving conflicts, like mediation and arbitration, as a way to reduce the caseload in the courthouses and to speed up the resolution of conflicts. Similarly, to improve the role of lawyers, the proposal is to have a public intervention, regulating the legal services market in order to correct market failures and to oblige social solidarity from legal professionals. The former requires a system of payment for litigation, which must be assumed by the client in any case, together with a tariff based on the success of the process. This way, the one offering the service also assumes risk on taking a case and is obliged to provide the client with the information about the possibilities of winning versus the costs of desisting or reaching an arrangement.

361. There is a proposal to prepare a program for updating the scopes of justice in the new world context. This includes making necessary adjustments to national legislation in face of globalization, free trade agreements, e-commerce, consumer defense, environmental deterioration, and terrorism, among others. In addition, there will also be training for professionals of the Judiciary to have expertise and propose laws for specific groups' rights protection that are marginalized or excluded (ethnic and vulnerable groups etc.).

362. It is also necessary to modernize the fundamental codes of the country's legal scaffolding. In a first stage, the reforms to the codes do not necessarily have to be complete, but instead urgent revisions and modifications of certain segments of the articles of the codes can be made. It is necessary to add new institutions and legal figures to the present codes, above all in mercantile matters, and as soon as possible to begin to draw up a Commerce Code that responds to the new realities. It is also important to consolidate taxation legislation with the promulgation of a new Taxation Code that is adjusted to the conditions of the country.

363. For a sector-wide approach in Justice, it is necessary to share a strategic vision. Coordination of the institutions in charge of different aspects of the administration of justice will be promoted. It is important a most systematic and organized coordination among the judicial system, Ministry of Governance, National Police, the Office of the Attorney General, the Public Ministry, the Ministry of Education, universities, lawyers associations, and civil society.



364. Table 6.1 describes the total cost of US\$67.3 million, of which US\$41.4 million are already financed.

**Table 6.1. Total Cost for Plan for Governance, Citizen Security, and Institutional Reforms 2006– 2010**

(millions of dollars)

Description	Base Scenario (1)	Expanded Scenario (2)	Gap (3=2-1)
<b>TOTAL</b>	<b>41.4</b>	<b>67.3</b>	<b>25.9</b>
Reforms to the State	0.1	1.1	1.0
Decentralization	0.0	1.2	1.2
Citizen Security	0.0	2.5	2.5
Reforms to Public Administration	41.3	62.5	21.2

## Chapter 7: Macroeconomic Program

### 7.1. Quantitative goals

365. In December 2002, the government signed a PRGF<sup>20</sup> agreement with the IMF that established the economic policy for the 2003-2005 period and the flows of external resources to fund the General Budget. The basic conditions and actions for having the debt relief under the HIPC initiative were worked out in this framework. In 2005, the authorities and the IMF made a review of the economic program in light of new external and internal factors like the impact of high oil prices, fiscal program performance and the structural reforms approved by the National Assembly recently. The projections in this document are preliminary.

366. It is important to note that the success of the NDP and the PRGF not only requires an international setting that is more propitious for economic growth, but also a political setting that is stable for implementing the poverty reduction strategy with support from civil society and the international community. The effects of the tense political environment witnessed so far in 2005 delayed the structural reforms contemplated in the program, affected the disbursements by the international community and have had a negative effect on investment by the private sector, which endangered the program.

367. The good macroeconomic performance and the political agreement among the branches of government reached in October 2005 to suspend the implementation of the constitutional reforms and to establish a national dialogue, allowed the National Assembly to approve the required laws within the framework of the PRGF, and the international community proceeded with the disbursements of resources retained in 2005 and for the 2006 budget

368. The authorities continue making efforts to reduce the fiscal deficit, manage the internal debt problem, make progress in the structural reforms still pending, reduce the social impact of the high oil prices, strengthen its poverty reduction strategy, and its democratic process with the next year's regional and national elections. Along this line, the National Assembly approved a 2006 budget in agreement with the program, supported by the international community. As a result, also the millennium challenge account is making progress and the political situation improved.

369. Thanks to the good performance on economic matters and structural reforms, Nicaragua managed to achieve the relief of more than 80 percent of its external debt, after reaching the completion point of the HIPC initiative in January 2004. The good performance in 2003, supported by the international community and the people of Nicaragua, allowed carrying out one of the most deep-going processes in the experience of countries under this initiative.

370. These efforts, together with the NDP's proposals and the international setting have added new elements that lead to a review of the program for economic growth and poverty reduction with regards to its goals and policies. The objectives of this program still aims at strengthening fiscal sustainability, maintaining exchange rate stability, and supporting basic structural reforms for institutional strengthening to consolidate the democratic process.

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<sup>20</sup> Poverty Reduction Growth Facility.

371. The authorities have decided to direct greater efforts at reactivating the economy in order to set it on the path of sustainable growth in a context of low inflation. Priorities for fiscal policy have also been set in order to reduce the Combined Public Sector deficit<sup>21</sup> (CPS) after grants, from an annual average of -4.8 GDP percent for the 2001-2005 period to -1.4 percent in the next five-year period; to increase public sector savings rate rapidly; and, to improve the country's international reserves standing. This, combined with more targeted social policies with greater impact, will allow for better results regarding poverty reduction.

372. Under the influence of the implementation of NDP policies, it is expected to see the economy grow without difficulty at an average annual rate of around 4.5 percent during the 2006-2010 period, above the average (3 percent) shown during the 2001-2005 period. With a full implementation of the NDP, it is estimated that the GDP growth rate will be above 5 percent for the 2010-2020 period. Under these conditions, per capita income will increase at an average annual rate of 2.3 percent in the medium term under an optimistic inflation profile.

373. Fiscal discipline continues to be crucial in the program, not only because controlling the deficit and increasing public sector savings generates more confidence for private investment, but also because the poverty reduction strategy will be viable and sustainable. Estimates indicate that the overall fiscal deficit of the CPS (after grants) will go from -2.7 percent of GDP in 2006 to -0.6 percent in 2010.

374. Government savings are important for promoting the public investment program and attending social demands in the context of the NDP. It is estimated that the CPS would raise its primary savings rate to an annual average of 7.6 percent of GDP in the next five-year period, surpassing the 5.3 percent shown in the 2001-2005 period. This will have a multiplier effect on economic growth, fiscal revenues collection and greater efficiency in public spending (Table 7.1).

375. This performance of public savings will strengthen the profile of national savings, which on average could be around 14.4 percent of GDP, of which 37.5 percent (in the previous period 0.7 percent) will correspond to the public sector. The above shows the government's efforts to achieve fiscal sustainability after having confronted significant fiscal imbalances. If the flows of external savings are added to this behavior of the public sector, it is estimated that investment levels would be around 30 percent of GDP during the 2006-2010 period.

376. On the other hand, fiscal discipline has an important effect on the balance of payments as well as the foreign debt relief, the expected increase in family remittances, increases in exports and direct foreign investment. It is estimated that the current account deficit will drop at an average annual rate of 3.1 percent, going from an annual average of 18 percent of GDP in 2001-2005 to 15.2 percent in the following five years, (Table 7.1).

377. Better international coffee prices, boosted production of non-traditional products for foreign markets, the opportunities presented by regional free trade agreements and global markets, and a more effective public policy on agricultural production will speed up the growth

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<sup>21</sup> Includes quasi-fiscal losses of the Central Bank.

of exports over the medium term. This, combined with furthering taxation policy and a possible stabilization of fuel prices, will slow down the import growth rate.

378. Some of these expectations are already seen in the export levels for 2004 and 2005, when they increased at a rate of 30 and 13.2 percent respectively; nevertheless, the increase in the petroleum bill cancelled out the effect on the trade balance. It is expected that exports will continue to be more dynamic than they were during the last five-year period, but the trade deficit may remain at the levels of that last period (on average, 27 percent of GDP) if the situation described above continues. The balance of services will be alleviated by the effect of the debt relief and interest payments, a smaller growth of imports of goods and services, and by the expected increase in exports and tourism services.

379. The improvement in transactions abroad will also be due to a better position of trade relations; the sustained increase in family remittances; greater presence of private foreign investment; accelerated growth of tourism activity; the annual relief from interest payments; and, the effect of the NDP policies on economic growth and the level of exports within a more propitious international setting and internal stability that is more consistent with the program.

**Table 7.1 Nicaragua: Medium-Term Economic Perspectives 1/**

Items	2001-05	2004	2005	Projections					
				2006	2007	2008	2009	2010	2006-10
				Growth rate					
GDP at constant prices	3.0	5.1	4.0	3.7	4.3	4.6	4.8	5.0	4.5
GDP per capita	2.2	7.0	7.1	4.5	1.9	1.2	1.9	2.1	2.3
Consumer prices (end of period)	7.0	9.3	10.5	7.3	5.0	3.0	3.0	3.0	4.3
				Percentage of GDP					
External current account balance	-18.0	-16.1	-16.9	-16.7	-16.0	-15.2	-14.4	-13.7	-15.2
of which: Trade Balance	-24.6	-23.9	-27.3	-27.5	-26.9	-26.4	-26.1	-26.7	-26.7
Trade Balance (mill. of dollars)	-1,074.5	-1,089.0	-1,368.0	-1,476.0	-1,504.0	-1,531.0	-1,573.0	-1,612.0	-1,539.2
Exports, f.o.b.	1,093.2	1,363.0	1,543.0	1,754.0	1,915.0	2,080.0	2,261.0	2,468.0	2,095.6
Imports, f.o.b.	2,167.7	2,452.0	2,911.0	3,230.0	3,419.0	3,611.0	3,834.0	4,080.0	3,634.8
Combined Public Sector									
Revenue	21.2	22.6	22.7	23.0	23.2	23.2	23.3	23.4	23.2
Expenditure	30.4	29.7	29.0	29.5	28.4	28.0	27.8	27.5	28.2
of which:									
NFPS Interest	3.6	2.1	2.0	1.9	2.1	2.1	1.9	1.6	1.9
Operational balance of central bank	-1.4	-1.4	-0.8	-0.8	-0.7	-0.6	-0.6	-0.5	-0.6
Financial losses	-1.0	-1.0	-0.4	-0.5	-0.3	-0.2	-0.2	-0.1	-0.3
NFPS total expenditure	29.0	28.3	28.2	28.7	27.7	27.4	27.2	27.0	27.6
Poverty	11.3	13.2	13.4	13.5	13.6	13.7	13.8	13.9	13.7
Capital	9.9	10.8	10.8	10.6	10.4	10.4	10.4	10.5	10.5
Saving	0.7	3.7	4.5	4.1	5.2	5.6	5.9	6.4	5.4
Primary saving	5.3	6.8	6.9	6.5	7.6	7.9	8.0	8.1	7.6
Overall balance before grants	-8.4	-6.3	-6.3	-6.5	-5.2	-4.8	-4.4	-3.9	-5.0
Grants	3.6	3.6	3.8	3.8	3.8	3.6	3.4	3.3	3.6
Overall balance after grants	-4.8	-2.8	-2.5	-2.7	-1.4	-1.2	-0.9	-0.6	-1.4
Savings	28.3	28.3	29.2	29.0	29.1	29.3	30.3	30.5	29.6
National	9.8	12.2	12.3	12.3	13.0	14.1	15.9	16.9	14.4
Public sector	0.7	3.7	4.5	4.1	5.2	5.6	5.9	6.4	5.4
Private sector	9.0	8.5	7.8	8.2	7.8	8.5	10.0	10.5	9.0
External 2/	18.5	16.1	16.9	16.7	16.1	15.2	14.4	13.7	15.2
Investment	28.3	28.3	29.2	29.0	29.1	29.3	30.3	30.5	29.6
Public sector	6.7	7.1	7.1	7.0	6.8	6.9	7.0	6.9	6.9
Private sector	21.5	21.2	22.1	22.0	22.3	22.4	23.3	23.6	22.7
<b>Memorandum items:</b>									
GDP (millions of dollars)	4,350.5	4,556.0	5,008.0	5,358.0	5,587.0	5,789.0	6,037.0	6,308.0	5,815.8
GDP per capita (dollars)	791.7	809.7	867.3	906.3	923.1	934.3	951.7	971.3	937.3
Gross international reserves (millions of dollars)	538.8	671.0	681.0	773.0	844.0	917.0	1,007.0	1,135.0	935.2
Gross international reserves (in months of imports)	2.4	2.4	2.4	2.5	2.6	2.6	2.7	2.9	2.7

1/: Preliminary. 2/: Includes capital transfers.

Sources: IMF. Fifth and sixth reviews under the PRGF. November 2004.

380. It is estimated that these resource flows<sup>22</sup> are almost four times the official capital development assistance the government will receive during the 2006-2010 period, despite all this, international cooperation will continue to be important. Nevertheless, the external resource profile has been higher over the past few years. Greater resources from special cooperation initiatives (Millennium Challenge Account and Budget Support Agreement) situate Nicaragua in better perspectives to successfully implement the NDP. This situation must not be a reason to soften the fiscal discipline.

## **7.2. PRGF Performance**

381. After the completion point, Nicaragua continued to go further with structural reform and macroeconomic discipline, which enabled to have annual average economic growth of 4.5 percent in 2004-2005, surpassing the goal of 3.7 percent established in the program. The indicators for per capita income, export growth rate, and international reserves had an extraordinary performance, not expected in the program. Nonetheless, the inflation rate was at an average of 10 percent during the period, above the established goal. The main reason for this has to do with the increase in fuel prices.

382. The result for the balance of payments was better than expected, by the reduction of the current account deficit to 16.5 percent of GDP, 15.1 percent less than what it was established in the program, due to increased exports, lower interest debt payments, and the increase in family remittances from abroad. The international community supported the program through a greater flow of disbursements in 2004 and an increase in grants from multilateral agencies, including the European Union.

383. In 2005, the authorities undertook corrective actions to control the deficit of the Combined Public Sector (CPS) after grants to a level of 2.5 percent of GDP and to increase savings in 22 percent in relation to 2004. The introduction of a tax reform, improvements in tax administration and adjustments in public services tariffs, allowed the increase in public sector revenues in 1.6 percent of GDP with respect to the original budgeting. The public expenditure policy was directed to maintain capital expenditures to the same levels of 2004 and reduce the social impact of the increase in oil prices by providing subsidy to public transportation and energy services. The government counted with the support of increased external resources in terms of grants that facilitated meeting fiscal goals.

384. The delays in approving and implementing structural reforms and the political environment affected the disbursements of resources from donors, and the increase in the oil bill added to create a difficult international reserves situation. Nevertheless, the increase in exports and family remittances reduced its impact. On average, the international reserves (adjusted) maintained a level of US\$200.0 million during the year.

385. At the end of 2005, the authorities reached a political agreement that established the conditions to approve a number of laws contemplated in the economic program, and a 2006 budget consistent with the program. In addition, the IMF reviewed the article IV for 2004

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<sup>22</sup> Increase in exports, foreign direct investment, tourism, family remittances, and debt relief.

certifying for the country the good economic performance and allowing the donor community to liberate the resources contemplated for 2005.

386. As of 2004, compliance and performance for the PRGF indicators were met. Nonetheless, the delays in the structural reform program in 2005, under adverse political conditions, the increased demand for social services and the shock from oil prices; resulted in more fragile macroeconomic conditions, slower economic growth and employment, and in an increase in inflation rates to double digits.

387. The perspectives for 2006 present a major challenge since they are linked to the political cycle that puts pressure to public spending due to the coming electoral processes (regional and national elections), the increase in resources assigned to universities and the Supreme Court by constitutional mandate, the increase in municipal transfers, and the pressure from social sectors for salary adjustments. The budget proposal contemplates a deficit of the NFPS of 1.9 percent of GDP, same as the previous year, and the public expenditure level will be slightly superior to the one in 2005, consistent with a GDP growth of 3.7 percent, and inflation of 7.3 percent, much less than in 2005. Within this fiscal framework, the government has contemplated salary increases linked to availability of resources while poverty spending will increase to 13.5 percent of GDP, maintaining its increasing tendency.

388. For the consolidation of the PRGF program, authorities will make progress in the strengthening of the tax administration with the approval of the tax code; stop the deterioration of the pension system; extend the scope of the financial administration law; the decentralization process for public spending consistent with the spirit of the municipal transfer law, and face the financial crisis of the energy system that includes tariff adjustments.

### **7.3. Policy and Structural Reforms**

#### *Policies*

389. **Commercial policy.** Nicaragua is advancing towards opening its economy by diversifying to new markets while strengthening its position on traditional markets through free trade agreements. The success of the NDP is based on the economic potential of the territories and their comparative advantages usage to increase the efficiency and competitiveness for the opportunities offered by more open global markets.

390. Nicaragua's commercial policy is going forward in three directions: the negotiation of free trade agreements, the custom harmonization at the regional level and on the establishment of a macroeconomic environment that encourages foreign direct investment. The structural reform program that started in 1994 has improved the position of the private sector in areas previously occupied by the public sector. This has improved public finances and strengthened the financial system which in turn gives a consistent framework for the long term commercial policy.

391. In October 2005 the National Assembly ratified the free trade agreement between Central America, the United States and the Dominican Republic (DR-CAFTA). This is the most important free trade agreement signed by Nicaragua given the importance of the United States as a commercial partner and the potential of the other members. Previously Nicaragua had reached

free trade a agreement with Mexico, and is exploring the possibility of other agreements with Taiwan, Canada, Panama and Chile.

392. Once DR-CAFTA initiates its implementation, the growth of GDP of Central American countries could increase more than 1.5 percent above its current level and exports could increase in about 28 percent according to experts. This agreement could play the role of a commitment mechanism promoting the influx of foreign direct investment, generating a structural change in commercial flows<sup>23</sup>, integrating the financial systems and assisting poverty reduction.

393. In June 2004, Central American countries approved a general framework to establish a custom union. This union will allow the free movement of goods and services independently of their origin, the elimination of immigration post between member countries, the establishment common tariff and custom policies, the harmonization of tax systems and common regional and external policy<sup>24</sup>.

394. **Fiscal policy (towards a more efficient public expenditure).** Fiscal policy measures are directed at achieving the long-term sustainability of public finances as a necessary condition for keeping inflation under control and stimulating economic growth. The authorities have made progress towards a more efficient management of public spending and towards a broadening of the tax base and fiscal equity, which contributes to having the economy be more competitive.

395. The government has initiated a process to transform the budget into the main instrument directed to foster competitiveness and productivity in the private sector. This effort starts from the principle that public spending efficiency should be measured in terms of its impact on economic growth and on the coverage of basic services for the population in order to reduce poverty.

396. In this regard, the austerity program in government institutions was reinforced by reducing salaries to officials of higher hierarchy, eliminating credit cards and other expenses. On the other hand, significant resources were oriented to cover salary adjustments for teachers and health sector employees, subsidies for public transportation, energy tariff for the lower segment, and municipalities transfers.

397. The expansion of coverage for basic services and human capital formation (housing, water and sanitation, health and education) and the building of productive infrastructure (highways, ports, and energy) through the public investment program, will stimulate private investment by reducing transaction costs and facilitating the territorial integration of economic and social clusters. In order to have the budget reflect the new vision for public investment, the authorities have made the following changes:

- a) Reformulation of the projects portfolio to align it with the NDP objectives by reducing its dispersion, eliminating non-related recurrent expenditures and projects financed only with treasury resources to maximize the disbursement of foreign resources.

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<sup>23</sup> IMF. Central America: World integration and regional cooperation, 2005.

<sup>24</sup> SIECA. The Central American Customs Union.

- b) Drafting up the multi-annual budget (three to five years) consistent with the objectives for the macroeconomic framework and the public sector budgetary constraints.
- c) Improvement of capacity in areas of pre-investment, planning, administration, execution, and evaluation of projects.
- d) Improvement of coordination with the cooperation community within the framework of harmonization and alignment and in line with the priorities of the NDP, for which five sector tables/forums for coordination and one global forum have been established.

398. The above constitutes a medium- and long-term process to the extent that the current structure for public investment and budget expenditures is left behind and substituted with a more efficient and transparent one, establishing commitments to assure the healthy administration of public spending, allowing an increased credibility by civil society and the international community, and giving stability and economic growth.

399. The identification of poverty spending within the budget helps the government be more selective in its policies and programs to benefit social sectors. However, budgetary constraints make it difficult when the fiscal deficit is unsustainable and, therefore, it is necessary to take structural measures to revert this tendency. The adjustments programs generally bring about transitory social costs that add to the state of poverty the countries suffer from, which makes necessary to have social compensation programs in order to avoid any undesired political effects.

400. In the 2001-2005 period, the authorities were able to keep poverty spending on the rise, despite the difficulties and challenges of maintaining a stabilization and structural adjustment program. The allocation of resources due to the HIPC Initiative, the application of tax reforms, the conclusion of a privatization program, the application of a more selective spending policy, and the consistent flow of international assistance have facilitated this increase.

401. According to prospects, in the long term public spending will be pressured from three directions: by the debt service that will increase to the degree that grace periods reach their end; by the increased demand for basic services because of population growth and the structural shortfalls in the sector; and, by the growing demand for productive infrastructure, the deficit of which constitutes a major obstacle to economic growth.

402. To handle this situation, the authorities are directing efforts to achieve political stability and governance; strengthen the design and administration of fiscal and budgetary policy; adjust the poverty spending defined in the NDP; further institutional reform in order to prevent acts of corruption; decentralize public management; and, strengthen mechanisms for dialogue and citizen participation.

403. **Public indebtedness policy.** To support the HIPC process that facilitated the debt relief and after the effect of the banking crisis on the internal debt, the government has reformulated the policy for fiscal deficit financing, not only in terms of monetary emission, but regulating every action that implies additional indebtedness by public officials. For this purpose, technical frameworks compatibles with the sustainability principle of public debt in the medium and long term have been incorporated.

404. In this context, the increase in public debt to finance the fiscal deficit will only be possible



if the stock of public debt does not increase, so that the relation with GDP, exports and fiscal revenues, will observe internationally accepted standards. Starting in 2004, the public debt policy is linked to factors such as payment capacity, macroeconomic stability, availability of national counterpart funding for projects, and the degree of concessionality of resources for contracting loans, and observing indebtedness limits.

405. To achieve the mentioned above, the National Assembly in November 2003 approved the public debt law<sup>25</sup> that regulates the stock and the service of the debt incorporated annually in the national budget. The budgets for the 2004 and 2005 fiscal exercises already included application of this law.

406. **Monetary, credit, and exchange rate policy.** The Central Bank of Nicaragua (BCN) is taking action so that monetary policy goes back to a more passive state, eliminating structural causes that provoke undesired monetary expansions. To this end, the BCN renegotiated the internal debt related to the financial crisis<sup>26</sup> and implemented a program to liquidate assets acquired from the process of intervening the banks. It also gradually reduced the placement of titles and securities to the extent that its fiscal standing was strengthened and it reduced the rates for legal reserves from the banks.

407. A fundamental change was also made to public sector credit policy by eliminating it as a financing source for fiscal deficit. For this, the government concentrated all its deposits in a single account in the BCN and a program of net flows to the government was established that is consistent with the goals for international reserves.

408. To consolidate the position of the BCN, in March 2005, the MHCP began a program to issue medium-term fiscal titles in order to regulate maturity issues and to stabilize cash flow. With this program, the BCN is isolated from these operations and in the future, it will only concentrate on short-term open market operations for the purposes of monetary stabilization.

409. This process of monetary policy strengthening has gradually led towards a reduction of the market interest rate and increased liquidity for the financial system, which favors making loans to the private sector. The quasi-fiscal losses were also reduced and a historic level of international reserves has been reached. In the future, this monetary policy will be even more relevant when the country is in a better position to adopt a more flexible exchange rate regime.

410. Until now, the exchange rate has been used as a nominal anchor in order to keep inflation relatively low. Since 1999, the annual devaluation rate has been slowing down within a crawling peg system given the level of indexing in the economy. Notwithstanding, the authorities feel it is necessary to continue seeking fiscal and structural consolidation in order to move towards more flexible exchange rate systems.

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<sup>25</sup> General Law for Public Indebtedness – Chapter II: National Strategy for Debt and Policy for Public Indebtedness, Articles 10 – 13. La Gaceta No. 236, December 12, 2003.

<sup>26</sup> The conditions for this renegotiation established maturation periods of 10 years and the rate of yield was set at 6 points less than what was originally agreed on.

## *Structural reforms*

411. **Strengthening the financial system.** After the financial crisis of 2000-2001, the authorities implemented a series of measures to prevent and deal more efficiently with crisis situations in the system. This experience has forced to strengthen, not only supervision, but also the leading institutions of the system, and the legal framework.

412. In 2001, the AN also approved the Law for Guarantee of Deposits, under which the Deposit Guarantee Fund (FOGADE) was created in order to reduce the fiscal impact of the banks going bankrupt. In August 2005, a new law for the guaranteed of deposits system was approved to protect bank clients and to regulate intervention processes and the liquidation of banks<sup>27</sup>.

413. Regarding institutional aspects, the authorities have also moved forward in strengthening the autonomy of the BCN. A reform to the Charter Law of the Central Bank was submitted to the AN in 2005 to reinforce its board of directors; confirm its independence in the formulation of monetary and exchange rate policy; and reinforce the prohibition on granting credits to government. In this context, the Law for Guarantee of Deposits isolates the BCN from future interventions in financial crisis.

414. In addition and in the framework of the functions of the Superintendence of Banks and Other Financial Institutions (SIBOIF), there is a strengthening of prudential norms to limit the risk for banks, originated by the undermining of the assets/liabilities relation; so that they can have better capital adjustments; and, to control related credit between financial institutions.

415. In August 2005, a reform to the law of the Superintendency of Banks<sup>28</sup> was approved to give the Superintendent active participation (voice and vote) on the SIBOIF board of directors; eliminate the function of executor and supervisor of bank interventions, which is absorbed by FOGADE. Within the framework of this law, the board of directors is strengthened with norms and regulations related to the legitimization of capital of financial institutions and to avoid money laundering.

416. To strengthen the financial system, the authorities also introduced in 2005 reforms to the General Law for Banks directed at strengthening the requirements for establishing new financial institutions, improving risk-based supervision, regulating operations between related parties, strengthening the mechanism for standardization as part of the process to recover a bank, and appropriately defining the areas for bank discretion.

417. Additionally, the government is supporting a program to modernize the Office of the Comptroller General that has four components: reviewing of the institutional structure; strengthening control mechanisms; developing training plans; and, equipping of the office with technological infrastructure. Major progress has been made in all four components.

418. **Strengthening the State and public finances.** In the 2003-2005 period the government

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<sup>27</sup> Law 371 Guaranteed Deposits in the Financial System, January 2001, La Gaceta 21. Law 551, Guaranteed Deposits Systems, August 2005. La Gaceta 168.

<sup>28</sup> Law 552 Reform to law 316, SIBOIF Law, August 2005, La Gaceta 169.

went forward with the deepening of the structural reform program as part of compliance with the conditions of the PRGF to fully access the benefits of the HIPC initiative. There was progress in strengthening public finances by increasing tax revenue as a result of an extensive tax reform with the application of the Law of Fiscal Equity approved in April 2003.

419. The central objective of this reform was to enlarge the tax base making the system less regressive, to reduce the anti export bias and improve the efficiency in tax collection by reducing the discretionality in the tax administration. This reform was modified in march 2005 to give more incentives to the agricultural and industrial sectors and to protect the workers' salaries by increasing the basic basket of goods exempt of paying aggregate value tax (IVA)<sup>29</sup>.

420. In August 2005 the Financial Administration and Budgeting Law<sup>30</sup> was approved to strengthen the internal controls to public spending, to increase the efficiency of public spending and to promote the transparency in the use of public resources. This Law also regulates the procedures relative to the formulation, approval, implementation, control, evaluation and the liquidation of the Budget. The law also regulates the information of the budgets of all public sector entities.

421. Besides, the authorities concurred in accelerating the approval of the Tax Code which will be vital to strengthen the tax administration and increase the efficiency in the tax collection. At the same time this new Code will be crucial for auditing, collection procedures and sanctions in the tax administration.

422. To strengthen the state institutions the Law of Civil Service and Administrative Career<sup>31</sup> was published in September 2003. This law is designed to carry out a revision of the quality and quantity of human resources in the public sector in order to increase the efficiency of the administration and guarantee the duties and rights of public servants.

423. Also in 2003, the Law of Municipal Transfers<sup>32</sup> was approved. Beginning in 2004 there was a transfer of 4 percent of tax revenue to the municipalities. There will also be a gradual increase in municipal transfers of half a percent per year to reach at least 10 percent of tax revenue in 2010. In November 2004 the National Assembly approved a reform to this law shortening the deadlines for the application of the percentages for municipal transfers and establishing the transfer of 6 percent of tax revenue for the years 2005 and 2006 and 10 percent for the year 2007.

424. The implementation of the above Law implies the transfer of responsibilities, competencies and the respective spending from the central government to local governments. At the same time there will be a redefinition of the role of the institutions linked to municipal development like IDR, INIFOM and FISE. With respect to this last aspect, progress is limited while hoping that the process will accelerate in 2006.

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<sup>29</sup> Law 453 of Fiscal Equity, April 2003, Gaceta 82; Law 528 of Additional Reforms to the Law 453, March 2005, Gaceta 1004.

<sup>30</sup> Law 550 of Financial Administration and Budgeting, August 2005, Gaceta 167.

<sup>31</sup> Law 476 of Civil Service and Administrative Career, November 2003, Gaceta 157.

<sup>32</sup> Law 466 of Municipal Transfers, July 2003, Gaceta 157, Law 504 to reform article 5 of Law 466, November 2004, Gaceta 242.

425. **Adjusting the pension reform.** The government has temporarily halted the law for implementing these reforms<sup>33</sup> in light of new estimates of the deficit of the Nicaraguan Social Security Institute (INSS). New information shows that the INSS deficit will be significantly more than projected and therefore unsustainable. This warrants a complete review of the parameters on which this project is based and a more precise determining of the real fiscal costs that will be faced in the future.

426. The social security reform is a policy priority for 2006 since measures need to be adopted due to the deterioration to the pension deficit in the medium term. For this purpose, a national commission for social security has been created to prepare an implementation plan with a fiscal sustainable framework

#### **7.4. Financing Public Spending**

427. The demand for financing the NDP objectives is directly related to a strategic vision for public spending by allocating resources to increase, in the medium and long term, per capital income and employment. This will permit public spending approach adjustments to sectors real demands, with emphasis on economic growth for poverty reduction.

428. In addition, this will allow a better consistency between the objectives of the NDP and millennium development goals, and the available resources for a public investment program supported by a harmonized and aligned international community. All of the above will facilitate a third generation of structural reforms.

429. The medium-term perspectives for resource allocation are consistent with the government's macroeconomic program agreed on with the IMF and they take into account sustained GDP growth, based on the utilization of the comparative advantages of the territories; the free trade treaties that open up possibilities for exports and direct foreign investment; the selection of policies and programs with social impact that enable reaching the millennium goals; and, the structuring of a more targeted social safety net.

430. Factors favoring expectations for financing the government economic program are: the capacity for indebtedness acquired after the debt relief; the inclusion of Nicaragua in the Millennium Challenge Account initiative; the improvement of the international market for export products; the expansive effect of greater economic growth on fiscal revenues collection together with tax reforms to be implemented; the accumulation of external resources still pending disbursement that are equivalent to more than 20 percent of the GDP; and, the expected increase in national and foreign private investment.

431. The government is putting forward this financing strategy, in full acknowledgment of the fact that stability and economic growth necessarily must come through the practice of a responsible and intelligent policy for external indebtedness. In this context, that policy was reformulated in the spirit of the HIPC Initiative and three fundamental principles: a) sustainability, which establishes that all future indebtedness must generate its own payment

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<sup>33</sup> Law 340 Saving Pensions System, March 2000, La Gaceta 72.

capacity; b) external independence, which means that Nicaragua must go towards less dependence on international cooperation; and, c) selectivity, which leads the country to opt for projects with high social and/or economic yields.

432. International cooperation agreements in force assure a major flow of resources in the PRGF framework, and these have been incorporated into the base scenario of the NDP financing program. Nevertheless, to have better results than those obtained to date in matters of economic growth, poverty reduction, and reaching millennium development goals; additional resources are required as well as improving the efficiency in public spending, and increasing the competitiveness of the country.

### *Spending and funding scenarios<sup>34</sup>*

433. In the presence of an unexpected inflationary profile and an accelerated increase of the internal debt the resources to finance the PRSP will face severe budgetary restrictions in the medium term assuming that the sustainable level of spending from the non financial public sector should be maintained at a yearly average of 27.6 percent of GDP during the 2006-2010 period which is well below the average of the last five years. The medium term projections reflect a nominal spending of US\$8,016.8 millions for the entire 2006-2010 period under the PRGF framework (which is considered as the base scenario in the NDP). This will allow to slightly increase social sector spending as experimented in the previous period, (Tables 7.2 and 7.3).

434. The most important source of spending for the non financial public sector is tax revenue which is projected to have a better profile for the 2006-2010 period because of the reforms implemented during the 2003-2005 period and the adjustments in the administration to improve the collection levels. It is estimated that tax revenues will reach an annual average of 21 percent of GDP in the period. This will represent 76.1 percent of total spending. (Table 7.2).

435. At the same time it is estimated that external resources will show a more modest profile, compared to 2001-2005, because of the implementation of the Law on Public Indebtedness which limits any inadequate management of resources, and because of a profile of grants inferior to historical levels, including HIPC relief. It is estimated that as long as the Central Bank can strengthen its international reserve position the central government will have more flexibility to use its deposits in the BCN and improve the financing of the PRSP.

436. From the total spending estimated for the non financial public sector it is programmed that 53.4 percent will be directed to poverty spending, which is equivalent to 13.7 percent of GDP. Although the base scenario shows an increase in spending with respect to the previous five years, which will improve the speed of spending in the social sectors, it will not be enough to reach the Millennium Development Goals for 2015 according to the costing profile for the different programs directed to improve the quality and the living standard of the population in the medium term.

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<sup>34</sup> Refers to NFPS spending projections established on the program of the government agreed with the IMF and to adjusted projections to a greater availability of resources and to the definition of a expanded public sector.

Table 7.2. Financing Public Spending

Items	2004	2005	Projections				Average	
			2006	2007	2008	2009	2010	2006-10
Percentage of GDP								
<b>Total Spending NFPS</b>	<b>27.8</b>	<b>28.3</b>	<b>28.7</b>	<b>27.7</b>	<b>27.4</b>	<b>27.2</b>	<b>27.0</b>	<b>27.6</b>
<b>External Resources</b>	<b>9.6</b>	<b>8.3</b>	<b>8.6</b>	<b>7.6</b>	<b>7.2</b>	<b>7.1</b>	<b>6.2</b>	<b>7.3</b>
Net Loans	6.0	4.5	4.8	3.8	3.5	3.5	2.7	3.7
Disbursement	6.5	5.1	5.6	4.9	4.7	4.5	4.0	4.7
Amortizations	0.5	0.6	0.8	1.1	1.2	1.0	1.3	1.1
Total Grants	3.6	3.8	3.8	3.8	3.7	3.6	3.5	3.7
Grants	0.9	1.3	2.2	2.0	1.9	1.5	1.5	1.8
HIPC relief	2.7	2.5	1.6	1.8	1.8	2.1	2.0	1.9
<b>Internal Resources</b>	<b>18.2</b>	<b>20.0</b>	<b>20.1</b>	<b>20.1</b>	<b>20.2</b>	<b>20.1</b>	<b>20.8</b>	<b>20.3</b>
NFPS Income	22.9	22.7	23.1	23.2	23.2	23.3	23.4	23.2
Tax Revenues	20.2	20.8	20.8	21.0	21.0	21.1	21.2	21.0
Non-Tax Revenues	2.2	1.6	1.8	1.8	1.8	1.8	1.8	1.8
Surplus from Public Firms	0.3	0.2	0.3	0.4	0.4	0.4	0.4	0.4
Other Income	0.2	0.1	0.2	0.0	0.0	0.0	0.0	0.0
Income from Privatization	1.4	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Deposits in the Central Bank	-4.8	-1.8	-1.0	-2.0	-2.0	-1.6	-1.5	-1.6
Others	-1.3	-1.1	-2.2	-1.1	-1.0	-1.6	-1.1	-1.4
<b>Memorandum:</b>								
GDP (million of dollars)	4,556	5,008	5,358	5,587	5,789	6,037	6,308	

Source: SETEC, MHCP, BCN.

### *Funding gaps*

437. The NDP presents an expanded scenario for reinforcing the poverty reduction strategy, defining sector priorities and demands given a possible increase in resources not included in the economic program. This scenario would speed up spending over the 2006-2010 period with the objective to increase the rate of economic growth, employment generation and expanded coverage of social services.

438. Estimates under this scenario show an accumulated level of public expenditure of US\$8,802.8 million, 9.8 percent above the base scenario. The 60 percent of primary spending is prioritized for poverty reduction, emphasizing social services, infrastructure and production, which will allow poverty spending to increase to 16.9 percent of GDP, or 23.4 percent greater than reflected in the base scenario. This increase represents significant resources in order to achieve the millennium development goals.

439. The NDP contemplates that this gap could be financed with resources currently being negotiated, resources pending disbursements, with extraordinary resources not incorporated in the program like the millennium challenge account, and with additional grants besides the increase in public saving generated by greater economic growth. It is estimated that the total gap for prioritized poverty spending for the 2006-2010 period will be US\$936.1 million (3.2 percent of GDP), or US\$187.2 million per year. This indicates that resources from base scenario will only cover 81 percent of poverty spending under the expanded scenario, (Table 7.3)

440. In terms of spending velocity —understanding this as average annual spending— it means that while the base scenario sets a poverty spending of US\$797.2 million on average per year, the expanded scenario would be faster by 23.5 percent, at US\$984.4 million on average annually. This will allow for reduced social pressure, for faster progress towards the millennium goals, and

making the private sector more competitive through more infrastructures.

Table 7.3. Funding Gaps 2006-2010

Sectors	2006-2010				Financial Gap		2006-2010		
	Base Escenario <sup>1/</sup>		Expanded Scenario <sup>2/</sup>		Accumulated	Average	Base	Expanded	Gap
	(1)	(2)	(3)	(4)					
	Million of Dollars				GDP Percentage				
<b>Total Spend NFPS</b>	<b>8,016.8</b>	<b>1,603.4</b>	<b>8,802.8</b>	<b>1,760.6</b>	<b>786.1</b>	<b>157.2</b>	<b>27.6</b>	<b>30.3</b>	<b>2.7</b>
<b>Total Primary Spend NFPS</b>	<b>7,460.4</b>	<b>1,492.1</b>	<b>8,246.5</b>	<b>1,649.3</b>	<b>786.1</b>	<b>157.2</b>	<b>25.7</b>	<b>28.4</b>	<b>2.7</b>
Interest	556.3	111.3	556.3	111.3	0.0	0.0	1.9	1.9	0.0
<b>I. Prioritized Spending</b>	<b>3,986.2</b>	<b>797.2</b>	<b>4,922.2</b>	<b>984.4</b>	<b>936.1</b>	<b>187.2</b>	<b>13.7</b>	<b>16.9</b>	<b>3.2</b>
<b>Social<sup>3/</sup></b>	<b>2,545.8</b>	<b>509.2</b>	<b>2,726.3</b>	<b>545.3</b>	<b>180.5</b>	<b>36.1</b>	<b>8.8</b>	<b>9.4</b>	<b>0.6</b>
Education	994.8	199.0	1,043.3	208.7	48.5	9.7	3.4	3.6	0.2
Health and nutricion	1,139.9	228.0	1,202.6	240.5	62.7	12.5	3.9	4.1	0.2
Social proteccion	225.5	45.1	268.8	53.8	43.3	8.7	0.8	0.9	0.1
Labor sector	16.1	3.2	29.1	5.8	13.0	2.6	0.1	0.1	0.0
Training and technical formation	169.4	33.9	182.4	36.5	13.0	2.6	0.6	0.6	0.0
<b>Productive and Environmental</b>	<b>384.2</b>	<b>76.8</b>	<b>650.4</b>	<b>130.1</b>	<b>266.3</b>	<b>53.3</b>	<b>1.3</b>	<b>2.2</b>	<b>0.9</b>
Regulatory framework	4.1	0.8	13.7	2.7	9.6	1.9	0.0	0.0	0.0
Property rights	58.3	11.7	100.3	20.1	42.0	8.4	0.2	0.3	0.1
Access to financial services	13.1	2.6	22.2	4.4	9.1	1.8	0.0	0.1	0.0
Export promotion and attraction of investment	6.2	1.2	33.1	6.6	26.9	5.4	0.0	0.1	0.1
Support for development of clusters	20.5	4.1	43.7	8.7	23.1	4.6	0.1	0.2	0.1
Rural development	244.1	48.8	365.4	73.1	121.3	24.3	0.8	1.3	0.4
Environmental sustainability	37.8	7.6	72.1	14.4	34.3	6.9	0.1	0.2	0.1
<b>Infrastructure</b>	<b>1,014.9</b>	<b>203.0</b>	<b>1,478.2</b>	<b>295.6</b>	<b>463.3</b>	<b>92.7</b>	<b>3.5</b>	<b>5.1</b>	<b>1.6</b>
Highways, roads, ports, airports	279.8	56.0	500.3	100.1	220.5	44.1	1.0	1.7	0.8
Water and sanitation	247.4	49.5	315.6	63.1	68.2	13.6	0.9	1.1	0.2
Health	137.8	27.6	172.5	34.5	34.6	6.9	0.5	0.6	0.1
Education	172.3	34.5	207.6	41.5	35.3	7.1	0.6	0.7	0.1
Housing	34.5	6.9	103.8	20.8	69.3	13.9	0.1	0.4	0.2
Electricity	103.4	20.7	125.0	25.0	21.7	4.3	0.4	0.4	0.1
Environmental infrastructure and evaluation system	39.7	7.9	53.5	10.7	13.8	2.8	0.1	0.2	0.0
<b>Governance</b>	<b>41.4</b>	<b>8.3</b>	<b>67.3</b>	<b>13.5</b>	<b>26.0</b>	<b>5.2</b>	<b>0.1</b>	<b>0.2</b>	<b>0.1</b>
<b>II. Complementary Spending<sup>4/</sup></b>	<b>4,030.6</b>	<b>806.1</b>	<b>3,880.6</b>	<b>776.1</b>	<b>-150.0</b>	<b>-30.0</b>	<b>13.9</b>	<b>13.3</b>	<b>-0.5</b>
<b>Memorandum:</b>									
GDP	29,079.0	5,815.8	29,079.0	5,815.8	29,079.0	5,815.8			
Average exchange rate		19.1		19.1		19.1			

1/: Updated with new projected macroeconomic framework as of September 2005, and the National Budget 2006. 2/: Relation to GDP in previous scenarios remains constant (16.9% of GDP in 2005-2009, the annual average GDP is US\$4,693.8 million). 3/: Excludes social infrastructure. 4/: Includes defense, citizen security, branches of government, public debt, and others.  
Source: SETEC.

441. The above establishes a marginal increment in the budget of US\$187.2 million annually. The 50 percent of this budgetary expansion factor is for infrastructure, 20.0 percent for the social sector, and the remainder for production and electricity generation. In absolute terms, the budgetary expansion by year means US\$36.1 million for the social sector, US\$53.3 million for production and environment, and US\$92.7 for economic and social infrastructure.

## 7.5. Prospects for HIPC Resources

### *Methodological changes*

442. As part of the HIPC Initiative process, an agreement was made with the World Bank that once the interim process ended—from the decision point to the completion point—, changes would be introduced to the methodology with which HIPC relief is calculated. The initial methodology is based on an historic average (1992-1998) for cash debt service pay-out as a

measure of the country's payment capacity. The hypothesis is that this payment capacity can increase to the degree that the economy grows, allowing for consideration of the idea that the marginal increment of resources should be directed at strengthening the strategy for fighting poverty.

443. Because of the above, based on the 2005 budget, the computation of HIPC relief has been adjusted by the real rate of GDP growth, based on the historic average taking into account service payment capacity, adjusted by the dynamic factor of growth in the economy. Nonetheless, to make this marginal increase effective in terms of poverty spending, the authorities shall consider the macroeconomic conditions of the program, given that Nicaragua is still fiscally unsustainable as a result of internal indebtedness.

444. It is important to recall that Nicaragua never had the payment capacity to honor all service on contracted debt, and so the country's financial strategy consisted of considering the payment of the prioritized debt in its exchange rate balance. The rest of the debt went into arrears, but it was also the subject of the HIPC Initiative. Forgiving this debt did not free up resources for the budget; rather, the unforgiven portion created servicing that was not attended before, for this reason for which it was agreed that all debt relief from the non-prioritized debt would be considered as relief for the balance of payments.

### ***Prospects for the medium term***

445. In January 2004, Nicaragua reached the completion point of the HIPC process, with which it was credited with the forgiving of more than 80 percent of its external debt. There must be a preliminary consideration of medium-term prospects while the formalization process with bilateral donors finalizes. The BCN is in this process and figures it will end in the coming months. Nonetheless, the preliminary profile indicates a declining trend for these resources in global terms given the service payments for the non-condoned portion of the debt. The optimal peak was registered in 2005, nevertheless the proportion of HIPC relief directed to poverty spending for the 2006-2010 period, on average will be above the debt relief received during the interim period.

446. According to projections, total relief will reach an annual average of US\$194.6 million in the 2006-2010 period, 3.4 percent lower than the previous five years. On the other hand, the resources directed to poverty spending will reach an average of US\$109.5 million in the same period, 12.2 percent greater than in 2001-2005. It is important to mention that the debt relief estimated for balance of payments will continue to be about US\$85 million below the historical level. In global terms, 60 percent of the debt relief will come from member-countries of the Paris Club (Table 7.4).

447. Regarding relief for poverty spending, 52 percent comes from multilateral organizations, which means an annual average of US\$56.8 million coming from the World Bank, the IDB, and the CABEL. The authorities have decided that a portion of debt relief coming from CABEL associated to BCN debt and relief from IMF, will be directed to strengthen international reserves and to neutralize the impact of high oil prices on balance of payments.



Table 7.4. Nicaragua: Perspectives for HIPC Resources

Items	2001-2005		2006	2007	2008	2009	2010	2006-2010	
	Total	Average						Total	Average
<b>Millions of Dolars</b>									
1.- Average service 1992-1998 adjusted for GDP <sup>1/</sup>	1,091.7	218.3	233.6	243.6	254.8	267.0	280.5	1,279.5	255.9
GDP growth rate	-	-	3.7	4.3	4.6	4.8	5.0	-	-
2.- Service after HIPC relief	625.1	125.0	148.0	141.7	149.8	137.8	154.3	731.6	146.3
3.- Cash relief (1-2)	466.6	93.3	85.6	101.9	105.0	129.2	126.2	547.9	109.6
<b>4.- Total HIPC Relief <sup>2/</sup></b>	<b>1,007.4</b>	<b>201.5</b>	<b>197.6</b>	<b>196.1</b>	<b>176.2</b>	<b>197.5</b>	<b>205.5</b>	<b>972.9</b>	<b>194.6</b>
<b>a.- Relief for Poverty Spending (FSS) <sup>3/</sup></b>	<b>478.8</b>	<b>95.8</b>	<b>85.6</b>	<b>101.9</b>	<b>105.0</b>	<b>129.2</b>	<b>126.2</b>	<b>547.9</b>	<b>109.6</b>
<b>Multilaterals <sup>4/</sup></b>	324.2	64.8	47.1	39.8	46.1	76.3	74.5	283.8	56.8
CABEI	93.7	18.7	9.5	8.8	13.2	6.9	6.7	45.1	9.0
IDB	164.2	32.8	22.7	17.0	16.6	51.3	50.1	157.7	31.6
World Bank	42.8	8.6	12.6	13.0	13.5	15.3	14.9	69.3	13.9
IMF	11.5	2.3	-	-	-	-	-	-	-
OPEC <sup>5/</sup>	10.1	2.5	0.5	-	1.8	1.9	1.8	6.0	1.2
FIDA	1.0	0.2	1.3	0.4	0.4	0.4	0.4	3.0	0.6
FND	0.8	0.2	0.5	0.6	0.6	0.6	0.6	2.8	0.6
FOCEM	0.2	0.0	-	-	-	-	-	-	-
<b>Bilaterals</b>	154.6	30.9	38.4	62.1	58.9	52.9	51.7	264.0	52.8
Paris Club	154.6	30.9	38.4	62.1	58.9	52.9	51.7	264.0	52.8
Non-Paris Club	-	-	-	-	-	-	-	-	-
<b>Comerciales y proveedores</b>	-	-	-	-	-	-	-	-	-
<b>b.- Relied for balance of payments support</b>	<b>528.7</b>	<b>105.7</b>	<b>112.0</b>	<b>94.3</b>	<b>71.2</b>	<b>67.8</b>	<b>79.3</b>	<b>424.6</b>	<b>84.9</b>
<b>Multilaterales</b>	<b>74.6</b>	<b>14.9</b>	<b>45.2</b>	<b>46.5</b>	<b>21.3</b>	<b>12.0</b>	<b>14.0</b>	<b>138.9</b>	<b>27.8</b>
<b>Bilaterales</b>	<b>444.2</b>	<b>88.8</b>	<b>67.0</b>	<b>48.0</b>	<b>50.1</b>	<b>55.9</b>	<b>65.4</b>	<b>286.3</b>	<b>57.3</b>
Club de París	376.2	75.2	66.8	27.7	29.7	35.4		159.6	39.9
Non-Paris Club	67.9	13.6	0.2	20.3	20.3	20.5		61.2	15.3
<b>Commercials institutions</b>	<b>-0.1</b>	<b>-0.0</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-0.6</b>	<b>-0.1</b>

1/: Average service 1992-1998 paid, adjusted by the GDP growth rate beginning in 2005. 2/: Difference between service of an hypothetical stock service operation Napols Terms, and the service after the implementation of Colonia Terms. 3/: Calculated based on amount whatever is greater between the average service effectively paid during the 1992-1998 period and the service to pay after HIPC relief, or rather the total HIPC relief from multilaterals creditors. 4/: Includes debt relief granted by commercials institutions and providers. 5/: The debt relief for the years 2002, 2003, 2005, 2006 is equal to the conacionality granted by the OPEC loans.  
Fuente: SETEC, BCN.

### *Program for HIPC relief resource allocation*

448. The prioritization of programs in the NDP for HIPC resource allocation consists of a revised version of those in the SGPRS. Reality showed that being able to access these resources depends largely on demand from the health and education sectors, 51 percent of these resources in 2001-2005 were allocated to education and 21.1 percent to health. This meant a flow of resources for both sectors of US\$345.1 million (Table 7.5).

449. Based on this, the priority on the program for basic services coverage for these sectors in the allocation of HIPC relief in the 2006-2010 period was maintained. Nonetheless, given the priority the NPD assigns to economic growth, a production support program has been opened, which would absorb 15.0 percent of these resources over the period.

450. It is important to note that the municipal infrastructure program —the Social Emergency Investment Fund (FISE) included — has been of great importance in supporting municipalities in a state of poverty; however, since the Law for Transfers to the Municipalities guarantees between 4 percent and 10 percent of the budget for all the country's municipalities, the use of HIPC relief to these ends has been transferred to municipalities for the next five-year period.

451. Although programs have been prioritized through sectoral demands and the particular interest of the government, the structure and amounts of HIPC relief to be allocated may vary over the period for a number of reasons, among them: drops in other resource in programs of great importance, which would mean having to consider reallocating the relief; the estimates of HIPC relief are preliminary; and, a faster process for municipal transfers. Due to that, this allocation program shall be considered as indicative.

**Table 7.5. Nicaragua: HIPC Relief Allocation**

Programs	2001-2005		2006	2007	2008	2009	2010	2006-2010		Structure		
	Total	Average						Total	Average	2001-05	2006-10	
	Million of dollars							Percentage				
<b>TOTAL</b>	<b>478.8</b>	<b>95.8</b>	<b>85.6</b>	<b>101.9</b>	<b>105.0</b>	<b>129.2</b>	<b>126.2</b>	<b>547.9</b>	<b>109.6</b>	<b>100.0</b>	<b>100.0</b>	
Support for Production	40.2	8.0	12.8	15.3	15.8	19.4	18.9	82.2	16.4	6.1	15.0	
Coverage of Basic Social Services	361.1	72.2	62.5	74.4	76.7	94.3	92.1	400.0	80.0	77.0	73.0	
Education	244.0	48.8	42.8	51.0	52.5	64.6	63.1	274.0	54.8	52.7	50.0	
Health	101.1	20.2	17.1	20.4	21.0	25.8	25.2	109.6	21.9	20.9	20.0	
Water and Sanitation	8.0	1.6	1.3	1.5	1.6	1.9	1.9	8.2	1.6	1.8	1.5	
Housing	8.0	1.6	1.3	1.5	1.6	1.9	1.9	8.2	1.6	1.5	1.5	
Protection of Vulnerable Groups <sup>1/</sup>	24.1	4.8	2.6	3.1	3.2	3.9	3.8	16.4	3.3	5.6	3.0	
Rural Primary Attention	5.5	1.1	1.3	1.5	1.6	1.9	1.9	8.2	1.6	1.1	1.5	
Development of Atlantic Coast	2.2	0.4	1.7	2.0	2.1	2.6	2.5	11.0	2.2	0.1	2.0	
Protection of the Environment	3.7	0.7	0.9	1.0	1.1	1.3	1.3	5.5	1.1	0.5	1.0	
Municipal Infrastructure <sup>2/</sup>	41.5	8.3	3.9	4.6	4.7	5.8	5.7	24.7	4.9	9.5	4.5	
Others	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	

1/: Includes Social Safety Net. 2/: Includes FISE.

Source: SETEC, MHCP, BCN.

## 7.6. Poverty Spending and Financing

### *Changes to the definition*

452. The NDP includes an updated definition on poverty spending based on evaluations made by the government, recommendations from the World Bank, contributions from civil society and international cooperation, committees of the National Assembly. It was noted in the annual SGPRS progress and poverty spending reports that some programs were divorced from this objective of poverty reduction or had little impact on it.

453. A general critique of the previous definition was that it included total spending for the upper management of ministries (whose overall spending was classified as poverty spending) like the Ministries of Health and Education. This not only included the salaries of the top officials, but also activities not related to poverty reduction objectives.

454. The new definition leaves behind the institutional bias of the previous definition and focuses on the effect and impact of public sector spending on poverty reduction. Four criteria were used for this: i) transfers of resources with redistributive effects on the incomes of the poorest; ii) provision of basic social services; iii) boosting the capacity of the poor to increase their incomes; and, iv) programs to increase expenditure efficiency in the health, education, and social protection sectors (Annex 2).

455. Framed in this new definition and under the base scenario, a new profile for medium-term poverty spending was worked out. In the determination of spending levels were taken into account the new medium term projections agreed on with the IMF, the reviewing of HIPC resources available after the completion point, the perspectives for external resources flow, the strategic elements established in the national plans for health and education, as well as the programs and projects underway that are financed by the international community and the new profile for public investment directed at production.

### *Spending level and financing*

456. In this context, the overall revised level for poverty spending is 11.4 percent, above the level set using the previous methodology, and 21.2 percent above the average registered for the 2001-2005 period. On average, the new estimates have a level of 13.7 percent of GDP for the 2006-2010 period, projections that include a public expenditure level greater than the established in the original program. The budgetary objective for the poverty spending profile is to increase its share in the budget, going from an annual average of 45.1 percent during the 2001-2005 period to an average of 53.5 percent over the next five-year period, based on primary spending in real terms.

457. According to the poverty spending structure, capital expenditures will be above the historical level since highways infrastructure is included in the new definition and the recurrent (poverty) spending on central activities of the ministries whose spending fell within poverty spending in the past has been excluded. It is estimated that capital poverty spending represents an average of 83.8 percent of the entire NFPS (non-financial public sector) investment program, which had more than a 22 percent share during the 2001-2005 period, (Table 7.6).

458. Due to this, the main source of poverty spending will continue to be external savings since the public investment program and many social programs are funded with loans and grants, including HIPC relief. Nonetheless, the internal efforts of the government will be important for maintaining counterpart funding of about 60 percent of external resources during the 2006-2010 period. To do this, the government is counting on fiscal efforts put forward in the macroeconomic program, along with the multiplier/ripple effect of economic growth on its revenues and administrative changes being made to increase revenues collection and better expenditure efficiency.

459. It is important to note that HIPC resources show a declining tendency in regards to their share in poverty spending. This behavior is explained by a lower level of relief and a higher velocity for poverty spending, so that the share of HIPC resources in poverty spending will go from 19.5 percent in 2001-2005 period to 13.9 percent in 2006-2010.

**Table 7.6. NFPS Poverty Spending and Financing**

Items	2001	2005	Average 2001-05	2006	2007	2008	2009	2010	Average 2006-10
<b>Relation to the GDP</b>									
<b>Total Spending NFPS</b> <sup>1/</sup>	<b>26.1</b>	<b>26.3</b>	<b>25.1</b>	<b>26.7</b>	<b>25.6</b>	<b>25.3</b>	<b>25.4</b>	<b>25.4</b>	<b>25.7</b>
Current Spending <sup>1/</sup>	15.8	15.4	15.2	16.1	15.2	14.9	15.0	14.9	15.2
Capital Spending	10.3	10.8	9.9	10.6	10.4	10.4	10.4	10.5	10.5
<b>Total Poverty Spending</b> <sup>2/</sup>	<b>8.7</b>	<b>13.4</b>	<b>11.3</b>	<b>13.5</b>	<b>13.6</b>	<b>13.7</b>	<b>13.8</b>	<b>13.9</b>	<b>13.7</b>
Internal Resources	3.7	4.2	3.7	5.7	5.1	5.0	4.8	5.1	5.1
External Resources	5.0	9.2	7.6	7.8	8.5	8.7	9.0	8.9	8.6
Loans	1.6	3.7	3.1	3.8	4.4	4.9	5.0	5.0	4.7
Donations	1.9	3.0	2.4	2.4	2.3	2.0	1.9	1.8	2.1
HIPC Relief	1.5	2.5	2.2	1.6	1.8	1.8	2.1	2.0	1.9
<b>Current Spending</b>	<b>4.3</b>	<b>4.6</b>	<b>4.5</b>	<b>5.0</b>	<b>4.8</b>	<b>4.8</b>	<b>5.0</b>	<b>5.2</b>	<b>4.9</b>
Internal Resources	3.1	3.0	3.0	4.0	3.5	3.5	4.0	4.2	3.8
External Resources	1.2	1.6	1.5	1.0	1.3	1.3	1.0	1.0	1.1
Donations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HIPC Relief	1.2	1.6	1.5	0.9	1.3	1.3	1.0	1.0	1.1
<b>Capital Spending</b>	<b>4.4</b>	<b>8.8</b>	<b>6.8</b>	<b>8.5</b>	<b>8.9</b>	<b>8.9</b>	<b>8.9</b>	<b>8.8</b>	<b>8.8</b>
Internal Resources	0.6	1.2	0.7	1.7	1.6	1.5	0.8	0.9	1.3
External Resources	3.8	7.6	6.1	6.9	7.2	7.4	8.0	7.9	7.5
Loans	1.6	3.7	3.1	3.8	4.4	4.9	5.0	5.0	4.7
Donations	1.9	3.0	2.3	2.4	2.3	2.0	1.9	1.8	2.1
HIPC Relief	0.3	0.9	0.7	0.7	0.5	0.5	1.1	1.0	0.8
<b>Indicators:</b>									
Poverty spending / Total spending <sup>1/</sup>	33.3	50.8	45.1	50.7	53.2	54.3	54.5	54.9	53.5
Current poverty spend. / Current spending <sup>1/</sup>	27.3	29.5	29.8	31.0	31.3	32.0	33.1	34.7	32.4
Capital poverty spend. / Capital spending	42.6	81.1	68.2	80.5	85.2	85.3	85.3	83.6	84.0
HIPC relief / Poverty spending	17.7	18.5	19.2	11.8	13.2	12.8	15.1	14.4	13.5
External resources / Poverty spending	57.4	68.7	66.5	58.0	62.6	63.1	65.4	63.6	62.5
Internal resources / Poverty spending	42.6	31.3	33.9	42.0	37.4	36.2	34.6	36.4	37.3
Internal resources / External resources	74.2	45.6	52.4	72.4	59.9	57.3	53.0	57.3	60.0
SGPRS spending (relation to GDP)	8.7	13.4	11.3	11.9	12.1	12.3	12.5	12.7	12.3

1/: Excludes interest for public debt.

2/: Years 2001 and 2002 correspond to adjusted poverty spending. As of 2004, calculated based on new definition of poverty spending.

Source: SETEC, BCN.

## Chapter 8: Implementation, Monitoring, and Evaluation

### 8.1. Implementation

460. The establishment of a participatory system for implementation, follow-up, and evaluation is a key component of the NDP in order to have timely knowledge of the real degree of progress for the next five-year period and the degree to which these meet the needs of the different sectors of the population. The Presidency coordinates the formulation, implementation, monitoring and evaluation of the NDP through SETEC with support from MINREX, MHCP and BCN. Civil society participation is coordinated through CONPES and the support of the local development councils, which also play a role in social auditing.

461. The departmental councils and cabinets participate in the coordination of the multi-sector efforts required for implementation and monitoring, supported by the municipal authorities, the business sector, and civil society. The SNIP will continue the deconcentration process of the Territorial Units for Public Investment (UTIP), through which public investment proposals are being formulated “from the bottom up” with ample local participation. This process operates according to specific local conditions and the Law for Citizen Participation.

462. The organizational structure for the implementation of the NDP has been developed throughout its formulation and has been enriched with recommendations coming out of the territorial consultation process. This structure adheres to the principles of the NDP: broader participation, greater transparency and accountability, greater equity, the continued modernization of the State, and support for local development and clusters. Inter-institutional coordination and the participation of business leaders and civil society are stressed as key elements. The lessons learned in the implementation of the SGPRS and during the formulation of the NDP facilitate future actions in this field.

463. At the local level, there are continued calls on groups for consultation and follow up to municipal projects based on existing structures (cabinets and municipal development committees). Representatives of producers and beneficiaries will be incorporated and an effort will be made to assure a balance by gender and by ethnic groups.

464. Table 8.1 summarizes the central role that SETEC and other participants play in the implementation process. SETEC has taken on the strategic coordination for the implementation, monitoring, and evaluation of the NDP; and through the FSS, will continue to coordinate allocation and monitoring of poverty spending and HIPC debt relief, as well as to define strategic lines and coordinate the poverty reduction programs. Also organized and non-organized civil society and the international community are key partners in the implementation of the NDP.

<b>Table 8.1. Coordination of the NDP: role of SETEC and other participating institutions</b>	
<b>Coordinating functions of SETEC</b>	<b>Other participants</b>
<b>Formulation</b> Poverty reduction global strategy Public investment policy Financing scenarios Poverty spending Goal and intermediate indicators of the NDP	MHCP, MINREX and BCN CDD Ministries FSS Internacional cooperation CONPES and others
<b>Implementation</b> Support to implementing entities, local governments development councils in formulation, execution, and follow-up Prioritization of NDP programs in the Budget Allocation of budget support and HIPC relief funds to prioritized programs PASE support system Forums/tables for coordination with international cooperation	Cabinets coordination Sector cabinets and Technical Secretariats and autonomous entities Department, Regional Forums and Local Councils MHCP Secretariat for Economic Relations and Cooperation of MINREX Cooperation agencies and international organizations
<b>Monitoring</b> To actions, policies and economic growth To PRGF, PRSC, budget support and others Physical and financial to budgetary allocation and execution (SNIP, SIGFA) To goals and indicators of the NDP (SINASID) To the Departmental Development Plans Periodic progress reports on implementation	Cabinets, FSS Other Branches of Government MHCP, MINREX and BCN INEC Ministries and autonomous entities (Sectoral Units for Public Investment and Planning) UTIP-SNIP Technical Municipal Units
<b>Evaluation</b> Impact evaluation of programs and policies Poverty evolution analysis Analysis of results and information sharing for planning	INEC-MECOVI, and MITRAB Ministries and autonomous entities (Planning Directorates) Cooperation agencies and international organizations
<b>Citizen participation</b> Participatory methodologies for follow-up and evaluation Follow-up of citizen participation in the territories Broad information sharing, dissemination and consultation of NDP progress	CONPES National and local civil society organizations Representatives of beneficiaries Businesspersons and investors

465. An obligatory dimension of the implementation of the NDP is its dissemination and appropriation and for this, there will be continued reporting and consultation in a massive or selective manner as required. The results of these consultations will continue to be shared with the territories. By sharing the best strategies for implementation, the requirements to reach the goals and indicators, and improving local capacities and market potentials, there will be optimum impacts on the NDP implementation process.

## **8.2. Follow-Up and Evaluation**

466. The Government will follow-up and evaluate the economic growth evolution and its impact on reducing poverty levels, on meeting the millennium development goals and on selected intermediate indicators for the social, productive, infrastructure, environmental, and governance sectors. Equally important is the follow-up to the overall process of the departmental development plans along with the communities and the local governments. Parallel to this, there will be follow-up on reaching the main macroeconomic goals.

### 8.2.1. Systems

467. Reinforcement of inter-institutional coordination is essential for guaranteeing the follow-up and transparent and efficient evaluation of the NDP. SETEC, MHCP, MINREX and BCN head up this effort, which also requires support from the local governments, other institutions of central government, CONPES, other representatives from civil society, and the cooperation community in order to maintain a participatory and effective system for follow-up and evaluation.

468. The system for follow-up and evaluation is articulated out from the existing governmental structures, and the available instruments for measuring economic growth and reduction of poverty will be strengthened. BCN keeps information about key macroeconomic variables, MHCP plans and controls budgetary execution, and SETEC, through SNIP, follows-up the physical and financial performance of public investment and the overall NDP goals evolution. The Institute of Census and Statistics (INEC) gathers and processes socioeconomic data, including household surveys for measuring the living standards (LSMS, NDHS, other specific surveys, and agrarian and national population census).

469. In order to have key information about the NDP implementation and progress process, priority is put on following-up of: (a) the General Budget, including poverty spending, HIPC relief, and budget support; (b) the Public Investment Program (PIP), including Municipal Investment Plans; (c) the economic and social impact and output indicators; (d) policy actions; (e) the PRGF and other international commitments; and (f) budget execution auditing by the CGR.

470. For each aspect mentioned, there are systems for follow-up that consolidate the information from the institutions and are based on existing structures and follow-up systems. To follow-up performance, each ministry or line institution has a database with statistical information from which the global information systems gather the most relevant indicators.

471. Below is a brief description of the systems being implemented for follow-up to prioritized information:

#### ***Integrated System for Financial Management and Auditing – SIGFA***

472. This is a system of financial information for the formulation and execution of the General Budget for all public institutions. The objective is to contribute to efficiency, efficacy, and transparency in the management of public sector finances. It has four modules: a) SIGFA: financial system (budget, treasury, and accounting); b) SIGFAPRO: physical-financial follow-up of projects for institutional cooperation; c) SNF: national system for the fiscal payroll; and, d) SIGFITA: temporary system for the formulation and execution of temporary deconcentrated spending. There is a web page for on-line access to budgetary information from all governmental institutions.

473. It has been possible to integrate the subsystems for budget, accounting, and treasury, this way providing an important tool for the monthly closing of national accounting and conciliating

the accounts statements with the budget. The fiscal payroll has also been decentralized in six institutions that represent more than 50 percent of the State payroll, making the administrative processes related to the disbursement of resources less cumbersome.

474. The SIGFA is now installed in 38 governmental institutions that use the system to update their data and generate periodic reports on budgetary execution at the level of recurrent spending and capital spending by program and project. It is expected to extend its implementation to the rest of the public institutions, strengthening the processes for the administration of public funds.

#### ***National System for Public Investments – SNIP***

475. This is a physical-financial information system for all public investment programs and projects of the institutions, autonomous and/or decentralized entities, and all those institutions or autonomous agencies that receive funds from the public sector or in which the State is a shareholder.

476. SNIP has two modules: a) a database for physical follow-up to public investment projects; and, b) an accounting system for projects. It generates various kinds of physical-financial reports about public investment with major levels of breakdown. The database is available on the SNIP web page ([www.snip.gob.ni](http://www.snip.gob.ni)) where documents about public investment projects can be accessed.

477. In concordance with the decentralization process and through the Program for Participatory Implementation, Monitoring, and Evaluation of the NDP (PASE), the Departmental Technical Units (UTD) have been set up as decentralized bodies for the formulation of the portfolio of public investment programs and projects in Rivas, León, Jinotega, Boaco, Chontales, Río San Juan, Carazo, Estelí, RAAS and RAAN.

478. This system is currently being used by 30 institutions for the physical-financial follow-up of their projects. It is backed up by institutional capacities in matters of pre-investment, formulation, follow-up, and evaluation of projects.

479. For an effective monitoring of public investment, work was done to integrate the information systems of the MHCP, MINREX and SETEC in order to register all programs and projects. The technical investment committee headed by SNIP and composed of MHCP, MINREX and BCN is in charge of reviewing each investment project and making final recommendations to the economic cabinet about the nature, composition and level of financing needs that are presented annually to the international community, particularly to IDB, WB and CABEL.

#### ***National System for Follow-Up of Development Indicators – SINASID***

480. A new proposal was recently made to expand the flow of information for monitoring and the result was the setting up of a national information system (SINASID) that will coordinate and develop the activities of gathering, analyzing, and disseminating information related to the SGPRS, NDP, Millennium Development Goals, PRSC, Joint Financial Agreement (JFA), and others



481. The system will provide the necessary inputs for making evaluations of the impact of policies and programs on the poorest population. The main information providers will continue to be the line ministries, MHCP and BCN. This information will be complemented with data from censuses and surveys undertaken by INEC and by specialized surveys and additional specific studies considered necessary for evaluating the impact of public actions on poverty reduction.

482. Territorial Units for Monitoring and Evaluation were established in five departments already to contribute to the process of formulation, implementation, and monitoring of the Departmental Development Plans with programs, projects, and indicators at the local level. SINASID information about the implementation of government's strategies and progress in reaching goals is available on the web page [www.setec.gob.ni/sinasid](http://www.setec.gob.ni/sinasid).

### **8.2.2. Evaluations**

483. In order to evaluate the efficiency and impact of the strategy in relation to established objectives, the Government is undertaking objective and systematic analysis of the performance of policies, programs, and projects. Besides being a valuable instrument for identifying aspects that require attention during implementation, the evaluation also fosters transparency and accountability by providing results of specific interventions, which allow learning from experiences.

484. Recently, there have been evaluations of certain policies with technical assistance from international bodies, like the Poverty Social Impact Analyses (PSIA) on tax reform, education, and public investment. Others PSIA on decentralization, autonomous schools and family remittances are programmed. There have also been evaluations of specific programs to determine their impact on target population and the results have helped to identify weaknesses and strengthen implementation, or to abort programs, thereby freeing up resources to rationalize spending.

485. Social auditing has been taking on greater relevance in recent years, especially because of its function in improving policies against poverty and State reform. It represents a participatory space that allows for measuring, evaluating, and controlling efficiency in the implementation of policies, projects, and actions, fostering transparency and accountability. Its importance lies in that it constitutes a means for democratization and its strengthening, making space for citizen participation with a greater emphasis on the poor and unprotected population.

486. The institutions fostering social auditing are CONPES, which constitutes a bridge for non-political communication among community associations, other civil society, political parties, and government institutions; and CONADES, which is a forum for follow-up, analysis, and evaluation and dissemination to promote the adoption of a model for sustainable development.

487. The CONPES and CONADES are being strengthened for the fundamental role they have in the processes of follow-up and evaluation of governmental plans and strategies – particularly at the territorial level– since they group together broad sectors of civil society and business leaders, and develop national consultation processes that allow for improved participation and appropriation by citizens.

### **8.2.3. Reports**

488. SETEC has the responsibility of monitoring the overall implementation of the NDP and to prepare progress reports presented to Nicaraguan society and the international community. Some of these special reports are required by the international financial organizations and the international community for the disbursements of resources to support the NDP.

489. Among these, the NDP progress report, poverty expenditures, and HIPC debt relief allocation and usage are of importance. Additionally, there are reports for the PRGF, the social and economic policy, and the evaluation of the public investment program, and structural reforms contemplated in sectoral-wide program and budget support.

490. The implementation and monitoring of the NDP will require some evaluations. The donors will inform about the cooperation policies and financing resources, and will continue monitoring the allocation and use of external resources. At the local level, the municipalities will support the implementation and monitoring. Other reports will be related to goals and indicators. Budget execution by the MHCP, and the auditing by the CGR. The FSS will continue to report – quarterly and annually – on poverty spending, the allocation and usage of HIPC debt relief, and will continue to coordinate special programs for poverty reduction.

491. Lastly, the monitoring of poverty reduction levels will require financial resources and some actions, such as the LSMS, DHS, employment surveys, population census, and other instruments like poverty and territorial economic potential map that will facilitate additional adjustments to the goals of the NDP. This is a living document that will require periodic adjustments.

## **Annex 1**

### **Matrix of Goals and Actions 2006 – 2010**

## Matrix of Goals and Actions 2006 – 2010

### ECONOMIC GROWTH

PRIORITIZED CORE AREA Objectives/Actions	2006	2007	2008 - 2010	Executor	Source of Financing
<b>REGULATORY FRAMEWORK AND PAPERWORK PROCEDURES</b>					
<b>Facilitate business management, reducing time for procedures</b>					<b>IDB</b>
Simplification of administrative barriers/ JFA-PAM.	✓	✓	✓	MIFIC	
Modernization of Mercantile Legislation			✓	MIFIC	
Strengthen logistical system in line with demands of international trade			✓	MIFIC	
Improve the Customs System			✓	MIFIC	
Institutional strengthening DGCTM-MIFIC.			✓	MIFIC	
<b>Legal and institutional framework for competitiveness policy</b>					<b>UNCTAD</b>
Approve and implement Law for Competition / JFA-PAM.	✓	✓	✓	MIFIC	
Resolution of cases of non-competitive practices and complaints from consumers.	✓	✓	✓	MIFIC	
Identification and correction of non-competitive practices	✓			MIFIC	
Strengthen municipalities conflict resolution for consumers.			✓	MIFIC	
Include the theme of consumption and competence for consumers in education curriculums			✓	MIFIC	
Implement information system for consumers to provide better options for product selection	✓	✓	✓	MIFIC	
Institutional strengthening of the Office for Consumers.			✓	MIFIC	
<b>Establish integrated system (SI) for quality with standardization, accreditation, and metrology</b>					<b>Taiwan, IDB, AIT</b>
Approve and implement technical norms with international standards for trade	✓	✓	✓	MIFIC	
Implement the plan for the Integrated System.	✓	✓	✓	MIFIC	
Expand capacities of the National Metrology Laboratory	✓	✓	✓	MIFIC	
Establish System for Evaluation of Conformity, according to international guidelines	✓	✓	✓	MIFIC	
Promote accreditation of product quality certification entities, testing and trial laboratories, and entities for inspection y verification.	✓	✓	✓	MIFIC	
Improve mechanisms of good agricultural and manufacturing practices, sanitary standards and HACPP to guarantee the quality of products.	✓	✓	✓	MIFIC	

## ECONOMIC GROWTH

<b>PRIORITIZED CORE AREA</b>	<b>2006</b>	<b>2007</b>	<b>2008-2010</b>	<b>Executor</b>	<b>Source de Financing</b>
Objectives/Actions					
<b>PROPERTY RIGHTS</b>					
<b>Modernize cadaster and public registry for property</b>					
Update and expand cadaster in pilot zones (Chinandega, Estelí, Madriz)/JFA-PAM	✓	✓	✓	INETER	
Update and expand the cadaster for the rest of the country/JFA-PAM	✓	✓	✓	INETER	
Integration of cadaster and registry in pilot zones and the rest of the country/JFA-PAM	✓	✓	✓	MHCP	
Modernize registry and integrate registry with cadaster/JFA-PAM	✓	✓	✓	INETER	
<b>Legal ordering</b>					
Properties cleared up in pilot zones (Chinandega, Estelí, Madriz)/JFA-PAM	✓	✓	✓	MHCP	
Properties cleared up in the rest of the country			✓	MHCP	
Titling for sector reformed and desmovilized combatants	✓	✓		MHCP	
Review titles Law 88	✓	✓		MHCP	
Review of urban lots, Law 86	✓	✓		MHCP	
Compensation for properties	✓	✓		MHCP	
<b>Establish frame of incentives to dynamize land market</b>					
Establish frame of incentives			✓	MHCP	
Establish and develop Land Fund			✓	MHCP	
<b>Develop institutional capacity for provision of land administration services</b>					
Strengthen and improve institutional capacity	✓	✓	✓	MHCP	
Reduce institutional dispersion			✓	MHCP	
<b>Establish legal and normative frame that would dynamize the land market</b>					
Legal reforms for the property problem	✓	✓		MHCP	
Legal reforms to Cadaster and Public Registry	✓	✓		INETER, CSJ	
<b>Recognize and define property rights for indigenous communities</b>					
Pilot zones (Bosawas, RAAN, RAAS)/ JFA-PAM	✓	✓		MHCP	
Rest of indigenous communities (RAAN, RAAS) / JFA-PAM			✓	MHCP	

## ECONOMIC GROWTH

<b>PRIORITIZED CORE AREA</b>	<b>2006</b>	<b>2007</b>	<b>2008 - 2010</b>	<b>Executor</b>	<b>Source of Financing</b>
Objectives/Actions					
<b>FINANCIAL SERVICES</b>					
<b>Expand access to small, medium firms and low-income groups</b>					<b>WB, Netherlands</b>
Approve Law for Microfinances / JFA-PAM	✓	✓			
Prepare prudential norms for microcredit /JFA-PAM	✓	✓			
Strengthen and give training to the SIBOIF in microfinance activities	✓	✓			
Strengthen the risk central of the SIBOIF	✓	✓			
Establish legal and normative framework for the competition of the credit information markets	✓	✓			
Improve normative framework for the protection of users of financial services	✓	✓			
Strengthen microfinance institutions	✓	✓			
Strengthen providers of services to the microfinance institutions	✓	✓			
Establish system for monitoring and evaluation of microfinance activities	✓	✓			
Establish legal framework and norms for supervision of finance cooperatives	✓	✓			
<b>Improve institutional framework for State credit entities</b>					<b>USAID, WB</b>
Restructure and reform the FCR			✓		
Reposition the IDR in a new role			✓		
Strengthen the FNI in techniques for microfinance evaluations	✓				
Study the feasibility of having an institution with a multisector character and mixed capital			✓		
<b>Reduce risk and expand capacity for collateral</b>					<b>IDB, FOMIN, USAID</b>
Modernize the public registries for Moveable Guarantees	✓	✓			
Propose and approve a new Law for Real Moveable Guarantees	✓	✓			
Approve Law for Trusteeship			✓		
<b>Establish legal and normative framework for incentives to leverage the growth of small and medium investments</b>					
Develop and implement programs of technical assistance and training			✓		
Develop networks of producers, commercial and service providers			✓		
Establish legal and normative framework for a risk/venture capital fund			✓		

## ECONOMIC GROWTH

<b>PRIORITIZED CORE AREA</b> Objectives/Actions	2006	2007	2008 - 2010	Executor	Source of Financing
<b>PROMOTION OF EXPORTS AND INVESTMENTS</b>					
<b>Increase value of exports</b>					<b>WB, Netherlands</b>
Activities for market intelligence	✓				
Trade point studies at the request of businesspersons	✓				
Foster business development of exporters	✓				
Marketing and promotion	✓			CEI	
Promote "star" products and selected ones in the export offering			✓	CNPE	
Dissemination and publicizing of market information			✓	MIFIC	
Increase number of firms exporting new products			✓	MIFIC	
Increase number of export firms under the program for temporary admission			✓	CNPE	
Provide information services about norms and technical obstacles to trade	✓			CEI	
Strengthen quality certification system for the export offering			✓	MIFIC	
Establish the use of brands and denominations of origin for export products			✓	MIFIC	
Establish the national seal of quality			✓	MIFIC	
Establish certification of organic and ecological products in line with international standards and promote use of these with export firms			✓	MIFIC-CNPE	
Promote an export culture			✓	MIFIC	
Implement the Export Promotion policy			✓	MIFIC	
Promote use of innovation and technology in the MIPYMES with competitive potential			✓	INPYME	
Integrate the MIPYMES into the national quality system			✓	MIFIC	
Establish a trade promotion center and fairs for the MIPYMES			✓	INPYME	
Support exports by MIPYMES			✓	INPYME	
Develop backwards and forwards vertical linkages with other links in the value chain			✓	INPYME	
Reduce costs and give on-line attention for paperwork procedures - DGA, DGI y CETREX	✓	✓	✓	CNPE	
Simplify procedures in the Central American Customs Union, DGA, and CETREX	✓	✓	✓	CNPE	
Institutional strengthening of export centers			✓	MIFIC, CNPE	
Establish the Unit for Industrial Promotion in the General Directorate for Business Promotion at MIFIC			✓	DGFE	
<b>Increase direct private investment through the investment promotion agency</b>					<b>WB, Treasury, UNDP, COSUDE</b>
Establish and implement specific marketing plan	✓	✓	✓	PRONICARAGUA	
Carry out activities in coordination with diplomatic representations			✓	PRONICARAGUA	
Set up units specialized in activities of facilitation and post-sale	✓	✓	✓	PRONICARAGUA	
Improve the image of Nicaragua among foreign investors	✓	✓	✓	PRONICARAGUA	
Draw up policies to promote investment			✓	MIFIC-DGFE	

## ECONOMIC GROWTH

<b>PRIORITIZED CORE AREA</b> Objectives/Actions	2006	2007	2008-2010	Executor	Source of Financing
<b>SUPPORT FOR THE DEVELOPMENT OF CLUSTERS 1/</b>					
<b>Tourism</b>					
Develop program for marketing and tourism promotion	✓	✓	✓	INTUR	
Simplify paperwork procedures for investment and access to information	✓	✓	✓	INTUR	
Develop products that increase time of stay and spending	✓	✓	✓	INTUR	
Improve the legal framework and strengthen the role of INTUR	✓	✓	✓	INTUR	
Promote environmentally-sustainable tourism investment			✓	INTUR	
Improve infrastructure in public tourism centers	✓	✓	✓	INTUR	
<b>Coffee</b>					<b>WB, GTZ</b>
Establish qualities program	✓	✓	✓	MIFIC	
Push ahead with program for international promotion of Nicaraguan coffee	✓	✓	✓	MIFIC	
Certification of quality cup			✓	MIFIC	
Promote and support associativity	✓	✓	✓	MIFIC	
Increase added value with the development of agro-industry	✓	✓	✓	MIFIC, INATEC, INTUR	
Promote use of clean technologies	✓	✓	✓	MARENA	
Promote eco-tourism in coffee-growing zones			✓	INTUR	
<b>Beef and dairy products</b>					<b>Spain, USAID, WB, Finland, Denmark</b>
Promote associativity			✓	MIFIC	
Strengthen centers for formation in professional livestock management practices	✓	✓	✓	INATEC	
Support processes for export	✓	✓	✓	MIFIC	
Develop linkages between dairy firms and consumption sectors (tourism, hotels, restaurants, etc.)	✓	✓	✓	MIFIC	
Exchange of experiences for development of brands, seals of quality, and denomination of origin	✓	✓	✓	MIFIC	
Prepare technical norms for the environmental management of slaughterhouses	✓			MARENA	
Implement Individual Plans for Reduction of Industrial Pollution (PGIRCI)	✓	✓	✓	MARENA	
Develop associativity of sheep and goat farmers	•	•	✓	MIFIC	



<b>Shrimpfarming</b>					<b>DANIDA, USAID, IDB, EU</b>
Promote processing capacity	✓	✓	✓	MIFIC	
Promote local and regional industries in the provision of inputs for production			✓	MIFIC, PRONICARAGUA	
Strengthen the promotion and export of farmed shrimp in speciality markets			✓	MIFIC, CNPE, CEI	
Implement training and technical assistance programs for Cooperatives of Estero Real and Padre Ramos			✓	MIFIC	
Dissemination of the General Law for Fisheries and Seafood Farming and formulate its Regulations	✓			MIFIC	
Establish an Information System for Concession Administration	✓	✓	✓	MIFIC	
Prepare and implement management plans in protected areas	✓	✓	▪	MARENA	
Promote efficient production, improving quality of larvae and water	✓	✓	▪	MIFIC, MARENA	
<b>Forestry and Wood Products</b>					
Regulate environmental permits for forestry firms			✓	MARENA	
Implement Forest Management Plans in Protected Areas	✓	✓	✓	MARENA	
Establish Technological Centers specialized in wood processing			✓	INPYME	
Foster forest business services			✓	INPYME	
Promote eco-tourism network			✓	INTUR	
Design strategy for commercialization of forestry product			✓	CEI, INPYME	
Promote strategic alliances			✓	CEI, MIFIC	
<b>Light manufacture</b>					<b>WB, Finland, Denmark</b>
Prepare a new legal framework for free trade zones	✓	✓	✓	MIFIC	
Implement master plan for industrial parks			✓	CNZF	
Promote the incorporation of Centers for Social Attention in industrial parks			✓	MIFAMILIA	
Implement a strategy for integration of national goods and services providers	✓	✓	✓	MIFIC, CPC	
Implement environmental monitoring in free trade zones	✓	✓	✓	MARENA	
Develop curricula for Technical Training Centers and Universities in line with the needs of the sector	✓			CPC	
<b>Other products</b>					
Promote implementation of plans to reduce contamination in fruits and vegetables			✓	MARENA	
Promotion of fruits, vegetables, and other crops through quality programs			✓	MIFIC	
Promote implementation of plans for reducing contamination of oilseeds			✓	MARENA	
Support marketing missions (participation in international fairs) for oilseed producers			✓	MIFIC	

1/ Other actions to support clusters carried out by INTA, IDR, INAFOR, DGPSA, and MAGFOR appear in the Rural Development program.

## ECONOMIC GROWTH

<b>PRIORITIZED CORE AREA</b> Objectives/Actions	2006	2007	2008-2010	Executor	Source of Financing
<b>RURAL DEVELOPMENT</b>					
<b>Agricultural technological innovation</b>				<b>INTA</b>	<b>AECI, FAO, Peace Corps-USA, WB, SIDA-CATIE, DANIDA, COSUDE</b>
Research and Development	✓	✓	✓		
Extension	✓	✓	✓		
Seed production	✓	✓	✓		
Post-harvest and Market Development	✓	✓	✓		
Certification, Training, and Dissemination	✓	✓	✓		
Planning, Monitoring, and Evaluation	✓	✓	✓		
<b>Agricultural plant/animal health and foodstuff safety</b>				<b>DGPSA</b>	<b>USDA, Japan, DANIDA, IDB</b>
Plant and seed health	✓	✓	✓		
Animal health	✓	✓	✓		
Fitosanitary health services	✓	✓	✓		
Agricultural foodstuff safety services	✓	✓	✓		
Certification and modernization services	✓	✓	✓		
<b>Forestry Development</b>				<b>INAFOR</b>	<b>JICA, Japan, FAO</b>
Sustainable forestry management	✓	✓	✓		
Prevention and control of pests and diseases	✓	✓	✓		
Prevention and control of forest fires	✓	✓	✓		
<b>Credit and Transfers</b>					<b>IDB, JICA-Japan, EU, GTZ, Italy, WFP</b>
Transfers	✓	✓	✓	IDR, MAGFOR	
Financial services	✓	✓	✓	IDR	

## ECONOMIC GROWTH

PRIORITIZED CORE AREA	2006	2007	2008 - 2010	Executor	Source of Financing
Objectives/Actions					
<b>ENVIRONMENTAL SUSTAINABILITY</b>					
<b>Promote sustainable environmental development and natural resource management within the policies and strategies for economic, social, and institutional growth</b>					<b>GTZ, Finland, Denmark, WB, UNDP, IDB, USAID, Spain, KFW, Japan, OAS</b>
Develop and improve management of the environment and natural resources in harmony with economic development and international conventions and free trade agreements	✓	✓	✓	MARENA, MIFIC	
Implement policies and strategies for sustainable use of natural resources and the environment	✓	✓	✓	MARENA, MIFIC	
Monitor, supervision, and control management of the environment and natural resources	✓	✓	✓	MARENA, MIFIC, INETER	
Establish an administrative system for permits and procedures and the sustainable use of natural resources	✓	✓	✓	MARENA, MIFIC	
Develop a system for the administration and investments in protected areas	✓	✓	✓	MARENA	
Promote deconcentration and decentralization of environmental management	✓	✓	✓	MARENA	
Promote environmental education	✓	✓	✓	MARENA	
Develop an integrated system of economic-environmental information	✓	✓	✓	MARENA	

## HUMAN CAPITAL AND SOCIAL PROTECTION

Objective/Action		Period of Execution			Executor	Source of Financing
		2006	2007	2008-2010		
<b>EDUCATION</b>						
<b>1.</b>	<b>Educative transformation: Relevance and quality</b>				<b>MECD</b>	<b>Treasury, External Cooperation</b>
1.1.	Design of new educative curricular structure	✓	✓	✓		
1.2	Implementation of system of competences by program and modality	✓	✓	✓		
1.3	Implementation of technological and vocational options	✓	✓	✓		
1.4	Reinforcement of reading-writing, basic mathematical operations, and life skills	✓	✓	✓		
1.5	Consolidation of open educative modalities	✓	✓	✓		
1.6	Expansion of education for life program	✓	✓	✓		
	1.6.1 Teachers formed as school counselors for prevention of HIV/AIDS and violence/ JFA-PAM	✓				
	1.6.2 Target population trained in STD/HIV/AIDS and violence prevention in Groups for Coexistence and Personal Development / JFA-PAM	✓				
1.7	Expansion of Centers for Learning and Advancement	✓	✓	✓		
1.8	Strengthening of intercultural bilingual program	✓	✓	✓		
1.9	Link educative programs to socioeconomic setting (production clusters)	✓	✓	✓		
1.10	Improve quality of life for teaching staff	✓	✓	✓		
1.11	Expansion of educative computerized information processing capacity	✓	✓	✓		
<b>2.</b>	<b>Expansion, diversification of offering and stimulation of demand, access, and equity</b>				<b>MECD</b>	<b>Treasury, External Cooperation</b>
2.1	Increase coverage of school meal programs	✓	✓	✓		
2.2	Increase preschool coverage	✓	✓	✓		
2.3	Increase primary education coverage	✓	✓	✓		
2.4	Increase secondary education coverage	✓	✓	✓		
2.5	Attend to more than 100,000 youths and adults who did not have the opportunity to finish primary school each year	✓	✓	✓		
2.6	Implementation of system for subsidy to demand	✓	✓	✓		
2.7	Expansion for school for parents program	✓	✓	✓		
2.8	Replacement, construction, or repair of 600 classrooms a year, for all levels	✓	✓	✓		
2.9	Increase coverage of special education	✓	✓	✓		
2.11	Implementation of new training system for teaching staff and transformation of teacher training schools into institutes of higher education	✓	✓	✓		
2.12	Formulate, evaluate, and contract projects for school infrastructure	✓	✓	✓		
<b>3.</b>	<b>Improvement of governance: participation, outputs, accountability, and efficiency</b>				<b>MECD</b>	<b>Treasury, External Cooperation</b>
3.1	Expansion and consolidation of process of municipalization of education	✓	✓	✓		
3.2	Incorporation of public schools in the Regime for Educative Participation	✓	✓			
	3.2.1 Incorporate 1,180 public schools into the Regime for Educative Participation /JFA-PAM	✓				
	3.2.2 Incorporate 1,038 public schools into the Regime for Educative Participation (SS IDB)	✓				
3.3	Modernization of MECD central structure in line with municipalization	✓	✓	✓		
3.4	Implementation of system for utilization of educative information at the school level	✓	✓	✓		
3.5	Implementation of national system for quality evaluation	✓	✓	✓		

## HUMAN CAPITAL AND SOCIAL PROTECTION

Objective/Action		Period of Execution			Executor	Source of Financing				
		2006	2007	2008 - 2010						
<b>HEALTH</b>										
<b>1.</b>	<b>Improve coverage and quality</b>					<b>MINSA</b>	<b>Treasury, IDB, Finland, FSS</b>			
1.1	Set norms for and develop modalities for delivery of the Basic Packet of Health Services (PBSS), attending to different scenarios for accessibility and socio-demographic and epidemiological profiles /JFA-PAM					✓	✓	✓		
1.2	Deliver health services to the entire population and PBSS to beneficiaries					✓	✓	✓		
	1.2.1	Implement at least 8 new maternal houses /JFA-PAM				✓				
1.3	Carry out actions for coordination with the INSS to increase coverage of the Contributive Regime					✓	✓	✓		
1.4	Disseminate information to and train the staff of healthcare services in the PBSS					✓	✓	✓		
1.5	Design and implement a System for Quality Guarantee at MINSA healthcare services with the implementation of protocols, standards, and clinical guidelines, as per the General Law for Health					✓	✓	✓		
1.6	Develop an information program on rights and duties of users, according to the General Law for Health					✓	✓	✓		
<b>2.</b>	<b>Increase health promotion and prevention</b>					<b>MINSA</b>	<b>Treasury, IDB, WB, UNICEF, PAHO, UNFPA, GTZ, Luxembourg, Sweden, Finland</b>			
2.1	Design and implement the health surveillance system					✓	✓	✓		
2.2	Strengthen surveillance of nutrition interventions with the SIVIN					✓	✓	✓		
2.3	Strengthen the Strategy for Communication and Community Action in Health (ECACS)					✓	✓	✓		
	2.3.1	Implement a plan for social communication to contribute to reducing the incidence of teenage pregnancy /JFA-PAM				✓				
2.4	Implement a training program in health for teachers and community leaders /JFA-PAM					✓	✓	.		
2.5	Set norms for and incorporate in local management the mechanisms for implementing promotion and prevention					✓	✓	✓		

<b>3. Further the sector reforms</b>					<b>MINSA</b>	<b>Treasury</b>
3.1	Strengthen the leading role, leadership, and governance of MINSA	✓	✓	✓		
3.2	Implement the institutional reengineering organization of MINSA	✓	✓	✓		
3.3	Strengthen capacity for planning, monitoring, and evaluation	✓	✓	✓		
3.3.1	Program activities for 2006 at the municipal level using SIPLA, including quantification of budgetary requirements /JFA-PAM	✓				
3.4	Improve the supply system	✓	✓	✓		
3.5	Strengthen the network of services	✓	✓	✓		
3.6	Improve the contracting of healthcare services	✓	✓	✓		
3.7	Improve equity in resource allocation	✓	✓	✓		
3.8	Promote and strengthen the human talent of MINSA	✓	✓	✓		
3.9	Further the deconcentration process	✓	✓	✓		
<b>4. Improve inter-institutional coordination</b>					<b>MINSA</b>	<b>Treasury, IDB, WB</b>
4.1	Strengthen coordination for the implementation of inter-institutional actions to promote health	✓	✓	✓		
4.2	Implement inter-sector actions with main institutions	✓	✓	✓		
4.3	Redesign and implement a national system for control and final disposal of wastes, with municipalities	✓	✓	✓		
<b>5. Develop innovative strategies in health at RAAN and RAAS</b>					<b>MINSA</b>	<b>Treasury, IDB, FSS</b>
5.1	Adjust the PBSS and its delivery to the regions and the indigenous population	✓	✓	✓		
5.2	Implementation of the Health Model in the regions	✓	✓	✓		
5.3	Design and implementation of decentralization to the regions	✓	✓	✓		

## HUMAN CAPITAL AND SOCIAL PROTECTION

Action		Period of Execution			Executor	Source of Financing
		2006	2007	2008-2010		
<b>TRAINING AND TECHNICAL FORMATION</b>						
<b>1.</b>	<b>Improve the quality, pertinence, and relevance of the offering of technical and professional formation</b>				<b>INATEC</b>	<b>Treasury</b>
	1.1	Design and formulate policies and training systems	✓	✓	✓	
	1.2	Identify demands from the labor market and curricular transformation	✓	✓	✓	
	1.3	Improve mechanisms for supervision and follow-up of teaching-learning process, and evaluation of the performance of technicians and teaching staff	✓	✓	✓	
	1.4	Reorganize the centers for professional formation and promote the establishment of polytechnic institutes	✓	✓	✓	
<b>2.</b>	<b>Improve access to technical formation and training and expansion of capacities</b>				<b>INATEC</b>	<b>Treasury, WB, EU, IDB</b>
	2.1	Increase coverage of training	✓	✓	✓	
	2.2	Strengthen institutional capacity for technical formation and training through new techniques, the construction, rehabilitation, and equipping of teaching centers.	✓	✓	✓	
	2.2.1	Increase coverage of training	13.02	73.99	73.99	INATEC Own resources, Treasury, EU
	2.2.2	Strengthen institutional capacity for technical formation and training through new forms of training and the construction, rehabilitation, and equipping of teaching centers.	2.39	4.32	23.97	INATEC For 2005: Budget/IDB relief, own resource, and Government of Luxembourg

## HUMAN CAPITAL AND SOCIAL PROTECTION

Objective/Action		Period of Execution			Executor	Source of Financing
		2006	2007	2008-2010		
<b>LABOR SECTOR</b>						
<b>1.</b>	<b>Improve working conditions, health and safety for workers in line with free trade agreements.</b>				<b>MITRAB</b>	<b>Treasury</b>
1.1	Increase labor and occupational health and safety inspections nationally	✓	✓	✓		
1.2	Strengthen inspection capacity with reforms and the establishment of new legal and policy instruments (formation of mixed health and safety commissions)	✓	✓	✓		
1.3	Increase coverage of attention to demands for labor administration services	✓	✓	✓		
1.4	Increase individual conciliation, collective bargaining, and labor defense work	✓	✓	✓		
1.5	Develop intergral training programs for workers and employers that promote responsible performance and labor stability	✓	✓	✓		
<b>2.</b>	<b>Prevent and reduce child labor and have protection for adolescent workers</b>				<b>CENET, MITRAB</b>	<b>Treasury</b>
2.1	Evaluation of the strategic plan for eradication of child labor and protection of adolescent workers 2001-2005, preparation of the strategic plan 2006-2010, and its incorporation in the municipal plans	✓	✓	✓		
2.2	Awareness-raising about child labor in different sectors: employers and workers	✓	✓	✓		
2.3	Promote approval of the decree to make official "Dangerous Forms" of child labor (convention 182 of the ILO) and regulations for the chapter on "The work of adolescents", Title VI of the Labor Code	✓	✓	✓		
2.4	Establish a system for monitoring the behavior of child labor and protection of adolescent workers	✓	✓	✓		
<b>3.</b>	<b>Strengthening of institutional and legal conditions of the labor market</b>				<b>MITRAB</b>	<b>Treasury</b>
3.1	Review the legal framework and formulation of policies	✓	✓	✓		
3.2	Strengthen and decentralize the public service of employment and link employment supply and demand	✓	✓	✓		
3.3	Promotion of different forms of occupation to vulnerable groups and the most backward segments of the work force	✓	✓	✓		
3.4	Strengthen municipal capacities for the implementation of public works with local labor and resources	✓	✓	✓		
3.5	Establish a labor market information system (administrative records and employment surveys)	✓	✓	✓		



## HUMAN CAPITAL AND SOCIAL PROTECTION

Objective/Action		Period of Execution			Executor	Source of Financing
		2006	2007	2008-2010		
<b>SOCIAL PROTECTION</b>						
<b>1.</b>	<b>Institutional strengthening and norms for social protection</b>				<b>MIFAMILIA, SETEC</b>	<b>Treasury, IDB, WB</b>
	1.1	Establish the Solidarity System	✓	✓	✓	
	1.2	Institutional strengthening	✓	✓	✓	
<b>2.</b>	<b>Increase coverage of programs for transfers and provision of nutritional and educative services to poor children from 0 to 5 years old.</b>				<b>MIFAMILIA, Centers*</b>	<b>Treasury, IDB, CABEL, Norway</b>
	2.1	Provision of services for integral attention	✓	✓	✓	
	2.2	Transfers to Centers*	✓	✓	✓	
	2.3	Formation of family capacities in nutritional security	✓	✓	✓	
	2.4	Formation of family capacities in initial education	✓	✓	✓	
<b>3.</b>	<b>Increase coverage of programs for transfers and provision of services for the educative formation of poor children between 6 and 13 years of age</b>				<b>MIFAMILIA, MECD, MINSA</b>	<b>Treasury, IDB, CABEL</b>
	3.1	Provision of services (conditional transfers)	✓	✓	✓	
<b>4.</b>	<b>Increase coverage of programs of transfers for occupation formation of poor adolescents and youths between the age of 14 and 18</b>				<b>MIFAMILIA, MECD</b>	<b>CABEL</b>
	4.1	Expand coverage of attention in education and occupational formation for poor adolescents and youth from 14 to 18 years of age	✓	✓	✓	
<b>5.</b>	<b>Increase coverage of programs for provision of services to children, adolescents, and youth at social risk and those that require special protection</b>				<b>MIFAMILIA, Centers**</b>	<b>Treasury, IDB, Netherlands</b>
	5.1	Improve opportunities for children and adolescents that require special protection.	✓	✓	✓	
	5.2	Expand coverage of attention for children, adolescents, and youth at social risk.	✓	✓	✓	
	5.3	Promote Corporate Social Responsibility	✓	✓	✓	
<b>6.</b>	<b>Establish mechanisms for attention to socioeconomic crisis for groups living in chronic poverty</b>				<b>MIFAMILIA, MECD</b>	<b>WB, EU</b>
	6.1	Attention for families and persons affected by socioeconomic crisis.	✓	✓	✓	
	6.2	Support for rural families	✓	✓	✓	
<b>7.</b>	<b>Improve basic infrastructure conditions for social protection and special services.</b>				<b>FISE</b>	<b>IDB</b>
	7.1	Infrastructure for Social Protection	✓	✓	✓	

\* Centers for Child Development and Community Children's Home

\*\* Centers for Special Protection

## HUMAN CAPITAL AND SOCIAL PROTECTION

Objective/Action		Period of Execution			Executor	Source of Financing
		2006	2007	2008 - 2010		
<b>SOCIAL SECURITY</b>						
<b>1.</b>	<b>Improve the level of quality and opportunity for medical services, economic benefits, and benefits in kind that INSS gives the population under its coverage</b>					
1.1	Prepare norms and regulations for Maternal Illness Security, Security for Professional Risks, Program for the Elderly, and Certification	✓			INSS	
1.2	Carry out activities for surveillance and control of the quality of health services	✓	✓	✓	INSS	
1.3	Formulate new initiatives and interventions in health	✓	✓		INSS	
1.4	Redesign institutional processes	✓	✓		INSS	
<b>2.</b>	<b>Expand coverage</b>					
2.1	Increase coverage in the informal sector				INSS	
2.2	Expand coverage of facultative insurance				INSS	
<b>3.</b>	<b>Improve benefits</b>					
3.1	Expand and improve essential health services	✓	✓	✓	INSS	
3.2	Improve economic benefits	✓	✓	✓	INSS	
3.5	Expand and improve the Program for Prevention of Professional Risks	✓	✓	✓	INSS	
<b>4.</b>	<b>Institutional strengthening of the INSS</b>					
4.1	Adjust the legal frame for social security	✓	✓	✓	INSS	
4.2	Improve institutional finances	✓	✓	✓	INSS	
4.3	Strengthen institutional planning	✓	✓	✓	INSS	

## SOCIAL AND PRODUCTIVE INFRASTRUCTURE

Objective/Acción	Period of Execution			Executor	Source of Financing
	2006	2007	2008-2010		
<b>HIGHWAYS</b>					
<b>1. Pre-Investment (monitoring and evaluation systems)</b>					
Environmental impact analysis and design of Acoyapa-San Carlos highway	✓				
Feasibility study for Nueva Guinea-Bluefields highway	✓				
Feasibility, design and construction of Río Blanco-Siuna highway	✓				
Feasibility and design of Siuna-Pto Cabezas highway	✓				
Feasibility and design of Inta-Ticuantepé-Las Nubes highway			✓		
Feasibility and design of Puertas Viejas-Esquipulas-Muy Muy highway		✓			
Feasibility and design of San Rafael del Norte-Yalí-Condega highway			✓		
Feasibility and design of Juigalpa-Puerto Díaz highway			✓		
Feasibility and design of Quebreda Honda-Los Zarzales highway			✓		
Feasibility and design of Emp. El Sauce-Emp. Villa Nueva highway			✓		
Feasibility and design of Ciudad Darío-Terrabona-El Cacao highway			✓		
Design of Las Flores-Catarina-Guanacaste-Nandaime highway			✓		
<b>2. Investment on highways</b>					
Construction of Guayacán-Jinotega highway		✓	✓		
Construction of Acoyapa-San Carlos highway		✓	✓		
Construction of Nueva Guinea-Bluefields highway		✓	✓		
Construction of Siuna-Puerto Cabezas highway	✓	✓	✓		
Construction of Teustepe-Esquipulas-Muy Muy highway		✓	✓		
Construction of San Ramón-Muy Muy highway	✓	✓			
Rehabilitation Granada-Guanacaste highway		✓			
Construction of the highway Litoral Sur	✓	✓	✓		
Rehabilitation of Diriamba-Casares highway		✓			
Construction of Santa Fe Bridge (on San Juan river)			✓		
Construction of 12 bridges from Acoyapa to San Carlos	✓	✓			
Construction of 5 bridges Las Banderas, Las Limas, Ocongua, Muhan y Quinama		✓	✓		
Improvement and construction of Granada-Tecolostote highway			✓		

## SOCIAL AND PRODUCTIVE INFRASTRUCTURE

Objective/Action	Period of Execution			Executor	Source of Financing
	2006	2007	2008-2010		
<b>ROADS AND RURAL ROADS</b>					
Rehabilitation and improvement of rural roads in Jinotega (production volume of 600 thousand qq).	✓	✓	✓		
Rehabilitation and improvement of rural roads in Matagalpa (production volume of 450 thousand qq).	✓	✓	✓		
Rehabilitation and improvement of rural roads in Madriz (production volume of 70 thousand qq).	✓	✓	✓		
Rehabilitation and improvement of rural roads in Carazo (production volume of 70 thousand qq).	✓	✓	✓		
Rehabilitation and improvement of rural roads in Nueva Segovia (production volume of 50 thousand qq)	✓	✓	✓		
Rehabilitation and improvement of rural roads in Boaco (production volume of 30 thousand qq).	✓	✓	✓		
Rehabilitation and improvement of rural roads in El Crucero-Managua (production volume of 30 thousand qq)	✓	✓	✓		
Rehabilitation and improvement of rural roads in Estelí (production volume of 15,700 thousand qq).	✓	✓	✓		
Rehabilitation and improvement of rural roads in Occidente (production volume of 7 thousand qq).	✓	✓	✓		
Rehabilitation and improvement of secondary rural roads in Jinotega.	✓	✓	✓		
JINOTEGA - Rehabilitation and maintenance of 550 Km. of rural roads to guarantee collection of 62,000 liters of milk daily.	✓	✓	✓		
Rehabilitation and improvement of secondary rural roads in Matagalpa.	✓	✓	✓		
MATAGALPA - Rehabilitation and maintenance of 450 Km. of rural roads to guarantee collection of 120,000 liters of milk daily.	✓	✓	✓		
Rehabilitation and improvement of secondary roads in Madriz.	✓	✓	✓		
Rehabilitation and improvement of secondary roads in Carazo.	✓	✓	✓		
Rehabilitation and improvement of secondary roads in Nueva Segovia.	✓	✓	✓		
Rehabilitation and improvement of secondary roads in Boaco.	✓	✓	✓		
BOACO - Rehabilitation and maintenance of 300 Km. of rural roads to guarantee collection of 50,000 liters of milk daily.	✓	✓	✓		
Rehabilitation and improvement of secondary roads in El Crucero-Managua.	✓	✓	✓		
Rehabilitation and improvement of secondary roads in Estelí.	✓	✓	✓		
Rehabilitation and improvement of secondary roads in Occidente.	✓	✓	✓		

CHONTALES - Rehabilitation and maintenance of 900 Km. of rural roads to guarantee collection of 60,000 liters of milk daily.	✓	✓	✓		
NUEVA GUINEA - Rehabilitation and maintenance of 200 Km. of rural roads to guarantee collection of 15,000 liters of milk daily.	✓	✓	✓		
Promote rural roads maintenance services in the dairy production basin through the allocation of resources and administration by cooperatives.	✓	✓	✓		
Improve three minor river and lake ports.	✓	✓	✓		
Improvement of main roads in forestry production areas.	✓	✓	✓		
Improvement and construction of bridges in forestry production areas.	✓	✓	✓		
Rehabilitation of the ports of El Rama, Corinto, Puerto Cabezas and Bluefields.	✓	✓	✓		
Improvement of the weightbridge service.	✓	✓	✓		
Custom services for monitoring of commercial forestry products.	✓	✓	✓		
Feasibility study and implementation of central cargo terminal for import-export operations and to reduce transportation costs.	✓	✓	✓		
Improvement in infrastructure and services at the ports of Corinto, El Rama-El Bluff.	✓	✓	✓		
Pre-feasibility study for a deep-water port in the Atlantic.	✓				
Perimetral road at the Ometepe Island.					
Improvement of León - Poneloya highway	✓				
Paving stones Granada - Cutirre road.					
Paving stones Catarina - Pacayita road.					
Paving stones Juigalpa - Puerto Díaz road.					
Paving stones Planta Geotérmica - Malpaisillo road.					
Paving stones Chinandega - Las Rojas road.					
Paving stones Las Mercedes - Volcán Telica road.					
Paving stones Argelia - El Casitas road.					
Paving stones crossroad Aposentillo - Aposentillo road.					

### SOCIAL AND PRODUCTIVE INFRASTRUCTURE

Objective / Action	Period of Execution			Executor	Source of Financing
	2006	2007	2008-2010		
<b>PORTS AND AIRPORTS</b>					
Extension and remodeling of infrastructure for tourism at San Juan del Sur port.					
Extension and remodeling of infrastructure for tourism at Corinto port.					
Extension and remodeling of infrastructure for tourism at San Jorge port.					
Extension and remodeling of infrastructure for tourism at Moyogalpa port.					
Extension and remodeling of infrastructure for tourism at Altagracia port.					
Extension and remodeling of infrastructure for tourism at San Carlos port.					
Extension and remodeling of infrastructure for tourism at Puerto Díaz port.					
Construction of a new airstrip at San Carlos.					
Feasibility study for improvement of ports in the Pacific and Atlantic coast.	✓	✓	✓		
Development of infrastructure for tourism in the Pacific and Atlantic ports.	✓				
Extension and remodeling of RAAN and RAAS ports.	✓	✓			
Feasibility study for a deep water port in the Atlantic (Monkey Point).	✓				
Extension and remodeling of the airports at RAAN and RAAS.	✓				

## SOCIAL AND PRODUCTIVE INFRASTRUCTURE

Objective/Action	Period of Execution			Executor	Source of Financing
	2006	2007	2008-2010		
<b>WATER AND SANITATION</b>					
Integrated Project Managua-Periphery	✓	✓			
Integrated Project Estelí-Ocotal	✓	✓			
Improve and rehabilitation of drinking water system for aqueducts in Nueva Segovia and Madriz	✓				
Global Program of Multiple Works (CABEI)	✓	✓	✓		
Water and tourism sector (San Juan del Sur, Granada, Rivas, Ometepe, San Carlos, San Jorge)	✓	✓	✓		
Drinking water/sanitation in high poverty zones (Mozonte, Ciudad Antigua, El Limón, Susucayán, Puerto Cabezas, Bonanza, Rosita, and Siuna)	✓				
Underway drinking water projects, rural sector	✓	✓	✓		
Drinking water, rural regions I, II and central (XI) Phase	✓	✓	✓		
Water and sanitation, Regions I, V, and VI	✓	✓	✓		
Water and sanitation pilot program in the RAAN, rural sector	✓	✓	✓		
Drinking water supply and sanitation in various rural areas	✓				
New projects in areas without coverage		✓	✓		
Program for modernizing management of drinking water and sanitary drainage services	✓	✓	✓		
New projects for areas without coverage		✓	✓		
Program for modernization of management of drinking water and sanitary drainage services	✓	✓	✓		
Improvement of distribution system, City of Managua	✓	✓			
Complementary project for improvement and optimization of Managua aqueduct		✓	✓		
Water/sanitation, zones high economic potential (Boaco, Juigalpa, El Rama, Santo Tomás)	✓	✓	✓		
Implementation of program defined in National Strategy		✓	✓		
Drinking water systems and solid waste treatment. Río San Juan Protected Area	✓	✓	✓		
Drinking water systems and solid waste treatment. Lake Nicaragua and islet (including Ometepe and the Solentiname Archipelago)	✓	✓	✓		
Systems in protected areas and parks					

### PRODUCTIVE AND SOCIAL INFRASTRUCTURE

Objective/Action	Period of Execution			Executor	Source of Financing
	2006	2007	2008-2010		
<b>HEALTH</b>					
Health post	✓	✓	✓		
Health centers	✓	✓	✓		
Rehabilitation of hospitals		✓	✓		
Other investments					

### PRODUCTIVE AND SOCIAL INFRASTRUCTURE

Objective/Action	Period of Execution			Executor	Source of Financing
	2006	2007	2008-2010		
<b>EDUCATION</b>					
Expansion of education for life program	✓	✓	✓		
Expansion of learning centers	✓	✓	✓		
Expansion of information processing capacity for education	✓	✓	✓		
Replacement of 400 classrooms	✓	✓	✓		
Provision of equipment for municipal secretariats for education to strengthen capacities in municipal institutions that administer schools	✓	✓	✓		
Formulate, evaluate, and contract 2,223 projects (3 classrooms per project)	✓	✓	✓		



## PRODUCTIVE AND SOCIAL INFRASTRUCTURE

Objective/Action	Period of Execution			Executor	Source of Financing
	2006	2007	2008-2010		
<b>HOUSING</b>					
<b>1. Stop the vegetative growth of the Social Interest Housing (VIS) of the country, subsidizing housing solutions</b>				<b>INVUR</b>	<b>Treasury, IDB</b>
Facilitate access to Social Interest Housing to the population in poverty and extreme poverty	✓	✓	✓		
Facilitate improvement of Social Interest Housing to the population in poverty and extreme poverty	✓	✓	✓		
<b>2. Incentivate private investment in the housing sector for the middle class segment</b>				<b>INVUR</b>	<b>IDB</b>
Establishment and development of a Mortgage Market through the Capital Market. Program of Guaranteed Mortgages	✓	✓	✓		
Development and efficient operation of the financing systems through training programs	✓	✓	✓		
<b>3. Consolidate the transformation of the Housing Sector</b>				<b>INVUR</b>	<b>IDB</b>
Formulate National Housing Plan in line with the NDP	✓	✓	✓		
Adjust the legal framework to carry out the transformations	✓	✓	✓		
Improve institutional performance	✓	✓	✓		

## PRODUCTIVE AND SOCIAL INFRASTRUCTURE

Objectives/Actions	2006	2007	2008-2010	Executor	Source of Financing
<b>ENERGY</b>					
<b>Promote energy generation based on renewable environmentally-friendly sources</b>					
Promulgation of a law for small- and medium-scale hydro-energy generation, eliminating restrictions for investing in hydroelectric plants of more than 5 MW.	✓	.	.	AN	
Promulgation of the Law for Renewable Energy generation that will provide the legal framework for protection and regulation of investment.	✓	.	.	AN	
<b>Reduce generation costs so that they are in line with international levels, thereby increasing the productivity of national industry.</b>	.	.	.		
Make an integral revision of the tariff system so that policies for subsidies to vulnerable sectors do not compete with the country's objectives of competitiveness.	✓	✓	✓	INE, CNE	
Analyze the viability of promoting the legal concept of commercializer to promote competition.		✓	.	INE	
<b>Reduce administrative and legal barriers that hinder the entry of investors.</b>	.	.	.		
Promulgation of the Law for Waters, establishing a regulatory framework for managing the resource with a modern and rational vision.	✓	.	.	AN	
Reforms to the Law for the Energy Sector so the purchases of energy through long-term agreements are promoted, fostering the capacity for financing of potential generators.		✓		AN	
<b>Increase national energy coverage</b>	.	.	.		
Legal changes to assure and facilitate transfer of assets from public programs to commercializers in rural electrification.	✓			CNE	
Support the functioning of the Fund for Development of the Electricity Industry (FODIEN)	✓			CNE	
<b>Reduce dependency on fossil fuels</b>					
Development of renewable energy generation projects with the private sector.	✓	✓	✓	ENEL	

## GOVERNANCE, REFORM AND MODERNIZATION OF PUBLIC ADMINISTRATION

Objective / Action	2006	2007	2008-2010	Executor	Source of Financing
<b>GOVERNANCE</b>					
<b>1. Have a judicial system that assures independence, impartiality and professionalism.</b>					
1.1 Present to the AN the draft Law for the Judicial Career /JFA-PAM	✓				
1.2 Reform, regulate, implement Law for Judicial Career that guarantees impartial justice /JFA-PAM		✓			
<b>2. Improve the efficiency and efficacy of justice administration system</b>					
2.1 Prepare and have Supreme Court approve a tool for institutional planning /JFA-PAM	✓				
2.2 Have CSJ prepare an internationally comparable statistical system with public access /JFA-PAM		✓			
2.3 Prepare a document for a Sector Plan for the Justice Sector and have it accepted by all institutions involved /JFA-PAM	✓				
2.4 Make a third measurement of the baseline /JFA-PAM		✓			
<b>3. Improve access to justice for the most vulnerable population</b>					
3.1 Organize the setting up of public prosecutors and defenders nationally, in line with the existing plan based on the number of crimes per prosecutor /JFA-PAM		✓			
3.2 Construct a baseline about access to justice /JFA-PAM		✓			
<b>4. Improve conditions for citizen security</b>					
4.1 Do coordination for the formulation of the citizen security plan /JFA-PAM	✓	✓			
4.2 Formulate, approve the policy and plan for coexistence and security /JFA-PAM		✓			
4.3 Define operative plan /JFA-PAM	✓	✓			
4.4 Formulate and approve law for coexistence and citizen security /JFA-PAM		✓			
4.5 Prepare baseline of indicators of citizen violence /JFA-PAM		✓			
<b>5. Social actors integrated into the bodies of the system for participation include their priorities in the investment plans of the institutions that intervene at each level</b>					
5.1 Implement the Law for Citizen Participation in the sphere of the competence of the Executive Branch /JFA-PAM	✓				
5.2 Align public investments with the priorities established in the municipal and departmental development plans /JFA-PAM		✓			
<b>6. Reduce discrimination based on ethnic origin</b>					
6.1 Integrate representatives of ethnic groups in the opportunities for participation /JFA-PAM		✓			

<b>7. Reduce gaps due to inequality between men and women</b>					
7.1 Establish the National Consultative Council for Women with representatives from government and civil society /JFA-PAM	✓				
7.2 Approve and regulate Law for Equality of Opportunity and approval of gender policy /JFA-PAM		✓			
7.3 Implement gender equity program /JFA-PAM		✓			
<b>8. PDDH offers better service</b>					
8.1 Expand coverage of the Office of the Human Rights Ombudsman /JFA-PAM	✓				
<b>9. Reduce levels of corruption and improve transparency of public management</b>					
9.1 Prepare and adopt an agreed-on national anti-corruption strategy		✓			
<b>10. Improve capacities and the surrounding for citizens for exercising their rights and obligations</b>					
10.1 Define and promote the Campaign for Citizen Reporting of Abuses /JFA-PAM		✓			
<b>REFORM AND MODERNIZATION OF PUBLIC ADMINISTRATION</b>				<b>SETEC, MHCP</b>	
<b>1. Strengthen capacity for fiscal and financial management</b>				<b>MHCP</b>	<b>WB</b>
1.1 Consolidate and expand integrated system for financial management	✓	✓	✓		
1.1.1 Increase percentage of donor funds channeled through public sector entities registered through the Single Treasury Account (CUT), in coordination with signatory agencies of the government and donors /JFA-PAM	✓				
1.1.2 Channel all donor funds to public entities through registry in the CUT, in coordination with signatory agencies and donors /JFA-PAM		✓			
1.1.3 Approve standard documents for purchases and contracts that are used in all agencies of the central government, 12 municipalities, and 8 autonomous agencies. By 2006, the standard documents are being used in 30 additional municipalities, 8 autonomous agencies, and other branches of the central government /JFA-PAM		✓			
1.2 Strengthen the capacity of the government in formulating, implementing, and monitoring fiscal policies	✓	✓	✓		
1.2.1 Revise pension reform: (i) the Presidency has issued a decree to reform Decrees 57-2000 and 975 before starting the operation of the AFPs in order to partially reduce the fiscal impact of the pension reform, among other things, adjusting the replacement rate of compensation bonds and the number of years for determining the average salary used to calculate pension benefits; (ii) the Superintendences of Banks and Pensions have agreed to share a satisfactory information system; and, (iii) the Superintendences of Banks and Pensions have designed a Chinese Wall type system to prevent the use of internal information between the AFPs and their mother companies in the banking system /JFA-PAM	✓				

1.2.2	Reform legal framework in parametric aspects of the social security system, oriented at reducing the deficit resulting from the pension reform /JFA-PAM		✓			
1.2.3	a) With an Executive Decree, modify the regulations for the Law for Municipalities in order to make the transfers fiscally sustainable, assigning responsibilities for municipal spending equivalent to the resources transferred and b) reflect the application of this decree in the 2005 budget /JFA-PAM	✓				
1.2.4	Reflect the decree approved in 2005 in the 2006 budget by allowing for the reduction of those expenditures related to the central government that are the competence of the municipalities /JFA-PAM		✓			
1.2.5	Approved and in force (a) a Taxation Code that establishes a system of fines and sanctions and precise faculties that enable the administration to obtain information from third parties and (b) a Law for Customs that is consistent with the Taxation Code and the Code for the Central American Customs Union (UAC) /JFA-PAM	✓				
1.2.6	(a) Approve and regulate the Law for Administrative Career for the DGI and the DGA, consistent with the Law for Social Service and (b) Establish a new information processing system for customs, including the outsourcing, equipping and communications /JFA-PAM		✓			
1.2.7	a) Approve Law for Financial Administration according to international best practices (including provisions for the establishment of a medium-term expenditure framework) and (b) Establish legal framework for the prevention of excessive fiscal deficits, the adoption of stable taxation policies and international accounting standards for the public sector through this law and related laws /JFA-PAM	✓				
1.2.8	Begin the gradual formulation of the medium-term expenditure framework established in the Law for Financial Administration approved in 2005 and reflected in the General Budget for 2006 /JFA-PAM		✓			
<b>2. Improve the productivity of the technical-execution management of the government</b>					<b>MHCP, OAP- SETEC, OEP- Presidency</b>	<b>WB, Donors</b>
2.1	Implement the Law for Civil Service	✓	✓	✓		
2.1.1	Make all new contracts for the Public Sector in line with the policy approved for compensation, as established in the Law for Civil Service /JFA-PAM	✓				
2.1.2	Accredit the Administrative Career for 1,800 public employees in 2005 based on the transparent procedures established in the Law for the Civil Service. In 2006, 3,200 additional public employees have been incorporated into the Administrative Career, in order to have 5,000 by 2007 /JFA-PAM		✓			
2.2	Reengineer processes with improvement in organization, operative functioning, and systems	✓	✓			

2.3	Revise and update the legal frame in force in the organization and competences of the Executive Branch	✓	✓			
2.4	Provide greater capacity in the execution of public management, with emphasis on the delivery of services to citizens	✓	✓	✓		
2.5	Promote public ethics and strengthen preventive internal controls.	✓	✓	✓		
<b>3.</b>	<b>Strengthen capacities for the participatory planning and follow-up of public policies</b>				<b>SETEC</b>	<b>WB</b>
3.1	Promote strategic planning, SGPRS, NDP, and improve coordination between donors	✓	✓			
3.2	Strengthen and expand the National System for Public Investment	✓	✓	✓		
3.2.1	Implement Executive Decree No. 83/2003 for the National System of Public Investment (SNIP) with the incorporation of all public investment programs and projects in the official registry, including those financed by donations /JFA-PAM	✓				
3.2.2	All public investment programs and projects are properly classified (recurrent and capital expenditures) and included in the official registry of public investment (including those financed with donations) /JFA-PAM		✓			
3.3	Strengthen and disseminate the system for evaluation and monitoring of public policies	✓	✓	✓		
3.4	Strengthen capacities for coordination about communication and civic participation	✓	✓	✓		
<b>4.</b>	<b>Strengthen and promote decentralization</b>				<b>OAP/SETEC</b>	<b>DANIDA</b>
4.1	Formulate national strategy for ageed-on and sustainable decentralization	✓				
4.2	Implement approved national strategy for decentralization		✓	✓		

## **Annex 2**

# **Redefinition of Poverty Spending**

## Redefinition of Poverty Spending

### 1. Background

The Strengthened Growth and Poverty Reduction Strategy (SGPRS, July 2001) makes the following considerations: (a) that there is no homogeneous method for defining what should be included under the category of “poverty spending”<sup>35</sup>; (b) that systematic and constant follow-up is required for this indicator; and, (c) that it is necessary to establish an agile way for calculating this type of spending that does not hinder the annual formulation of the General Budget.

The following definition was adopted: the capital spending in the SGPRS portfolio linked to the four pillars and the three crosscutting themes and the current expenditures included in the Annual General Budget that correspond to programs of the following government institutions: MECD, MINSA; IDR; MIFAMILIA, SAS, FISE, INETER; CNE; and the operating costs of INIFOM.<sup>36</sup>

As can be seen, there is no list of criteria or explicit requisites to be met in the programs to be considered as poverty spending; rather, this spending is distributed by institution and by its “linkage” to the four pillars and three crosscutting themes defined in the Strategy.

The principal critiques of the previous classification made by the international community, civil society organizations and National Assembly revolved around two things: (a) the criteria for classifying the programs would have to be defined more precisely for operational purposes in order to improve poverty reduction efforts since there was a tendency to include all the programs of a sector (education, health) considered important for poverty reduction; and, (b) the issue of expenditure efficiency, indicating that only programs in which a relationship with the improvement of selected poverty indicators is established should be considered as poverty spending.

In the 2003 World Bank Poverty Report, which analyzed 79 of 220 projects of the SGPRS (totalizing US\$794.7 million), reached the conclusion that only a third of these resources were benefiting the poor. With respect to the rest, the report concluded that: (a) about half the funds were for projects that lacked information in order to recognize their pertinence or that needed to be modified in order to improve their effectiveness; (b) about 14 percent of the spending did not benefit the poor at all; and, (c) the remaining 10 percent was for institutional strengthening that would enable the ministries to deliver better services in the future.<sup>37</sup>

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<sup>35</sup> In effect, both the document “Tracking of Poverty Reduced Public Spending in HIPC” and “Public Expenditure Review” of the World Bank indicate: “It is important to recognize that different types of public spending can contribute to poverty reduction, some through their direct impact on the production of services and others through their effect on the overall growth of the economy and security of the country.” The second document cited is more extreme when it concludes, “There are times in which the most effective intervention for the reduction of poverty can be the accumulation of international reserves in order to maintain macroeconomic stability and prevent a balance of payments crisis... However, the use of debt relief for these purposes must be justified in terms of poverty reduction.”

<sup>36</sup> For more detail, see: “Strengthened Growth and Poverty Reduction Strategy” (SGPRS) July, 2001. Op. Cit.

<sup>37</sup> See report No. 26128-NI of the World Bank Op. Cit.



## 2. Analysis

More than a problem of classification, the low level of operational efficiency of poverty spending indicated in the World Bank report has been associated with the marked weakness of public sector institutions to plan and budget a portfolio of programs and projects that, besides having a positive cost-efficiency ratio, are the result of coherent sector policies (economic and social). On the other hand, the process of follow-up and evaluation of the poverty reduction programs is still weak, which explains the inclusion of resources to strengthen this aspect in the line ministries, particularly in the social area, as part of SGPRS programs.

It is also important to highlight two factors that explain the above-mentioned phenomenon. One is the fluctuations in the SGPRS investment portfolio that lessen the effectiveness of the programs and that, to a large extent, stem from their high degree of dependence on outside resources. The other is that the SGPRS programs and projects were selected from a portfolio that was carried over from the past, with large components for recurrent expenditures and little flexibility in order to reorient them.

As reported in the 1<sup>st</sup> and 2<sup>nd</sup> progress reports, the Government has had the policy of not only maintaining an ascending trend for poverty spending, despite the necessary reduction in overall spending in order to reduce the deficit to more manageable levels, but it has also been pushing ahead with a number of measures to increase the efficiency and impact such spending. The following actions have been taken in order to improve the efficiency of poverty spending:

- a) Review and in some cases formulate sector strategies in order to prioritize goals and define specific objectives. The national plans for health and education, for example, were formulated in order to rationalize resources and improve efficiency in these sensitive sectors, and the social protection policy was approved.
- b) Projects with low coverage and similar objectives have been restructured and consolidated into more integral programs —Social Safety Net, Program for Integral Attention to Children (PAININ), Program for Integral Attention to Children and Adolescents at Social Risk (PAINAR)— in order to avoid overlaps in the delivery of benefits to the same population groups.
- c) Provide main programs with systems for follow-up and evaluation in order to verify their impact on poverty reduction. A Statistical Technical Committee made up by different public institutions with direct responsibility for giving follow-up to poverty indicators was set up, and the National System for Follow-Up to Development Indicators (SINASID) was established. Together with the World Bank, three PSIA studies have also been made on social impact and poverty: on tax reform, the second for the Education For All project,<sup>38</sup> and the third on the impact of public investment on economic growth and poverty reduction.

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<sup>38</sup> See chapters on Human Development and Implementation, Follow-up, and Evaluation.

- d) In 2005, a process began that will culminate in the medium term with the drafting of multi-annual budgets (three to five years) that are consistent with the social and economic objectives and also with public sector budgetary constraints.
- e) Sector forums for coordination were created with the objective of harmonizing the cooperation flows and identifying mechanisms for better resource allocation. In this way, the modality of budgetary support and the Joint Financing Agreement have introduced flexible ways in directing external resources towards poverty reduction goals.

### 3. Redefinition

#### 3.1 General aspects

With the levels of poverty in Nicaragua, it could be said in principle that almost the whole Annual General Budget is important for the development of the country and, therefore, for poverty reduction. Giving meaning to the concept and making it possible to make increasingly more precise classifications that do not allow for divergent interpretations is closely tied to strengthening the capacities of the government to put forward clear objectives in the medium term and to give follow-up to the results of public spending in reaching these objectives. There has been significant progress around both aspects in recent years and this shall be furthered even more in the medium term. However, some elements still persist that affect the new classification:

- a) The Annual General Budget has an institution-program vision (that is, non-sectoral) with follow-up mechanisms that are strictly financial and it calls for continuing to maintain an agile form of calculation that does not hinder its formulation.
- b) The process for follow-up and evaluation of public sector programs remains weak and so there must be continued improvement in the future in regards to knowing their relation to the impact on poverty indicators.

#### 3.2 New approach

Notwithstanding the above-mentioned constraints, the concept of poverty spending is renewed in four aspects:

- a) **New way to allocate resources:** the poverty map is complemented by the map of economic potential for territorial development. Investment in territories with greater economic potential favors the creation of poles of development where the population will have more opportunities for improving their living conditions and breaking out of the inter-generational transmission of poverty.
- b) **Economic growth as an indispensable condition for reducing poverty through the creation of employment:** the NDP develops a production strategy based on the concept of territorial competitiveness that facilitates the development of productive clusters which in turn determines public investments.

- c) **Review of programs and projects:** programs and projects that have a weak or unclear impact on poverty reduction are excluded from the classification of poverty spending. This allows for opening up room to incorporate this kind of spending in projects associated with economic growth, particularly infrastructure projects (highways, roads, ports, energy).
- d) **Progress in determining sector strategies:** the new classification, particularly that related to the area of investment in human capital and social protection, benefits from the progress made in terms of planning and coordination (territorial and sector) of the programs.

### 3.3 Main criteria

The new way of determining what is poverty spending is established by the degree of incidence (direct or indirect) of the spending on improving incomes and living conditions for the poorest strata of the population. Three big groups of spending are considered:

#### Group 1: Direct impact

- a) **Transfers of resources with direct redistributive effects on the income of the poorest.** This includes the programs for social assistance and protection grouped together in the Solidarity for Development program (PAININ, PAINAR, PINE), projects for food security and support to families affected by different emergencies, the social safety net, and the construction of shelters, homes, and other infrastructure for assistance to the population at high risk.
- b) **Provision of basic social services.** This is made up by the programs for providing rural and marginal urban water and sanitation; preschool, primary, and special education; first and second level healthcare services (including nutrition and population); highways and rural roads to improve access to basic social services; and, municipal infrastructure.

#### Group 2: Indirect impact.

**Programs oriented towards strengthening the capacity of the poor to increase their income.** This is made up by the construction of productive infrastructure (trunk roads, ports and airstrips in poor territories, and rural electrification); electricity (rural electrification, development and modernization of the sector); environmental restoration and protection; rural development (including agricultural technical assistance), and secondary and technical education.

#### Group 3: Institutional strengthening.

- a) **Governance and improving the business climate.** Programs to facilitate access to justice for the poorest and for strengthening the Office of the Controllers-General of the Republic and the Supreme Electoral Council. This also includes projects to improve the competitiveness of productive sectors (regulatory framework, ordering of property ownership, financial services), investment and export promotion.

- b) **Increase the efficiency of institutions that provide basic social services** (health, education, FISE, INIFOM). It includes the generation of statistics and follow-up to know about the evolution of poverty (censuses and living standards measurement survey).

The main differences with respect to the spending classified in the SGPRS can be summarized as follows<sup>39</sup>:

- **Includes:** productive infrastructure, development and modernization of the electricity sector (only rural electrification considered); and second-level attention healthcare services (hospitals).<sup>40</sup>
- **Excludes:** strengthening and modernization of State institutions not linked to the provision of basic services (SETEC, UCRESEP, MAGFOR, MIFIC, and others). With respect to recurrent spending, it does not include programs called “central activities” of the ministries, which are resources for the upper management levels and the operating expenses of CONPES and INETER.

Table 1 describes the programs and projects contained of the General Budget for the Republic for 2005, both current and capital expenditures that are included and excluded from the new classification for poverty spending.

**Table 1. Classification of Poverty Spending 2005**

	Item	Millions of C\$	% GDP
1	<b>Total Poverty Spending (Initial Methodology)</b>	<b>9,504.5</b>	<b>11.7</b>
2	<b>Capital Expenditures (Initial Methodology)</b>	<b>5,549.9</b>	<b>6.7</b>
3	<b>(+) Projects to be included</b>	<b>1,105.8</b>	
	<b>I. Direct impact on poverty reduction</b>	<b>154.4</b>	
	<b>Highways and rural roads</b>	<b>64.0</b>	
	Rehabilitation Tipitapa-Las Flores Highway	26.1	
	Study and design, Puerto Sandino Junction-Puerto Sandino	1.1	
	Construction San Rafael Del Norte- Yalí Highway	1.6	
	Rehabilitation Rivas-San Jorge Highway	5.0	
	Rehabilitation León-Poneloya Highway	1.6	
	Repair Estelí - Miraflor – Yalí Highway	0.3	
	Repair Santa Teresa – Caliguate Highway	0.6	
	Rehabilitation Cerro Colorado - San José De Las Mulas Highway	2.0	
	Upgrading road from Chagüitillo – Río San Juan	0.6	
	Rehabilitation road from Santa Cruz-San José De Gracia, El Congo	1.8	
	Repair access to San Francisco Libre	2.3	
	Rehabilitation Santa Rita Junction- Los Aburtos Highway	3.0	
	Rehabilitation road from Terrabona-Payacuca	0.2	
	Rehabilitation Júcaro-Camastro, San Miguelito road	0.7	
	Rehabilitation Miramar Junction - El Velero Complex Highway	6.2	

<sup>39</sup> See breakdown of programs and projects in Table 1.

<sup>40</sup> Despite not being considered as spending poverty in the SGPRS, this type of spending has been included in recent years because of its importance for providing healthcare to the poorest sectors.

Construction of bridge at Leon - Estelí departmental border	3.0
Repair of road La Pizota – Morrito	0.3
Repair Pantasma-Flor De Pino Highway	2.8
Repair El Jobo Junction to Matiguás Substation Highway	1.8
Repair San Rafael Del Sur - Los Larios	3.0
<b>Second level of healthcare</b>	<b>74.8</b>
Construction and rehabilitation of national hospitals	63.5
Program for sustaining equipment	11.3
<b>Others</b>	<b>15.6</b>
Humanitarian clearing of land mines	15.6
<b>II. Indirect impact. Strengthen capacities to improve income</b>	<b>864.3</b>
<b>Trunk roads</b>	<b>398.9</b>
Resurfacing of highways	17.0
Highway drainage	15.0
II Program for Highway Rehabilitation and Maintenance	13.4
Rehabilitation of highway	67.6
Rehabilitation of Chinandega Guasaule Highway	145.9
Expansion Ticuantepe-Masaya-Granada Highway	118.8
Paving Southern Seaboard Coastal Highway	13.2
Study and design for rehabilitation of highway Granada-Emp. Guanacaste	1.2
Study and design for rehabilitation of highway Nejapa-Santa Rita	2.4
Study and design for rehabilitation and Upgrading of Jinotepe-Nandaime Highway	2.2
Study and design for rehabilitation Las Esquinas-San Marcos-Catarina Highways	1.5
Study and design for rehabilitation Jinotepe - San Marcos Highway	0.7
<b>Ports</b>	<b>224.7</b>
Closing the El Bluff Isthmus	16.7
Improve navigation Río Escondido	10.8
Improve navigation Río San Juan	5.0
Acquire tugboat for Corinto Port	58.3
Construction of wharf Isla del Cardon, Puerto Corinto	2.5
Construction of barge for Puerto Sandino	5.8
Repair north dock in Puerto Sandino	5.8
Acquire port equipment for Rama Port	25.0
Remodeling of warehouse and expansion of dock in San Juan Del Sur Port	6.7
Dredging Bluefields Bay and Rio Escondido	66.7
Construction of dry-docks in El Bluff Port	6.7
Repair of access bridge to Puerto Cabezas Dock	6.2
Upgrading of port works in San Jorge Port	6.7
Remodeling of San Carlos Port	1.0
Construction and installation of fuel storage and supply system	0.8
<b>Electricity (Development and modernization of the sector)</b>	<b>240.7</b>
Energy planning and development scenarios	1.9
Assess wind potential Sandy Bay Sirpy, Monkey Point, P. Cabezas, Bluefields	1.8
Program on energy efficiency for industrial and commercial sectors	1.5
Matiguas-Siuna sub-transmission line and associated works	74.5
Modernization Las Banderas Substation	0.3
Modernization Boaco Substation	0.3
Development Larreynaga Hydroelectric Central	4.2
Feasibility study Masaya-Granada-Nandaime area for multi-use of geothermal power	9.3
Expansion Ticuantepe Substation, second stage	15.8
Supply power transformers	1.2
Electricity interconnection system for Central America (SIEPAC)	31.1
Electricity interconnection Bluefields - El Bluff	13.3
Rehabilitation of Managua electricity transmission system (Phase IV)	36.3

	Rehabilitation Nandaime Substation	1.5	
	Modernization of electricity system for North Region	3.9	
	High tension electrification in María Auxiliadora neighborhood	0.7	
	Modernization of Nicaragua Plant Substation	27.4	
	Connection Tipitapa Substation, Santa Barbara, and Nicaragua Plant	15.7	
	<b>III. Institutional strengthening to increase efficiency of poverty programs</b>	<b>87.1</b>	
	Living Standards Measurement Surveys	20.5	
	VIII Population Census and IV Housing Census	66.6	
<b>4</b>	<b>(-) Projects to be excluded</b>	<b>172.1</b>	
	<b>I. Institutional strengthening</b>	<b>145.5</b>	
	SNIP – MTI	0.7	
	Improve indexes for macro and micro-measuring	5.1	
	SNIP/INIFOM	0.6	
	SNIP-MECD	0.6	
	Support to MAGFOR	3.7	
	SNIP/MAGFOR	0.6	
	SNIP/MARENA	0.6	
	SNIP/SETEC	4.1	
	SNIP – IDR	0.6	
	Rehabilitation of DGA building	5.0	
	Support to SETEC	3.1	
	Second Rural Municipalities Project	112.0	
	Planning processes in 10 Municipalities	1.5	
	Institutional support for environmental management (PRO-AMBIENTE)	7.3	
	<b>II. Others</b>	<b>26.6</b>	
	Incorporation of gender perspective in official statistics	0.8	
	Acquisition of fishery guard boats	4.9	
	Program for Citizen Security	1.6	
	Modernization and accreditation of Tertiary Education	5.4	
	Tertiary Education Phase II	6.6	
	Delimitation of maritime and land boundaries	1.5	
	Geodesic densification of the southern border	0.7	
	Establishment of the hydrogeological aquifer network	0.7	
	Mitigation and Prevention of Geo-Risks in Nicaragua and Central America	1.3	
	Support for the Office of the Environmental Ombudsman	3.1	
<b>5</b>	<b>Capital Spending (New Methodology 2 + 3 - 4)</b>	<b>6,483.6</b>	<b>7.6</b>
<b>6</b>	<b>Current Spending (Initial Methodology)</b>	<b>4,092.0</b>	<b>5.0</b>
<b>7</b>	<b>(-) Programs to be excluded</b>	<b>561.1</b>	
	<b>Presidency of the Republic</b>	<b>6.6</b>	
	Direction and coordination of strategy (SETEC)	6.6	
	<b>Ministry of Education, Culture, and Sports (MECD)</b>	<b>64.7</b>	
	Central activities	64.7	
	<b>Ministry of Agriculture and Forestry (MAGFOR)</b>	<b>42.0</b>	
	Central activities	42.0	
	<b>Ministry of Health (MINSa)</b>	<b>391.7</b>	
	Central activities	391.7	
	<b>Ministry of the Family (MFAMILIA)</b>	<b>18.5</b>	
	Central activities	18.5	
	<b>INETER</b>	<b>34.9</b>	
	<b>CONPES</b>	<b>2.7</b>	
<b>8</b>	<b>Current Spending (New Methodology 6 – 7)</b>	<b>3,530.9</b>	<b>4.4</b>
<b>9</b>	<b>Total Poverty Spending (New Methodology 5 + 8)</b>	<b>10,014.5</b>	<b>12.0</b>

Note: Includes adjustments incorporated by the National Assembly to the draft budget

Source: SNIP-SETEC, MHCP

This new classification will need to be reviewed periodically based on the evaluation of the impact of the programs selected and to the extent that the government, civil society, and donors incorporate innovative concepts about the theme. The mechanisms for follow-up and evaluation of the NDP shall be continually adjusted to the classification of poverty spending in order to correct any shortfalls that may appear.

### 3.4 Projections

Given the growth profile of the economy, the estimated flow of external resources, the expected HIPC relief, and the constraints on public spending, poverty spending levels were established for the five-year period from 2006 to 2010. It is estimated that poverty spending would grow at an annual average rate of 0.1 percent of the GDP, going from 13.5 percent of the GDP in 2006 to 13.9 percent in 2010. These levels will mean a relation to total spending of NFPS (Non-Financial Public Sector) that will go from 50.7 percent in 2006 to 54.9 percent in 2010 (Table 2, Table 7.6 in Chapter 7).

Table 2. NFPS Poverty Spending and Financing

Items	2001	2005	Average 2001-05	2006	2007	2008	2009	2010	Average 2006-10
	<b>Relation to the GDP</b>								
<b>Total Spending NFPS<sup>1/</sup></b>	<b>26.1</b>	<b>26.3</b>	<b>25.1</b>	<b>26.7</b>	<b>25.6</b>	<b>25.3</b>	<b>25.4</b>	<b>25.4</b>	<b>25.7</b>
Current Spending <sup>1/</sup>	15.8	15.4	15.2	16.1	15.2	14.9	15.0	14.9	15.2
Capital Spending	10.3	10.8	9.9	10.6	10.4	10.4	10.4	10.5	10.5
<b>Total Poverty Spending<sup>2/</sup></b>	<b>8.7</b>	<b>13.4</b>	<b>11.3</b>	<b>13.5</b>	<b>13.6</b>	<b>13.7</b>	<b>13.8</b>	<b>13.9</b>	<b>13.7</b>
Internal Resources	3.7	4.2	3.7	5.7	5.1	5.0	4.8	5.1	5.1
External Resources	5.0	9.2	7.6	7.8	8.5	8.7	9.0	8.9	8.6
Loans	1.6	3.7	3.1	3.8	4.4	4.9	5.0	5.0	4.7
Grants	1.9	3.0	2.4	2.4	2.3	2.0	1.9	1.8	2.1
HIPC Relief	1.5	2.5	2.2	1.6	1.8	1.8	2.1	2.0	1.9
<b>Current Spending</b>	<b>4.3</b>	<b>4.6</b>	<b>4.5</b>	<b>5.0</b>	<b>4.8</b>	<b>4.8</b>	<b>5.0</b>	<b>5.2</b>	<b>4.9</b>
Internal Resources	3.1	3.0	3.0	4.0	3.5	3.5	4.0	4.2	3.8
External Resources	1.2	1.6	1.5	1.0	1.3	1.3	1.0	1.0	1.1
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HIPC Relief	1.2	1.6	1.5	0.9	1.3	1.3	1.0	1.0	1.1
<b>Capital Spending</b>	<b>4.4</b>	<b>8.8</b>	<b>6.8</b>	<b>8.5</b>	<b>8.9</b>	<b>8.9</b>	<b>8.9</b>	<b>8.8</b>	<b>8.8</b>
Internal Resources	0.6	1.2	0.7	1.7	1.6	1.5	0.8	0.9	1.3
External Resources	3.8	7.6	6.1	6.9	7.2	7.4	8.0	7.9	7.5
Loans	1.6	3.7	3.1	3.8	4.4	4.9	5.0	5.0	4.7
Grants	1.9	3.0	2.3	2.4	2.3	2.0	1.9	1.8	2.1
HIPC Relief	0.3	0.9	0.7	0.7	0.5	0.5	1.1	1.0	0.8

1/: Excludes interest for public debt.

2/: Years 2001 and 2002 correspond to adjusted poverty spending. As of 2004, calculated based on new definition of poverty spending.

Source: SETEC, BCN.

It is important to note that with this level of spending, it will be difficult to reach some NDP goals. The budget for sectors like health and education under these conditions will barely be able to cover the additional demand for services associated with population growth, augmenting the structural shortfall.

Table 3 shows a breakdown of the projects for capital spending on poverty for 2005 based on the new classification.

**Table 3. Breakdown of Capital Poverty Spending 2005**  
Millions of córdobas

Description	Institution	Total
<b>Total Public Investment</b>		<b>7,319.4</b>
<b>Capital Spending on Poverty</b>	-	<b>6,483.6</b>
<b>I. Direct Impact on Poverty Reduction</b>		<b>3,658.4</b>
<b>1.1 Program of Transfers to the Poorest</b>		<b>471.3</b>
Support for child workers to enter school	MECD	0.1
Support for rural families in zones affected by drought and flooding	MAGFOR	29.4
Food aid for persons affected by disasters	MAGFOR	46.5
Children's Centers (MIFAMILIA/FISE)	FISE	2.4
Shelters and homes (MIFAMILIA/FISE)	FISE	3.3
Attention to emergencies	FISE	8.9
Social Safety Net	MIFAM	19.0
Integral Program for School Nutrition (PINE)	MECD	88.9
Social Safety Net MECD	MIFAM	36.9
Social Safety Net MINSAs	MIFAM	23.0
Program for Integral Attention to Nicaraguan Children	MIFAM	88.7
Program for Integral Attention to Nicaraguan Children, Phase III	MIFAM	32.8
Program for Support to Poor Rural Families	MIFAM	2.0
Supplementary Social Fund	Presidency	3.2
Food Security Peace Corps – INTA	MAGFOR	3.0
Construction of silos and basic grains storage in the RAAN	RAAN	3.0
Regional Plan for Prevention of Drug Use /RAAN	RAAN	0.5
Integrated Assistance for Vulnerable Women and Children	MIFAM	3.0
Program for Integral Attention for Children and Adolescents at High Risk	MIFAM	5.7
Implementation of Defense System for Children and Adolescents	Presidency	0.6
Implementation of National Action Plan for Children and Adolescents	Presidency	0.7
Integral Development for the Prevention of Youth Violence	MIFAM	1.0
Project for Prevention and Attention to Youth Violence	Presidency	1.5
Improve and simplify probatory procedures in cases of domestic violence	CSJ	2.5
Improve women's access to justice in family matters	CSJ	3.7
Cooperation for Humanitarian Landmine Removal	MTI	15.6
FSS MIFAMILIA		31.6
FSS ODAS		9.8
Home for the Elderly of León, The Good Shepherd	Local Gov't	0.1
Program for Promotion, Prevention, Education, and Communication in Health	MINSAs	4.0
<b>1.2. Provision of Basic Services</b>		<b>3,187.1</b>
<b>1.2.1 Water and Sanitation</b>		<b>658.6</b>
Water and sanitation Matagalpa and Jinotega	ENACAL	2.3
Program for Clean-Up of Lake Managua and the City – Stage I	ENACAL	210.6
Upgrading/expansion of drinking water and sanitary drainage: Matagalpa, Jinotega, Corinto	ENACAL	7.3
Upgrading of drinking water service and supply and sanitation in Nicaragua	ENACAL	35.6
Integrated Project Managua Periphery	ENACAL	64.8
Integrated Project Estelí-Ocotol	ENACAL	50.6
Drinking water in Nueva Segovia and Madriz	ENACAL	6.2
Water and sanitation in zones with high economic potential (Boaco, Chontales, RAAS)	ENACAL	29.1
Water and sanitation tourism cluster (Rivas, Granada, Carazo, Río San Juan)	ENACAL	10.5
Water and sanitation in zones of high poverty (Nueva Segovia, RAAN)	ENACAL	10.4
Program of studies /final designs for drinking water and sanitary drainage, various localities	ENACAL	11.5
Drinking water systems	FISE	87.2
Water and sanitation, Regions I, V, and VI	ENACAL	19.1
Water and sanitation in rural zones of Matagalpa	ENACAL	16.2
Water and sanitation in Nicaragua	FISE	19.2
Latrine Program (MINSAs/FISE)	FISE	21.1
Treatment system and sanitary drainage in Sébaco, Matagalpa	ENACAL	0.6



Construction of 3 wells in Santa María and 1 well in El Jícaro, Nueva Segovia	ENACAL	0.3
Acquisition of accessories for water pump, Local Government of Diriamba	Local Gov't	1.4
Upgrading of distribution system for Managua Aqueduct	ENACAL	0.0
FSS FISE		19.7
FSS Rural Water		35.0
<b>1.2.2 Housing</b>		<b>132.8</b>
Multi-phase Program for Social Interest Housing (Phase 1)	INVUR	102.8
FSS Housing		30.0
<b>1.2.3 Primary, Preschool, Adult, and Special Education</b>		<b>400.6</b>
Rehabilitation primary schools and preschools (MECD/FISE)	FISE	123.4
Maintenance Fund (MECD/FISE)	FISE	12.9
Rehabilitation of facilities for basic and middle education in Managua	MECD	76.7
Rehabilitation of school infrastructure in Rivas, Boaco, and Chontales (Phase IV)	MECD	0.2
Strengthening educative infrastructure in basic and middle education centers	MECD	38.3
Support for infrastructure, equipment, and transport means for Special Education Centers	MECD	1.6
Regional Reconstruction Program for Central America (PRRAC/MECD)	MECD	31.0
Program of Basic Education for Youths and Adults	MECD	36.7
Regional Reconstruction Program for Central America (PRRAC/MECD)	MECD	4.1
Program of Basic Education and Citizenship for All – EBACIT	MECD	5.1
Program to identify needs for school infrastructure and repair (PINRE)	MECD	11.0
Other institutions	Local Gov't	0.5
FSS Primary Education		39.4
FSS FISE		19.7
Construction of classroom, Agustina Miranda de Quezada School, Camoapa	Local Gov't	0.0
<b>1.2.4 Health</b>		<b>625.5</b>
<b>1.2.4.1 First Level</b>		<b>462.4</b>
Health Centers (MINSА/FISE)	FISE	9.5
Health Posts (MINSА/FISE)	FISE	17.6
Maintenance Fund (MINSА/FISE)	FISE	5.0
Upgrading of primary healthcare health units	MINSА	196.9
Program for provision of medical equipment	MINSА	14.8
Program for sustaining equipment	MINSА	3.3
Program for provision of non-medical equipment	MINSА	40.8
Program for expanding coverage	MINSА	14.4
Program for Promotion, Prevention, Education, and Communication in Health	MINSА	8.0
Other institutions	Local Gov't	0.5
Upgrading of Nueva Esperanza Maternal Home, El Rama	Local Gov't	0.3
Program for Promotion, Prevention, Education, and Communication in Health	MINSА	45.5
Program for expanding coverage	MINSА	27.3
FSS FISE		19.6
FSS Health		59.0
<b>1.2.4.2 Second Level</b>		<b>87.1</b>
Program for Health Surveillance	MINSА	11.0
Construction and Rehabilitation of National Hospitals	MINSА	68.1
Program for sustaining equipment	MINSА	8.0
<b>1.2.4.3 Nutrition</b>		<b>7.8</b>
Program for Health Surveillance	MINSА	0.4
Program for Promotion, Prevention, Education, and Communication in Health	MINSА	7.4
<b>1.2.4.4 Population</b>		<b>68.1</b>
Program for Health Surveillance	MINSА	18.2
Promotion of responsible paternity and maternity	MIFAM	6.4
National Program for Non-Formal Education in Population and Sexuality (Phase I)	Presidency	0.3
Program for Promotion, Prevention, Education, and Communication in Health	MINSА	43.2
<b>1.2.5 Highways and Rural Roads</b>		<b>701.5</b>
Rehabilitation of secondary roads	MTI	37.9
Minor transport projects Atlantic Region	MTI	10.4

Rehabilitation of rural roads (IDR)	IDR	37.8
Transport Program, Department of Estelí	MTI	10.3
Upgrading of Santa Clara-Susucayan-El Jícaro road	MTI	22.1
Upgrading of rural roads (paving stones)	MTI	24.5
Feasibility study and design for paving Río Blanco - Siuna - Puerto Cabezas Highway	MTI	18.4
Construction of Esquipulas- Muy Muy Highway (feasibility and design)	MTI	4.5
Rehabilitation of highways	MTI	169.8
Roadways Project for Competitiveness of Zone II	MTI	61.4
IV Program for Highway Rehabilitation and Maintenance	MTI	14.2
Construction of San Rafael del Norte- Yalí Highway (feasibility and design)	MTI	1.6
Design for laying paving stones, Juigalpa-Puerto Díaz	MTI	2.4
Design for laying paving stones, Juigalpa-La Libertad-Santo Domingo	MTI	3.3
Upgrading of Río Blanco - Puerto Cabezas Highway	MTI	52.8
Roadways Project for Competitiveness of Zone II	MTI	92.4
Roadways Plan for Competitiveness of Zone III (León, Matagalpa, and Jinotega)	MTI	19.1
Rehabilitation of Tipitapa-Las Flores Highway	MTI	26.1
Study and design for rehab. of Puerto Sandino Junction-Puerto Sandino Highway	MTI	1.1
Rehabilitation Rivas-San Jorge Highway	MTI	5.0
Rehabilitation León-Poneloya Highway	MTI	1.6
Repair Estelí - Miraflor – Yalí Highway	MTI	0.3
Repair Santa Teresa – Caliguate Highway	MTI	0.6
Rehabilitation of Cerro Colorado - San Jose de Las Mulas Highway	MTI	2.0
Paving stones, 13 km Puente-Transito in Nagarote	MTI	5.7
Upgrading of Chagüitillo - Río San Juan road	MTI	0.6
Rehabilitation of Sta. Cruz-Las Tablas-Los Castillos-San Jose De Gracia, El Congo road	MTI	1.8
Repair of access for highway to San Francisco Libre	MTI	2.3
Rehabilitation of Sta. Rita Junction, Villa El Carmen-Los Aburtos Highway	MTI	3.0
Rehabilitation of road from Terrabona to Payacuca	MTI	0.2
Rehabilitation of road from El Jícaro to Camastro, San Miguelito	MTI	0.7
Rehabilitation of Miramar Junction - El Velero Complex Highway	MTI	6.2
Construction of bridge, Leon – Estelí departmental border	MTI	3.0
Paving stones along stretch from Jinotepe to El Ojochal	MTI	2.0
Paving stones along stretch from San Martín to El Santuario Sangre de Cristo (Camoapa)	MTI	4.0
Repair of stretch of road from La Pizota to Morrito	MTI	0.3
Repair of Pantasma-El Platano-Bocana de Bilan-Flor de Pino Highway	MTI	2.8
Repair of El Jobo Junction to Matiguás Substation Highway	MTI	1.0
Feasibility study and design for paving Nueva Guinea – Bluefields Highway	MTI	14.9
Repair of stretch from San Rafael del Sur to Los Larios	MTI	3.0
FSS Rural Roads		28.3
Other institutions	Local Gov't	2.1
<b>1.2.6 Municipal Infrastructure</b>		<b>668.1</b>
Program for Local Development on the Atlantic Coast	FISE	21.6
Rehabilitation and construction of peripheral streets in Bluefields	RAAS	7.6
Construction of community docks, RAAS	RAAS	0.3
Construction of pedestrian bridges in Waspam and Puerto Cabezas	RAAN	3.8
Roadways works	FISE	38.6
Other community services	FISE	6.6
Construction of pedestrian lanes in the RAAS	RAAS	0.5
Municipal Infrastructure	FISE	27.3
Construction of street in the Municipality of Kukra Hill	RAAS	1.4
Replacement of Wawa River ferry	RAAN	3.2
Construction of paving and lining of curb drains in Siuna	RAAN	3.5

Construction of pedestrian lanes in municipalities of the RAAN	RAAN	3.4
Transfers to the municipalities	Local Gov't	532.4
Municipal works, Niquinohomo	Local Gov't	1.0
Support for urban populations, Estelí, Matagalpa, Jinotega, Ocotal, and Somoto	INIFOM	16.9
<b>II. Indirect Impact, Strengthen Capacities in order to Improve Incomes</b>		<b>2,024.8</b>
<b>2.1 Roadways Infrastructure</b>		<b>708.2</b>
<b>2.1.1 Trunk Roads</b>		<b>483.6</b>
III Program for Highway Rehabilitation and Maintenance	MTI	62.7
IV Program for Highway Rehabilitation and Maintenance	MTI	4.9
Paving Southern Seaboard Coastal Highway	MTI	13.2
Upgrading of Matagalpa-Jinotega Highway	MTI	25.5
Paving of Guayacán – Jinotega Highway	MTI	26.1
Surfacing of highways	MTI	17.0
Highway drainage	MTI	15.0
II Program for Highway Rehabilitation and Maintenance	MTI	13.4
Rehabilitation of Chinandega-Guasaule Highway	MTI	145.9
Design for rehabilitation and Upgrading Granada-Guanacaste Junction Highway	MTI	1.2
Study and design for rehabilitation and Upgrading of Nejapa-Santa Rita Highway	MTI	2.4
Widening of Ticuantepe-Masaya-Granada Highway	MTI	118.8
Highway Rehabilitation	MTI	33.0
Study and design for rehabilitation Las Esquinas-San Marcos-Catarina Highway	MTI	1.5
Study and design for rehabilitation of Jinotepe - San Marcos Highway	MTI	0.7
Study and design for rehabilitation and Upgrading Jinotepe-Nandaime Highway	MTI	2.2
<b>2.1.2 Airports and Ports</b>		<b>224.6</b>
Construction of wharf on Isla del Cardon, Puerto Corinto	EPN	2.5
Construction of barge for Puerto Sandino	EPN	5.8
Repair of North Dock in Puerto Sandino	EPN	5.8
Remodeling of warehouse and expansion of dock in San Juan del Sur Port	EPN	6.7
Dredging Bluefields Bay and Escondido River	EPN	66.7
Construction of dry-dock in the El Bluff Port	EPN	6.7
Repair of access bridge to dock in Puerto Cabezas	EPN	6.2
Upgrading of port works in San Jorge Port	EPN	6.7
Remodeling of San Carlos Port	EPN	1.0
Construction and installation of fuel storage and supply systems	EPN	0.8
Acquisition of tugboat for Corinto Port	EPN	58.3
Acquisition of port equipment for El Rama Port	EPN	25.0
Improved navigation on the Escondido River	EPN	10.8
Improved navigation on Río San Juan	EPN	5.0
Closing of the El Bluff Isthmus	EPN	16.7
<b>2.2 Electricity</b>		<b>427.9</b>
<b>2.2.1 Rural Electrification</b>		<b>187.2</b>
Rural Electrification (CNE)	CNE	35.1
Develop small-scale hydroelectricity for productive use in off-grid zones	CNE	22.6
Rural Electrification in 6 Departments	CNE	11.3
Rural Electrification for dairy development in Boaco and Chontales	CNE	11.8
Rural Electrification Project for Isolated Zones	CNE	57.5
Rural Electrification Program in support of clusters	CNE	18.3
Rural Electrification Program in Productive Zones, concessioned area	CNE	11.7
Support Fund for Networks of Local Rural Electrification Organizations	CNE	14.7
Rural Electricity	FISE	1.2
Electrificación El Carrisal-Las Vegas and La Montañita, El Júcaro, Nueva Segovia	MTI	1.0
Electrification Sta. Clara - Municipality San Fernando/Nueva Segovia	CNE	0.1

Rural Electrification El Mamóm - Catarina/Masaya	CNE	0.2
Rural Electrification Mata de Guayaba - Nandasmo/Masaya	CNE	0.2
Rural Electrification Communities of Los Cabros, Marlon Alvarado, El Cacao, El Sol	CNE	0.9
Electrification of Caginicúil – Chontales rural district	CNE	0.1
Community Electrification Cerro Colorado to San Jose de Las Mulas – Municip. of Matiguás	CNE	0.7
<b>2.2.2 Development and Modernization of the Energy Sector</b>		<b>240.7</b>
Energy planning and development scenarios	CNE	1.9
Assess wind potential Sandy Bay Sirpe, Monkey Point, Puerto Cabezas, Bluefields	CNE	1.8
Program in energy efficiency for industrial and commercial sectors	CNE	1.5
Sub-transmission line Matiguas-Siuna and associated works	ENTRESA	74.5
Modernization of Las Banderas Substations	ENTRESA	0.3
Modernization of Boaco Substation	ENTRESA	0.3
Development of Larreynaga Hydroelectric Central	ENEL	4.2
Feasibility study Masaya-Granada-Nandaime for multi-utilization of geothermal energy	CNE	9.3
Expansion Ticuantepe Substation, Second Stage	ENTRESA	15.8
Supply power transformers	ENTRESA	1.2
Electricity Interconnection System for Central America	ENTRESA	31.1
Electricity interconnection Bluefields - El Bluff	ENTRESA	13.3
Rehabilitation of Managua electricity transmission system (Phase IV)	ENTRESA	36.3
Rehabilitation of Nandaime Substation	ENTRESA	1.5
Modernization of electricity system, North Region	ENTRESA	3.9
Electrification of Nuevo Amanecer barrio, Masaya	CNE	0.0
High tension electrification in María Auxiliadora barrio	CNE	0.7
Modernization of Nicaragua Plant Substation	ENTRESA	27.4
Connection Tipitapa Substation, Santa Barbara, and Nicaragua Plant	ENTRESA	15.7
<b>2.3 Productive Rural Development</b>		<b>683.1</b>
Model for Productive Attention to Small Producers with few resources (PESA) – INTA	MAGFOR	10.7
Promotion of basic grains production KR-II	IDR	48.5
Program for Development Poles (POLDES)	IDR	2.0
Services for Agricultural and Forestry Health-Sanitation	MAGFOR	23.0
Fund for Agricultural Development (FONDEAGRO) Phase II	MAGFOR	8.4
Program for Rice Rehabilitation and Campesino Development	IDR	6.0
Integral Rural Development in marginal communities, León and Chinandega (PROCHILEON)	IDR	7.5
Economic Social Development in the North and Central Zone of Nicaragua	IDR	31.2
Economic Social Development in Waslala, Cuá Bocay, Tuma La Dalia, and Rancho Grande	IDR	36.1
Development of the North Pacific Coast of Nicaragua	IDR	49.7
Initiative for the Rural Development of Nicaragua	MAGFOR	2.3
Local Development in the Department of Rivas	IDR	36.5
Program for Productive Rural Reactivation	IDR	154.9
Program for Economic Development of the Dry Zone of Nicaragua (PRODESEC)	IDR	40.5
Program for Strengthening Rural Development and Poverty Reduction in Boaco-Chontales	IDR	14.2
Project for Agricultural Technology (Phase I)	MAGFOR	59.5
Program for Support to the Agricultural Sector (PASADINA II)	MAGFOR	7.2
Project for Socioeconomic Infrastructure	FISE	13.1
Multiplication and Dissemination of Improved Breeders in the Republic of Nicaragua	MAGFOR	10.4
Program to Eradicate Cattle Drillworms	MAGFOR	5.9
Second Project for Rural Municipalities	MARENA	23.8
Expanded access to financial services	Presidency	2.0
Program for Improvement of Moveable Guarantees to facilitate access to credit	Presidency	1.0
Strengthening of National Program for Phyto-sanitary Surveillance	MAGFOR	4.3
FSS MAGFOR		30.0
FSS INTA		3.3

Strengthening of the operations of INTA	MAGFOR	51.2
<b>2.4 Secondary and Technical Education</b>		<b>80.2</b>
Rehabilitation and expansion of Agricultural Technical Teaching Center/Jalapa-INATEC	MITRAB	3.2
Expansion Fixed Center for Training - Boaco-INATEC	MITRAB	1.1
Agricultural Technical Education and Training -INATEC	MITRAB	2.6
Rehabilitation and expansion Cristobal Colon Polytechnic Institute/Bluefields-INATEC	MITRAB	1.0
Rehabilitation and expansion Polytechnic Institute/Jinotepe-INATEC	MITRAB	1.9
Program for training in self-construction of housing -INATEC	MITRAB	10.0
Promotion of employment and income generation in the local sphere (Pro-Employment)	INIFOM	2.0
Support for professional formation in hostelry and tourism in Nicaragua-INATEC	MITRAB	20.5
Creation of 50 technological kiosks throughout the country -INATEC	MITRAB	1.0
Project for Labor Skills Upgrading – Vulcan of Nicaragua	MECD	1.1
Courses on labor skills upgrading	MECD	5.2
Rehabilitation of secondary institutes (MECD/FISE)	FISE	17.1
John Paul II Specialized Technical Institute	Local Gov't	0.5
Equipping and rehabilitation of INTECNA building	INTECNA	7.0
Strengthening of educative sector in zones affected by Hurricane Mitch -INATEC	MITRAB	6.1
<b>2. Environment</b>		<b>125.3</b>
Bosawas Biosphere Reserve	MARENA	7.1
Socio-environmental and Forestry Development Program II (POSAF II)	MARENA	28.0
Natural resource management in protected areas	MARENA	12.2
Sustainable Natural Resource Management in the Southwest of Nicaragua	IDR	11.5
Mesoamerican Biological Corridor	MARENA	2.7
Environmental Management and Sustainable Development of the Río San Juan Basin	MARENA	4.9
Program for Support to the Environment Sector of Nicaragua	MARENA	23.0
Program for Support to the Environment Sector in Nicaragua PASMA-MIFIC	MIFIC	1.1
Human Development and Environment in the Biosphere Reserve of Southeast Nicaragua	MARENA	6.8
Southeast Nicaragua Biosphere Reserve Program (RBSEN)	MARENA	11.4
Strengthening for Watershed Management and Natural Disaster Prevention (FOCUENCAS)	MAGFOR	3.5
Master Plan for Forestry Management – Investment Phase	MAGFOR	5.3
Atlantic Biological Corridor	MARENA	7.9
<b>III. Institutional Strengthening to Increase Efficiency in Programs</b>		<b>534.0</b>
<b>3.1 Health</b>		<b>43.4</b>
Program for Promotion, Prevention, Education, and Communication in Health	MINSA	28.0
Institutional strengthening of the health sector	MINSA	15.4
<b>3.2 Education</b>		<b>209.7</b>
Professionalization of municipal pedagogic advisors	MECD	0.1
Design of basic and middle education reform with labor orientation and skills upgrading	MECD	4.7
Program for Support to Polices of the Educative Sector and Decentralization (PAPSE)	MECD	101.1
Education Project for Nicaragua, PASEN	MECD	46.7
Preparation of Program for Educative Reform, PPRE	MECD	2.5
Program of Basic Education, Base II (Healthier and better educated population)	MECD	25.4
Regional Reconstruction Program for Central America (PRRAC/MECD)	MECD	8.8
Program for Support to the Structural Transformation of the Educative Sector	MECD	0.1
Preparation of the Program for Educative Reform, PPRE	MECD	14.6
Promotion of Human Rights in the Primary Education Schools	MECD	5.8
<b>3.3 Social Protection</b>		<b>35.3</b>
National Program for Youth Information	Presidency	0.5
National Program for Solidarity	MIFAM	3.5
Institutional Strengthening (follow-up, monitoring, and evaluation of children's rights)	Presidency	0.3
Strengthening of children's participation	Presidency	0.4
Strengthening of social protection	FISE	14.0
Program of Institutional Strengthening for Protection of Vulnerable Groups, Phase II	MIFAM	13.6

Risk Management with Approach for Children and Adolescents	MIDEF	2.8
<b>3.4 Others</b>		<b>245.5</b>
Program for Municipal Strengthening and Development	INIFOM	21.0
Program for Support for Decentralization and Local Development (APDEL-INIFOM)	INIFOM	5.0
Support for Municipal Strengthening in Chontales, (Juigalpa, Comalapa, and Cuapa)	INIFOM	4.0
Program for Strengthening Municipal Management and Local Development (PROGESTION)	INIFOM	31.1
National System for “Concertation”, Coordination, Information, and Participation (PASE)	Presidency	1.8
Living Standards Measurement Surveys	INEC	12.2
Living standards measurements	FISE	8.3
Strengthening of local capacities	FISE	6.3
Institutional development FISE	FISE	82.6
SETEC FSS		5.0
MHCP FSS		1.7
VIII Population and IV Housing Censuses	INEC	66.6
<b>IV. Governance</b>		<b>98.0</b>
Program for Judicial Strengthening and Access to Justice	CSJ	46.1
Efficiency and transparency in State contracts	EFIYTRAN	7.0
Institutional strengthening of the Supreme Electoral Council	CSE	3.2
Support for governance and transparency – Citizen Participation - SETEC-Communication	UCRESEP	9.0
Program for Rural Judicial Facilitators	CSJ	1.1
Program for Modernization of the CGR	CGR	23.4
Pilot project to make possible access to justice for low-income sectors of Masaya	CSJ	7.1
Project for simplification of the Case Reception Offices in Estelí and Masaya	CSJ	1.2
<b>V. Improve Business Climate</b>		<b>168.5</b>
Integrated System for Standardization, Accreditation, Certification, and Metrology	MIFIC	0.1
Rehabilitation of coffee sector in Nicaragua	MIFIC	0.5
Strengthening of export coffee producers	MIFIC	1.4
Support for technological innovation in Nicaragua	MIFIC	31.2
Project for Competitiveness, Learning, and Innovation	MIFIC	37.8
Strengthening of management of foreign trade in Nicaragua	MIFIC	19.4
National Program for Development of Nicaraguan MIPYMEs	MIFIC	12.9
System for attention and simplified procedures for the formation of firms	MIFIC	9.2
Design and implementation of the strategy for the Export Promotion Center	MIFIC	2.0
Fisheries development on the Pacific Coast of San Juan del Sur	MIFIC	0.5
Entry of the private sector into the energy production business	MARENA	0.4
Installation of seafood storage center in Sandy Bay Norte-RAAN	RAAN	2.0
Project for ordering of property ownership	ORDPROP	44.7
Expansion of coverage of the Project for Ordering Property Ownership	ORDPROP	3.2
Ordering of property ownership in Las Tunas, Waslala, Managua, and Nueva Guinea	ORDPROP	3.3
<b>Non-Poverty Capital Spending</b>	-	<b>835.8</b>
<b>VI. Institutional Strengthening</b>		<b>522.9</b>
Registry of the Civil Status of Persons	CSE	0.8
Strengthening SNIP/INIFOM	INIFOM	0.6
Strengthening SNIP/MARENA	MARENA	0.6
Strengthening SNIP – IDR	IDR	0.6
Strengthening SNIP-MECD	MECD	0.6
Strengthening SNIP - MTI	MTI	0.7
Strengthening SNIP/MAGFOR	MAGFOR	0.6
Institutional Strengthening of the Health Sector	MINSAs	0.7
Strengthening Execution Unit RAAN	RAAN	0.3
Strengthening and Administration of National System for Public Investment (SNIP/SETEC)	Presidency	4.1
Program for Support to the Secretariat for Coordination and Strategy of the Presidency	Presidency	3.1
Optimize supply system, improve indexes for macro- and micro-measurement, planning	ENACAL	5.1

Program for Modernization of Management of Drinking Water and Sanitation Services	ENACAL	55.8
Global Program of Multiple Works for Modernization of Management of ENACAL	ENACAL	21.1
Program for Institutional Support for Environmental Management (Pro-Ambiente)	MARENA	7.3
Second Project for Rural Municipalities	INIFOM	112.0
Program of Support for MAGFOR and the Development of Factors	MAGFOR	3.7
Monitoring and Modeling for Lake Managua	INETER	1.2
Institutional Strengthening for MIFIC	MIFIC	0.5
Restructuring, Institutional Strengthening, and Expansion of Coverage of the National Police	MIGOB	17.9
Institutional Strengthening – Projects Coordination Unit	MIFIC	0.4
Development of meta-data base of INETER	INETER	0.2
Formulation of fiscal policies MHCP/OAFE	UCRESEP	7.6
Support for execution of institutional reform (SETEC, OAP, OEP, GE)	UCRESEP	16.9
Implementation of Law for Civil Service	UCRESEP	18.2
Projects Coordination Unit (UCP)	UCRESEP	8.0
Plan for Sustainability and Modernization of the Public Registries	CSJ	2.4
Strengthening of Judiciary in planning, formation, and forensic science	CSJ	3.2
Implementation, monitoring, evaluation for growth and poverty reduction (PRSP)-TF	UCRESEP	4.0
Support for strategic planning function – poverty reduction - -SETEC/Planning -PSTAC	UCRESEP	4.6
Institutional strengthening of MINREX-SEREC	UCRESEP	3.4
Strengthening and expansion of National System for Public Investment SETEC-SNIP	UCRESEP	3.1
Strengthening system for evaluation and follow-up of public policies SETEC-Monitoring	UCRESEP	5.1
Strengthening of capacities for environmental management	MARENA	1.4
Establishment of basic and risk maps for GIS in Nicaragua	INETER	11.8
Responsible development of the lobster fishery in Nicaragua	MIFIC	0.5
Development and functioning of the centralization of the taxation system	CST	9.5
Support for sector programming and prioritization	MHCP	1.7
Strengthening of Public Administration	MHCP	2.7
Program for Support to the National Development Plan	ENACAL	8.1
Project for reform to telecommunications	TELCOR	13.1
Support for INTA in new strategy for technological development in agriculture (Pasadanida II)	MAGFOR	5.1
Establishment of the hydro-geological network of aquifers in the country	INETER	0.7
Geodesic densification of the southern border	INETER	0.7
Support for the Office of the Environmental Ombudsman	PGJ	3.1
Territorial zoning, Department of Madriz	INETER	0.3
Territorial zoning, Department of Río San Juan	INETER	0.9
Incorporation of gender perspective in official statistics	MIFAM	0.8
Modernization and accreditation of tertiary education	MAET	5.2
Tertiary Education Phase II	MAET	6.8
Program for Citizen Security	MIGOB	1.6
Mitigation and Prevention of Geo-risks in Nicaragua and Central America	INETER	1.3
Delimitation of maritime and land frontiers of Nicaragua	INETER	1.5
Epidemiological surveillance of animal health	MAGFOR	6.8
Consolidation and sustainability of computerized meteorological networks	INETER	1.4
Consolidation and expansion of Integrated System for Financial Management	UCRESEP	68.3
Strengthening of Network of Mayors Friends of Children	INIFOM	1.6
Sustainability of networks for surveillance of natural phenomena	INETER	1.7
Study of geological risk and reconnaissance for deposit of construction materials, Ocotal	INETER	4.0
Program of Volunteers and Youth Service	Presidency	0.7
Early Warning System in 6 Municipalities of Northern Chinandega	MIDDEF	2.5
Disaster prevention in 37 communities in the Municipality of León	MIDDEF	2.6
Protection from disasters on Telica Volcano	MIDDEF	2.5
Prevention and attention to forest fires in the Municipality of Jalapa	MIDDEF	2.7
Reduction of vulnerability to natural disasters	SINAPRED	35.0
Project for risk management in planning processes in 10 municipalities	INIFOM	1.5
Strengthen educative sector for prevention and reduction of vulnerability to natural disasters	MECD	0.1
Phase II capacity building for climatic change adaptation, Central America and Mexico	MARENA	0.7
<b>VII. Projects for Infrastructure and Equipping</b>		<b>312.9</b>
Construction and maintenance of sports facilities	CMID	8.4

## Annex 2

Other institutions	Local Gov't	3.1
Maintenance of Zoo and Museum, Local Government of Juigalpa	Local Gov't	0.3
Maintenance of San Pedro Cemetery, Managua	Local Gov't	0.4
Historical Archives of the Nation	Local Gov't	0.3
Footprints of Acahualinca	Local Gov't	0.3
Archdiocese Archives of León	Local Gov't	0.1
Maintenance Metropolitan Cathedral of León	Local Gov't	0.5
José de la Cruz Mena Theater, rehabilitation of water pipes, León	Local Gov't	0.1
Acquisition of fishery guard launches for surveillance and protection of maritime resources	MIFIC	4.9
Protection of TNRD infrastructure	MECD	2.2
Rehabilitation Tipitapa Penitentiary System	MIGOB	1.2
Construction of Estelí Penitentiary System	MIGOB	1.3
Rehabilitation of Chinandega Penitentiary System	MIGOB	0.9
Rehabilitation of Ministry of Governance headquarters building	MIGOB	2.0
Rehabilitation and expansion of Juigalpa Penitentiary System	MIGOB	1.5
Rehabilitation and expansion of Granada Penitentiary System	MIGOB	1.8
Expansion of fiber-optics communication system, Tipitapa -Bluefields	ENTRESA	35.0
Expansion of National Assembly building	AN	10.0
Construction of Municipal Police Station in San Marcos/Carazo	MIGOB	5.2
Regional Project for Control and Eradication of Swine Pests	MAGFOR	1.4
Maintenance of National Historic Patrimony /INC	MECD	8.0
Construction of Government House in Bluefields- RAAS	RAAS	9.7
Expansion of Offices for the Autonomous Regional Government of the RAAN	RAAN	1.1
Acquisition of land and infrastructure for the departmental revenues administration offices	DGI	7.0
Construction of Regional Council building, Bluefields	RAAS	3.5
Projects for investment in member-universities of the CNU	CNU	162.8
Construction of administrative building in El Rama	EPN	2.5
Remodeling of the Archangel Rafael Temple -San Rafael del Norte	Local Gov't	0.7
Project for investment in the CSJ	CSJ	10.9
Academy of Baseball	MECD	0.5
Pavement Administration Conservation System	MTI	4.0
Equipping and strengthening of the system for communication	CSJ	5.0
Rehabilitation of DGA building	DGA	5.0
Rehabilitation of Dr. Concepción Palacios National Health Complex	MINSA	2.0
Construction offices for Migration and Aliens in San Carlos, Río San Juan	MIGOB	5.4
Rehabilitation of fire station in Ciudad Sandino, Managua	MIGOB	2.5
Rehabilitation of fire station in the Industrial Zone of Managua	MIGOB	1.0
Expansion and equipping for rural and municipal coverage by the National Police	MIGOB	0.6

Source: SNIP, SETEC.



## **Annex 3**

# **The Poverty Map, Social Marginality, and Territorial Economic Potential**

## The Poverty Map, Social Marginality, and Territorial Economic Potential<sup>41</sup>

The globalization process has sparked more interest in the economic-geographical aspects of regions, since these aspects determine the competitiveness of territories in line with their economic potential and the impact of competitiveness on the population's living conditions.

All human activities and actions, economic and otherwise, are done in a geographic sphere that is influenced by different factors. Standing out among these are public policies and the social, cultural, and political characteristics of the localities. Through the participatory process, the National Development Plan has identified patterns of clusterings in the different territories as well as the natural evolution of economic activity over time, particularly with the movement of factors, commercial relations, and the trade of merchandise between regions.

It is a fact that the spatial distribution of the economy is diverse and heterogeneous, reflecting historical processes and the structural conditions that guide it, along with the mobilization of resources and production factors. The reduction of production costs and the importance of information as a factor for production makes economic activity cluster geographically. There are zones where factories, banks, restaurants, etc. are located. This clustering is caused by the internalization by the firms of factors that benefit economic activity. Being close to the competition enables one to follow and reproduce patterns or innovations in the given industry that assure greater profitability and/or efficiency. This closeness allows for contracting or purchasing production factors (labor, capital, or inputs) at a lower cost, since the providers of these factors know where to find a concentrated demand for their services.

This is important because the economic-geographic structure of Nicaragua is fragmented and does not allow for making full use of these external benefits. With support from the UNFPA, a series of studies were conducted in order to have a more exhaustive and rigorous knowledge of the living conditions of the population in Nicaragua, the levels of social marginalization at the departmental and municipal level, and the potential for regional economic growth and development.

### ***Background: policies based on the Poverty Map***

In the conceptual framework of the SGPRS (PRSP I), the *Map of Extreme Poverty* was adopted as a tool for guiding resource allocation, classifying the Nicaraguan population into geographic zones (regions, departments, and municipalities), according to four different levels of extreme poverty: severe, high, medium, and low.<sup>42</sup> The classification criteria are based on the extreme poverty gap constructed by SETEC with technical assistance from the World Bank.

The map allowed for delineating efforts in order to provide attention to people living in extreme poverty and for beginning to bring order to public investment allocations, using territorial

<sup>41</sup> Sobrino, Jaime (2004), "*Competitividad y distribución territorial de las actividades económicas en Nicaragua: impactos del Plan Nacional de Desarrollo*," (Competitiveness and territorial distribution of economic activities in Nicaragua: Impacts of the National Development Plan), Managua, Presidency of the Republic, Secretariat for Coordination and Strategy and United Nations Population Fund.

<sup>42</sup> SGPRS 2001 (Annex 4)

criteria. This tool can now be complemented by other methods that enable more targeting of public policies in function of the territorial distribution of the population and its best social and economic opportunities.

### *The map of migration*

All development processes have been accompanied by population movements from one locality to another. As with the evolution of employment, following migratory flows will make the National Development Plan more dynamic so that it can be adapted to the dynamic patterns of the economy and the mobilization of people and thus the mobilization of demand for public services. In Nicaragua, one of every three heads-of-household live in a zone where they were not born.<sup>43</sup> This indicates a very high level of mobility.

A map of migration was drawn up based on census estimates (NDP September 2003). It identifies which regions the population went to in the recent past. The map shows immigration and emigration rates for each municipality.

### *Map of marginalization*

Marginalization is defined as a temporary condition of isolation in which an individual suffers the lack of a service or infrastructure in a specific territory. It is a structural phenomenon that stems from the heterogeneous character of the development process, especially regarding the difficulty of spreading the process throughout the country.<sup>44</sup>

Notwithstanding their multi-dimensional nature, some privations suffered by the population have to do with a lack of access to public services and goods, like education, health, nutrition, water, sanitation, and electricity, among others. Furthermore, by making estimates with the greatest possible level of territorial breakdown, it is possible to have a more effective targeting of public actions, since measurements at the level of municipalities conceal inequities between populations in the same municipality.

Social marginalization is a structural phenomenon that stems from the heterogeneous nature of the development process. In the economic sphere, it manifests itself as the difficulty to spread the technical process throughout the productive structure and the regions of the country. In the social structure, it is expressed as a persistent exclusion of broad segments of the population from the development process and the enjoyment of its benefits.

The development process in Nicaragua has resulted in the formation of marginalized zones and population groups in rural and urban areas, and this poses challenges for planning. Rural areas show the most notable deficiency in the demographic transition, with high rates of infant mortality and fertility, a greater ratio of demographic dependence, and stronger migratory pressures towards the national urban system and towards Costa Rica and the United States. In rural areas, the territorial dynamism of human settlements and migratory flows result in the

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<sup>43</sup> FNUAP (2002)

<sup>44</sup> NDP-Sept. 2003, Chap. IV

existence of marginalized neighborhoods and squatters' settlements, in which families that have not fully integrated into the benefits of urban development live.

Similarly, complex socioeconomic and demographic processes interact to have it so that thousands of families live in small marginalized rural localities in conditions of extreme poverty. In many of these localities —above all those in conditions of dispersion and isolation— the families and communities are faced with vulnerabilities that are out of their control, principally due to the privations and risks that they suffer because of the precarious structure of social opportunities that is reflected in a lack of access to public goods and services.

### *Situation reflected in the 7<sup>th</sup> Population Census of 1995*

According to data from the 1995 Population Census, 26 percent of the Nicaraguan adult population was illiterate and 58 percent had not finished primary school. Parallel to this, the privations associated with living in inadequate dwellings compromised the quality of life of most of the population, with 46 percent of the population living in homes without piped-in water, 40 percent without electricity, 84 percent without wastewater disposal or an exclusive toilet, 53 percent in homes with dirt floors, and 45 percent in rural settlements, often dispersed and isolated and with low coverage of essential services like health or infrastructure, equipping, roadways, and means of communication.

There is a great deal of territorial inequality, both in terms of population distribution and in the structure for social opportunities because of the availability of public goods so that people, their families, and communities can carry out their life project. Below are some examples.

According to CELADE estimates<sup>45</sup> for 2005, one in four Nicaraguans lives in the Department of Managua, followed by Matagalpa and Chinandega with 9 percent and 8 percent of the total population, respectively. Thus, 42 of every 100 Nicaraguans live in three of the country's 17 departments. On the other extreme, less than 2 percent of the population lives in the Department of Río San Juan.

There is also a marked inequality of opportunity between departments, according to the proportion of the population that lives in inappropriate housing. Once again in the data from the 1995 Population Census, Managua was the department with the lowest percentage of people living in homes without piped-in water (12 percent), while 88 percent of the population of the RAAS suffered from this privation, followed closely by the RAAN and Río San Juan, where 84 percent of the population lived in homes without this vital service. For the privation resulting from living in a home with a dirt floor, the biggest gap was between Managua (32 percent) and Boaco (74 percent). For living without electricity, it went from 7 percent in Managua to 82 percent in the RAAN.

Nicaraguan society faces the challenge of combining strategies for public intervention oriented towards attending to the needs of all citizens with others that aim to give support to the most disadvantaged population; that is, with actions that aim to benefit the people, families,

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<sup>45</sup> CELADE, estimates and projections for the population of Nicaragua, 1950-2050

communities, and marginal regions where there is difficult or no access to basic services and the economic setting hinders their productive recovery.

Attention directed at the most disadvantaged population is a necessary complement to public strategies for achieving universal access to the essential goods and services provided by the State, ensuring in this form a reduction in inequality. The combination of both strategies and their consistency in time can allow for improving the quality of life of the population, as well as the gradual equalization of opportunities among the citizens and social groups making up the nation.

### ***The Index for Social Marginalization***

The Index for Social Marginalization (ISM) is an objective, synthetic, and simple indicator of inequalities in Nicaragua's national and local development. The index puts values on structural dimensions of social marginalization and it identifies eight of its forms and measures their spatial intensity as a percentage of the total population that does not participate in the enjoyment of goods and services essential for developing minimum basic capacities. This index allows for an integrated and comparative analysis of the overall impact that lacks have on the political-administrative units (Departments and Municipalities) and on the coming setting in which the people will act and be realized; that is, the impact on settlements or localities.

The objectives of the ISM are:

1. Constitute an objective and impartial instrument for the territorial measuring of accumulated social deficit, which would serve as the basis for establishing orders of priority in social spending and for guiding strategies for intervention oriented towards modifying the inequality that affects the different social groups in their place of residence.
2. Facilitate the application of principles of distributive justice in the allocation of resources and the development planning processes through priority attention to the most disadvantaged groups.
3. Propitiate social surveillance and participation in the democratic processes for planning and executing programs oriented at improving the conditions and structures for opportunity by spreading and creating consensus about the criteria for the allocation of public resources and the orders of priority, based on measures that are prepared with a solid statistical methodology.

The idea with the ISM is to help have better decision-making for improving the living conditions of the population, above all in regards to settlements where the main economic, social, and demographic indicators are the most serious.

### ***Composition of the ISM***

The ISM uses the National Censuses of 1995 (7<sup>th</sup> Population and 3<sup>rd</sup> Housing) because these sources have the coverage and degree of breakdown of the data necessary for constructing the index at the departmental, municipal, and locality level.

The census variables making up the ISM are: literacy, schooling, housing, toilet, electricity, piped-in water, bedrooms, main floor material, and type of area of residence.

These variables of shortfall or deficit illustrate the forms of social exclusion; that is, they indicate the relative level of privation in which major portions of the population are living in each department, municipality, or locality. With the application of the Optimum Stratification developed by Dalenius and Hodges, the run of the Marginalization Index is divided into five intervals, resulting in the following classification.

Once the eight indicators that allow for measuring each form of exclusion selected are calculated, it is necessary, based on them, to construct a summary measure that shows the intensity of the phenomenon. Along this line, the idea is to generate an indicator that would evaluate the overall impact of the deficits and that also includes certain characteristics that facilitate the analysis of the territorial expression of marginalization:

- ✓ That reduces to one dimension the original multi-dimensionality of the phenomenon observed, marginalization in this case, and that at the same time retains and reflects to the maximum possible the information related to the dispersion of the data in each of the eight indicators, as well as the relationships between them; and
- ✓ That allows for establishing an ordering among the observation units (departments, municipalities, and settlements). It should be made clear that an independent estimate was made of the index of marginalization for each of the three levels of analysis referred to.

In order to obtain a measurement-summary of the eight forms of marginalization, use is made of the analysis of principal components. This is a mathematical method that transforms a set of variables (or indicators) into a new one where with fewer variables and a simpler interpretation of the original phenomenon can be made. Thus, the analysis of principal components changes a set of interrelated variables into another that is not interrelated, in which one can order the transformed indicators so that the former explains as much variability of the data as possible.

#### Basic results of the application of the ISM

##### At the departmental level

- 1 department with a very low degree of marginalization (Managua)
- 3 with a low level (Masaya, Granada, and Rivas)
- 5 with a medium level (Chinandega, León, Estelí, Carazo, and Chontales)
- 1 with a high level (Nueva Segovia)
- 7 with a very high level of marginalization (RAAN, RAAS, Jinotega, Madriz, Matagalpa, Boaco, and Río San Juan)

##### At the municipal level

- 9 municipalities with a very low level of marginalization (28 percent of the population)
- 26 with a low level (23 percent)

- 32 with a medium level (17 percent)
- 46 with a high level (19 percent)
- 32 with a very high level of marginalization (13 percent)

At the level of localities

- 810 with a very low level of marginalization (12 percent of the population)
- 1,433 with a low level (23 percent)
- 2,785 with a medium level (18 percent)
- 2,501 with a high level (13 percent)
- 2 972 with a very high level of marginalization (34 percent)

Operationally speaking, however, the different elements of the index should be used to direct specific public policies. The marginalization of housing in a particular municipality, for example, should be used by the authorities to focus on the territory for this type of intervention.

Equally important to the index level, is the volume of marginalization. As with the poverty headcount, there is a potential risk of not considering the *number* of people as a criteria, which in turn will have an important effect on the evolution of the different goals.

### ***Territorial distribution of economic activities***

Gross Domestic Product is one of the indicators most used in economic and territorial analysis, besides being employed in relation to other social, environmental, or cultural variables. The Central Bank has only calculated it for the national context, overlooking estimates made at a lesser territorial scale, such as departments and municipalities.

Given the need to have GDP figures for each territory in Nicaragua in order to know the territorial distribution of economic activities and the priority municipalities for locating the clusters of activities, first of all an estimate of the GDP was made by department and municipality, making use of available statistical information.<sup>46</sup>

The GDP estimate for 2000 by department and municipality enables one to conclude that there is a significant territorial concentration of economic activities, with the Department of Managua generating 43 percent of the national GDP, followed distantly by Matagalpa and Chinandega with 7 percent each and León with 6 percent. These four departments produced almost two-thirds of the national GDP. As at the departmental scale, economic activity by municipality is characterized by a process of concentration in a few points. This concentration is explained in part by the pattern of population distribution and the existence of urbanized zones. The municipality generating the most GDP in 2000 was Managua with 36.3 percent of the national total, with León in second place with 3.3 percent. Chinandega is third with 3.1 percent, Masaya is fourth with 3 percent, and Matagalpa is fifth with 2.7 percent.

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<sup>46</sup> Sobrino, 2004.

*Mechanisms for territorial economic promotion*

Once there is an estimate of the spatial distribution of economic activities, the next step in the process of drawing up public policies consists in knowing about the strengths and weaknesses of each territory: the former to identify the absolute advantages and to promote the quantitative expansion of the territorial economic base and the latter to come up with actions in order to have a qualitative restructuring of the spatial economic structure.

These strengths and weaknesses can be described with the construction of a map of infrastructural advantages that includes the existence or not of productive infrastructure. The variables used at the municipal level to draw up this map were the number of kilometers of highway and roads inside the municipality, telephone lines per inhabitant, and the number of electricity hook-ups.

From the combination of these variables, different types of municipalities appear: i) municipalities with high degrees of strength; ii) municipalities with medium strengths; and, iii) municipalities with low degrees of strength.<sup>47</sup> This classification is relevant for decision-making in public policy in matters of orienting investment in infrastructure with a spatial-sectoral perspective.

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<sup>47</sup> Operative National Development Plan, September 2003 version. The map of productive marginality was denominated in this document.



## **Annex 4**

### **III Progress Report for the SGPRS**

### III Progress Report for the SGPRS

#### Macroeconomic Frame and the Poverty Reduction Strategy

##### Performance of the Economy 2003-04

In a context of fiscal discipline and with a not very favorable external setting, the economy in 2003-2004 managed to reverse the deceleration shown since 2000. Inflation was kept at single digit levels despite increased fuel costs; employment and exports increased; the international reserves position was consolidated; and, there was progress with the promulgation of important laws for institutional strengthening and reform. The results allow one to appreciate significant advances but at the same time, some shortfalls persist that have to be overcome in regards to the projected goals. Nevertheless, these results did not meet the expectations put forward in the Strengthened Growth and Poverty Reduction Strategy (SGPRS).

In spite of complex internal and external conditions, the macroeconomic program implemented by Nicaragua for the 2002-2005 period contributed to the stability of the country and to furthering reform. In effect, the economy grew at a rate of 5.1% in 2004, higher than the goal set in the PRGF of 3.7% and the rate the year before (2.3%).

The growth of the GDP meant that the average growth rate for the 2003-2004 period was 3.7%, which is below the average rate estimated in the poverty reduction strategy (4.7%). This result is explained by the deterioration in trade relations caused by the fall of coffee prices and the increase in petroleum prices, which caused an estimated 2.0% rate of deceleration of the GDP.

This tendency began to be reversed in 2003 with a more accelerated dynamism in agriculture, the manufacturing industry, and construction, and also in tourism, which has shown strong growth over the last two years. The expansion of the textile industry in the free trade zones, the presence of more foreign investment in the construction sector, a broader and better public investment program, and the allocation of resources to specific programs to give incentives for production, like the national pound-for-pound program, the promotion of small and medium industry, and the rural electrification program helped in achieving these results.

In turn, this allowed for a 7.0% increase in per capita income during 2003-2004, overcoming the fall by 4.4% recorded in the previous period (2001-2002). Nonetheless, the per capita income level did not reach its optimum point that was registered in 2000 or the increase put forward in the SGPRS.

There was greater productivity of exports in 2003-2004, reaching US\$1,360.1 for both years, 18.2% more than the previous period (2001-2002). These results have to do with improved international prices for coffee and the increased volume of exportable non-traditional production. It should be underlined that FOB exports for 2004 (US\$755.6 million) surpassed the highest historic level for the country.

In terms of employment, the economy not only could sustain the levels shown in previous years, but there was also growth in the free trade zone sector, increased farming activity, and

more construction, allowing for an improved quality of employment and an increase in the number of jobs by more than 106,950 during 2003-2004, 30% more than in 2001-2003.

In relation to the behavior of prices, the inflation rate was higher than the rates projected in the program, mainly because of the effect of higher prices for fuel and other imported raw materials. During 2003-2004, inflation was estimated to be 15.8%, in contrast to what was set forth in the PRGF (13.6%) and above the rate recorded for the preceding period (8.7%).

It is important to note that the expectations for the economy put forward in the poverty reduction strategy were not only affected by the above-mentioned external factors, but also by the financial crisis faced by the country in 2001 and by the adverse political setting created by the fight the government undertook against corruption in 2002.

### **Policy and Reforms**<sup>48</sup>

Economic policy in 2003-2004 had the main objective of achieving the forgiving of the foreign debt and preserving stability, and the completion point of the HIPC Initiative was reached in January 2004. It was also directed at dealing with the impact of the banking crisis of the preceding years, resisting the adverse setting of international prices, reversing the depressive tendency of the economy, and protecting social spending in a context of stability.

The fundamental elements of the economic policy were set forth in the frame of the PRGF agreed on with the IMF in December 2002 and the National Development Plan that came out in late 2003. The macroeconomic strategy rested on fiscal policy and structural reforms in order to strengthen the market economy, further transparency in public management, and make poverty reduction viable.

As programmed, the authorities approved the laws that were projected in the matrix of conditions for reaching the completion point of the HIPC Initiative<sup>49</sup>, among them the approval and progress in the implementation of the Law for Civil Service. The performance indicators related to the quantitative goals of the PRGF in terms of reducing the fiscal deficit, increasing savings, and accumulating international reserves were also met.

During 2003 and 2004, the government directed its efforts at maintaining discipline in public spending, broadening the tax base, and improving tax administration. It also took measures to prevent and punish acts of corruption and it strengthened the mechanisms for control and follow-up in the administration of public revenues. It introduced two taxation reforms that reduced exoneration and special taxation treatment, creating a system that is less anti-export, less discretionary, and less regressive.

The reduction of public indebtedness was also a priority and so the Central Bank of Nicaragua (BCN) managed to complete the process of renegotiating the internal debt rooted in the banking crisis, extending the periods up to ten years and reducing the interest rate to 8%. It also liquidated the assets from the intervention of the banks and this boosted its net internal assets.

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<sup>48</sup> For more details, see Chapter 7 of the PRSP II.

<sup>49</sup> Government of Nicaragua: Second Progress Report, October 2003; page 13, Table No. 1.

In line with this effort, the monetary authority revised its policy for the placement of titles, gradually reducing the stock of these in circulation.

This helped strengthen the monetary policy, which allowed for reducing the legal reserve and it was also strengthened by the fiscal results that enabled the BCN to apply a contractive credit policy to the government, unlike in 2001 when the contrary was the case. Because of all this, there was a deceleration of quasi-fiscal losses, a reduction of the interest rate in the financial market, and a greater increase in bank liquidity, which favored loans for production.

Once the forgiving of the foreign debt was achieved (by more than 80%), the government reinforced the legal frame for regulating the government policy for indebtedness, consistent with a sustainable fiscal policy and with the strategic elements of the National Development Plan (NDP). This effort culminated with the approval of the General Law for Public Debt in November 2003. Besides this law, there was progress with the structural reforms with the approval of the Law for Civil Service, the General Budget Laws 2004 and 2005, and the Law for Municipal Transfers as part of the budgetary decentralization process, among others.

The further strengthening of the financial system was an important part of the reforms that aimed at preventing crisis situations in the banking system. To make progress along this line, the government presented the National Assembly with a proposal for prudential norms in order to reduce the risk for banks in the event of a possible undermining of its assets and liabilities. It introduced a draft for amendments to the General Law for Banks in order to strengthen banking supervision and the Deposit Guarantee Fund (FOGADE) and it proposed reforms to the legal frame for the Superintendence of Banks and Other Financial Institutions (SIBOIF) in order to give more legal protection to its officers, strengthen its Directive Council, and improve its operative structure.

Along this same line, the government supported a program for the modernization of the Office of the Comptrollers-General (CGR) that has four components: a review of the institutional structure; strengthening control mechanisms, development of training programs for the staff; and, development of technological infrastructure. There has been major progress in all four components.

Pension reform is also a priority for the government, although there was not as much progress as expected. A greater deficit than what was originally contemplated for the Nicaraguan Social Security Institute (INSS) led to a review of the process, including a review of the parameters on which the initial project was based.

Because of this, the government formed a national commission to evaluate alternatives for the financial sustainability of the INSS and to make it viable to privatize pensions. This also means refining the calculations of the fiscal cost of such an alternative in order to incorporate it into the economic program so that it will not mean budgetary difficulties that limit the scope of the poverty reduction strategy.

Although the final goal is to protect those who pay into the system through the management of individual accounts, it has to be recognized that there is a major population group that does not

qualify for entry into this project, and this will have to be absorbed by the INSS through a common fund, for which funding would have to be found.

### **Fiscal Indicators**

In the frame of this effort for policies and reforms, the fiscal, monetary, and balance of payment results showed good behavior in line with what was expected in the PRGF, except for slight deviations in some indicators. This was noted by the HIPC process in 2003 and by the quarterly evaluations for follow-up to the PRGF made by the IMF.

The authorities have moved towards a more selective and efficient management of public spending and towards broadening the tax base and fiscal equity. During 2002-2004, two taxation reforms were introduced, the objectives of which center on: broadening the tax base, attacking anti-export bias, reducing levels of administrative discretionality, improving tax administration, and making the system less regressive. In relation to spending, the austerity program in public institutions was furthered with a reduction in salaries for officials and reduced sumptuary spending.

The present policy for public investments and budgeting establishes commitments in order to assure the healthy administration of public spending, thereby allowing for reduced taxation insecurity, increased credibility before civil society and the international community, and stability and economic growth. The identification of poverty spending in the budget also facilitates having the government be more selective in its policies and programs to benefit social sectors.

Although total NFPS (non-financial public sector) spending went from 24.4% to 25.1% of the GDP between 2003 and 2004, because of a greater availability of external resources, the increase was due to capital expenditures. The prospects are to have this indicator be about 23.7% between 2005 and 2009.

The increase for the public investment program and salaries, the effect of the HIPC on the foreign debt interest burden, the impact of greater economic activity on tax revenue collections, and a greater than expected flow of external resources were what characterized fiscal behavior during 2003-2004, thanks to better tax administration.

Because of this, the non-financial public sector (NFPS) deficit after donations was below what was programmed for the period, with an annual average of -1.1% of the GDP compared to the agreed-on program for -1.4% of the GDP; nevertheless, public spending expanded beyond the limits considered in the PRGF (Table No. 1).

This fiscal behavior enabled the government to transfer resources to the monetary authority in an amount equivalent to 6.1% of the GDP during 2003-2004, strengthening the international reserves position of the BCN. With this, the BCN could cover quasi-fiscal losses and the effect of the internal debt so that the reserves in 2004 were at the unprecedented level of US\$670.4 million in gross terms.

Table 1. Nicaragua: Fiscal Indicators

Items	2000	2001	2002	2003		2004	
				Program	Executed	Adjust. Program	Executed <sup>1/</sup>
<b>Relation to the GDP</b>							
<b>Non/Financial Public Sector</b>							
Income	20.1	19.1	20.2	22.1	21.5	22.0	22.5
Current	20.0	19.1	20.2	22.1	21.5	22.0	22.4
Total Spending	28.6	31.3	28.8	29.2	28.2	28.1	28.3
Recurrent	16.9	21.0	20.8	20.1	18.6	17.5	17.5
Capital	11.8	10.3	8.0	9.1	9.6	10.6	10.8
Savings	3.2	(1.9)	(0.6)	2.0	2.9	4.5	4.9
Primary Savings	6.0	3.3	5.1	7.1	6.6	7.3	7.6
Global Deficit a/d	(8.6)	(12.2)	(8.5)	(7.1)	(6.7)	(6.1)	(5.7)
Primary Deficit a/d	(5.8)	(7.0)	(2.8)	(2.0)	(2.9)	(3.2)	(3.0)
External Donations	4.5	4.6	4.9	5.0	5.2	5.2	5.0
Global Deficit d/d	(4.1)	(7.6)	(3.6)	(2.0)	(1.4)	(0.8)	(0.8)
<b>Central Government</b>							
Income	15.1	13.9	15.0	16.7	16.2	16.8	16.9
Current	15.1	13.9	14.9	16.7	16.2	16.7	16.9
Total Spending	23.9	26.3	23.5	23.6	23.0	22.3	23.0
Recurrent	13.6	17.1	16.7	15.9	14.5	13.4	13.4
Interest	2.1	5.2	5.7	5.1	3.7	2.8	2.7
External	1.4	2.5	2.8	2.6	1.3	1.1	1.1
Internal	0.6	2.7	2.9	2.5	2.4	1.7	1.6
Capital	10.2	9.2	6.8	7.7	8.5	8.9	9.6
Savings	1.4	(3.3)	(1.8)	0.8	1.7	3.4	3.4
Primary Savings	3.5	1.9	3.9	5.9	5.4	6.2	6.1
Global Deficit a/d	(8.8)	(12.4)	(8.6)	(6.9)	(6.8)	(5.5)	(6.1)
Primary Deficit a/d	(6.7)	(7.2)	(2.9)	(1.8)	(3.0)	(2.7)	(3.4)
External Donations	3.8	3.9	4.5	4.5	4.8	4.7	4.7
Global Deficit d/d	-5.0	-8.5	-4.1	-2.3	-2.0	-0.8	-1.5
Memorandum							
GDP current (millions of córdobas)	49,952.0	55,155.3	57,376.3	61,926.6	62,673.8	70,270.6	72,603.3

1/: Preliminary.

Source: MHCP, BCN.

## Poverty Spending and Financing<sup>50</sup>

In the frame of the performance of the PRGF and the SGPRS (PRSP I), the authorities put priority on poverty spending so that during 2003-2004, it was higher than the agreed-on goals, going from 10.2% of the GDP in 2002 to 12.3% in 2004. Things to do with the public investment program, salary increases, and spending for the social safety net and transfers to municipalities largely explain this behavior. It should be mentioned that this was possible, thanks to flows of resources from the international community.

A new definition of poverty spending has been prepared, which leaves behind the institutional bias of the previous one and concentrates on the effect of public sector spending on poverty reduction. Four criteria were used for this: transfers of resources with redistributive effects on the income of the poorest; provision of basic social services; programs for building the capacities of the poor to increase incomes; and, programs to increase the efficiency of spending in the health, education, and social protection sectors.

<sup>50</sup> For more detail, see reports on poverty spending and HIPC relief 2003 and 2004, published in March 2004 and February 2005, respectively, and presented to civil society and the international community.

The budgetary objective of the profile for poverty spending is to increase the share of this in the government budget, going from an annual average of 43.1% in 2001-2004 to an average of 53.8% in the next five-year period.

The indicators for poverty spending indicate that its share of the total spending of the NFPS has increased gradually to the extent that the government puts more emphasis on investment in infrastructure and on programs for basic services in health and education. This has led to a sustained reduction in spending not related to the strategy for economic growth and poverty reduction.

In 2004, the total amount of poverty spending rose to 12.3% of GDP (US\$559.6 million), 0.7% of GDP higher for the program (US\$54.1 million). Compared to the year before, this was 0.9% more of GDP. Of this spending, 61.9% was capital spending, reaching a record level of US\$346.5 million. This was 26.2% higher than in 2003. It should be mentioned that after the severe adjustment in 2002, over the last two years, capital spending has increased by more than 60.0%.

Investment in human capital within poverty spending continues to be the number one priority in the budget. In 2004, this pillar meant an investment of US\$270.6 million (48.4% of the total). It should be mentioned that the pillar for broad-based economic growth has increased its importance in the frame of the NDP, so that in 2004, investment in this pillar amounted to US\$155.2 million (27.7% of the total), 28.9% more than the program and 31.2% more than the previous year. In marginal terms, the first pillar absorbed 64.1% of the total increase in poverty spending.

Table 2. Nicaragua: Balance and Poverty Spending of the NFPS

Items	2002	2003		2004	
		Program	Executed	Adujst. Program	Executed <sup>1/</sup>
<b>Relation to the GDP</b>					
<b>Total Income</b>	<b>20.2</b>	<b>22.1</b>	<b>21.5</b>	<b>22.0</b>	<b>22.5</b>
<b>Total Spend.</b>	<b>28.8</b>	<b>29.2</b>	<b>28.2</b>	<b>28.1</b>	<b>28.3</b>
Recurrent	20.8	20.1	18.6	17.5	17.5
of which: Interest	5.7	5.1	3.7	2.8	2.7
Capital	8.0	9.1	9.6	10.6	10.8
<b>Total Poverty Spending</b>	<b>10.2</b>	<b>11.0</b>	<b>11.4</b>	<b>11.6</b>	<b>12.3</b>
Internal Resources	4.0	3.5	3.6	3.5	3.4
External Resources	6.2	7.5	7.7	8.1	8.9
HIPC relief	1.8	2.5	2.3	2.9	2.7
Loans	2.1	2.8	3.0	2.7	3.9
Donations	2.3	2.2	2.5	2.5	2.3
<b>Non-Poverty Spending</b>	<b>18.6</b>	<b>18.2</b>	<b>16.8</b>	<b>16.5</b>	<b>16.0</b>
Internal Resources <sup>2/</sup>	16.5	17.6	15.8	15.6	15.6
External Resources	2.1	0.7	1.0	0.9	0.4
<b>Global Balance before Donations</b>	<b>-8.5</b>	<b>-7.1</b>	<b>-6.7</b>	<b>-6.1</b>	<b>-5.7</b>
<b>Financing</b>	<b>8.5</b>	<b>7.1</b>	<b>6.7</b>	<b>6.1</b>	<b>5.7</b>
External Financing <sup>3/</sup>	9.2	10.2	9.5	10.6	10.3
Internal Financing	-1.0	-4.2	-3.2	-5.9	-6.0
Income from Privatization	0.4	1.0	0.3	1.4	1.4

Memorandum

GDP corriente (millions of córdobas) 57,376.3 61,926.6 62,673.8 69,385.2 72,603.3

1/: Preliminary. 2/: Includes interest. 3/: Includes donations, disbursements, amortizations, and reduction of delays.

Source: SECEP, MHCP, BCN.

In relation to funding sources, external resources continue to be determinant in the poverty reduction strategy and they were more dynamic during 2003-2004. The largest disbursements are for a more aggressive infrastructure program in order to have an effect on economic growth. In 2004, 72.6% of poverty spending was financed with external resources (US\$406.4 million), including HIPC relief (22.2% of poverty spending). This is 14.8% above the program and 26.6% more than in 2003. Internal financing sources maintained their programmed pace for 2004, reaching US\$153.2 million.

### Use of HIPC relief

Regarding resources from the HIPC Initiative, it is important to note that the interim period ended when Nicaragua reached the completion point in January 2004. This year, the international community granted complete relief that amounted to US\$124.4 million (2.7% of the GDP), the highest amount provided so far and twice the amount granted in 2001. Of these resources, 60.1% came from the IDB (US\$36.3 million) and the CABEI (US\$23.8 million) and 36.3% came from the Paris Club (US\$45.2 million).

Regarding allocation, 76.2% went to having greater coverage of basic social services, with education and health absorbing most of the relief, consistent with the priorities put forward in the SGPRS. It should be mentioned that part of these resources went to support production, starting in 2003, once the strategic elements of the NDP were included in the country's budgetary strategy. This way, 13.2% of the relief for 2004 went to this sector, 3.4 times more than in 2003 (Table 3).

**Table 3. Nicaragua: Allocation of HIPC relief**

Programs	2001	2002	2003	2004		2001	2002	2003	2004	
				Program	Executed				Program	Executed
	Millions of dollars				Structure					
<b>TOTAL</b>	<b>63.3</b>	<b>70.8</b>	<b>96.6</b>	<b>125.4</b>	<b>124.4</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Primary Rural Attention	0.0	1.5	1.3	1.2	1.2	0.0	2.1	1.3	1.0	1.0
Social Safety Net	0.7	0.8	0.7	0.8	0.8	1.1	1.1	0.7	0.6	0.6
Greater coverage of basic social services	57.5	58.3	81.7	95.7	94.8	90.8	82.3	84.6	76.3	76.2
Education	37.9	38.2	52.6	58.9	58.6	59.9	54.0	54.4	46.9	47.1
Health	14.4	12.3	20.1	27.7	27.3	22.7	17.4	20.8	22.1	22.0
Water and Sanitation	2.0	1.2	1.5	1.8	1.8	3.2	1.6	1.6	1.4	1.5
Housing	1.0	0.5	0.8	3.2	3.0	1.6	0.7	0.9	2.5	2.4
Municipal Infrastructure	2.2	6.0	6.7	4.2	4.1	3.5	8.5	6.9	3.3	3.3
Protection for Vulnerable Groups	3.4	5.8	3.8	3.9	3.9	5.4	8.1	3.9	3.1	3.1
Emergency Social Investment Fund	1.6	4.0	4.0	5.2	5.2	2.5	5.6	4.2	4.2	4.2
Development of the Atlantic Coast	0.1	0.2	0.1	0.1	0.1	0.2	0.3	0.1	0.1	0.1
Program to support Implementation of the SGPRS		0.1	0.2	0.2	0.1	0.0	0.1	0.2	0.2	0.1
Support for Production		0.2	4.8	16.5	16.5	0.0	0.4	5.0	13.1	13.2
Program Ecological Vulnerability and Environment				1.9	1.9	0.0	0.0	0.0	1.5	1.5

Source: MHCP, BCN.



## Progress in the Implementation of Policies and Programs

### Pillar I: Broad-based Economic Growth

Economic growth entered a new stage in 2003 and 2004, ending the tendency towards decline observed since 1999 and reaching more than 5% last year, very much above the 0.8% reached in 2002. Contributing to this increase were a major increase in the prices for coffee, beef, seafood, gold, and peanuts and increased volumes of production. In this context, the terms of trade showed a slight improvement.

On a par with this, per capital income rose at an average annual rate of 2.1% over the period; this also represents a reversal of the previous trend. This economic reactivation was reflected in more employment, more exports up to record levels, and an historic increase in international reserves.

One force behind this growth in 2004 was the expansion of public investment compared to the year before, mainly seen in the investments made by the MTI, MECD, MAGFOR, MINSA, and ENACAL, among others. Investments in these sectors centered on highway rehabilitation and construction, bridge building, expansion of schools, repair and construction of classrooms, repairs to hospitals and health centers, subsidies for social interest housing, expansion and rehabilitation of aqueducts in the Departments of Madriz and Nueva Segovia, and the clean-up of Lake Managua. Standing out with particular effect in rural zones was the increased coverage of secondary roads with the Paving Stones Program.

Congruent with monetary policy, fiscal policy managed to reduce the deficit of the NFPS and the internal debt with the increase in tax revenues, appropriate management of spending, and the constant affluence of external resources. This favored the reduction of the interest rate on the financial market, which contributed to increasing the supply of credit from the system, giving an impetus to the economic growth observed in 2003-2004. In effect, the balance of the internal debt of the BCN went from US\$690.0 million in 2001 to US\$484.0 million in 2004.

In structural terms, the authorities moved towards opening up trade through free trade treaties that are being negotiated and ratified with a number of countries and through the process of Central American integration, which advanced with the customs union for the free circulation of persons, merchandise, and services. In this context, the private sector is diversifying its export markets and so non-traditional export production is increasing its share in the export structure. Institutionally, the creation and getting underway of Pro-Nicaragua and Nicaexport as entities charged with attracting fresh investment and facilitating export efforts stands out.

The government was able to have laws for support to production approved, like: a) the Law for Fiscal Equity; b) the Law for Promotion of the Hydroelectric Subsector; c) the Law for Exploration and Exploitation of Geothermal Resources; d) the Law for Fisheries and Seafood Farming; e) the General Law for Tourism; f) the Law for the Functioning and Procedures for the Social Housing Fund (FOSOVI); and, g) the Law for Budgetary Transfers to the Municipalities.

Processes of consultation and participation were developed nationally in order to formulate the productive strategy and coming out of these was the establishment of priority core areas and actions in regards to the regulatory framework, property ownership, financial services, export and investment promotion, support for clusters, rural development, and environmental sustainability.

### ***Regulatory framework and paperwork procedures***

Administrative procedures and excessive bureaucracy have been some of the biggest obstacles to investment and to move forward in solving this problem, the action plan for administrative simplification was formulated and is being implemented together with the private sector. The first step was to set up the Single Wicket for Investments in Managua.

### ***Property rights***

The Laws for the Registry and Cadaster were approved as the basis for beginning to implement a new institutional framework for the Public Registry and Cadaster (property mapping). The CONADETI finished its analysis and physical demarcation of five indigenous territories in Bosawas and it defined the first departments that will have their area entered into the cadaster over the next three years. INETER made progress in delimiting the borders and in updating the cadaster and it made studies for territorial zoning/ordering.

### ***Financial services***

The proposal for the legal and regulatory framework for microfinance institutions was remitted to the National Assembly and is in the process of its approval. Negotiations were held with the World Bank for a US\$7.0 million loan to support the transformation of microfinance NGOs from being unsupervised to supervised. A non-reimbursable technical assistance was signed with the IDB to strengthen the frame for moveable property collateral/guarantees, which includes the modernization of the Public Registry and the drafting of a law for real moveable property guarantees.

In 2004, the FNI granted loans for more than C\$700 million, benefiting 9,500 final users in housing, agriculture, industry, foreign trade, and small and medium business.

### ***Development of clusters***

The free trade zone sector saw greater dynamism with 88 new firms and investments of US\$69 million; total exports of US\$600 million and net exports of US\$144 million in 2004, well above the level reached in 2003. According to the indicators, employment increased by 66,000 direct jobs and industrial park rose to 600 thousand square meters .

The tourism industry responded to the law for incentives with more than US\$40.5 million in investments in 2004 and US\$78.0 million in 2003, which include the construction and repair of hotels and restaurants and the preservation of historic sites. There was a 16.9% average annual increase in the number of tourists for a total of 610,000 and this brought in US\$166.7 million in 2004 and US\$151.8 million in 2003.

The government continued supporting small and medium business in order to improve the quality and productivity of the sector and to diversify the industry. The INPYME implemented programs to train and give technical assistance to the wood and furniture sector, to improve the business climate, to develop rural microbusiness, to improve the marketing system, to improve access to credit, and to associate them in lines of business.

### ***Rural development***

The rural development strategy known as PRORURAL-NDP was presented to the international community and the private sector in 2004. It was drawn up with a broad process of consultation with different private sector organizations.

The Rural Credit Fund (FCR) provided C\$114.5 million to restructure coffee debts for 7,539 small-scale growers and C\$70 million for the program for production diversification, which included technical training for small-scale farmers. The Institute for Rural Development (IDR) benefited approximately 43,500 families with its investments, it rehabilitated 1,800 km of rural roads in 13 departments, and it provided C\$104 million in loans for small-scale farmers in 2004.

In 2003-2004, the “pound-for-pound” agricultural program benefited 213,000 small farmers of maize, red and black beans, rice, and white sorghum and this resulted in an increased area planted with records for the production of basic grains and exports. The INTA made progress in generating technology for the cultivation of maize, soybean, vegetables, and tubers, as well as in the spreading of storage technologies.

The INAFOR worked on modernizing the legal and institutional framework and it promoted actions to foster forestry, increasing the area under reforestation.

## **Pillar II: Investment in Human Capital**

### ***Education***

The Ministry of Education, Culture, and Sports (MECD) has made significant progress in improving institutional coordination and planning with actions to increase managerial capacity in the educative system and to improve mechanisms for monitoring the impact of education policies.

Together with cooperants, the MECD began in 2004 to implement a SWAp and in order to consolidate coordination with the funding sources, it set up working tables/forums to prepare instruments for making its operation more efficient, standing out among which are: the model of financial needs for implementation of the educative policy in the medium and long term; and, the common sectoral work plan called Strategic Priorities 2005-2008.

Regarding the municipalization of education, 21 agreements were signed by the MECD and Local Governments to improve the goals for coverage, equity, and educative quality. In 2004, these local governments, as per what is set down in the Law for Municipalities, received C\$8.5

million in transfers for recurrent expenditures. With this, the objective of moving ahead with the transfer of responsibility for spending to the municipalities is being consolidated.

In line with the SGPRS objective of investing in basic education and technical training, and in this way raise the quality of education, a strategy was drawn up to transform the Teaching-Training Schools into Institutes of Higher Education. Two and half million textbooks for different courses and 1.5 million teaching materials packets were given to students of regular primary education. In coordination with the curriculum technical sub-commission for the Atlantic Coast, the primary curriculum for bilingual intercultural education was designed.

The curriculum design for the technological high school diploma was also finished for use in the 2005 school year. This includes offering specialization in automotive mechanics, tourism, and agriculture.

Conditions for teachers improved in 2004 with a 25% of the basic salary for 35,664 teachers. There was also a 6.5 million córdoba increase in the budget for the collective agreement for greater coverage of labor benefits.

Regarding the consolidation and expansion of educative participation, 1,105 education centers entered into the set up for school autonomy in 2004, surpassing the target proposed by the MECD (103%).

School coverage has been increasing steadily, with 66,000 more students in the educative system in 2004 (17,600 in secondary, 15,500 in primary, and 15,200 children).

There was less desertion in preschool, primary, and secondary in 2004, which is a good indicator of the results of the educative policy. The school meals program contributed to this. More than 600 primary classrooms were replaced and/or rehabilitated and this contributed to having students stay inside the educative system.

In 2004, there were different forms of training and technical formation for 115,500 people, of whom 73,500 are employees of firms that contribute the 2%, 17,500 were technical high school students, and 24,400 received training in different specializations.

### ***Health and nutrition***

In recent years, the health sector in consensus with other sectors has focused on formulating policy and legal instruments. The National Health Policy 2004-2015 was formulated, as was the National Health Plan 2004-2015. To make it operational, the Five-Year Health Plan 2005-2009 was written up, which includes a multi-annual budget.

In order to contribute to improving the population's health, as per the General Law for Health, a new Model for Integral Attention (MAIS) was designed with respect to service provision, management, and financing.

As part of the MAIS, a new basic package of health services (PBSS)<sup>51</sup> was made up that defines the set of public services for all the population and healthcare services for the population not covered by the system of contributions from salaries or voluntary contributions, and that has no capacity to pay for health insurance.

All this has led to the parallel development of a process of institutional reorganization that includes integral services and the strengthening of the different levels of attention. Within this process, criteria have been defined for the allocation of resources to the SILAIS based on the General Law for Health and its regulations, which promote equity, quality, and efficiency.

In terms of sector coordination, progress was made in defining the Health Sector Approach (ESS). This has been done in consensus with the cooperation community in the frame of harmonization and alignment and progress was made with the signing of a Code of Conduct and the Memorandum of Understanding, both of which are useful instruments for developing the ESS.

Even with this progress, increasing health coverage continues to be a big challenge. On the supply side, there are not enough resources and on the demand side, there are economic conditions and geographic limitations, even cultural ones, in having the population go to the healthcare units. Along this line, a strategy has been put forward to increase health promotion and prevention at the community level.

### ***Water and sanitation***

With the establishment of the National Commission for Drinking Water and Sanitary Drainage (CONAPAS)<sup>52</sup> in 2004, the work of guiding the sector was strengthened. At the end of the year, the draft strategy for drinking water and sanitation was formulated. It defines the priorities, actions, and investments for 2005-2009. Used in this was the sectoral analysis of water and sanitation made together with the PAHO in 2004. This Strategy will be submitted to consultations in 2005.

In 2004, in order to strengthen the processes of coordination and sector planning, the Sub-Coordinating Table on Water and Sanitation was established as part of the Forum on Infrastructure. In order to capitalize the structure of FISE, transfer of the ENACAL Rural Aqueducts Program to the FISE began.

Steps continued to be taken to begin the Business Modernization Program of ENACAL in the first semester of 2005, with which it is expected to improve its indexes of efficiency. Concession contracts were signed with service operator firms for water in Matagalpa and Jinotega.

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<sup>51</sup> Definition of the content of the Basic Package of Healthcare Services to be provided by the Ministry of Health under the Non-Contribution Regime, MINSA 2004, page 2.

<sup>52</sup> CONAPAS is made up by ENACAL, INAA, FISE, MINSA, MARENA, INETER, and SETEC, which presides over it.

The project to clean up Lake Managua continued in 2004 with the finishing of the construction of the first stage and the bidding documents were prepared for the design and construction of the wastewater treatment plant.

ENACAL's program for investment in drinking water systems benefited approximately 145,000 people, 37,000 of them in rural areas. A pilot program began in 10 marginal or peripheral neighborhoods of Managua in order to provide sustainable solutions.

With its program for investments in drinking water and sanitation services, the FISE benefited 120,000 people with the construction of 457 wells and 12,000 latrines, of which about 6,000 were a part of healthcare projects. These programs were executed in areas of extreme poverty in the north and the Atlantic, including Siuna, Rosita, and Bonanza.

All these efforts have enabled the population to have access to drinking water and sanitation services.

### **Pillar III: Protection of Vulnerable Groups**

In the frame of the social protection program, construction of the Solidarity for Development system continued and there was progress made in drafting the model for Attention to Socioeconomic Crises and the component for Occupation Formation for youth in conditions of vulnerability. The International Seminar "Social Protection: Development with Equity" was held and there was a sharing of experiences from 14 countries of Latin America. The sector forum for Social Protection was established as an opportunity for dialogue and exchange between the government, civil society, and the cooperation community.

Draft legislation for the Law for Adoption and the Law for Responsible Paternity and Maternity was written, as were reforms to the penal code in force in relation to crimes against children and the administrative regulations for the Law for Adoption.

In 2004, MIFAMILIA implemented a new model for decentralized management with the participation of civil society organizations, transferring the supervised administration of 20 Centers for Social Protection<sup>53</sup> to private organization. These will be given subsidies using funds from the National Lottery.

The first National Census of children and adolescents living in protection centers was taken. For the first time, psycho-social investigations were updated to resolve the legal situation of 1,100 children and adolescents under special protection measures, covering 50% of the cases brought before the judicial branch and resolving the legal situation of guardianship.

The Program for Integral Attention to Children and Adolescents at Social Risk (PAINAR) was consolidated. Through it, more than 16,000 children and adolescents in situations of drug dependency, child labor, juvenile violence, commercial sexual exploitation, and disability were provided attention. This program expanded its coverage from Managua to the national level.

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<sup>53</sup> 11 Child Development Centers (CDI), 2 Homes for the Elderly (HAM), 1 Center for Protection, and 6 Community Children's Homes (HIC)

In concordance with the priority established for the nutrition of children and youth at risk, coverage was broadened and integral attention for children, adolescents, and families in situations of vulnerability and social risk was improved. Agreements were signed with local governments for this and 16 municipal wickets were set up in four departments of the country.

In order to improve the quality of integral attention for children and adolescents at social risk, the system of referrals and counter-referrals was designed, which will be implemented by governmental institutions and civil society organizations that provide this service. A system for receiving reports of cases of violation of the human rights of children and adolescents was also designed, and it will be working 24 hours a day, 7 days a week in 2005.

An Inter-ministerial Agreement<sup>54</sup> was signed to set up the Consolidation Unit for Food Programs in order to articulate and rationalize spending on food aid programs and projects. In order to make the supplying of food for children in the Child Development Centers (CDI) and the children's dining halls in the municipalities attended to by PAININ sustainable, the Social Safety Net, MIFAMILIA, and INTA established 1,095 community gardens, increasing the number of existing gardens by 801.

The goals set for integral attention for children under 6 were surpassed. In 2004, PAININ provided attention to more than 100,000 children, 20% more than the target for the year and double what it was in 2003.

The Social Safety Net increased its coverage from 6 to 7 municipalities. Attention for children under 5 increased by 34%, going from 11,500 to 15,500 children benefiting from transfers to improve their nutrition.

#### **Pillar IV: Governance**

##### ***Fight against corruption***

The Office of the Procurator-General of the Republic has been representing the State and as such, has taken the legal action necessary to defend its interests. Together with authorities from other countries, it was possible to break up a number illicit operations of the previous government and people close to it. This will allow for collecting resources for the treasury with the liquidation of the goods that were impounded.

Since it was created on October 21, 2004, the Office of the National Penal Procurator, through its Unit for Investigation and Advice, has begun processing 409 investigations related to acts of corruption. Of these, 316 are cases filed since December 2003 and 93 are cases that were filed in 2004. Over the period, follow-up has been given to 248 cases (155 from 2003 and 93 from 2004) that are pending legal procedures and are being investigated by the Office of the Procurator and other bodies like the National Police, the Public Ministry, and the Office of the Comptrollers-General of the Republic.

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<sup>54</sup> MECD, MAGFOR, MINSAs, MIFAMILIA, SETEC, MHCP, and MINREX

Progress has been made in strengthening and coordinating the work to investigate accusations with the Office for Economic Investigations of the National Police in order to accumulate the necessary evidence to proceed with them.

Progress was made in getting rid of the myth that the struggle against corruption has political motivations. Work has been done to change the perception of the population in regards to an honest and transparent management of government in relation to handling State resources. A survey taken in October 2003 and with a margin of error of 2.8% with a sample of 1,200 people showed that 59% of those interviewed feel that the PGR is working well in the fight against corruption and only 18% feel that it is doing a bad job.

### ***Transparency***

#### ***Institutionality – Reforms to the State***

Satisfactory progress continues to be made in implementing the actions of the first phase of the CFAA (Country Financial Administration Assessment). The draft for the Law for Financial Administration and Fiscal Responsibility was made with contributions from the World Bank and the IMF.

With the SIGFA, the MHCP prepared the method for calculating the recurrent expenditures for the public investment program and it drew up projections of incomes and outlays for the central government to 2008.

Inside the SIGFA, the Integrated System for Execution Units (SIUE) has been developed and implemented in order to extend the reach of financial administration reform to 45 execution units, and new processes and procedures for the security of the system have been established

Implementation of the action plan to strengthen internal controls and audits began in June 2004 and a work team was formed for reform to the Law for Procurements and Contracts (Law 323).

### ***Citizen participation***

Law 475 for Citizen Participation was promulgated and its regulations have been drawn up to formalize the competences of citizens at the different levels of public affairs and administration, and it establishes the obligatory nature of consultations of public policies.

The government pushed ahead with a process for participatory planning and management for the formulation of the NDP, which facilitated the agreed-on definition of strategic plans for departmental and regional development that complement the municipal development plans, and Regional and Departmental Development Councils were set up.

Establishment of the National System for Citizen Participation began. It harmonizes national, sectoral, and territorial bodies and within it, a restructured CONPES would facilitate national consensus building.



## Crosscutting Themes

### *Decentralization*

There has been significant progress in the decentralization process, which reaffirms the political will to move ahead with the modernization of the State.

In 2003-2004, a number of laws were approved that strengthen the process in general and the financial capacity of the municipalities. In regards to general aspects, there were the Regulations for the Autonomy Statute of the Autonomous Regions of the Atlantic and the Laws for Citizen Participation, Municipal Administrative Career, Cadaster, and Communal Property Regime of the Indigenous Peoples and Ethnic Communities of the Autonomous Regions of the Atlantic Coast and the Bocay, Coco, and Indio Maíz Rivers.

The financial capacity of the municipalities was strengthened with the approval of the Law for Reform to the Law for Municipal Budgetary Regime, the Law for Budget Transfers to the Municipalities, the Law for Municipal Solvency, the Law for Fiscal Equity, the Law for the Regime for Vehicular Circulation and Traffic Fines, and the Law for Exploration and Exploitation of Mines and its Regulations.

The Law for Municipal Transfers fulfills the constitutional precept that establishes the obligatory nature of having a percentage of the General Budget of the Republic go to the municipalities and it re-stabilizes the imbalance caused with the expansion of competences with Laws 40 and 261.

The Commission for Municipal Transfers (CTM) also established a mechanism for the allocation of external resources as part of the transfers system. This mechanism promotes i) investment for institutional strengthening and ii) a system of co-financing between entities of different levels of government.

The draft for the Reforms to the Regulations of the Law for Municipalities was formulated and consulted on. Its main contributions refer to: i) a normative frame for participatory planning processes at the municipal level; ii) the obligation to invest in Municipal Strengthening; iii) clarification of the scope of municipal competences and their norms; iv) establishment of procedures for the transfer of delegated competences between the central government and the municipal governments; and, v) the prohibition on central entities for budgeting in matters of municipal competence.

The National Commission for Decentralization approved the National Policy for Decentralization and Local Development, the Departmental Development Committees were set up, and the system for municipal planning is used as a technical instrument in all municipalities.

In 2004, the methodology for formulating the National Strategy for Decentralization was defined. It defines the process and model for integral and gradual decentralization based on consensus between the different Branches of Government, levels of government, and civil society.

### *Environment and ecological vulnerability*

MARENA, MIFIC, and INETER had consultations on environmental strategy with the private sector and the environment sub-forum was established. In 2004, the 2<sup>nd</sup> Report on the State of the Environment was presented, based on information from the National System for Environmental Information (SINIA).

The government is making progress in fulfilling environmental commitments established in free trade treaties and has put before the National Assembly the drafts for the Law for Biological Diversity, the Law for Rates for Environmental Services and Use Rights, and the Law for Territorial Zoning. The norms and technical criteria for regulating environmental quality in agriculture, dairy production, coffee, and gasoline stations were also drawn up.

More than US\$10 million was invested for municipal-level management of natural resources, which includes more than 350 community micro-projects in co-management protected areas, community works for natural disaster prevention and mitigation, and agro-forestry demonstration projects.

In 2004, the national strategy for the decentralization of environmental management was presented. It has the goal of deconcentrating 50% of the financial and human resources of MARENA by the end of 2005.

### **Intermediate Indicators**

Of the 29 intermediate indicators included in the SGPRS, there was follow-up to only 20 in 2004<sup>55</sup>. Of these, eight reached the established target. The one on economic growth rate was accomplished; five goals were met in education, one in water and sanitation and one in environment. Of the 20 followed-up indicators, 18 are statistics indicators and from these, seven have a positive tendency, nine a negative tendency and on one it is constant.

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<sup>55</sup> Two economic, 7 in education, 7 in health, 3 in water and sanitation, and one in environment and ecological vulnerability.

Table 4. Nicaragua: Progress of Intermediate Indicator of the SGPRS in 2004

Indicator (percentage)	Base year 1999	2003			2004		
		Goal	Observed	Fulfillment in percent % <sup>1/</sup>	Goal	Observed	Fulfillment in percent % <sup>1/</sup>
1. Central government poverty spending	52.5	55.5	56.8	102.3	60.0	57.7	96.2
2. GDP growth	7.0	4.5	2.3	51.1	5.0	5.1	102.0
3. Net rate of primary school	75.0	80.6	83.5	103.6	82.0	82.6	100.7
4. Rate of passing to third grade in rural schools	76.6	80.6	76.7	95.2	81.6	77.7	95.2
5. Students who finish primary in six years	32.0	40.0	40.8	102.0	42.0	42.7	101.7
6. Implement national system for academic evaluation	...	In force	In force	Met	In force	In force	Met
7. Net rate of preschooling schooling	26.0	30.0	28.6	95.3	31.0	30.8	99.4
8. Multi-grade rural schools with 6 grades	29.0	44.0	35.6	80.9	47.0	31.3	66.6
9. Construction or repair of primary classrooms annually	977.0	540.0	908.0	168.1	600.0	629.0	104.8
10. Institutional births	47.0	57.2	50.0	87.4	59.4	51.0	85.8
11. Prenatal care	71.6	82.2	69.6	84.7	84.3	64.2	76.2
12. Early detection of pregnancy (prenatal care in first trimestre of pregnancy)	31.9	40.1	31.9	79.6	41.9	30.1	71.8
Vaccine Coverage							
13. 1 dose of BCG	99.0	99.0	93.9	94.8	99.0	87.8	88.6
14. 3 doses antipolio	91.0	93.0	86.3	92.8	94.0	79.8	84.8
15. 3 doses 5-en-1 (pentavalent)	7.0	92.0	86.1	93.6	93.0	79.4	85.3
16. Polio vaccine in children 12-13 months old <sup>1/</sup>	83.8	N/A	N/A		N/A	N/A	
17. Incidence of diarrhea, under 5 <sup>1/</sup>	21.9	N/A	N/A		N/A	N/A	
18. Incidence respiratory infections, under 5 <sup>1/</sup>	27.3	N/A	N/A		N/A	N/A	
19. Unmet demand for family planning service for women with a spouse, 15-19 years <sup>2/</sup>	27.1	N/A	N/A		N/A	N/A	
20. Unmet demand fir family planning service for women with a spouse, 20-24 years <sup>2/</sup>	19.7	N/A	N/A		N/A	N/A	
21. Access to reproductive health services, women child-bearing	21.0	23.0	24.6	107.0	23.0	17.4	75.6
22. Environ. Plan for Nicaragua	...		...		In implement.	In implement.	Met
23. Chronic malnutrition among under 5s <sup>1/</sup>	19.9	N/A	N/A		N/A	N/A	
24. Nacional drinking water coverage	66.5	72.4	73.2	101.1	73.9	75.8	102.6
25. Access to safe water in rural settlements	39.0	50.5	47.9	94.9	52.6	48.5	92.2
26. National access to sanitation <sup>1/</sup>	84.1	N/A	N/A		N/A	N/A	
27. Access to sanitary drainage in urban settlements	33.6	37.4	34.6	92.5	40.3	35.1	87.1
28. Illiteracy rate (over 10 years) <sup>1/</sup>	19.0	N/A	N/A		N/A	N/A	
29. Average number of years in school, children 10-19 years <sup>1/</sup>	4.6	N/A	N/A		N/A	N/A	

N/A: Not applicable because comes from surveys, and so not available for the years in question.

1/: Date from the LSMS 2001.

2/: Data from NDHS 2001.

3/: Based on estimates of the historic tendency.

4/: Preliminary (due to delay caused by teacher strike).

5/: It is considered that the indicator has been met if the percentage is 97% or more.

Note: Indicators for 17 to 20, 23 and 28 show improvement by reducing the figures.

Source: SECEP, BCN, MINSA, MECD, INEC, ENACAL y MAGFOR.

## Education

In 2004, of seven indicators, three showed a reduction with respect to 2003: the net rate of primary schooling, multi-grade rural schools with six grades, and construction of primary classrooms. The indicators that showed improvement were for the net rate of preschool schooling, the rate of passing the third grade in rural schools, and the proportion of students finishing primary in six years. The national system for academic evaluation continues to be implemented.

Even though the goal proposed in the SGPRS for the net rate of primary schooling was met in 2004, the percentage point count was lower than in 2003. This can be explained by the difficult

economic situation faced by families and above all by the significant impact of the migratory phenomenon, which has been confirmed in recent investigations in the countryside.<sup>56</sup> The net rate of preschool schooling increased, mainly because of opening more community preschools around the country, meeting the target set for 2003.

The passing rate from third grade in rural schools improved by one percentage point compared to 2003; however, the results were not enough to meet the goal for 2004. Regarding multi-grade rural schools with six grades, there was a reduction with the observed value at 67% of the target set for 2004. This is explained by budgetary constraints.

The proportion of students finishing primary school in six years increased by close to 2 percentage points, which could be associated with better performance in the indicators for the internal efficiency of the education system. The goal set for 2004 was reached. Annual primary school classroom construction or repair was satisfactory with respect to the proposed goal.

## Health

Of all the intermediate indicators for the sector, seven come from ongoing records of MINSA and the rest use the LSMS and DHS as sources, and so the analysis will center on the data available for 2004.

The behavior of the health indicators was affected by less availability of resources in the sector. Public spending on health in 2004 was 3% less than in 2003, going from US\$138.2 to US\$133.7 million. It is estimated that for the sector to be able to improve the coverage of the indicators, health spending would have to average US\$233.2 million a year.<sup>57</sup> Another factor that influenced this was the revision of the records systems, which has allowed for a better quantification of the cases.

Preliminary figures show that the maternal mortality rate rose, going from 83.4 to 96.3 per 100,000 live births between 2003 and 2004. The greatest incidence of deaths continues to be among poor rural women, who in turn have shorter birth intervals, high fertility rates, limited access to family planning, and low academic levels. The main causes of death recorded are post-birth hemorrhaging, puerperal sepsis (infections), and gestational hypertension.

The intermediate indicators related to maternal mortality fell below the goals set for 2004. Though the indicator for institutional births increased by one percentage point over 2003, it did not meet the goal. In the case of prenatal care and early detection of pregnancy, besides not reaching the goal set for 2004, there was also a reduction compared to 2003. Prenatal care sessions went from 69.6% to 64.2% and early detection went from 31.9% to 30.1%.

Access to family planning dropped in comparison to 2003, going from 24.6% to 17.4% in 2004. In this case, an adjustment was made in the way to register the indicator. Before, the number of sessions for attention to women who accessed family planning was counted, regardless of

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<sup>56</sup> Because of reduced enrollment, the MECD scheduled an evaluation of school centers that have underutilized infrastructure.

<sup>57</sup> Five-Year Plan for Health 2005-2009, preliminary version, MINSA 2005.

whether it was the first or nth time that they demanded the service. As of 2004, only the number of women who receive the service for the first time is counted.

Regarding the indicators for vaccination coverage, the targets set for 2004 were not met. The lack of resources made it impossible to have a second vaccination campaign (generally, there are two a year). As an alternative strategy, it was decided to use community health brigades, but this did not work out as well as expected.

### **Water and Sanitation**

Major progress has been made in water and sanitation. In 2004, the target for national drinking water coverage was surpassed, with 102.6%, even though the goal for rural coverage was not reached. This was in part due to the change in policies for disbursement of external resources. Greater participation of local stakeholders was required in the formulation of the projects and control processes in ENACAL.

Regarding access to sanitary drainage in urban settlements, the goal was not reached because of little investment in this area, since priority was placed on increasing safe water coverage. Also entering into this was the lack of education among the population in relation to hooking up to existing sanitary drainage systems.

### **Supplementary Social Fund (FSS)**

The Coordinating Council modified the Operative Regulations in November 2003 so as to reflect its virtual character and improve the modality for registering, presenting, and classifying poverty spending and HIPC relief. This will make it easier for civil society and donors to follow-up budgetary execution.

These modifications respect the principles of that set of regulations, that establish: a) the recommendation for the allocation of HIPC relief; b) budgetary control and follow-up through the SIGFA; c) periodic information about the execution of poverty spending and HIPC relief; and, d) follow-up of performance indicators for poverty reduction through the SNIP and the SINASID.

The FSS has presented quarterly and annual reports on poverty spending and HIPC relief during 2003-2004. Donations channeled through the FSS have contributed to funding programs and projects that are prioritized in the SGPRS and NDP and executed by the MECD, MINSA, MIFAMILIA, ENACAL, MAGFOR, MTI, IDR, INIFOM, and INVUR, and broadening the allocation of resources to productive sectors and infrastructure. The FSS also financed municipal investments through projects put forward by the Territorial Public Investment Units (UTIPs), with this contributing to the decentralization process.

Nicaragua: Supplementary Social Fund (FSS)					
Sources	Executed Accumulated 1998-2003	2004			Executed Accumulated 1998-2004
		Program	Execution Jan - Dec <sup>1/</sup>	% met	
millions of dollars <sup>2/</sup>					
<b>TOTAL</b>	<b>301.10</b>	<b>169.78</b>	<b>162.75</b>	<b>96</b>	<b>463.85</b>
<b>A. HIPC relief</b>	<b>230.70</b>	<b>125.43</b>	<b>124.39</b>	<b>99</b>	<b>355.09</b>
<b>B. Donations</b>	<b>42.50</b>	<b>17.24</b>	<b>15.33</b>	<b>89</b>	<b>57.83</b>
MTI	1.90	0.91	0.91	100	2.81
ENACAL	0.00	1.70	1.70	100	1.70
INIFOM	0.10	3.33	3.31	100	3.41
MECD	21.20	3.05	2.93	96	24.13
MINSAs	16.00	2.55	2.23	87	18.23
MAGFOR	0.60	0.73	0.73	100	1.33
INVUR	0.90	2.70	1.87	69	2.77
MIFAMILIA	0.90	0.90	0.89	99	1.79
IDR	0.20	0.28	0.00	0	0.28
CNE	0.00	0.11	0.11	100	0.11
INTECNA	0.00	0.25	0.25	100	0.25
INEC	0.00	0.12	0.00	0	0.00
SETEC	0.70	0.61	0.40	65	1.10
<b>C. Programs underway IDB</b>	<b>27.90</b>	<b>27.11</b>	<b>23.03</b>	<b>85</b>	<b>50.93</b>
Social Safety Net	14.50	10.29	6.37	62	20.87
Local Development on Atlantic Coast	0.30	2.20	2.20	100	2.50
Support for Implementation / SGPRS	4.10	4.09	4.09	100	8.19
Integral Attention for Nicaraguan Children	9.00	10.52	10.37	99	19.37
Source: MHCP, SETEC, MINSAs, MECD, MIFAMILIA, MAGFOR, MTI, INVUR, INIFOM, ENACAL, and UCPs for the programs.					
1/: Financial Execution Preliminary Accumulated to December 31, 2004					
2/: Exchange rate as per what MHCP establishes for the formulation of the budget each year.					

## National System for Public Investments (SNIP)

Progress in the strengthening of the Public Investments Program (PIP) includes setting up a Unit for Physical-Financial Follow-Up and the respective 2003-2004 reports, the updating of the database and the information processing system, and the information systems were integrated with those of MHCP's SIGFA and MINREX's SYSODA.

As part of the formation process for the multi-annual budget, the methodology and indicators were developed in order to estimate the recurrent expenditures stemming from the Investments Program, and the recurrent costs for maintaining infrastructure over the 2004-2006 period were calculated. Priority has also been put on pre-investment studies.

As part of strengthening the public investment process, methodological guidelines for the project formulation and evaluation were drawn up and training was given to technicians in public institutions. With the PASE system, the Public Investment Unit (UIP) developed the Territorial Public Investment Units were set up in eight departments and the autonomous regions, facilitating processes to publicize, follow-up, and monitor execution and indicators for public investment.

The PASE has facilitated social communication with radio programs and information bulletins about public investment and the departmental and regional development plans. Departmental and Regional Development Councils (CDD/CDR) were established in the 14 departments and the autonomous regions with the support of international cooperation.

The CDD have facilitated technical work meetings, forums, assemblies, and public-private dialogue, which has helped improve the strategies and citizen “concertation” for departmental and regional development, and it has the promotion of cluster development and the constitution of the Departmental University Councils (CDU), which integrated students and the universities.

### **Integrated System for Financial Management and Auditing (SIGFA)**

Progress was made in consolidating the e-SIGFA as a single governmental administrative management system. This reform to public administration and finances was extended to 47 public institutions through the Government Intranet, facilitating the process for formulating, executing, following-up, controlling, and evaluating the Republic’s budget resources financed with loans and donations.

e-SIGFA provides quarterly and annual budgetary execution reports that are presented to the National Assembly, as per the Law for Budgetary Regime and the Annual Budget Law.

The first on-line Citizen Consultation Gateway was put on line so that citizens can access and follow up public spending by the institutions through the web page [www.consultaciudadana.gob.ni](http://www.consultaciudadana.gob.ni). The web site [www.comprasnic.gob.ni](http://www.comprasnic.gob.ni) for the State System for Procurements and Contracts also provides citizens, buyers, providers, and leading bodies with the annual plans for governmental purchases.

Another step forward was the Integrated System for Execution Units (SIUE) for the administration and control of approximately C\$3,000 million used in rotating funds. There were 108 training events with more than 2,000 public employees participating.

### **National System for Follow-Up to Development Indicators (SINASID)**

To follow-up and evaluate governmental policies and programs, the National System for Follow-Up of Development Indicators (SINASID) is being implemented. It has a database with up-to-date, timely, and reliable information about progress with output and impact indicators and international commitments to do with the SGPRS, NDP, Millennium Goals, PRSC, among others.

The information is available on the web site [www.setec.gob.ni/sinasid](http://www.setec.gob.ni/sinasid), through which complete and detailed information about the status of the implementation of government strategies is provided in terms of policy actions, intermediate indicators, and outputs. The reports are presented with tables, graphs, and maps and they include definitions, formulas for calculation, and the sources of information for the indicators (administrative records of institutions and surveys).

In the structures of the Departmental Technical Units (UTD), there is follow-up at the local level in order to contribute to the process of formulating, executing, and monitoring the Departmental Development Plans and the meeting of the indicators.

## **Evaluation of Programs and Projects**

### **Education**

#### *Evaluation of School Autonomy in Nicaragua*<sup>58</sup>

79.0% of the students in public education are covered under this set up, and in late 2004, there was an evaluation made of school autonomy in order to measure the impact it has on primary and secondary schools in terms of community participation, pedagogical and administrative aspects, and the academic performance of the students.

The results indicated that school autonomy has a slight but significant impact on the academic performance of the students; it was confirmed that there are significant differences between public and private schools; there is a lineal relationship between better academic performance in Spanish classes and the longer that the school has had autonomy, in both primary and secondary, but this is not the case with mathematics; and, in the indicators for internal efficiency, it was noted that the autonomous centers have lower rates of desertion and repetition.

It concluded that over the years, there have been no drastic changes in the perceptions of the main actors about this model for school management and there was consolidation of the idea of autonomy among the schools under the regime for citizen participation.

#### *Evaluation of the Automatic Passing Policy*

The first evaluation of the automatic passing policy was made and it shows that this was not pushed ahead with appropriately and systematically. There was incorrect application of the norms and the circulars due to a lack of knowledge of these, and only 20% of the teachers applied it correctly. Difficulties were recognized because of a lack of communication between the delegates and technicians assigned to the program.

The evaluation sought to determine whether there were differences in learning between those who were in the automatic passing policy and those who were in schools where this policy was not being applied. The first finding indicated that automatic passing does not have a direct influence on the ranges for grade repetition in the schools. This allows one to conclude that there are other factors other than automatic passing that result in low repetition rates, like the quality of the teachers, the capacity of the school principals to give follow-up and the kind of monitoring done of the students, and the decisions by the families of the children enroll them late or take them out of school.

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<sup>58</sup> This report is available on the web site [www.mecd.gob.ni](http://www.mecd.gob.ni). For more information: "Otro vistazo a la autonomía escolar de Nicaragua: Aceptación y percepción 2004", Gustavo Arcia, Emilio Porta, and José Ramón Laguna, MECD, December 2004.



## Health

### *Evaluation of the programs for primary healthcare<sup>59</sup>*

During 2003-2004, an evaluation was made of the 10 main programs for primary healthcare in order to determine the impact of the models for Primary Attention, especially in regards to coverage, quality, and cost-effectiveness. An additional purpose was to design a single model for attention based on the lessons learned. The weakness of this evaluation was the difficulty in determining the costs of the different models. Nevertheless, important aspects in terms of coverage and quality were found.

In general, the execution of the programs has allowed for increasing the coverage of most services; the most specialized programs are concentrated in a lower number of interventions and their performance was more favorable; however, there is a poor perception among health sector and cooperation officers; and there is still a general problem with the technical quality of the attention provided. Another important finding was that the programs act outside of the healthcare establishments (maternal homes, PROCOSAN, and the Social Safety Net) had good performance in terms of quality.

The findings of this evaluation were amply discussed in workshops and served as the basis for the design of the Model for Integral Healthcare (MAIS) and for formulating the new policy and National Health Plan, in which the participation of NGOs and cooperants stood out.

### *Evaluation of the health policy 1997-2001*

In 2004, there was an evaluation of the Health Policy 1997-2001<sup>60</sup> that included a review of quantitative and qualitative aspects. The results identified three weaknesses: it was not designed in an institutional manner; it did not have a communications campaign; and, it did not have a clearly defined plan for implementation.

The modernization of the health sector is one of the policies in which more progress has been made and it includes the approval of the General Law for Health and its Regulations and the preparation of specific policies in the areas of planning, human resources, and financial decentralization. One aspect which showed no progress is the development of a policy for technological management.

The evaluation shows significant progress in matters of maternal mortality, infant mortality, and hospital autonomy.

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<sup>59</sup> The report is available at SETEC. Informe Final de la Evaluación de los Programas y Proyectos en apoyo a la Atención Primaria en Salud, July 6, 2004. With financing from the World Bank # 3504-NI

<sup>60</sup> The report is available in the SETEC. Informe Final de la consultoría Evaluación Política Nacional de Salud, 1997-2002, June 2004, with funding from the IDB, 1032-SF/NL.

## Social Protection

In 2004, there was a mid-term evaluation of the Program for Integral Attention to Nicaraguan Children (PAININ), which confirmed that the interventions have been in communities with high levels of poverty and extreme poverty.

The main conclusions are: 75% of the beneficiaries expressed satisfaction with program services; the goals for training were met on time with the expected multiplier effect; major local social participation; application of the established norms; although the service provider establishments do not have adequate physical conditions for the security of the children.

A social analysis was made of the Social Safety Net and it notes, “There is a profound difference in the lives of the beneficiaries and their children.” The intervention of the Net helped reduce chronic malnutrition among children under 5 by 5.3 percentage points and there was a 13% increase in school attendance and retention of children of the beneficiaries from 7 to 13 years old.

## Poverty Social Impact Analysis (PSIA)

### *Does public investment help spur growth and reduce poverty in Nicaragua?*

Public investment is one of the main instruments the Government of Nicaragua intends to use to attain the goals of the National Development Plan (NDP). Indeed, efficient use of these resources would have a noticeable impact on the country’s growth and poverty reduction program, as its Public Investment Program (PIP) accounts for about one quarter of public expenditures, or 6 percent of GDP. It is important, therefore, to assess whether the procedures for selecting projects and programs under the PIP help in attaining the government’s goals. This document has three purposes: 1) to assess whether the procedures for selecting the public “investment” program help reduce poverty and spur growth,<sup>61</sup> 2) to assess whether public investment in the past three years has been directed to the poorest geographical areas contributing to poverty reduction, and 3) to recommend changes to improve the efficiency and targeting of public expenditures. The study’s main conclusion is that the procedures for selecting projects entering into the PIP do not necessarily contribute to either poverty reduction or growth. An analysis of the geographical distribution of expenditures during the past three years shows a marked bias in favor of better-off municipalities in the country, although marginal expenditures are increasingly being directed to areas of low dynamism and severe poverty. Nevertheless, whatever impact the PIP may have on poverty or growth is not the result of the existing procedures used to select projects, but an unintended consequence of the process.

Concerning the impact of the PIP on economic growth, an analysis of the procedures used for selecting projects shows benefits are only rarely measured in monetary terms and costs are usually measured at market prices, rather than economic opportunity costs. Therefore, except in a few select cases, it is impossible to measure projects’ contribution to welfare. Finally, since

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<sup>61</sup> A recent study commissioned by the PIU, mimeo, shows that approximately one-half of the expenditures channeled through the PIP are recurrent expenditures. Throughout this document we use the current definition of the PIP, including recurrent expenditures.

often the benefits of projects in different sectors are not measured in monetary terms, cross-sector comparisons are not possible. In many cases, even objective comparisons within sectors are not possible, as benefits are not measured with the same metric. The evaluation techniques used by each ministry to rank their respective projects differs from ministry to ministry. Among the three ministries which are the focus of this study, the most advanced is the MTI mainly because the conceptual techniques for allocating funds to the best use is most advanced in transportation projects.

The study also concludes that current project and program selection procedures have a conflict between equity and growth objectives. Selecting projects to maximize growth requires choosing them according to their economic net present value (NPV). The geographical location of projects with high NPVs is not necessarily in areas of high dynamism and severe poverty. Given the country's low per capita income and low rates of growth, the best policy at this point would be to select projects according to their NPV and use the poverty map to break ties; that is to give preference to those projects located in high poverty areas when the NPVs of mutually exclusive projects are roughly the same.

A major donor preoccupation has been the insufficient allocation of resources to fund the recurrent costs of projects under implementation. Often, projects languish for lack of funds. The main reason for underfunding of recurrent costs is a general scarcity of funds, not an improper allocation. The existing infrastructure requires more recurrent funds than are available to keep it in good condition. No matter how the funds for recurrent costs are allocated, there will always be insufficient funds to finance all of the recurrent cost needed (at least until revenues increase). The problem has been wrongly diagnosed as stemming from the separation of the capital budgeting function (done by the Public Investment Unit or PIU) and the recurrent budgeting function (done by the Finance Ministry). If these two functions were carried out by the same entity, a better allocation of resources might be obtained, but the fundamental problem of insufficient funds for recurrent costs would remain.

The geographical distribution of resources by municipalities, analyzed in this study, indicates that the expenditures channeled through the PIU reveal a regressive bias. This bias is present in all three sectors analyzed: infrastructure, health, and education. The worst regressive bias among these sectors appears in health expenditures.

The study's findings indicate that budgetary decisions made by line ministries and donors are most likely based on criteria other than dynamism or poverty. As a result, the cumulative outlays of the investment budget are increasingly located in areas of low dynamism and severe poverty, rather than in areas of high dynamism and high poverty. This point is more explicit when the marginal expenditures channeled through the PIU are analyzed.

The main recommendations of the document are:

1. The sooner the ministries move towards a five-year budget the better for the country because the recurrent cost would be explicit.

2. Ministries could be given a notional ceiling for each of the five years and asked to plan within the confines of the budgetary ceiling. The ceiling needs to be based on five-year macro projections.
3. In this multi-year budgeting, Ministries could be asked to develop explicit policy actions consistent with budget priorities and commit to specific results linked to NDP/PRSP/MDGs.
4. The PIU would need to develop a manual for ministries to present their requests including minimal information and methodological instructions on how to assess costs and benefits. The methodology must be specific for each sector and training must go along with the development of the manual.
5. To improve targeting of expenditures, the government could provide more of the goods and services that the poor consume instead of allocating geographically.
6. Projects that increase the supply of goods and services whose benefits can be measured in monetary terms need to be selected in terms of their net present value.
7. Because there is no theoretically acceptable way to allocate funds across sectors, the PIU may continue to allocate resources as it does now. Moreover, the more strategic vision of the budget is beyond the competence of the PIU. However, the allocation within sectors can and must be improved.

#### Infrastructure:

The Ministry of Transport and Infrastructure (MTI) has the information and access to the analytical tools required to allocate funds; however, it lacks the in-house capability to use them in order to reformulate its spending plans when there are budget cuts or increases.

In sum, the study's recommendations for infrastructure are:

1. The MTI could run the HDM itself (or hire consultants) to adjust its spending plans.
2. The MTI could add a poverty and dynamism map to its decision making process to take these two factors into consideration when formulating its plans.

#### Education:

The Ministry of Education, Culture, and Sports (MECD) has all the information necessary to allocate funds to their most productive social and economic uses. The Ministry allocates funds according to expected demand and the quality of the existing infrastructure: the higher the expected demand, the higher the allocation of funds; the higher the quality of existing infrastructure, the lower the allocation of funds for capital expenditures. This is a very sensible approach.

In sum, the study's recommendations for education are:

1. The Ministry's current approach could be enhanced by adopting a systematic use of economic analysis in its decisions.

2. The application of economic analysis could substantially improve the allocation of funds between competing demand. For example in deciding whether incremental funds should go to improving classrooms or to increasing the availability of teaching materials.

#### Health:

The Ministry of Health (MINSA) planning department has the information and the tools to rank health problems. The planning department uses the Hanlon method, which ranks health problems along five dimensions, “magnitude”, “importance”, “vulnerability”, and “cost”. Each dimension is assigned from one to five points and a ranking of the health problems is obtained as a result. However, the MINSA does not use the Hanlon method to allocate funds, but rather MINSA’s financial administration department allocates on the basis of historical patterns. Poverty and dynamism considerations are not taken into account.

The Hanlon method provides a systematic way of ranking health problems, but it alone cannot be used to allocate resources. Fund allocation requires an assessment of costs, benefits, and effectiveness of alternative interventions, something that the Hanlon method does not do.

In sum, the study’s recommendations for health are:

1. Enhancing the effectiveness of resource allocation could be attained if the planning department of the MINSA could rank benefits and costs of alternative interventions. This method could be the healthy years of life gained (HYLGs). MINSA could use this method without much difficulty, because the Ministry already has all the information required.
2. Once the planning department is able to rank benefits and costs of alternative interventions, rather than health problems, its recommendations could be more easily followed by the financial administration department. In consequence, budgetary decisions could be driven by demand and begin to reverse the current highly regressive pattern of spending skewed towards tertiary-level spending.