

Evaluation of the Development and Implementation of the Poverty Reduction Strategy in Nicaragua

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Executive Summary

Nicaragua is not only the poorest country in Latin America, it is also one of the most indebted and aid dependent countries in the world. Social indicators show the majority of the population living below the poverty line with deterioration during the 1990s in literacy rates, child malnutrition and access to water and sanitation.

Earlier structural adjustment policies of the International Financial Institutions (IFIs) in the late 1980s and 1990s, have largely been associated with increases in people's poverty, vulnerability and social exclusion in Nicaragua, and were brought into stark reality when Hurricane Mitch hit the region in October 1998 leading to one of the worst disasters in Central America in over 200 years.

Poverty Reduction Strategy Papers (PRSP) are a welcome policy commitment and represent the latest change in a long line of IFI instigated development policies. Entry onto the enhanced Heavily Indebted Poor Countries initiative (HIPC II) is conditional on the production of a poverty reduction strategy, which is to be formulated by participatory processes involving various stakeholders and is to be nationally owned.

The urgent need for debt relief often means participation is neither very deep nor is it very broad and is often reduced to invited consultations rather than full participation. These contradictions favour existing dominant interests rather than those of the poor who tend to have least power within political, economic and social institutions.

Problems in the PRSP policy development process stem from external constraints inherent within the neo-liberal policy framework within which PRSP are constructed and operate, and also from internal constraints and capacity limitations within which national governments and civil society organisations operate. In particular there is a lack of political will on the part of government to instigate open and participatory policy formulation processes.

The design process that produced the PRSP was not considered to be participatory by the key civil society actors. A parallel alternative civil society PRSP process emerged in Nicaragua. The recommendations of this parallel process were not included in the official PRSP. As such there is little sense of ownership of the policies that could have important implications for implementation.

It has been over three years since HIPC decision point when Nicaragua was accepted onto the enhanced HIPC initiative. In Nicaragua HIPC Completion point is dependent on a number of conditions related to, amongst other things, privatisation, financial accountability, and trade liberalisation. Macroeconomic policy conditions set by the International Monetary Fund (IMF) also dictate government spending limits and are an important influence on overall poverty reduction policy development and investment programs within the PRSP.

Despite attempts to bring different actors and agents together in the development of the PRSP, at the heart of the process are strong differences in power relations, representations and meanings between the IFIs, national governments and civil society organisations and the poor themselves, about what the IFIs mean by poverty reduction.

Macroeconomic policy determines the framework within which the PRSP is being implemented. The PRSP is partly determined by the Poverty Reduction Growth Facility (PRGF) agreements with the IMF, which are not open to public discussion.

While the government has tried to maintain poverty spending in the face of severe fiscal austerity measures introduced under the PRGF, both public investment spending and poverty spending had been reduced in Nicaragua in current and real terms.

In January 2004 Nicaragua reached the enhanced HIPC initiative completion point. The overall benefit to Nicaragua, after the application of traditional debt relief mechanisms and with full potential assistance under the HIPC II is represented by an estimated 73% reduction on external debt.

The government also recently began to report the use of HIPC debt relief in their national accounts. During the HIPC interim period 2001-2003 Nicaragua received total debt relief of US\$ 580.3 million and of which only 40% was HIPC assistance for poverty spending. Indeed, in 2002 HIPC relief for poverty spending was only 30% of total HIPC relief. The majority of HIPC interim resources have been used to finance other domestic priorities, including the internal debt, rather than poverty reducing programs as was planned in the enhanced HIPC initiative and its links with the PRSP.

The specific aim of the PRSP is to reduce extreme poverty. The policies implemented if successful will have the effect of moving people over the extreme poverty line and into poverty. The lack of a universally agreed poverty metric means that any suggested changes will be open to debate. In particular the wider well being of the population will not be reflected in official poverty measures.

Economic growth is presented as fundamental for poverty reduction, however, forecasts suggest the levels of growth required may not be achieved, moreover, Nicaragua's high inequality index suggests economic growth gains alone are not sufficient to reduce poverty.

Although the PRSP widens IFI sponsored policy to include a number of 'new' aspects, such as investment in human capital, their inclusion is for the economic growth gains they may bring, rather than any notions of 'human development'. Other new elements, such as social safety nets provide a degree of 'protection' to the most vulnerable but they leave unchanged the causes of that vulnerability.

Notions such as good governance, decentralisation and the environment have entered the PRSP discourse, however the macro focus looks to provide the appropriate institutional framework, rather than seeking to implement people centred local level policies.

While notions of good governance are suggested as key for achieving economic growth goals, little priority has been given to them in the overall PRSP budget. The area will receive the least resources and for every \$1 invested in improving governance over \$30 are to be invested in economic growth initiatives.

Economic growth projections increasingly call into question future prospects for poverty reduction. These projections suggest that in order to halve the proportion of people in extreme poverty with respect to 1995 and meet the 2015 target of 9.7% of the population, GDP per capita needs to grow at 2% from 2003 onwards. This is highly unlikely and both

UNDP and even the World Bank now suggest that meeting this poverty target, while possible, is unlikely.

Despite recent 2001 government and IFI claims to progress on poverty reduction indicators expressed as a proportion of the population, the figures often hide the fact that absolute numbers in general poverty have increased in Nicaragua and are currently estimated at 2,385,000 in 2001. In addition, the extent of the change in depth of poverty has markedly increased during the 1990s and in some places is very severe.

What gains may have taken place in poverty reduction have largely not been attributable to the PRSP which to a great extent has largely remained unimplemented. The PRSP goals although based on agreed Millennium targets are narrower in their focus and less ambitious in their aims, this has led some to suggest they would be achieved even without the PRSP policy initiative.

While the core Millennium Development Goals (MDGs) may be met, some MDGs such as those focussed on women's empowerment are absent from the PRSP goals. Similarly the global fight against HIV/AIDS has not been assumed at a national level. Wider well being factors are also largely absent from the PRSP goals.

The current projections on other development goals suggest that it is very unlikely that targets relating to the provision of access to reproductive health services for all and a decrease in the illiteracy rate by 2015 will be met. In addition it seems unlikely that the goals related to decreasing the proportions living with chronic malnutrition, reducing maternal mortality rates, and improving national water coverage will be met by 2015.

The HIPC II initiative suggests that debt alleviation should add to public spending, not take the place of spending, this has not been the case in Nicaragua. Funds have ensured that spending on health, education and other prioritised areas has not decreased too much, rather than representing an increase in spending in these areas.

In the first two years of the PRSP very few programmes have actually been implemented. The two key projects have been the Implementation Support Program (PAI), said to be a useful tool for 'testing' the PRSP, and the Social Protection Network (RPS), a welfare focussed project giving resources to targeted groups of children. Both programmes are financed, at least in part, by new loans. These loans must be paid back in the future whatever the outcome of the projects.

While bringing localised benefits the Social Protection Network (RPS) will have very little impact on poverty overall, reaching only 2.5% of those living in extreme poverty. The programme is also problematic in that it reinforces existing gender stereotypes and increases women's workloads while bringing few benefits for women. The RPS may have possible negative outcomes also, as the extreme poor are seemingly being used to explore how few resources can be offered for previous similar gains.

While the Implementation Support Program (PAI) represents only 2% of the total PRSP budget, its implementation has been low and only half of the pilot projects planned in the Integrated Work Plans had been initiated in 2003. Inappropriate projects have been implemented due to centralisation of resources and decision making, and the holistic approach envisaged is not taking place. In a recent survey only 1 in 5 of those interviewed in areas covered by the PAI knew of any government poverty reduction initiatives in their

community.

To date evaluations of the PRSP policy development process and implementation suggests that very little has changed with regard to top down policy formulation, and in terms of implementation very little has been done for very few people. The PRSP is in danger of degenerating into a social welfare support program with little progress in its other aspects.

While poverty reduction is a difficult long term policy objective to achieve on a sustainable basis, little progress has been made both nationally and internationally to change the socio-economic and political conditions reproducing the high poverty levels in the country.

At present the macro economic framework is dominating PRSPs through the Poverty Reduction and Growth Facility (PRGF). Priorities need to be reversed to ensure every policy is judged by its poverty impact rather than its potential to increase economic growth. There is also a real need to make PRGF more responsive to the wishes of civil society and local level actors.

There is a need for a change in relations between donors and recipients to improve national ownership of PRSPs. The improvement in local capacity building of both civil society organisations and local government is an essential step within the PRSP process to ensure fuller participation and local execution in the management of project resources. These are vital considerations if there is to be further decentralisation of funds, which are focused on local poverty issues, and if there is to be more local control over their use.

The focus on poverty within the PRSP agenda represents a real opportunity to recognise diversity and difference among 'the poor' in particular in terms of the rights of women, ethnic minority groups, older people and those with different abilities. In each case there is a need to ensure these actors are visible within society and within the PRSP process as active participants in that process.

To date the PRSP framework has lacked actions aimed at promoting greater equality. This lack of attention to issues of equality and more specifically the unequal distribution of resources, casts doubt over the ability of the PRSP process to tackle the enormity of the problems faced in Nicaragua. Fundamental reforms are needed if the PRSP is to work more in the interests of the poor and bring about sustained improvements in their well being.

1. Introduction

In Nicaragua in the late 1980s and 1990s the impact of structural adjustment policies of the International Financial Institutions (IFI) had largely increased people's poverty and vulnerability. This was brought into stark reality when Hurricane Mitch hit the Central American region in 1998 leading to one of the worst disaster in over 200 years (CCER, 1999).

The development of Poverty Reduction Strategy Papers (PRSPs) as a condition for international concessionary lending under the HIPC II initiative marks a new policy era for the International Financial Institutions. The focus of the new policy development process is to be centralized on poverty reduction, participative, and country specific and owned.

The role and extent of participation of national civil society organisations in shaping the policy development process has been the subject of much controversy and debate both generally and particularly in Nicaragua. These and other considerations have served to illustrate a number of concerns relating to the development and ownership of PRSPs and the impact of implementation.

Despite a number of problems with respect to the content and process of elaboration of the PRSP in Nicaragua, the strategy was accepted by the IFIs in September 2001. Concerns relate to the implementation of the PRSP so far developed and the extent to which HIPC funds released will actually be translated into meaningful poverty reducing effects for the intended beneficiaries. While it is too early to evaluate the longer-term impact of the strategy, a number of different types of evaluations have been undertaken in relation to the policy development process and initial PRSP.

Since the production of the final PRSP in 2001 the Nicaraguan government have been in the process of designing a number of implementation initiatives and more recently attempting to refocus poverty related public investment. These include testing a pilot social protection network (RPS – *Red de Proteccion Social*) and an Implementation Support Program (*Programa de Apoyo a la Implementacion de la Estrategia de Reduccion de la Pobreza - PAI*) with loan funding from the Inter-American Development Bank (IDB). In addition, the government have been designing a PRSP evaluation system with assistance from the UK Department for International Development (DFID) known as the Support Project to the Follow up and Evaluation for the PRSP (*Proyecto de Apoyo al Seguimiento y Evaluacion de la ERCERP - PASE*), and is undergoing a financial accountability assessment.

In addition, there are national and local civil society initiatives, which attempt to monitor and evaluate the implementation and effects of the PRSP in Nicaragua. These initiatives are primarily being undertaken and coordinated by the Institute for Nicaraguan Studies (*Instituto de Estudios Nicaraguense – IEN*) in conjunction with the Civil Coordinator (*Coordinadora Civil*) the national civil society network coordinating organisation formed after Hurricane Mitch.

This report is divided into four sections and documents antecedents of the Poverty Reduction Strategy process and the current state of progress with the PRSP process in Nicaragua, and includes where possible information on sector plans and evaluations of PRSP related projects. Sections one and two consider the official policy context and conceptual underpinnings of PRSPs, including other HIPC conditionalities. Section three considers PRSP goals and financing. Section four considers implementation plans along

with the pilot projects that are currently being implemented at local level in a number of municipalities. The final part of the report presents the conclusions and recommendations for future advocacy.

2. Background to the PRSP

The PRSP design process

Participation and the PRSP framework

The International Financial Institutions (IFIs), or more specifically the World Bank have stressed that the PRSP initiative marks a change from IFI led policy of the past, and instead is country driven and owned. They have stressed too that no blueprint exists for a PRSP, and that the role of the joint board of the Bank and the International Monetary Fund (IMF) is an advisory role only. However, accompanying the PRSP is the Poverty Reduction and Growth Facility (PRGF) agreements with the IMF which some argue set the macroeconomic policy framework within which all other policies are to be designed and implemented. Decisions around the PRGF are not open to public debate since they include the measures deemed necessary by the IMF to promote economic growth and poverty reduction.

The PRSP framework contains elements of both top-down international control over policy, largely justified on poverty reduction grounds, and the potential for increased bottom-up participation in policy making justified on national ownership grounds. These somewhat contradictory axes and initiatives set up tensions within PRSP policy development processes. How these tensions are resolved depends partly on both international and intra-national power relations along with governance and institutional characteristics.

While IFIs have been increasingly embracing the concept of participation in policy development, which many national and international civil society organizations have taken for granted for years, there remain concerns about how this is being done by such organizations. IFIs wanting to influence national governance and policy environments may see civil society involvement as an alternative to top-down control of national governments and their involvement as advantageous to themselves and their aims. The nature and extent of domestic 'participation' and what the World Bank mean by this is increasingly being questioned and the subtle use of 'participatory' processes to reinforce existing power relations and co-opt groups into legitimizing the very policies which people seek to change is suspected by some (see Cooke and Kothari, 2001). Often project beneficiaries are consulted on project components and implementation strategies but rarely participate in the identification, selection, design, or setting of budgets for project components (Francis, 2001).

The policy framework raises a further issue around PRSPs. The complexity of the policy matrix that is at the base of the PRSP process has prompted the World Bank to acknowledge that "governments may need to seek extensive technical assistance, including from the Bank and Fund, on the elaboration of policies within the PRSP" (World Bank - IMF, 1999). The potential this extends for the Bank and the Fund to lead the process was recognised from the outset, as noted in this reassurance from the head of the Bank that "the existence of the matrix is not a clandestine attempt on the part of the Bank to dominate the international development arena" (Wolfensohn, 1999). For some, however, it represents just that - a vehicle for the World Bank and IMF to incorporate social and structural policies into an agenda already dominated by macroeconomic policy alone, furthering the hegemonic domination of neo-liberal doctrine (Grusky, 2000; Cammack, 2002, 2003).

The 'participatory' language of the PRSP has raised expectations among civil society actors.

However, in general while civil society organisations have been consulted their influence on the choice, design, and implementation of policies has not increased in line with their expectations. The contradictory messages around participation somewhat undermine the suggested commitment to more inclusionary design processes and country ownership. This is reinforced by the fact that, unlike macroeconomic aspects, in terms of levels of participation there is “no uniform minimum threshold” requirement (World Bank 2001e: 4). This allows government’s, such as the Nicaraguan government to ‘opt out’ of participatory design processes or use them merely as a tool to legitimise the PRSP produced.

The PRSP process in Nicaragua

The main stages and events in the PRSP process to date are described in Box 1 and these events are discussed in this section. The government initially limited consultation over the PRSP to international agencies and the National Economic and Social Planning Council (CONPES). CONPES does incorporate a wide range of actors, including the business sector, however, it is an exclusionary rather than an inclusionary space since only a small number of civil society network organisations, such as the Civil Coordinator for Emergency and Reconstruction (CCER), have been invited to participate and ‘represent’ all wider civil society interests. Although some gains were made during this initial limited consultation process, such as the inclusion of a fourth ‘pillar’ in the PRSP around governability the extent to which the inclusion of this was a result of civil society lobbying is debatable. International pressure may have been the real influence reflecting the concerns of many donors and agencies around corruption within the government at that time. The fact that the government submitted this document (the Interim PRSP) for approval to the IMF and World Bank unbeknown to national civil society highlights their lack of any real power to influence the process. That the government could gain approval for the document despite this also highlights the inherent contradiction within the idea of the participatory design process.

The CCER continued to lobby for wider consultation as the development of the final PRSP continued. The government’s response to CCER lobbying was that there were major time pressures from the Bank and the Fund; that is that their actions were determined by the IFIs and any failure to comply with their timetable would delay debt relief. CCER activities then shifted to the IFIs. The World Bank, however, stressed that national governments were responsible for the PRSP process, including consultation activities. The involvement of the international community, including letters written by embassies and key international organisations, may be seen to have ultimately worked, resulting in at least a limited government consultation process with invited participants.

Meanwhile a number of initiatives were undertaken by civil society organisations to discuss the PRSP (see for example Cranshaw, 2003). This included a ‘parallel’ policy formulation process initiated by the CCER (see CCER 2001). Workshops were held in 14 of the 17 departments of the country plus two meetings in the Autonomous regions of the North and South Atlantic and one in the troubled ‘mining triangle’. Rather than merely presenting the government document for comment the aim was that participants constructed their own vision about the situation in their communities and the priorities and emphasis needed to resolve them. Themed meetings, including two meetings around conceptualisations of poverty, complemented this process providing a critique of the guiding principles of the official PRSP.

Box 1 Key Government and CCER Poverty Related Events in Nicaragua	
Date	Event
October 1998	Hurricane Mitch hits Central America
June 1999	G7 summit in Berlin links HIPC initiative to PRSP
Nov. 1999	Government presents to CONPES an initial World Bank backed poverty diagnostic
January 2000	Government presents to CONPES initial draft document that would form the basis of the PRSP (3 pillars)
May 2000	Government present matrix of programmes to CONPES, most not new
June 2000	CCER and a number of its participant organisations invited by the government to participate in designing the methodology to be used in the government's PRSP consultation.
July 2000	Government presents in English the Interim PRSP for approval to the World Bank, unknown to Civil Society
July 2000	Limited consultation with member organisations of CONPES including some civil society groups who submitted a series of recommendations about consultation
October 2000	IPRSP translated into Spanish available in Nicaragua and Leon Norte begin local priorities consultation
November 2000	CCER begins its own PRSP Consultation in each Department
January 2001	Civil Organisations send letter to WB and IDB saying IPRSP does not have consent of local government and social organisations
January 2001	PRSP approval delayed as government forced to start consultation process
Feb. 2001	CCER begins Social Audit III poverty research process
May 2001	Government finish their 'invitation only' consultation process saying nothing new being said
June 2001	Nicaragua formally accepted onto HIPC II initiative process
July 2001	CCER publish Poverty Consultation document <i>La Nicaragua que Queremos</i> and Political agenda at first national civil society fair
August 2001	National Forum presentation of 3 consultations, despite this Government admit results not incorporated, not even their own due to time constraints and say document is 'live'.
August 2001	World Bank Staff Assessment of Nicaragua's PRSP calls for increased participation
Nov. 2001	General Election (PLC regain power)
Dec. 2001	CCER publish results of Social Audit III on Poverty
August 2002	Implementation Support Program (PAI) begins
Nov. 2002	Government submits first annual progress report on the PRSP to IFIs
October 2003	Government presents second progress report on the PRSP to the IFIs. Multi-lateral Consultative Group meeting held in Managua

However, the final PRSP can be said at best to be based on limited consultation around a document designed with little or no civil input, rather than the participatory process to define the contents of the document as initially envisaged by the CCER. In fact despite a national forum to consider the results of the PRSP consultation processes government officials admit that they did not incorporate any of the results, including the results from the government's own consultation, into the published PRSP document - the Strengthened Strategy for Economic Growth and Poverty Reduction (ERCERP). As such the CCER has declared that the PRSP cannot be considered as either final or complete, nor a country owned policy.

Underlying Assumptions of the PRSP

Economic growth for poverty reduction

Accompanying the PRSP agreements are agreements around the Poverty Reduction and Growth Facility (PRGF) with the IMF. Macro-economic policies contained within PRGF are not based on participatory processes and there is no indication that the IMF, despite its supposed new focus on poverty reduction, has actually changed its basic policies. The PRGF effectively sets the framework or context within which the PRSP operates, since the PRGF defines the country's macroeconomic policies.

The World Bank too continues to suggest that economic growth is the single most important factor influencing poverty and PRSP support documentation emphasizes this. The extent to which economic growth strategies alone have reduced poverty in different developing country contexts is highly questionable. While there has been some limited success of these policies in terms of certain economic indicators, they have often failed to deliver on a number of poverty related indicators and promised economic benefits have often not materialized for the majority of the poor.

Predictions based on GDP growth projections suggest the prospects for income poverty reduction do not seem favourable for the future (IDA-IMF, 2002b). To meet the 2005 to 2015 target for poverty reduction will need a real per capita GDP growth of 2% per year from 2003 onwards. Given current population growth this requires a 5% GDP growth rate. This is unlikely with lower GDP growth levels revised to 1% in 2002, 3% in 2003 and 4.5% in 2004. The response to the first year evaluation report noted that the Nicaraguan economy is highly vulnerable to natural disasters and trade shocks affecting coffee and oil prices, which could potentially "derail the new PRGF and stall progress under the HIPC" (IDA-IMF, 2002b).

Overall in 2002 the IDA-IMF analysis of the first years implementation of the ERCERP was that 'satisfactory implementation' of the PRSP targets within the revised macroeconomic framework still needed to be established (IDA-IMF, 2002a:10) and a record of satisfactory implementation of PRSP objectives still needs to be established to meet floating completion point entry conditions which included the privatisation of ENITEL and all electricity generating units of ENEL, and the implementation of the remaining actions needed to introduce a private sector managed pension system (IDA-IMF 2000).

The government are currently trying to narrow the focus of the economic growth pillar further around broad based export production and foreign direct investment in the more dynamic parts of the country (NSC, 2003; Gobierno de Nicaragua, 2003a). This is perhaps in reaction to the demands of the IFIs (Government of Nicaragua, 2002). The suggestion was that the analysis of the sources of economic growth was limited and that additional work was needed on the implementation of the economic growth pillar. However, IFI advice was that the government should refrain from 'picking winners' and concentrate on reducing the economic vulnerability from physical and economic shocks, brought about by disasters and external terms of trade shocks, through export diversification and improved market access.

Other actors have expressed other concerns including possible external constraints. Free Trade and access to US and European markets are not discussed in the PRSP. The present US domination of Central American Free Trade Agreement (CAFTA) and refusal to put

US agricultural subsidies on the agenda for Central American Governments may be a serious impediment to the economic growth pillar.

A further problem with the present emphasis on high growth potential development clusters is that these areas are not the ones with high concentrations of poor and extreme poor. This would suggest a high reliance on 'trickle down' effects to reduce poverty. That is it assumes that as a country becomes richer, so the population of that country, including the poorest, will also become richer, reducing income poverty. Many criticisms have been levelled at the notion of trickle-down and the extent to which it can occur (Stiglitz, 2002). In particular persistent inequality in income distribution and the social structures that perpetuate and concentrate the extent of inequality, are suggested to be major barriers to trickle-down effects.

Nicaragua has a high inequality index with a Gini coefficient of 0.59 in 1999¹. A recent study of 128 countries undertaken by the UNDP suggests that Nicaragua and Bolivia require annual average GDP per capita growth of more than 2% and a reduction in inequality of 5% to meet the poverty reduction targets (UNDP, 2002). The research notes that while there are trade-offs between rates of income growth and inequality reduction required to meet poverty goals, there is no evidence that growth and inequality are economic substitutes. Moreover, the UNDP study suggests that for most of the 18 countries that were considered a one - or two - point reduction in the Gini coefficient "would achieve the same reduction in the incidence of poverty as many years of positive economic growth would." (UNDP, 2002:13)

More generally, despite criticisms of 'income-poverty' measures and the development of alternative approaches and indicators (Chambers, 1995; Wratten, 1995), official IFI poverty metrics continue to be defined in terms of the number of people below certain income and consumption levels. Metrics frequently used are the head count index, often expressed as a proportion of the population, and the poverty gap, the depth to which people are below these income and consumption levels.

Different indicators of poverty produce different indications of the extent to which poverty has declined. Narrow economic measures may say little about the real situation and contradictions may arise as was noted for the period 1993-1998 in that in spite of the 'measured gains' made in reducing poverty during the period, qualitative analysis showed that the poor associated the 1990s with a 'decline in their well-being' (IDA-IMF, 2000). Even when only economic poverty measures are considered confusion may arise as highlighted by this recent World Bank statement that "In spite of a consistent decline in poverty, the absolute number of people in poverty increased, but notably those in extreme poverty are fewer" (World Bank, 2002). What the World Bank seem to be saying is that while there may have been reductions in the poverty rate as measured as a percentage proportion of the population, actual numbers of people in poverty have been increasing in Nicaragua up to 2001. The extent to which poverty reduction has occurred or occurs in the future depends on the metric used and any gains will be open to dispute.

Good governance

Although the focus on economic growth policies and income poverty measures continues, recent internal World Bank research has highlighted the need for economic policy to be

¹ The Gini Coefficient is a diagnostic statistic from the Lorenz Curve and varies between zero, which represents complete equality of distribution to one, which represents complete inequality of distribution.

accompanied by improvements in other national policies and institutions. This work highlights the importance of governance issues and institutional quality as a crucial determinant of development outcomes. The importance of the policy making environment and 'good' economic policy is emphasized in not only reducing poverty but also levels of long-term indebtedness. This research considers factors important in influencing the rate of poverty reduction over time through the influence of aid and policy on economic growth in developing countries. It attempts to highlight factors influencing the effectiveness of aid in reducing income poverty, concluding that aid only works if it is accompanied by 'good policy' (Collier and Dollar, 2001 and 2002).

The findings suggest that more global poverty reduction can be achieved by aid allocations based on the quality of policy, and that the combination of aid and good policy generally enhances economic growth and poverty reduction. World Bank projections suggest that even by doing nothing income poverty might be halved by 2015. Reductions in excess of this are thought to depend mainly on policy reform in Africa, Eastern Europe and Central Asia, and if aid can influence the policy environment then poverty reduction is expected to be even greater (Collier and Dollar, 2001). Under the World Bank country policy rating system for example, Nicaragua has above average amounts of aid (10% of GDP) and only a 'moderate' policy indicator. Based on these models Nicaragua is the only country outside of Sub Sahara Africa to have a negative marginal efficiency of aid of -68.5 people per extra million dollars of aid. Although these research findings are not fully discussed by Collier and Dollar, the implication is that currently the effectiveness of aid being given to Nicaragua is not reducing poverty further, at least without further changes in other policy areas and institutions.

In line with this research so called 'good' policy environments, fostered by democratic governance, are now presented by IFIs as also being crucial to the success of reducing the debt burden of HIPC countries in the future. Previously debt relief has been related more to need and western political interests rather than governance and policy reform factors (Neumayer, 2002). The view being that the debt crisis is partly due to loose official lending to corrupt and unaccountable governments with poor and often highly distortive economic policies (Hanlon, 2000 and Roodman, 2001). Indeed, some commentators argue that despite increasing rounds of debt relief over the last 20 years, many of the 41 HIPC countries of today, have failed to change policies and high discount rates sufficiently to reduce longer term debt burdens (Easterly, 2002). The preference of high debtors for high debt may simply lead to new borrowing to replace the cancellation of old debts, and in situations where borrowing is constrained country assets will generally be run down.

Easterly (2002) attempts to capture this preference by suggesting high debt countries simply have a high discount rate, implying the pursuit of short-term policies which value current over future consumption. "Debt relief is futile for governments with unchanged long-run preferences (i.e. Governments that continue to be dominated by rent-seeking elites). At best, only governments that display a fundamental shift in their development orientation should be eligible for debt relief." (Easterly, 2002:1692). The extent to which high poverty levels in HIPC countries are a driving force for valuing present consumption over future is not fully explored by Easterly, the developing view is that the past lack of success on poverty reduction rates, indebtedness and economic growth are partly due to political problems rather than economic ones. This view suggests the need to improve the policy mix and combine development assistance with advice and control of economic policy with advice on good governance and institutional management.

Issues of national governance are often seen as more difficult to influence than economic policy, and IFIs have arguably had limited success at indirectly influencing them through aid and debt relief (Neumayer, 2002). Governance is related to poverty reduction not only indirectly through its supposed impact on economic growth, as discussed earlier, but also directly through the exercise of power within public institutions and policy making processes. Democratic governance is seen by many as crucial in providing intrinsic and responsive protection for particularly poor and vulnerable groups in the avoidance of starvation, famine and extreme inequality (Sen, 1999). Better governance has been seen as a development objective in itself not as a condition for improving aid efficiency (Hout, 2002). The poor tend to have least power in society in the policy making process and are often disproportionately affected by the abuse of power and corruption in the provision of public services.

In many HIPC countries democratic institutions are weak and underdeveloped and in some cases characterised by corrupt and predatory governments. The first Annual Progress Report (IDA-IMF, 2002b) saw prudent economic management and fighting corruption as crucial for credibility of Nicaraguan government's strategy in implementing PRSP. The main risks to the PRSP are thought to be the political risks. Thus governance is seen as key in the Nicaraguan case, and achieving economic growth goals is seen to depend to a large part on the Government's progress towards improving the situation in this area.

Gender equality

Macroeconomic and macro level governance issues are at the forefront of World Bank and IMF concerns because of their importance in terms of economic growth. World Bank research has also focused on one other social factor associated with economic growth, that is the relationship between economic growth and gender equality (Dollar and Gatti 1999; Klasen 1999). Central to this has been evidence to suggest that increasing women's human capital potential by ensuring more equal access to education for girls, can increase economic growth and have a beneficial impact on fertility rates, reducing population growth and further enhancing economic growth. This work has partly informed the World Bank's recent 'Gender Mainstreaming Strategy' which highlights the additional opportunities for economic growth and possibilities to "capitalize" on the opportunities that a reduction in gender-related barriers could bring (World Bank 2001b: xii).

Such findings appear to have informed the emerging PRSP process. For example, the gender section of the World Bank's PRSP Source Book highlights that "gender-sensitive development strategies contribute significantly to economic growth *as well as* to equity objectives" (Bamberger et al 2001: 3 emphasis added). While noting that equality should be a "development objective in its own right" (World Bank 2001b:1) the World Bank's interest in gender may then be seen to have an 'efficiency' rather than an 'equity' basis. This may result in an emphasis not only on economic growth gains, but also on macro level economic gains. This means that the individual costs of such gains, and the extent to which such gains accrue to the individuals who have contributed to them, are largely ignored. An efficiency approach may use women to gain macro level growth goals, while not improving women's micro level situations, or while reducing their well being as was the case with Structural Adjustment Programmes.

An efficiency approach means that attention is focussed on the possible productivity gains that including women in policy initiatives may bring. This would suggest that the goal of income poverty reduction justifies any means or process by which it is gained, even if a reduction in income poverty is gained at the expense of a decline in women's real well

being (for example, women's incomes increase via waged labour in a factory that at the same time puts at risk their health). Most working within the field of women's, gender and feminist studies would suggest that women's relative poverty is experienced as social not just economic inequality and thus a change in the economic situation of women does not necessarily mean a decline in their 'poverty'. The efficiency approach also tends to focus on the ends rather than the means. It may be the case that participation in the process by which poverty reduction is achieved, and more importantly recognition of the role played in that process, may itself be important in improving relative well being. That is that the means may be integrally linked to the ends.

Noting that socially and economically 'weak' and voiceless groups, such as women, are frequently excluded from participating in decision making processes, PRSP supporting documentation lays out guidelines for ensuring the full participation of both sexes within the PRSP participatory design process (Bamberger et al 2001). The suggestion appears to be that participatory processes are the main form of ensuring a gender perspective within PRSPs. This is rather unfortunate as there is no base line or minimum requirement in terms of participation which suggests that there is no minimum threshold gender requirement either, a conclusion reinforced by the fact that PRSPs were presented before gender guidelines were even circulated by the Bank, and approved despite their lack of a gender perspective (Bamberger et al 2001). Even with guidelines in place the nature of the Sourcebook means that they do not have to be taken into account in the sense that the Sourcebook is not intended to be prescriptive but 'suggestive' and even then the chapters "do not necessarily represent official World Bank/IMF policy" (emphasis in the original, World Bank 2001e: 5).

The World Bank thus now suggests that improving governance and decreasing gender inequalities have positive outcomes for economic growth. The extent to which this has been taken on board within the Nicaraguan PRSP is debatable.

Critique of the PRSP in Nicaragua

The PRSPs produced to date show similarities including four key elements or pillars – economic growth, governance, investment in human capital and social safety nets – and three cross-cutting themes – gender, the environment and decentralisation.

The PRSP pillars

Economic growth

Economic growth remains the central core element of the PRSP process as the title of the Nicaraguan PRSP published in July 2001 suggests: 'Strengthened Strategy for Economic Growth and Poverty Reduction'. It describes labour intensive economic growth as the 'most important pillar' of the strategy. A number of sectors are highlighted as key for economic growth outcomes, including the promotion of Free Trade Zones and tourism. A number of geographical development clusters are also highlighted for investment since they have high potential productivity. However, these areas are not the areas with high concentrations of poor and extreme poor.

Investment in human capital

While the inclusion of investment in human capital within the PRSP documents is encouraging, reasons for its inclusion are important to consider. Investment in human capital, particularly education is presented in the Nicaraguan PRSP as a means to improve

the productivity of the labour force for economic growth gains, noting increased investment in human capital improves the poor's 'productivity, incomes and well being' (Gobierno de Nicaragua 2001: 69). The National Development strategy, as laid out in the document the 'Bases for a Prosperous Nicaragua' (Gobierno de Nicaragua 2003b: 15), reiterates this, stating that investment in human capital by the government aims at increasing the 'productivity of workers and their work' and that "this is the secret of the growth of the country and employment, this is the route to prosperity".

Social protection or social safety nets

As debates around the real ability for economic growth to reduce poverty and inequality continue, it appears that it has been accepted that economic growth will not instantly 'trickle down' to the most vulnerable and there is a need for the protection of vulnerable groups via social safety nets. However, social safety nets, via the provision of food, money and other services to the most vulnerable, do not tackle the causes of that vulnerability.

The Nicaraguan PRSP is somewhat contradictory in its discussion of social safety nets not least since the focus is on the rationalisation and consolidation of existing programmes, and the provision of services through private organisations. Measures that others have suggested will have a negative rather than positive affect on the poor (see CCER 2001).

Moreover, the PRSP suggests that 'special protection' must be afforded to children under five years of age and other particularly vulnerable groups, such as 'abused women' the disabled and the aged (Gobierno de Nicaragua 2001:34). However, the government highlights that "top priority has been assigned to the reduction of extreme poverty" and that "social programs will be crucial for this result" (Gobierno de Nicaragua 2001:24). This suggests that social programmes are being used to fulfil more than one aim, or rather that the real aim is not that which is stated and in the short term at least programmes are to be focussed on the extreme poor. Although the poor may be vulnerable, and the vulnerable poor, the two are distinct concepts and vulnerability and poverty cannot be used interchangeably.

The focus of the PRSP may allow achievement of the main PRSP indicator of reducing numbers in extreme poverty, but not necessarily the number of poor, nor their vulnerability.

Good governance

In concrete terms the policies proposed tend to focus on putting into place the legal framework for governance with related indicators around the number of laws passed. Overall the proposals in the Nicaraguan PRSP aim to improve 'even more' the governance of the country (Gobierno de Nicaragua 2001: 77), which is interesting given that the Nicaraguan document was produced under the Aleman government, members of which now face charges of corruption and embezzlement of public funds, including the ex-president himself.

The focus on institutions and institutional processes is supported to some extent by a recent cross-regional study of perceptions of the formulation and implementation of government budgets that found perceptions of transparency and accountability in Nicaragua to be the lowest in the region (see Latin American Index of Budgetary Transparency, 2003). One of the two most crucial areas identified was the lack of mechanisms by which information is made available which would benefit from new laws or a more formal process. However, the second key area of concern identified by the study

was that of internal auditing and it was noted that despite receiving positive responses from only 11% of those who responded to the survey an analysis of the legal framework points to the existence of functional mechanisms. That demonstrates that while the framework exists, it is not enforced or that the perception does not match the reality. In either case, what is highlighted is that notions of good governance encompass more than just legal frameworks and the existence of laws.

Cross-cutting themes

Gender and Social Equity

In terms of social equity the PRSP notes that 'virtually all' of the policies proposed in the PRSP will encourage increased social equity (Government of Nicaragua 2001: 37). However, a review of the PRSP demonstrates that this is not the case in terms of gender equity. To a great extent women are noticeable by their absence in the PRSP especially within the governance pillar where policy appears to be assumed to be gender neutral. In terms of social safety nets women are present, but not as beneficiaries or key agents of change but as the means to transfer resources to others - most specifically children.

Throughout the PRSP the importance of women's reproductive role is reinforced and where present they are represented as mothers rather than workers. Moreover, the responsibility for family planning is promoted as resting with women, and women alone and the document implicitly reinforces notions of what is 'acceptable' sexual behaviour as the targets for reproductive health services demonstrate – the aim being to meet the demand of women with a male partner or husband.

The focus on women when population growth is discussed is in contrast to their invisibility in discussions of economic growth. Despite the fact that in the economic growth pillar two of the sectors to be promoted, tourism and free trade zones, employ a large, if not majority, female labour force, the gendered implications of the growth strategy are not discussed or even acknowledged. There is no explicit mention of women's role in the economy, present and future.

Decentralisation

The decentralisation that has already occurred in Nicaragua has tended to focus on the decentralisation of responsibilities, not resources. Similarly, the aims of decentralisation have tended to be market based rather than people centred. That is, rather than seeking decentralisation as a means to contribute to the improvement of the well being of the population, both in terms of local services and in terms of making decisions about those local services, decentralisation has tended to focus around facilitating business transactions and focussed on investors.

The PRSP process does suggest some possibilities to change this situation, most notably in terms of processes if not resources. However, these positive initiatives are initiatives of agencies working to facilitate the PRSP process rather than elements of the PRSP itself. In particular the UNDP and DFID have been working to put into place systems of monitoring and control of the PRSP that will operate at the local level thus helping to consolidate local spaces and forums and strengthen local level actors both governmental and non-governmental.

The Environment

In terms of the environment the policies proposed tend to focus on putting into place the legal framework for environmental protection and conservation and the document proposes a number of laws be passed. While establishing a legal framework is a necessary first step, it is not sufficient to ensure that environmental degradation is minimised. It fails to take into account the complexity of the situation.

The PRSP does not recognise that environmental processes are integrally linked to social, political and economic processes and what may be good for one may not be good for the other. Most notably some initiatives that are good for economic growth, such as mining for metal ores, may bring high short term economic gains but also have high long term environmental costs. Moreover, initiatives that may bring well being benefits, for example increase the food security of the poor, such as the introduction of genetically modified crops, or allow increased access to basic services via greater production of energy for example, may also have a high environmental cost that must be taken into account.

The continued poverty of the majority of the population will continue to force them to engage in practices that harm rather than protect the environment. At the same time the strive for economic growth may carry similar high environmental costs. The Nicaraguan PRSP does not place environmental concerns as central nor does it provide guarantees that environmental costs will be fully accounted for via environmental cost-benefit analysis undertaken prior to project implementation.

3. HIPC Conditionalities

The HIPC II initiative is essentially donor driven by the IFIs and contains a number of conditionalities in addition to the production of a PRSP. For full debt relief under the HIPC II scheme, there are basically eight main conditionalities listed by the IMF to which the Nicaraguan Government have agreed too (IMF, 2003). Nicaragua has to undertake these conditions to the satisfaction of the IFIs to reach HIPC completion point. The conditions are listed in table 1 below and include those also relating to the World Bank and Inter American Development Bank (IDB).

Table 1: Nicaragua's Status of Poverty Reduction and Structural Measures for Reaching the HIPC Floating Completion Point

<ol style="list-style-type: none"> 1. Nicaragua's annual PRSP progress report. The full PRSP was submitted to the Board of the Fund in September 2001 and a report of the first year of its implementation was presented in December 2002. 2. Use of budgetary savings resulting from the interim relief under the HIPC Initiative . A reliable tracking mechanism of poverty reducing expenditures was approved. The mechanism is already operating and it was consulted with the NGO's, donors and civil society. 3. Stable macroeconomic framework and satisfactory performance under a program supported by the PRGF arrangement. A request for a three year PRGF arrangement was approved by the Board in December 2002. First and second reviews under the three-year PRGF arrangement is presented for Board approval. 4. Human capital development and social protection. <ol style="list-style-type: none"> a. Approval of a satisfactory school autonomy law and its implementation. A law considered satisfactory by the World Bank was approved in February 2002. Implementing regulations are pending. b. Approval of a satisfactory general health law and its implementation. A law deemed satisfactory by the World Bank was approved and published in May 2002, and became effective in November 2002. Implementing regulations were approved and published in January 2003. c. Introduce an effective system of social protection. A pilot program was concluded in 2002. Design and adoption of an effective social protection program based on the findings of the pilot program is in process. The government is working on the definition of an integrated social protection policy. 5. Governance <ol style="list-style-type: none"> a. Approval and advance in implementation of a satisfactory civil service law. A draft of the law was submitted to the Assembly in December 1999. Approval is pending. b. Introduction of a satisfactory system of management and inspection of public sector procurement. Implementation of the program agreed with the IDB started in October 2002. c. Satisfactory progress in implementation of a plan to strengthen and improve the efficiency of the Comptroller's Office. Program agreed with IDB started in December 2002. d. Approval of the law on penal procedures and initiation of training programs and technical preparations for its implementation. A law on penal procedures (Law nr. 411) was approved and published in December 2001. Implementation of the law started at the end of 2002. Training programs and technical preparations are advanced. e. Approval of the law on public prosecutors and initiation of training programs and technical preparations for its implementation. A law on public prosecutor (Law nr. 342) was approved in May 2003 and published in October 2000. Implementing regulations are pending. 6. Pension system: Restructuring of the social security institute and introduction of a satisfactory private pension system. A new Pension Law and the Pension Superintendence Law were approved in 2000. New law on the social security institute including pending parametric reforms is expected to be approved in 2003. Nomination of the Superintendent of Pensions is still pending. Award of licenses to private fund managers is expected by end 2003 and transfer of all eligible social contributors to the new pension system is expected within the first quarter of 2004. 7. Divestment of ENITEL: 40 percent of ENITEL's share and its management were awarded in August 2001. 1 percent of the shares were donated to the workers, 10 percent offered for sale to the workers. The sale of government's share is expected to be completed by end 2003. 8. Divestment of all electricity generating units of ENEL. The sale of the hydroelectric (Hidrogena) and one thermal plant (Gecca) is expected during 2003-2004.
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Source: adapted from IMF 2003

These conditions for HIPC entry are given by the IMF, World Bank and IDB, and have been agreed too by the Nicaraguan Government. On the IMF side the responsibility for PRGF and HIPC entry is with the Executive Board of the IMF. Nicaragua has a resident IMF representative as a within country contact point. The responsibility for the fulfilment and progress of these conditions is with the Nicaraguan government. Within the Government the implementation of the conditionalities is primarily the responsibility of the Minister of Finance (Eduardo Montealegre) and the President of the Central Bank (Mario B. Alonso).

The Nicaraguan governments target time of completion was December 2003 and at the time according to the IMF representative in Managua (Luis Breuer) the Nicaraguan Government need to fulfil their earlier commitments to obtain HIPC II completion, which include the passage of laws relating to the Civil Service and Public Debt, approval of the National Budget for 2004 and privatisation of the remaining 49% of ENITEL. However, there are doubts raised concerning the ability to privatise the remaining parts of ENITEL on legal procedural grounds and the HIPC II completion point looked likely to be postponed, unless a conditionality waiver could be negotiated.

Once these measures have been undertaken the initial cancellation of debt will be with the multi national organisations such as the Central American Bank for Economic Integration (CABEI), the World Bank, Inter American Development Banks and the IMF. Following cancellation of multi-lateral debt, the remaining cancellation of debt will be with the Club of Paris countries, which include USA, Japan, Germany and France. Under the interim measures the CABEI is making available US\$ 781.3 million over the next 2 years. Of this amount some US\$ 435.3 million is for debt relief and the remaining US\$ 346 million are loans. Some US\$ 229.3 million of the loans section is to the private sector for the generation of jobs and foreign exchange, with a focus on Small and Medium sized Enterprises (SMEs).

Other conditionalities

In addition to the HIPC II entry conditionalities there are also a number of other conditionalities related to loans to the Nicaraguan Government agreed in the past and those currently being developed.

Prior to the current PRGF arrangement approved by the IMF in December 2002, there was an earlier three-year ESAF which was approved in March 1998, reviews of which were completed in December 2000. The reviews included waivers for non observance of the structural performance criteria relating to, first, the approval of the social security reform law, and second, the issue of privatisation bid documents for electricity generation and distribution, and 40% of ENITEL's public telecommunications assets. These structural reforms had been implemented by end of 2001. However, discussion of the third annual PRGF (as it had by now been called) could not be completed due to policy slippages in the fiscal area.

The structural conditionalities for the first year of the current PRGF arrangement (2002-2003) relate to three main areas. These include fiscal consolidation, strengthening the financial system and governance and transparency issues (IMF, 2003).

Fiscal consolidation aims to significantly improve the tax system on both the revenue and expenditure sides. On the expenditure side a commission is to review and improve the composition of spending with a view to, a) increase its growth enhancing and anti-poverty

orientation, b) a public sector restructuring plan to permanently reduce public spending and increase the efficiency of public spending.

On the revenue side tax reforms are also being undertaken as a condition and are mainly designed to raise revenues. In 2002 the first stages of tax reforms were designed with an estimated net annual revenue yield of 2.1 percent of GDP. Other measures included reducing import tariff exonerations and limiting VAT exemptions on certain products. However, there has been opposition to these measures from the National Assembly, which expanded the list of zero rated VAT products from 19 to 53 against the governments plans to reduce and eliminate the zero rated VAT products list.

In 2003 the tax rate on cars and cigarettes were raised and a new tax on commercial banks was approved, based on the level of deposits, and designed to yield 0.3 percent of GDP. A second stage of tax reform in 2003 was designed to further raise additional revenues of 1 percent of GDP on an annual basis. The larger than programmed package was needed to finance additional spending approved by the assembly including the creation of a minimum corporate income tax base which is based on 1 percent of holdings, limiting accelerated depreciation to exporters, streamlining of VAT exemptions, modification of excise taxes on luxury goods and taxing of interest earned on bank deposits and private sector securities.

Financial system: The strengthening of the financial system through the prudential framework and enforcement of existing provisions and capital requirements are also key program elements. These also include regular on-site inspections, setting up a new unit as the public deposit insurance agency as legal arrangements for effective bank supervision.

Governance and transparency: Governance and transparency measures include implementation of an assets recoveries plan, changes to the legal framework of the banking system, strengthen customs and tax administration, judicial reform to support the government's fight against corruption, strengthen creditor protection to pave the way for foreign investment. The approval of a law on domestic and foreign indebtedness is designed to mark a commitment to a long run sustainable debt position. The adoption of a revised national accounts system is also designed to allow better assessment of economic policies and prospects.

The Enhanced HIPC Initiative Completion Point

It is now over three years since decision point when Nicaragua was accepted onto the HIPC II initiative in December 2000. Previously Nicaragua was at the floating completion point stage and full access to HIPC II debt relief will only be forthcoming once completion point is reached.

In late 2003 the IMF began to show signs that it would relax some of the privatisation conditionalities being imposed on the Nicaraguan Government which could soon pave the way for HIPC II completion point and full entry. In January 2004 Nicaragua reached HIPC II completion point. On the 9th of January 2004 the President of Nicaragua (Bolanos) received a letter signed by the president of the World Bank (Wolfensohn) and Managing Director of the IMF (Köhler), saying the following.

“ We have the honour to inform you of our joint decision of December 2003 to recommend to our Executive Directors that they approve HIPC completion point for Nicaragua (...). The directors of the IMF and World Bank will respectively process this on

the 21 and 22 of January 2004 (...). As we discussed in your recent visit to Washington, to reach completion point is a great achievement for Nicaragua (...). We are impressed with your vision to continue with your strength to implement solid policies and plans for deep reform (...) under the National Development Plan (...)”. (Source: World Bank (2004) Letter to President of Nicaragua from World Bank – IMF January 9th, 2004.

Completion Point and Debt

A recent end of 2002 Debt Sustainability Assessment (DSA) reassessment suggests that the nominal stock of external debt to be US\$ 6.7 billion. This has an end of 2002 Net Present Value (NPV) of outstanding external debt of US\$ 4.7 billion. Of this total external debt 48% is owed to bilateral creditors of the Paris Club and Non Paris Club members, 38 % is owed to multilateral creditors and 14 % to commercial creditors. The Inter-American Development Bank (IDB) are the largest single multilateral creditor with a 16 % share of all external debt.

In contrast to the 2000 DSA, the 2002 NPV of debt to export ratio is calculated at an unsustainable 507% of exports, the HIPC target ratio is 150%. With projected new borrowing for 2003-2004 and after the application of traditional debt relief mechanisms and full potential assistance under the HIPC II the NPV of debt will fall to US\$ 1.8 billion at the end of 2004. This represents a 73% reduction of external debt in terms of the 1999 NPV of debt.

These estimations are based on various discount rates and economic growth projections particularly those of exports. The end of 2002 NPV of debt to export ratio in the 2000 DSA was estimated at 128%, however, the actual NPV of debt to exports ratio had increased to 161% by the end of 2002 due mainly to the declines in the export of goods and changes in discount rates and exchange rates. Despite the increase in the volume of goods exported of 9.3%, over the period 2000-2002 export prices of coffee (down 36%), seafood and sugar all fell.

The additional provision of voluntary bilateral debt relief beyond the enhanced HIPC initiative would further reduce Nicaragua’s NPV debt to US\$ 1.6 billion (IMF, 2004:24). This would imply a NPV of debt to export ratio after additional bilateral debt relief of 139%.

Longer term debt service sustainability ratios are amongst other things sensitive to extended periods of export stagnation and the national fiscal position. The IMF suggest that the long term burden of debt could easily rise either through a long period of export stagnation or a further period of large scale borrowing, which could push the country beyond HIPC initiative thresholds (IMF, 2004:29).

The suggestion has always been that Nicaragua will benefit substantially from the full provision of HIPC assistance once completion point has been reached (IMF, 2004). However, even after completion point the burden of external debt is still large since some official bilateral creditors have either refused to provide or have not yet decided the type of debt relief assistance.

The US\$ 3.1 billion NPV of debt relief to reduce the NPV of debt from US\$ 4.7 billion to US\$ 1.6 billion has not been fully agreed with all official debtors especially the non Paris Club creditors. In NPV terms approximately US\$ 1.1 billion is available from multi lateral creditors, US\$ 0.9 billion from Paris Club creditors under the enhanced HIPC initiative,

and US\$ 1.2 billion is the potential debt relief contribution of Nicaragua's 24 non-Paris Club official creditors. In addition Nicaragua has external commercial debt with creditor who did not participate in the 1995 commercial debt buyback programme, some of which have won court judgements against Nicaragua (IMF, 2004).

The Use of Interim Debt Relief

Nicaragua received interim assistance under the enhanced HIPC initiative of US\$ 253.1 million between 2001 and 2003 (IMF, 2004:7). This assistance is composed of various items including interim debt relief and new loans, and is comprised of some US\$ 195.5 million from multi-laterals and some US\$ 57.6 million was from bi-laterals.

Debt Relief and its tracking in the Budget

HIPC assistance comes in a number of forms including new loans, grants and debt service relief. For some debt relief assistance is provided through a reduction in debt service payments to the various external creditors, thus potentially freeing up resources for other types of spending. The value of all HIPC assistance and debt relief in terms of resources being freed up from debt service repayments has been the subject of recent debate in Nicaragua. The Nicaraguan government have begun to estimate the value of HIPC debt relief and its allocation in relation to PRSP and poverty program spending (Government of Nicaragua, 2003).

According to the IMF and the Government of Nicaragua's PRSP annual progress report the Nicaraguan Government have developed an expenditure tracking mechanism for monitoring budgetary savings resulting from interim debt supplied under the enhanced HIPC initiative. HIPC debt relief monitoring is the responsibility of the Supplementary Social Fund (FSS). Use of HIPC debt relief funds are to be reflected in the central government budget along with governments total spending on poverty.

The present monitoring system of the Central Bank calculates the total budgetary savings from the HIPC debt relief each year. The new method (beginning in 2005) for calculating budgetary savings from HIPC debt relief is derived as the difference between, (i) average debt service capacity and (ii) actual debt service; where (i) the revised estimate of debt servicing capacity is measured as the average debt service paid by the government between 1992 -98, which is allowed to grow at the same rate as GDP, and (ii) the actual debt service coming after the provision of HIPC debt relief at completion point. Previous calculations of debt service capacity were based on which ever was the higher between the average debt service paid by the government between 1992-98 (US\$ 216.6 million) or total debt relief provided by multi-lateral organisations.

All Central governments expenditures and transfers associated with poverty-reducing programs are supposedly now tracked in the budget. The budget also specifies all other sources of external and internal financing of poverty programmes supposedly making it possible to verify if additional external resources for poverty reducing programs (including HIPC debt relief) has resulted in additional spending on poverty reducing programs by an equal amount, or has freed up domestic resources for other purposes.

The Government of Nicaragua report that total spending on poverty from all sources, domestic and external, had fallen from US\$ 457.0 million in 2000 to US\$ 409.1 million in 2002 and only recently has it begun to rise. In terms of domestic resources there has been

a consistent fall in poverty spending from US\$ 251.9 million in 2000 to US\$ 143.2 in 2003. the clear implication is that any increase in poverty spending is being mainly funded from external sources including grants, new loans and debt relief under HIPC assistance. Indeed, the IMF suggest that savings from HIPC debt relief have contributed to significant additional spending on poverty reducing programs (IMF, 2004:10)

Table 1.1 - Nicaragua: Non Financial Public Sector and HIPC Relief Additionality US\$ million

	2000	2001	2002	2003	2004
Total Revenue	791.1	785	814.8	906.1	938.1
Total Spending	1128	1284.7	1157.9	1175.4	1141.3
Total Poverty Spending	457	455.3	409.1	450	488.2
Domestic Resources	251.9	175.9	160.9	143.2	144.4
External Resources	205	279.4	248.2	306.8	343.8
HIPC Relief		63.3	70.8	100.9	125.5
Other	205	216.1	177.4	205.9	218.4
<i>Adjusted Poverty Spending</i>	349.3	361.8	401.1	450	488.2
Domestic Resources	216.7	152.4	158.6	143.2	144.4
External Resources	132.6	209.3	242.6	306.8	343.8
HIPC Relief		63.3	70.8	100.9	125.5
Other	132.6	146	171.8	205.9	218.4
<i>Mitch Poverty Spending</i>	107.7	93.5	8	0	0
Domestic Resources	35.2	23.4	2.3	0	0
External Resources	72.5	70.1	5.7	0	0
Non Poverty Spending	671	829.4	748.8	725.4	653.2
Domestic Resources	441.9	700.8	444.1	422.3	373.2
External Resources	229.1	128.6	304.7	303.1	280
Global Balance	-336.8	-499.7	-343.3	-275.3	-203.2
Financing	-336.8	-499.7	-343.3	-275.3	-203.2
Net External Financing	333.2	305.7	368.9	426.2	605.8
Net Internal Financing	-111.5	156.8	-41.7	-192.1	-419.2
Revenue from Privatisation	115.1	37.2	15.9	41.2	16.7

Source: Government of Nicaragua (2003:30), based on table 10

However, the government report total HIPC debt relief over the period 2001 – 2004 (Government of Nicaragua, 2003). These figures are shown in the table below. During the HIPC interim period 2001-2003 Nicaragua received total debt relief of US\$ 580.3 million and of this only 40% was HIPC assistance for poverty spending with the remaining assistance being used to pay off the internal debt. Indeed, in 2002 HIPC relief for poverty spending was only 30% of total HIPC relief. The majority of HIPC resources are being used to finance increased domestic debt service rather than poverty reducing programs as was planned in the enhanced HIPC initiative and its links with the PRSP.

The IMF fully acknowledge this and suggest that swapping internal debt for external debt strengthens the central banks reserve position and encourages macro economic stability which has a role in achieving sustained poverty reduction (IMF, 2004:10). Indeed, much of the HIPC assistance over the interim period has been used to overcome internal problems associated with the banking crisis where the government stepped in to honour the liabilities of private banks that had collapsed.

Table 1.2 Nicaragua: HIPC Debt Relief 2001-2004

US\$ million	Interim				
	2001	2002	2003	2001-2003	2004
1 Average debt service 1992-1998	216.6	216.6	216.6	649.8	216.6
2 Service after HIPC Relief	153.3	158	115.7	427	91.1
3 Relief cash (1-2)	63.3	58.6	100.9	222.8	125.5
4 Total HIPC Relief (5+6)	99.4	239	241.9	580.3	232.4
5 HIPC Relief for Balance of Payments	36.1	168.2	141	345.3	106.9
6 HIPC Relief for Poverty Spending	63.3	70.8	100.9	235	125.5
7 Percent of total HIPC relief on Poverty	64%	30%	42%	40%	54%

Source: Government of Nicaragua (2003:28) derived from table 8.

The IMF completion point document assesses the progress of Nicaragua under the enhanced HIPC initiative and evaluates this progress in relation to the HIPC completion point conditionalities. The document reports that most of the conditionalities have been now been met and recommends that Nicaragua reach HIPC completion point (IMF, 2004). The one condition that has not been met with regard to the conditionalities set out in the decision point document is the privatisation of all power utility generating units and a waiver for non-completion of this conditionality was recommended.

However, the PRGF still presents a number of concerns relating to lack of sufficient flexibility within the PRSP and scope for alternative policy innovations, the lack of a poverty and social impact analysis of the impact of these conditions. PRGF lending is expensive for poor countries and presents little protection against economic and natural shocks. The Poverty Reduction Support Credit also seems to proliferate conditionality even though it is targeted at supposed proven growth and poverty reducing mechanisms.

Overall, the macro economic conditionalities contained within the PRGF are still largely determining the scope for PRSP policy development and implementation. For many commentators the PRSP policy goals should determine the extent of macro-economic spending limits rather than the other way round.

4. Implementation of the PRSP

Main goals of the PRSP

During the 1990s poverty reduction became the major concern for most international development agencies and organisations. The International Development Targets developed by the Organisation for Economic Cooperation and Development (OECD) provided the basis for discussion at the United Nations Millennium Summit in 2000. The Millennium Development Goals (MDGs), and the central aim of halving world poverty by 2015, were agreed at this summit. The MDGs provide an overarching context within which poverty reduction initiatives operate.

To some extent the PRSP initiative reflects the MDGs and will contribute to its aims. However, not all the goals are embraced by the PRSP initiative and there are gaps in coverage, as the Nicaragua case illustrates (see Table 2).

Table 2 Millennium Development and PRSP Goals

Goal	Millennium Development Goals	PRSP Goals
1	Eradicate extreme hunger and poverty: <i>Proportion of population below \$1 per day</i> <i>Poverty gap ratio</i> <i>Share of poorest quintile in national consumption</i> <i>Prevalence of underweight children</i> <i>Proportion of population below minimum level of dietary consumption</i>	Reduce Extreme Poverty
2	Achieve universal primary education: <i>Enrolment</i> <i>Retention (grade 1 – 5)</i> <i>Literacy rate of 15 – 24 year olds</i>	Increase access to primary education
3	Promote gender equality and empower women: <i>Ratio of boys to girls in all levels of schooling</i> <i>Ratio of literate females to males (15–24 year old)</i> <i>Share of women in non-agricultural waged employment</i> <i>Proportion of seats held by women in national parliament</i>	Reduce maternal mortality rate
4	Reduce child mortality: <i>Under five mortality rate</i> <i>Infant mortality rate</i> <i>Immunisation against measles</i>	Reduce Infant and under 5 mortality
5	Improve maternal health: <i>Maternal mortality rate</i> <i>Proportion of attended births</i>	Achieve universal access to reproductive healthcare services
6	Combat HIV/AIDS, malaria and other diseases	Sustainable Development
7	Ensure environmental sustainability	Reduce chronic malnutrition
8	Develop a global partnership for development	Increase access to water and sanitation
9		Reduce Illiteracy Rates

In terms of the first 5 goals some overlap between the PRSP and the MDGs can be seen. However, the PRSP goals tend to be limited compared to the MDGs. This is most obviously the case in terms of MDG 1 that has been reduced to a reduction in extreme poverty by 2015, with no mention of the other indicators within the MDG such as poverty gap ratio and share of poorest quintile in national consumption. On the other hand, indicators of MDG 1, such as prevalence of underweight children are being tackled in the

PRSP (via the Social Protection Network- see below) and are 'stand alone' indicators within the PRSP, as is the case for dietary consumption and reducing chronic malnutrition.

Of the MDGs that could be tackled within the PRSP two are obviously absent – the goal focussed on HIV/AIDS and that focused on women's empowerment. In terms of the former, the argument for its exclusion as a goal would be the low prevalence of HIV/AIDS in Nicaragua. A lack of attention now, however, could make HIV/AIDS a serious concern for the future.

In terms of women's empowerment the MDG indicators are actually rather limited in scope and could be 'achieved' relatively easily and for little cost. This makes it even more worrying that this goal is not reflected in the PRSP. It also suggests a lack of political will rather than a lack of finance. This being said women are mentioned in the PRSP and specific goals associated with women do exist. These are related to women's roles as reproducers rather than as producers. More specifically the aim is to control (poor) women's fertility and thus limit population growth since a raise in the population can offset any economic growth gains. As such the policies centred on women aim to control their sexual behaviour and are related more to economic growth gains than empowerment gains. MDG 3 then can be said to be entirely absent from the PRSP.

The extent of progress on the nine poverty related goals presented above is being monitored by the World Bank with respect to 2001, the medium term PRSP goals to 2005 and projections on likely progress are currently being estimated for 2015 (World Bank, 2003). In terms of the 2001 development goals a comparison between the targets and World Bank data on actual outcomes suggest differences exist between goals (see Table 2). For example, access to primary education was exceeded in terms of the 2001 goal and seems to be on target for 2005. Reductions in extreme poverty, the maternal mortality rate, and the infant mortality rate are noted as being on target for 2005, while reductions in the under fives mortality rate is only partly on target for 2005. Access to reproductive healthcare was not achieved and is noted as being only partly on target for 2005. Reduction of chronic malnutrition was just short of the target and is on target for 2005. Access to water was also just short of target but is noted as being partly on target for 2005. Access to sanitation was met but is also only partly on target for 2005. Illiteracy rate was also short of target and is not on target for 2005.

The current projections to 2015 suggest that it is very unlikely that targets relating to the provision of access to reproductive health services for all, and a decrease in the illiteracy rate to 10% by 2015 will be met. In addition it seems unlikely that chronic malnutrition will be reduced to 7%, maternal mortality rates reduced by three quarters, and national water coverage increased for all by 2015. All other targets are noted by the World Bank as being possible to achieve by 2015 (World Bank, 2003).

It is interesting that of the two goals that target women specifically one is deemed as unlikely to be fulfilled and the other very unlikely. This once again suggests a lack of political will where gender or women's interests are concerned. This is in contrast to those goals related to children that appear to be on course to be achieved. This may have much to do with the nature of the PRSP projects implemented to date and more specifically the emphasis within the social protection programme on children of primary school age (see below). This very narrow focus is further apparent in the fact that while it is suggested school enrolment will increase to the levels proposed, it is considered 'very unlikely' that illiteracy rates will fall. Thus while children under five are to benefit from the PRSP, young

people over 15 years old are not prioritised in the same². Any gains from increasing access to education, such as improving income at the micro level and productivity at the macro level, are obviously being thought of as long term rather than medium term goals then.

It is also interesting to note that while the World Bank suggest it is possible the main poverty reduction goal will be met, they consider it 'unlikely' that chronic malnutrition will be reduced to the levels proposed (Table 3). The base measure for extreme poverty was 19.4% of the population, similarly chronic malnutrition was estimated to affect 19.9% of the population. The targets for 2015 however were different, with the reduction in chronic malnutrition to be more than the reduction in poverty (to 7% and 9.7% respectively). Ultimately what is forecast is that similar reductions will be made, both less than expected, and extreme poverty will actually be reduced more than malnutrition (11.5% compared to 12.3% forecast for 2015). This suggests it is possible to suffer from chronic malnutrition but not be considered to suffer from 'extreme poverty'. This may seem to many a contradiction in terms. In reality it may reflect a definitional problem, in that it could occur if household resources are sufficient to provide a basic basket of goods (and thus suggest the household is not poor), but these resources are not used for this purpose (money is spent on goods other than basic food stuffs). This calls into question the adequacy of income poverty measures to reflect the complexity of the situation.

The two PRSP goals that could have a large and immediate impact on peoples well being are both assessed by the World Bank as being 'unlikely' to be achieved - access to water and food. These are fundamental human rights, yet neither appears to be prioritised by the PRSP to the extent that sufficient resources will be focussed here to ensure the PRSP-MDG targets will be reached.

More detailed indicators were presented more recently by the Nicaragua government. Of the 29 indicators, only 8 in the government's own estimate, are on path to be achieved by 2005. The remaining 14 indicators for which data are available are not on track, with particular shortfalls in the area of health and particularly women's reproductive health. Perhaps most obviously underperforming is the economy, and indicator 2 - growth in GDP - shows actual growth rates to be only 27% of those proposed.

Despite this, overall the First Annual Progress Report by the joint staffs of the World Bank and the IMF (2002) suggested that the indices of poverty and extreme poverty had decreased relative to 1999 and that there had been considerable progress in achieving medium term PRSP goals and those linked to MDG (IDA-IMF 2002b). The extent to which these achievements are due to the PRSP is questionable given that little in the way of PRSP implementation had been undertaken by the time of the first report. This suggests that some of the goals are too low, and can be achieved without full implementation of the PRSP. If the 'do nothing situation' is likely to contribute to the PRSP goals in a significant way it seems to suggest the need to evaluate the counterfactual situation and assess the extent to which the PRSP policy actions are actually useful.

Official poverty line metrics show that, as a proportion of the population, General Poverty fell from 51% in 1998 to 46% 2001, and reductions in absolute and percentage numbers in Extreme Poverty post Mitch also seem to have fallen from 834,600 in 1998 to 783,400 in 2001 or 15.1% of the population. The percentage reductions in Poverty and Extreme Poverty are thought to be as a result of increased investment associated with post-Mitch reconstruction and stable relative prices of rice and beans, which comprises a third of the

² The Millennium literacy goal is focussed on those aged 15 to 24 years old.

diet of poor and extreme poor (World Bank 2002). However, as measured by the World Bank absolute numbers of people in poverty have actually increased in Nicaragua during the 1990s from 2,100,000 in 1993 to 2,385,500 in 2001. That is while there may have been reductions in the poverty rate as measured as a percentage proportion of the population, actual numbers of people in poverty have been increasing in Nicaragua up to 2001.

Recently the World Bank has stated that “In spite of a consistent decline in poverty, the absolute number of people in poverty increased, but notably those in extreme poverty are fewer” (World Bank, 2002). A number of factors may help to explain this. Poverty presented as a percentage of the population will be affected by any population changes. Hurricane Mitch may have affected death rates while the return of people who left Nicaragua during the revolution may have had the reverse affect on population figures. If population is declining, even if the absolute (headcount) number of people in poverty is increasing the proportion of the population that is poor may be declining. Also of importance is the fact that poverty lines are the official poverty metric. As such people are moving from Extreme Poverty into General Poverty, that is they are over the extreme poverty line, but remain under the poverty line.

There does seem to be some confusion over the extent of poverty change in Nicaragua particularly in relation to the official sources, both before and after Hurricane Mitch. This looks set to continue in the future. For example, other analysts suggest that Nicaragua requires annual average GDP per capita growth of more than 2% and a reduction in inequality of 5% to meet the targets proposed. However a high inequality index (Gini coefficient of 0.59 in 1999) has led some to suggest that there will be a very slow rate of extreme poverty reduction and that the poverty target will not be met by 2015 (see UNDP, 2002).

It is important to note that all analysis of the possibilities for poverty reduction are estimations only and there are serious methodological and data problems with these figures.

It is also important to note that official metrics are income based and as such say little about wider well being. While well being and poverty are linked they are not one and the same thing as was demonstrated during the period 1993-1998 when it was suggested that ‘measured gains’ had been made in reducing poverty yet qualitative analysis showed that the poor associated the 1990s with a decline in their well-being (IDA-IMF, 2000). Wider well being indicators, such as social equity indicators or indicators of improved confidence in governance, are not part of the PRSP goals.

Table 3 PRSP and Development Targets 2001 – 2015

Goal No	PRSP – MDG	Targets	Base MDG	Target 2001	Actual 2001	Target 2005 (PRSP)	2005 On target	Target 2015	Forecast 2015	Target 2015
1	Reduce Extreme Poverty	Halve between 1995 and 2015, the proportion (%) of people whose income is less than the extreme poverty line.	19.4 (1993)	...	15.1	16	Yes	9.7	11.5	Possible
2	Increase access to primary education	Ensure that by 2015, 90% of boys and girls alike will be able to complete a full course of primary schooling	75.6 (1993)	77.9	81.1	83.4	Yes	90	83.0	Possible
3	Reduce maternal mortality rate	Reduce by three-quarters, between 1994 and 2015, the maternal mortality rate (per 100,000 live births)	160 (1993)	...	125	129	Yes	40	63.4	Unlikely
4	Reduce Infant and under 5 mortality	Reduce by two-thirds, between 1994 and 2015, the infant mortality rate and child mortality rate (per 1,000 live births)	58 (infant) 72 (< 5)	...	31	32	Yes	20	26.6	Possible
				...	40	37	Partly	24	34.5	Possible
5	Universal access to reproductive healthcare services	Provide access to reproductive health services for all individuals of appropriate age by 2015 (%)	na	22	24.5	23	Partly	100	39.8	Very unlikely
6	Sustainable Development	Implement a sustainable development strategy by 2005					Yes			
7	Reduce chronic malnutrition	Reduce chronic malnutrition to 7% by 2015	19.9 (1998)	17.9	17.8	16	Yes	7	12.3	Unlikely
8	Increase access to water	Increase to 100% national water coverage by 2015	...	69.5	70	75.4	Partly	100	84.5	Unlikely
	Increase access to sanitation	Increase to 95% national access to sanitation by 2015	--	85	85	88	Partly	95	87.9	Possible
9	Reduce Illiteracy	Decrease illiteracy rate to 10% by 2015	19	18.5	18.7	16	No	10	16.4	Very unlikely

Source: Authors summary based on information from World Bank (2003), base for MDG is 1990 but closest data available is 1993-1994 (also shown in parenthesis)

Financing the PRSP

Nicaragua is not only the poorest country in Latin America with an average per capita income of US\$ 420 in 2001, it is also one of the most indebted and aid dependent countries in the world. It is perhaps surprising then that essential public expenditure is being reduced in Nicaragua from 50% of GDP in 1999 to 37% of GDP by 2004-2005 (Government of Nicaragua, 2001)³. Despite the reduction in public expenditure, the poverty reduction strategy maintains that expenditure on the PRSP “will be better focused on programs related to poverty reduction and the efficiency of public expenditures will be improved” (Government of Nicaragua, 2001: 41)⁴. What is lost in absolute terms it is proposed will be compensated for through efficiency gains, which will be facilitated by the application of a ‘Law of Public Contracts’ and the implementation in all government institutions of an ‘Integrated System of Financial Management and Audits’ (SIGFA). Reductions will also be less in real terms than the figures suggests, since previous high rates of public expenditure were partly due to the large amounts of external assistance received for reconstruction after Hurricane Mitch. However, the real reductions in public investment expenditure proposed will mean that financing of some PRSP related expenditures will need to be maintained privately through contributions and loans from the international community, civil society and private enterprise. Individual citizens may also have to bear part of the costs in a variety of ways.

The IMF play a key role in national finances in Nicaragua through the Poverty Reduction and Growth Facility (PRGF) that determines the overall limits on current and investment expenditure⁵. The objective of the short term PRGF is to maintain macroeconomic stability through prudent and transparent fiscal policy, reduction of public internal debt, strengthening of international reserves and an increase in poverty spending. The stated aim of the government of Nicaragua is to protect spending on poverty in this context of severe fiscal adjustment under the PRGF.

Overall the balance on the Non Financial Public Sector (SPNF – *Sector Publico No Financiero*) account has been running at a deficit. In 2001 total income (from taxes etc) was US\$ 785 million, but spending (current and capital) was US\$ 1,284.7 million, giving a deficit of US\$ -312.7 million. This was financed from US\$ 118.7 of external and US\$ 156.8 from internal debt, with income from privatisations of US\$ 37.2 million. Despite an increase in tax income of US\$ 20 million, in 2002, to cover the deficit of US\$ 143.9 million the government borrowed more than this from external sources at US\$ 169.7 million and had income from privatisation of US\$ 15.9 million. This produces a situation of negative internal borrowing (positive reserves) of US\$ -41.7 million (SECEP, 2003: 79) which contributes to reserves.

In 2001 the fiscal deficit on the Public Sector account (SPNF) was 19.6% of GDP (12.3% after deducting donations) and is to be reduced by 6.1% in 2002, to 13.5% (6.1% after deducting donations) with reductions in public investment spending taking most of the planned reduction (SECEP, 2003:79). Capital spending has been cut by US\$ 101.1 million between 2001 and 2002 and has had a serious affect on the public investment program.

³ Previous high rates of public expenditure were partly due to the large amounts of external assistance received for reconstruction after Hurricane Mitch.

⁴ Implementation of the PRSP is now the responsibility of the Secretariat for Strategy and Coordination of the Presidents Office (Secretaria de Coordinacion y Estrategia de la Presidencia - SECEP).

⁵ Signed in December 2002 it covers the period 2003 to 2005

The financing of the PRSP and poverty related spending is often difficult to follow in official documentation due to the different definitions of spending items and different time periods over which spending is being reported in relation to public sector and other private poverty related spending.

In official reporting on poverty expenditures SECEP include not only Central Government expenditure approved in the National Budget but also 'Autonomous Entities' (AE) spending which are special support programs such as health, education and housing and other projects linked to post Hurricane Mitch reconstruction. In real terms however, the policies imposed to reduce the fiscal deficit have meant a cut in public spending (see below).

Total spending by all sources both public and private on poverty has been falling recently from US\$ 455.3 million in 2001 (33.5 %⁶ of total public spending) to US\$ 403 in 2002 (34.8 % of total public sector spending) although it is estimated that it will rise slightly to US\$ 423.1 million in 2003 (15.9% of GDP) (see Table 4).

Table 4: Total Poverty Expenditure by PRSP Pillar 2001-2003 (US\$ millions)

	2001	2002	2003	2003 Percent
Total	455.3	403.0	423.1	100
Pillars 1-4				
Economic Growth	109.7	100.3	115.8	27.4
Human Capital	234.2	227.0	224.8	53.1
Vulnerable Groups	41.3	28.0	38.6	9.1
Governance	2.1	4.6	3.1	0.01
Transversal	68.0	43.1	40.8	9.6

Source: SECEP (2003:51) years 2001 and 2002 include Autonomous Entities, 2002 are preliminary figures and 2003 are based on the Budget approved by the National Assembly.

SECEP include annual HIPC debt relief as part of internal resources and as such 47.5 % in 2001, 42.6 % in 2002 and 41.9 % in 2003 of total poverty spending is from external resources. In 2003 SECEP proposed that US\$ 98.4 million of HIPC debt relief would be assigned for poverty alleviation most of which is being spent on the coverage of basic social services (SECEP, 2003:56).

While under PRSP/PRGF agreements monies released from alleviation of the external debt must be used to finance initiatives with poverty reducing outcomes, the government has used money released for internal debt repayments. Governmental and non-governmental actors have been lobbying around the internal debt and its repayments, or more specifically the interest payments on the internal debt. Despite some advancement in the area, in terms of both rates and repayment periods, the repayments for the coming year will be equivalent to all spending on education in the same period. Even after completion point, as the National Development Plan highlights, high internal debt, coupled with poor economic growth rates, could lead to fiscal instability.

In 2002 only 30% of the US\$239 million debt alleviation was destined for poverty

⁶ Total spending on poverty is from SECEP, 2003:48 table 12 divided by Total Public Sector spending listed in SECEP, 2003: 79 table 20. In 2001 it is 33.5% based on poverty spending US\$ 455.3 million over total SPNF spending of US\$ 1284.7 million and 2002 it is 34.8% based on total poverty spending of US\$ 403 million over total SPNF spending of US\$ 1157.9 million.

reduction expenditure, rising slightly in 2003 to 42% of the \$242 million released⁷. Only in 2004 is it proposed that the majority of the monies released will be used for poverty reduction expenditure. Even then this represents only 54% of total released funds. Moreover, while the HIPCII initiative suggests that debt alleviation should add to spending, not take the place of spending, this has not been the case in Nicaragua. Funds have ensured that spending on health, education and other prioritised areas has not decreased, as opposed to representing an increase in spending in these areas.

While original budget proposals suggested that economic growth would receive the largest proportion of resources compared to the other pillars (485.6 millions compared to 384 for human capital, 115.8 for vulnerable groups and 14.1 for governance) recent estimates show a slight change. Recent data suggest spending on human capital comprises the largest part of 2003 expenditure on poverty at 53.1%, followed by economic growth 27.4 and vulnerable groups 9.1% (see Table 4). Spending on governance, at only 0.01% of the total budget is once again the smallest element. In all scenarios social equity has no budget assigned to it.

Even though total poverty spending is US\$ 52.3 million less in 2002 than 2001, overall SPNF spending cuts have been greater than poverty spending cuts, leading to a slight increase in poverty spending as a percent of all SPNF spending 33.5 % to 34.8 %. Excluding spending on Mitch and other special programs, Central government spending on poverty fell from US\$ 430.5 million 2001 to US\$ 378.6 million in 2002 this represents 56.2% of all Central Government spending and 14.7% of GDP in 2002.

The overall program of public investment, which includes both poverty related and non-poverty related expenditure, declined between 1999 and 2002 (from US\$ 436.6 million in 1999 to US\$ 302 million in 2002). These figures include Central Government and AE investment spending and are higher than those given for poverty related public investment given in the PRSP 2001 (see Table 5 on the original PRSP public investment program).

A total of 83% of public investment expenditure is financed from external resources, over half of which are loans (US\$ 134.8 million) (SECEP, 2003: 100, table 25 and 27). At the same time, Central Government investment spending is falling from US\$ 386.5 million in 2000 to US\$ 266 million in 2002 (10.3% of GDP), the lowest over the last 6 years (SECEP, 2003:97, Table 25).

The Nicaraguan governments proposed public financial investment commitments over the period 2001 – 2005 within the PRSP amounted to US\$1.1 billion, an average spending of US\$ 230 million annually, of which US\$100 million would be earmarked for compliance with the selected indicators such as the MDGs (as presented in the ERCERP - Government of Nicaragua, 2001). Over the period human capital was to receive 33% of PRSP resources to be divided between the three elements of the pillar. This means that, for example, health expenditure accounts for some 10% of the total planned PRSP expenditure over the period, an average of nearly \$25 million per year (see Table 5). Social protection has a similar budget. In comparison economic growth initiatives will receive four times as many resources - an average of nearly \$100 million per year.

⁷ Second Progress Report - Government of Nicaragua 2003

Table 5: PRSP proposed public investment program, 2001-2005

	Total 5 years (percent)	2001 (US\$ millions)	2002	2003	2004	2005
Total	100.0	218.5	217.0	223.3	238.5	252.0
Economic growth	42.3	81.0	96.0	99.7	102.6	106.3
Human capital investment	33.4	72.0	75.8	72.3	79.3	84.6
Education	22.3	50.4	52.2	49.2	50.8	53.2
Health	10.5	19.9	22.0	22.1	27.3	29.8
Population and nutrition	0.6	1.7	1.5	0.9	1.2	1.6
Social protection	10.1	29.9	19.2	21.3	22.1	23.2
Governance	1.2	2.6	2.8	2.7	2.9	3.1
Cross-cutting themes	13.0	33.0	23.2	27.3	31.6	34.8
Environment	4.2	16.2	6.3	5.7	8.7	11.6
Decentralization	8.8	16.8	16.9	21.6	22.9	23.2

Source: Government of Nicaragua (2001:49)

The area that will receive the least resources is that of governance. Its average yearly budget is the equivalent of only 3% of the resources dedicated to economic growth, or for every \$1 invested in improving governance over \$30 are invested in economic growth initiatives. It is interesting that such little priority should be given to improving governance despite its reported importance for achieving the economic growth goal. Governance is now considered as key by international development organisations such as DFID who view improving governance in Nicaragua as a key poverty related development policy objective (DFID, 2003).

In terms of the cross-cutting themes while two of the key elements are to receive a budget, the third element – social equity – has no budget ascribed to it. It can be assumed then that there are no activities planned to specifically improve social equity and as such advances can not be expected in this area. This includes advances toward achieving the Millennium Development Goal of promoting gender equality and empowering women (Goal 3).

Actual public capital investment expenditure on poverty by institution (Table 6) differ from the planned proposals. Although the figures are higher than given in the original PRSP public capital investment figures given in the PRSP, total public capital expenditure on poverty by institution shows an overall net decline between 1999 and 2002.

The PRSP was originally planned to be financed from a number of sources, these include domestic fiscal resources, HIPC debt relief, and foreign loans and grants. The government planned to finance “more than 60 percent of the poverty-related outlays with its own resources (70 percent by the end of the 2005 period). This is equivalent to approximately 9 percent of GDP a year for the period 2001-2005” (Government of Nicaragua, 2001: 42). However, the current economic situation in Nicaragua is one of a slow down in rates of economic growth, which call into question plans of the extent to which the PRSP could be financed from domestic fiscal resources.

Table 6: Total Capital Expenditure on Poverty by Institution⁸

US \$ millions	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
Total	168.1	146.5	263.2	270	268.7	208.8
MTI	7.92	5.93	1.35	6.87	9.43	4.51
ENACAL	28.29	14.53	29.41	32.63	27.11	25.64
ENTRESA	0.06	1.28	0.88	1.97		
INETER	4.61	3.15	2.02	2.30	3.33	1.44
INVUR			1.37	2.00	2.42	0.50
MINSA	20.56	18.91	17.75	32.28	28.62	24.24
INIFOM	7.92	13.54	18.00	13.24	31.30	10.47
MECD	2.21	0.13	34.53	40.30	37.60	36.31
FISE	34.87	29.11	52.05	50.53	41.26	19.19
CNE				0.54	2.98	3.33
MIFAMILIA	0.66	3.20	4.29	5.38	4.83	5.31
Municipal Mayors			1.49	4.42	6.12	8.81
MAGFOR	11.20	10.99	31.25	14.47	17.55	15.33
MARENA	4.80	7.52	7.92	12.42	11.29	10.65
MIFIC	0.44	0.13	0.27	0.26	0.70	1.92
IDR	38.73	34.08	47.59	36.36	34.43	30.58
INEC		0.98	0.15	0.57	1.00	0.36
MHCP	1.01	0.24	0.31	1.29		
President			3.66	6.38	2.94	1.91
SAS	1.89	1.40	4.24	2.88	2.51	
SECEP	1.77	0.29	2.15	0.50	0.54	1.52
INATEC	0.43	0.77	2.08	2.11	1.87	2.05
Others	0.73	0.31	0.45	0.21	0.89	4.73

Source: SECEP, 2003:140, T2.17 (see glossary for institutions)

The Government's second ERCERP progress report (Government of Nicaragua, 2003: 13) notes that the low (relative to target) rate of growth to date will mean that a growth rate over the 5% projected will be needed in the future to compensate. The likelihood of this occurring when such high rates have only occurred in 1999 (as a result of post Hurricane Mitch expenditure) is doubtful and the implication is that if higher rates cannot be achieved lower rates must be sustained over a longer period of time.

In terms of explaining the poor economic performance to date, low private investment and the lack of dynamism in exports are highlighted and the recent falls in the international prices of coffee are perceived to have had a major impact. Recent problems with the banking system are also highlighted, and indeed have had a major impact on domestic savings and more importantly confidence in internal financial markets. Little indication is given about how the situation can be improved in the future, and some of the possible means to increase economic growth may have important consequences for inflation and savings rates.

Complementing domestic financing is international financing which tends to be highly conditional. Donor agencies, particularly European Union partners such as DFID, are moving towards programmatic rather than a project based lending. This is thought to

⁸ The table is based on current prices in Cordobas and the rates used for US\$ dollar conversion are based on one dollar being equal to the following number of Cordobas in the respective years, 9.45 in 1997, 10.58 in 1998, 11.65 in 1999, 12.68 in 2000, 13.44 in 2001 and 14.25 in 2002.

improve the impact of public programs through better donor coordination and stronger country ownership, supporting the transition to sector wide approaches (SWAPs). Current and future external assistance includes the preparation of a World Bank Economic Management and Technical Assistance Credit (EMTAC II) program financed by the ICA, Netherlands, DFID and others with US\$ 14.7 million related to accountability assessment recommendations.

International development assistance (IDA) will rely on increased program lending through the Programmatic Structural Adjustment Credit (PSAC) and increasingly through the Poverty Reduction Support Credits (PRSC). The first PRSC is conditional upon the completion of a Country Financial Accountability Assessment (CFAA) Action Plan that is estimated will cost between US\$ 10-12 million. These funds are only likely to be forthcoming if the required financial management environment is in place. Reaching HIPC Completion point to a large extent also depends on effective Public Financial Management (PFM) conditionalities.

Accountability in the use of public funds remains an area of concern for internal and external actors. A recent regional civil society initiative to monitor and review budgetary processes suggests that fundamental problems exist with the Nicaraguan system and this is supported by recent IFI analysis that remains, as yet, unpublished. While a number of concerns exist key ones include the fact that information is presented in a highly aggregated form that makes it difficult to evaluate if funds were used for the purposes intended and in a cost effective manner. Moreover the budget does not fully encompass all state funds. There is also a lack of clarity around who has the responsibility to decide spending and how, and, perhaps most fundamentally, no independent auditing process exists.

The lack of accountability and resulting lack of confidence in the government is perhaps the most important factor when considering financing of future policy, both through donor governments and agencies, and through private investment.

5. Evaluation of PRSP Implementation

It is important to note that while concerns have been raised about the strategy, and while the government and the IFIs have stressed repeatedly that the document is 'live', that is subject to constant evaluation and change in light of that evaluation, since its approval the document and the strategies contained therein have remained unchanged. This is despite repeated calls by civil society actors for a review of the contents, not least in terms of what has not been included. Many of the initial concerns of civil society remain, including fundamental differences about how poverty is defined and measured (see CCER 2001).

Over and above calls for a more holistic conceptualisation of poverty to be used, civil society organisations have critiqued the lack of coherence of the poverty reduction policies proposed. Expenditure in the name of poverty reduction has occurred without an analysis of the extent to which it is really poverty reducing. All expenditure on health and education, for example, has been deemed to be part of 'poverty reduction' expenditure regardless of its nature or real intention. Lack of coherence is also visible in terms of other national initiatives, such as the recent Plan for National Development, and international initiatives, such as those around free trade. Little attention is paid to how such initiatives may influence poverty and be influenced by the PRSP process, and in particular the relationship between the Plan for National Development and the PRSP is rather contradictory – suggesting the PRSP is unlikely to succeed in achieving anything other than short term shifts of the extreme poor into poverty.

Before proceeding to consider the impact of the PRSP to date it is interesting to note that a recent survey conducted in seven municipalities of the country found that fewer than 20% of those interviewed, or only 1 in 5, knew of any government poverty reduction initiatives (see IEN – CC 2003b).

Monitoring Processes

The First Annual Progress Report of the Joint Board of the World Bank and IMF suggested further work was needed on poverty indicator monitoring although a National System of Poverty Indicators (Sistema Nacional de Seguimiento a los Indicadores de la Pobreza – SINASIP) has been designed and should be a core responsibility of SECEP (IDA-IMF, 2002b). The report also noted the need for a Poverty and Social Impact (PISA) analysis of the impact of PRSP policies such as fiscal reform, including consideration of the causal links to poverty and social impact. It also noted there was a need to be more precise about the institutions responsible for information gathering and noted gaps in the system of indicators in some productive areas (IDA-IMF, 2002b). At a general level other actors have noted the need to widen the evaluation of the PRSP to include factors other than the often narrow PRSP goals and to consider all impacts of the policies, intended and unintended. More recently the Government has been attempting to refocus poverty related public investment around poverty and other economic development potential criteria (Gobierno de Nicaragua, 2003b)

A number of monitoring and evaluation initiatives have been instigated and more are planned for the future (see Box 2).

Box 2: PRSP Evaluation and monitoring initiatives

A first progress report given by the government one year after the approval of the PRSP (IDA-IMF, 2002b)

An evaluation of the pilot Social Protection Network program RPS (BID, 2003)

A World Bank analysis of progress with the development of the Millennium Development Goals and those contained within the PRSP (World Bank, 2003).

INEC study of 1,683 households in the 11 municipalities in order to establish an information baseline on the situation in the pilot areas with which to judge PRSP developments (INEC, 2003a, 2003b)

Civil society report on the perceptions of community leaders and beneficiaries of the implementation of the pilot projects in San Ramon, Dipilto and Bilwi (Puerto Cabezas) (IEN-CC, 2003a).

The IDB are also currently preparing an evaluation of the current state of development of PAI – PRSP in the 11 municipalities (UGM, 2003)

However, the extent of the impact of the PRSP and associated projects on poverty reduction largely remains to be seen especially since policies have not been put into practice yet and where they have been implemented these have been pilot projects to test the effectiveness of the policies. Two key examples are the Social Protection Network (RPS) and the PRSP support programme (PAI).

PRSP Project Evaluation

The Social Protection Network (RPS)

The overall focus of the PRSP is poverty, more explicitly the PRSP highlights that 'top priority' has been assigned to the reduction of *extreme* poverty. In turn it has been noted that social safety nets or social protection projects (pillar 3) will be crucial for reducing extreme poverty (Gobierno de Nicaragua 2001:24). The Social Protection Network (RPS) is the key 'social protection' programme to date. Phase I of the RPS program ran for two years between 2000 to 2002 with a second phase developed for 2003-2005. Phase I of the RPS was managed by FISE and Phase II is planned to transfer to MIFAMILA, one of the PAI line ministries.

The RPS is financed by two loans from the Inter American Development Bank (IDB) the first of \$9 million and the second of \$20 million⁹. Selection of households for inclusion in the RPS is determined not only on levels of poverty but other criteria, such as their relative 'productive potential'. Phase I of the RPS only benefited 10,093 families, in six municipalities, in only two departments of the country (Madriz and Matagalpa). Phase II of the RPS will cover 12,500 new households alongside the 10,000 that are already beneficiaries of the programme.

Nationally the total number of people living below the poverty line was estimated to be 2,206,742 in 1998, which represents 51% of the population. The number of people living

⁹ Interest payable on the loan is 1% during the first ten years (when repayment is not expected), rising to 2% from then onwards. The maximum repayment period is 40 years.

in extreme poverty in 1998 is estimated to be 891,720 representing 40.4 % of all poor and 20.7% of the population. The first phase of the RPS reached less than 1% of the extreme poor, and not even 0.5% of the poor. Although the number of beneficiaries will be more than doubled during the second phase of implementation, even with better targeting as a proportion of the numbers in extreme poverty in the country the RPS has very little impact (a maximum 2.5% of the extreme poor will benefit).

The components of the first phase of the RPS included institutional strengthening (US\$ 1.8 million), health and food security (US\$ 4.4 million), education (US\$ 2.4 million) and targeting and evaluation (US\$ 0.7 million), to establish a system of objective and transparent selection of beneficiaries based in poverty levels and an evaluation system to measure achievements of program objectives. Meeting the goals set in phase I would 'trigger' release of the full funds for phase II. Evaluation of the first phase was that it "demonstrated significant positive impacts" (BID, 2003:11 and IFPRI, 2002).

The overall objective of the RPS is to improve the well being of the population in extreme poverty, supporting the accumulation of human capital (BID 2003: 2). The documentation also suggests that the idea of the RPS is to change the behaviour of families in terms of the formation of human capital and that the programme seeks to promote a 'responsible attitude' among families (BID 2003). What the RPS actually proposes is using 'well being' incentives to ensure human capital forming behaviour. To benefit financially families have to commit to sending their children to school and to health centres to receive basic health care services such as vaccinations. They also have to commit to improving their nutritional state and attendance at a series of educational sessions about health (6 per year) that provide training on reproductive and sexual health, nutrition, in 'environmental health' and family hygiene, and in child care and breast feeding. If they do not fulfil these obligations then their benefits are temporarily withdrawn or may be cancelled. In return a family may receive one or more of the incentives offered, that include a school pack (worth \$20 per child) for all eligible children in the first to the fourth grade, and a grant (\$90 per family). There is also a grant offer (Bono Oferta) equivalent to US\$ 4 per child as a financial incentive for teachers and to fund materials. Institutional strengthening spending is in the region of \$20 per child (BID, 2003: 15). In terms of health the benefits are a food grant (\$207 per family) and an additional grant worth \$130 per family for things such as vaccinations and vitamin supplements.

The expected outcomes of these financial incentives are improvements in well being. More specifically, the objectives of the first phase are summarised as:¹⁰

- a. To establish the initial 'operating framework' of the RPS
- b. To supplement the incomes of families in extreme poverty for up to three years to increase their expenditure on food
- c. Increase the 'care' of children under the age of five
- d. Reduce school drop out rates during the first four years of schooling

The improvement in the 'care' of the under fives has a number of strands. Results in terms of the programme of 'vigilance' and promotion of growth and development (VPCD), that included elements such as monitoring weight gain among babies under 3 years old, and the proportion of children under 3 years of age who had been given an iron supplement to reduce iron deficiency were said to have been 2 or 3 times better than the targets. However, it is important to remember that health services were contracted out to private providers and they were paid by coverage and outcome (eg. weight gain). As the evaluation

¹⁰ Red de Protección Social (NI-0075), Resumen Ejecutivo

itself notes this suggests a conflict of interest. The second health element monitored focussed on the vaccination of children between the ages of 1 and 2 years old which showed a net gain of 17.3% (compared to a target of 10%) after having taken account of a general increase in vaccination coverage during the period in non RPS areas. The final element considered in the evaluation of phase I of the RPS was focussed on consumption of food as a proportion of total consumption of the family. The goal was the only one that was not to be measured by a percentage change, but rather stated as 'observe the tendency of the change'. Despite the lack of precision of the goal set, it is said to have been 'achieved' although no explanation of how this goal was achieved, or what this means is given (see BID 2003 table 1.2).

In terms of education the focus is on the incorporation of children into schools and their continuation in the school system. It is interesting that although primary education consists of 6 grades, the incentives are only offered to children in grades 1 to 4. Although the aim of the project was to increase enrolment by 5%, retention of existing students was as, if not more, important and the goal in this case was to improve by more than 10% retention rates. Both targets have been met and the data suggests no differences in terms of matriculation and retention by gender. However, differences exist in terms of the impact of the RPS on matriculation and retention. While the former had the lower target (5% increase) matriculation increased by 21.7%, this compared to retention that did not manage to comply with its target of a greater than 10% increase achieving only 9% increase overall and 10% among the extreme poor.¹¹ The reasons for this discrepancy have not been fully explored. Ultimately demand outstripped supply as no provision had been made to contract extra teachers to cover the increased enrolment, nor a sufficient budget provided. Although this has been presented as highlighting the overwhelming success of the initiative, looked at from another view point it suggests the standard of schooling received by children is of little importance to those implementing the project.

As can be seen, the main focus of the RPS is young children. As such the RPS fulfils at least in part commitments made by the government under the PRSP agreements. The final PRSP - the Strengthened Strategy for Economic Growth and Poverty Reduction (ERCERP) highlights the need for 'special protection' to be afforded to children under five years of age (Gobierno de Nicaragua 2001:34). However, it also notes the existence and need of other particularly vulnerable groups, such as 'abused women' the disabled and the aged.¹² The RPS makes no mention of these groups.

The elements included in Phase I of the RPS are very much linked to achieving not only the PRSP goals but perhaps more importantly those in line with the Millennium Development Goals. These include reducing by half by 2015 the proportion of people whose income is less than the extreme poverty line. It also includes goals related to increased access to primary education and reductions in infant and under 5 mortality rates. It is not surprising given the similarities between these goals and the policies outlined that recent World Bank (2003) estimations suggest that it is possible that these goals will be met. However, achieving the other Millennium Development Goals is less likely. That is while infant and under 5 mortality rates may be cut the proposed reduction in levels of chronic malnutrition is deemed 'unlikely' by the World Bank. Similarly, while access to primary education will be increased, it is deemed 'very unlikely' that the general reduction in illiteracy rates will be achieved.

¹¹ Compared to the control group – data presented in BID 2003 Table 1.2

¹² Although not noted as a particularly vulnerable group, the matrix of policy actions includes a programme to 'fight women's poverty' via credit schemes and the *patio* economy (Gobierno de Nicaragua 2001:131).

Taking into account the wider poverty context in which the RPS is being implemented, and the multidimensionality of poverty, the RPS appears not only narrow in its implementation, but also narrow in its orientation. What narrow programmes such as the RPS do not take into account is not only that the well being of an individual is multi-dimensional, but that one individual's well being may be related to that of another person – in particular that the health and well being of children may be integrally linked to that of their parents.

A number of changes were suggested for phase II of the RPS. The more positive of the proposals suggest a broadening of the aspects covered, to include prenatal care and attention to adolescents. Topics for training sessions will also be broadened to include topics such as the *patio* economy. However, the perceived success of implementation of the RPS during phase I appears to have had one very important potentially negative consequence. The results suggest that targets could be reached in a more 'cost effective' manner, that is that the financial incentives offered to improve take up of education and health services during phase II could be less than those offered during phase I (see BID 2003 for discussion). In particular the high up take of vaccination programmes has led IDB to conclude that the food grant offered as an incentive in this case, can be cut and in the second phase the amount offered will be reduced each year. Similarly during the second three-year phase it is intended to gradually cut back the amounts offered to some participating families to evaluate the impact of such measures in terms of behaviour change. That is the extreme poor are to be used as 'guinea pigs' to explore how few resources can be offered for the same gains.

The indicators used to evaluate the impact of the first phase of the RPS will be supplemented by other indicators in the second phase, most notably the inclusion of 'well being' indicators including: employment and income sources, possession of productive assets and variations in the price of basic products. However, as to how the RPS is to have a direct, or even indirect impact on these elements over the three years of implementation is far from clear.

The PRSP Support Program (PAI) and Pilot Projects

As part of the PRSP, in addition to the social protection network, an implementation support program (PAI) was set up to further explore and inform wider implementation issues. The total cost of the PAI is estimated at US\$ 11.1 million over a 3 years period, US\$ 10 million or 90% of the cost of which is based on a IDB loan, while the Nicaraguan government provide the other US\$ 1.1 million. The main objective of the PAI is to establish an effective model of coordinated and integrated implementation of the PRSP that is tested and ready to be replicated in the country in a sustainable form (SECEP, 2003).

In 2001 the government had chosen some 11 municipalities in which the PAI would be implemented (Table 7). The municipalities are organised into four basic spatial clusters in the Atlantic (Area D), North (Area B), Central (Area A) and South (Area C), which are then organised into 7 'corridors'. The government areas were chosen based on a number of criteria including the extreme poverty gap classification. However, this wasn't the only or final criteria and other factors also influenced the choice such as accessibility, municipal organisation, capacity of local government, planning instruments, along with geographical representation and Ministerial consensus. That is while levels of poverty were an initial criteria for inclusion, the final selection was based on other non-poverty related factors.

Table 7 Pilot Implementation Municipalities of the Government and Civil Society Monitoring Areas

	Municipality	Government Pilot Area	Civil Society Organisation working in Area	Municipality in Social Audit III	Gov and CS area
Government	Corridor Areas				
Atlantic (D)	Waspán	yes		yes	
	Puerto Cabezas (Bilwi)	yes	IPADE	yes	yes
North (B)	Quilali	yes		yes	
	Dipilto	yes	FUHNEMUNI	yes	yes
	Ciudad Antigua	yes		no	
Central (A)	San Ramón	yes	ODESAR	no	yes
	Rancho Grande	yes		yes	
	El Cuá de Bocay	yes		yes	
South (C)	La Libertad	yes		no	
	Villa Sandino	yes		yes	
	El Rama	yes		yes	
Civil Society	Control Areas				
	Telpaneca	no	INPRHU	yes	
	Pueblo Nuevo	no	IMC	yes	
	Malpaisillo	no	INGES	yes	
	Camoapa		ADM	no	

The PAI has a number of components including institutional strengthening, communication, participation and citizen evaluation, along with follow up and program evaluation. The most central component is the 'pilot projects' initiative. In the pilot areas the general PRSP strategy forms the basis for the development of a municipal development plan. Out of this comes a Municipal investment plan and an Integrated Work Plan (*Plan de Trabajo Integral* – PTI), these two axes are transferred into operative plans supposedly leading to a new Municipal Budget which is linked to the national budget. The integrated work plan (PTI) constitutes the main instrument of program execution and constitutes the integrated group of investment projects designed to reduce poverty.

At the centre of the process is said to be the Local Council, which is made up of different organisations, including a technical team, trade organisations, a Municipal Cabinet, NGOs, Local Government, Community Organisations and 'the poor'. The Local Council has to validate and ratify a PTI, however the PTI is implemented by groups of Line Ministries working at local level (*Ministerios de Línea*) that includes the Ministries for Education, Health, Family, Agriculture and Transport. In practice the plans are being implemented by local representatives of central government ministries and are only followed up by local councils. The extent to which the plans are really locally determined and implemented is questionable given the central government ministry control and implementation. Local municipal councils are mainly involved in coordination and local monitoring and evaluation.

In terms of what has been done by the end of 2003, many of the 203 pilot projects programmed in the integrated work plans (PTI) are in the process of being implemented by the five Government Ministries. Of the total of pilot projects 95 had been initiated with 108 projects still waiting to be initiated.

Projected resources available for projects in the 11 pilot municipalities for the period 2002-

2004 is in the region of US\$ 49.5 million and is available through four principal organisations (FISE, INIFOM, IDR, and MTI) with FISE and INIFOM being the institutions responsible for the municipal investment plans (Gobierno de Nicaragua, 2002). The Ministry for Transport and Infrastructure (MTI) are providing the majority of the funds (US\$ 27 million) and this accounts for 55% of the total investment over the two year duration, with 39% of this total in transport infrastructure in just two municipalities of Villa San Francisco and El Rama (US\$ 19.2 million). In addition, preliminary investment in the 11 municipalities by other different government ministries amounts to about US\$ 6.6 million. This includes MINSA US\$ 1,611,777; MECD US\$ 2,714,019; MIFAMILIA US\$ 1,501,280; MAGFOR US\$ 752,009; INIFOM US\$ 94,081 over the implementation PAI program period (Gobierno de Nicaragua, 2002). Pilot projects focus on giving resources such as milk in schools, animals, seeds and storage silos (MAGFOR). The PAI funds of US\$11.1 million and other government ministry investment over the same PAI period amount to some US\$ 17.7 million, and if 2002-2004 resources of US\$ 49.5 are added to this total the 11 municipalities should receive planned spending of US\$ 67.2 million. However, the extent of double counting in these estimates is not clear from the different information sources.

Most of the PRSP budget comes from external sources and is being financed from either donations or loans. The extent of further loans is a concern since if projects fail or do not deliver for whatever reason, Nicaragua will still have to pay the loan in the long term.

As noted above the pilot projects are not the only component of the PAI as it also institutional strengthening, communication, participation and citizen evaluation, follow up and program evaluation. The pilot projects account for just over half (55%) of the total budget (UGM 2003: Table 5)¹³. One other element that takes up a large proportion of the PAI budget is consultancy fees. Overall the costs of '*consultorias*' account for 14% of the total budget. These costs are concentrated in Institutional strengthening and communication, participation and evaluation (in the former the budget for consultancies represents nearly twice as much as for training) and in Monitoring and follow up of the ERCERP consultancies represent 83% of the budget. However, there are also other hidden consultancies costs within the pilot projects which account for up to 60% of the total budget here also (see UGM 2003: 47 for a breakdown by ministry). In comparison budgets for training are substantially lower and are also the least implemented with only 14.6% of training budgets having been spent thus far (UGM 2003: 49).

Although substantial amounts of money are available, the PAI budget represents only 1.9% of the total PRSP budget. Other budgetary factors also influence the extent to which the PAI can be seen to be a useful tool for 'testing' the PRSP. First, the division of resources between the four key PRSP pillars is unrepresentative in the PAI in relation to the ERCERP. That is while the biggest investment in the ERCERP will be in economic growth related activities, this pillar in the PAI has very few resources assigned (less than 1% of overall budget). On the other hand the governance pillar which is the least funded of the pillars in the full ERCERP with around only 1% of funds, accounts for 29% of overall PAI finance (UGM 2003: 15)¹⁴. Second, despite the fact the funds for this pilot project

¹³ The other elements of the programme receive: Institutional strengthening (12%); Citizen communication, participation and evaluation (11%); Monitoring and follow up of the ERCERP (5%); Administration (9%); 'other' financial costs (8%).

¹⁴ The governance programme is focussed on providing technical assistance for the transparent keeping of accounts, contracting and procurement processes.

represent a tiny proportion of total funds available for the PRSP, the proportion of funds actually used has been low, that is projects have been slow to be implemented and although money was available it has not been spent. By the end of 2003 most of the line ministries had only spent less than 10% of their project budgets. The Ministry of Agriculture and Forestry is the most advanced having spent 30% on pilot projects, MECD, 10%, MIFAMILIA, 8%, MINSA, 2% and INIFOM, 1.4%.

Recent evaluations suggest, the Ministry of Health have 25 projects amounting to US\$ 1,353,119 of which 40% of projects have been initiated. However, only 2% of funds had been used and the main tasks undertaken had been the contracting of human resources. A total of 32 people were contracted and a further 12 still needed to be appointed, or over 25% of appointments were still pending. Most appointments had been made in the North and least in the Atlantic region. The situation is similar in MIFAMILIA which has some 22 projects amounting to US\$ 1,071,025 of which 73% of projects had been initiated. Funding wise only 8% had been used however. In the North and South all projects had started, but only one project had begun in the Central region and in the Atlantic region no projects had begun in Puerto Cabezas. In terms of MAGFOR, here Quilali has benefited most while in Dipilto nothing had yet been done since the Municipal Development Council (CDM) requested changes in the focus of the project arguing that the proposal sent to them was not suitable for the area.

The implementation of the components of PAI has been evaluated both by the official government financed team (UGM 2003) and as part of an on-going civil society initiative (IEN – CC, 2003a,2003b, and 2003c). The evaluations raises a number of issues of concern. In terms of implementation there appears to have been a lack of coordination at local level and a lack of information. After the initial stages in the development and validation of the integrated work plans, there was a lack of communication and the planned training on the PAI was not undertaken. On the other hand at a local level problems exist also and preliminary civil society evaluations note that some ministry representatives have no permanent presence in an area, do not participate in the appropriate local forums, and are not information sharers. They are often outsiders who lack knowledge of projects and many local level civil society groups feel used by them and SECEP, especially for information, when their ideas are then ignored (IEN-CC, 2003a).

In general the implementation process has been slow. Most worryingly, differences in practices are highlighted as a key concern in terms of beneficiaries. At the general level criteria for selecting the municipalities (UGM 2003: 40) - high or severe level of poverty, representation of the zone, territories prioritised by the ministries, relative 'geographic concentration', and presence of a social development project - were ultimately ignored by those who designed these criteria (UGM, 2003: 44). Guidelines were not clear both in terms of differences that exist between ministries, and in terms of the criteria used within each ministry. For example, the Ministry for Agriculture and Forestry had broad selection guide lines while the Ministry of the Family used much more detailed categories, including such notions as stocks of social capital. Poverty is not always the main criteria for inclusion. At the end of the day the choice of beneficiaries was in some cases being largely left to local leaders, which can bring its own problems.

A general complaint is the designed holistic approach is not being put into practice. Problems exist at two levels, for beneficiaries for example, those who receive storage silos are not necessarily those who receive seeds, and vice versa. Animals were provided but no medicine, vets were contracted and no means by which they can move around the regions

or attend the sick animals were provided. That is there appears to have been a general lack of coordination within ministries. There also appears to have been a lack of thought in terms of ensuring all the components needed for the projects to run smoothly were in place.

One other source of concern lies in the way that resources have been obtained. In terms of both human resources and inputs such as seeds and chickens, sourcing has tended to be from outside the area. This has a number of implications. First, the 'multiplier effect' that employing local people would have is lost (IEN-CC 2003a). Second, seeds and animals from other areas may not be suitable or suitably adapted for the area in question and thus need more resources to ensure their healthy growth. Third, looking outside the area shows little faith in local people and local produce that may lower enthusiasm for the projects and limit their implementation and impact.

A recent monitoring study (IEN-CC, 2003c) of the PRSP Implementation Support Program (PAI) undertaken in 7 poor municipalities, three of which are part of the PAI (Dipilto, San Ramon and Puerto Cabezas), shows some interesting preliminary results. The study interviewed 2,208 households on the perception of households with respect to actions and projects implemented to reduce poverty. The preliminary results suggest only 50% of households could identify an organisation or institution working on local community problems. Under 20% of households knew of some action or project to reduce poverty in their community, most frequently mentioned projects were those by the World Food Program (11%), ADRA (10%), Local Mayor (8%), and Ministry of Agriculture and Forestry (MAGFOR 7%). Some 85% of those who identified a project also thought they responded to the need of the community and most frequently mentioned projects in this case were, *granjas* (12%), food for work (11%), food for children (9%), *Libra por libra* (6%) and the education package (4%). Of the remaining 15% who identified a project but thought that it did not respond to the needs of the community, the areas they wanted to see covered included, in decreasing order of significance, sources of work (25%), housing (19%), financing (16%), roads (9%) and latrines (7%).

Results from the study suggest only 10% of households knew of the Central Government's poverty reduction strategy. In the Implementation Support Program areas covered in the survey only 11% of families said they had benefited from a government project, with 88% responding 'no' to the project benefit question. Of households in PAI municipalities only 14% even knew of a family that was a beneficiary of a government project. Of this group the projects most mentioned were '*libra por libra*' (22%), education package (20%), agricultural package (20%), social infrastructure (7%), reforestation (3%), and family programs (2%).

The results generally confirm earlier conclusions which suggest that very little is being done for very few people at the PRSP support program stage.

Evaluation of PRSP by theme

Pillar I - Economic growth

The first pillar, labour intensive economic growth, has from the outset been promoted as being the most important of all pillars. Its importance has been reinforced with the publication of the Plan for National Development (Gobierno de Nicaragua 2003a: 14) which notes that after one year the ERCERP has met the majority of the social indicators and thus the new focus should be on pillar one, and the implementation of a national strategy of production and the associated reorientation of the programme of public

investment needed to achieve higher rates of growth and long term fiscal sustainability. However, from the beginning pillar one has also been highlighted as being the weakest of the pillars.

To date very few advancements have been made in terms of pillar one, and the key 'success' is presented as being reducing the negative impacts of the fall in coffee prices and other external shocks as well as internal shocks – such as the banking collapse. This being said although the strengthening of the Superintendent of Banks was proposed as an action within the PRSP little has been mentioned or occurred in this area.

One area where action has been taken is in terms of the project '*libra por libra*' that includes the distribution of seeds, in general maize and beans and fertilisers. Official estimates suggest that this programme will double the bean harvest for 2003, with similar improvements in 2004 also. Other actions within the rural sector include the distribution of metal silos. Medium term policies for the sector (2004 – 2015) have been formulated and presented but problems remain, not least around land ownership and legalisation.

One important element of the pillar, and one that has been given a central roles within the National Development Plan also, is that of infrastructure. Small-scale producers share the governments' view that there is a need for greater investment in roads and bridges in order to ensure harvests can be brought out of remote areas and transported quickly and efficiently. However, to date few advances have been made in this area. Moreover, it is important to note that while the two sets of actors may have common concerns they may have different priorities and the government plans may well centre on central trade routes that link Nicaragua to the rest of the region, rather than internal trade links. It is hoped that opening up the country will improve its comparative advantage and increase investment in the country. However, the high costs of other services may reduce the impact and recent privatisations have actually made services such as electricity more expensive.

Continued privatisation is a conditionality under the PRGF agreement and it continues to present an obstacle for completion point. Also pending is the approval of the civil service law that, while having progressed substantially, has remained blocked on the issue of the right of workers within the public sector to strike. The law of public indebtedness also is a conditionality for completion, but no information is available about progress in this area. Finally, social housing is included in pillar one, and while a law around the social housing fund has been approved little progress have been made in terms of its implementation.

It is important to note that while pillar one is central to, not only the PRSP, but the National Development Plan, it is determined by the PRGF and macroeconomic policy conditionalities, including privatisation and reductions in public expenditure, being driven by the IMF.

Pillar II - Human capital

There are a number of key components within this pillar, which include the provision of basic education, the health of children under 5 years old, and the prevention of chronic malnutrition in children under 2 years of age. Population growth is also discussed within the context of human capital focussing on women's reproductive health. The actions and goals of this pillar are intrinsically linked to the Millennium Development Goals (MDGs) making compliance particularly important. Perhaps for this reason the government has made a special effort to protect spending in this area which, along with spending on

vulnerable groups, makes up the majority of the governments 'anti-poverty' expenditure.

Although the government has attempted to ensure a budget for human capital projects this is still too little. Perhaps more importantly, it appears that the government envisages that efficiency gains may make up for any short falls in expenditure. In particular they have suggested that the 'performance' of workers in the education and health sectors will be key to the success of the programmes (Government of Nicaragua 2001). These key sector workers are both poorly paid and over worked. That is the government is in essence placing the responsibility for fulfilment of the PRSP goals, and perhaps more importantly the MDGs, on the workers within these sectors.

The lack of finance and the focus on the need for those other than the government to take responsibility for changing the situation, including social sector workers and the poor themselves, are common to all areas within the human capital pillar. Each area has its own trajectory and is discussed below.

Education

Education may be considered to be key for the development of a population, not least in terms of its importance in ensuring other goals are achieved, such as improved health, improved governance, declines in population growth and increases in economic growth. In line with this, education has been the area that has benefited most from government anti-poverty spending to date, including a shift in funds from the capital account (investment in buildings and equipment) to current account spending, including teacher's salaries. Despite this, and despite the fact the monies available have increased, the proportion of the overall budget dedicated to this area has remained very low.

The World Bank has estimated that Nicaragua will achieve the required increase in the proportion of children of school age who are in school and recent government statistics support this (see above). This being said, the Ministry of Education has noted that population increase within this age group means that few gains have been made in terms of reducing the absolute numbers of children outside the school system. Moreover, there appears to be little chance that the wider goal of reducing the proportion of the population who are illiterate will be met as suggested by the Bank's recent appraisal and supported by the fact that no government statistics are available in terms of this goal. Other areas highlighted as important within the PRSP included the need to strengthen the area of 'technical' education. In 2001 only 2% of the school age population were receiving technical education and the funds assigned for 2002 were actually lower than in 2001. On the other hand, the provision of appropriate education for other groups, most notably peoples with different capacities, is not made within the PRSP or education budget.

Overall, the focus on education within the PRSP seems to arise from the need to ensure fulfilment of the MDGs and as a means to improve the productivity of the work force, rather than arising from the recognition of education as a fundamental human right.

Health

The importance of health for the development, both economic and social, of a nation, as well as the personal development of an individual is well documented. The goals of improving health within the PRSP are not only important in their own right, but also in terms of ensuring other goals are met, such as improving educational attainment and worker productivity.

Health related activities have received only half the budget dedicated to education under the PRSP and the per capita spending on health is the lowest in the region (\$23.2 in 2002 and \$22.08 in 2003). Of the 17 indicators related to health within the PRSP official estimates suggest only 3 will be fulfilled (see also discussion of MDGs above).

Actions around health have focussed on modernising the sector and improving coverage and quality of services, including important actions in the area of the provision of medicines. However, the overall policy focus, in place for over 10 years, has not changed despite the fact that only small improvements in health have been made over this time. The narrow thinking within the area of health, a focus on ensuring survival rather than well being, might have been improved with the new health law. However, the design of the law although fulfilling the related PRSP goal was not designed in a participatory manner nor taking into account the current reality and necessities of the country. There is a danger that health related processes just beginning such as the definition of a National Health Plan and the revision of the Health Policy, may make the same mistakes.

One key policy focus within the area of health is that related to reproductive health and reducing maternal mortality in line with MDG aims. The actual advancement in reducing maternal mortality is difficult to state with any certainty since changes in maternal mortality rates published by the central government and the ministry of health (MINSA) differ, as do those reported by the World Bank and also United Nations estimates. Whatever the real figures, the UNFPA conclude that childbirth remains the biggest killer of women of reproductive age in Nicaragua. This is perhaps related to the fact that MINSA reported the number of 'institutional' or attended births actually fell in 15 of the 17 local health areas.

An area of health provision where improvements have been made is in the provision of contraceptive services and where there has been a fall in the unsatisfied demand for services for all young women (15 – 19 and 20 – 24 years old) with a partner (ENDESA 2001). This being said it is important to note that as with a number of PRSP-MDG goals, fulfilment of the goal in itself is of limited meaning. For example, at the same time that access to family planning services has been increasing among women, 27% of recorded births were to adolescent mothers making Nicaragua top of the league for adolescent births in the region. Moreover, the formulation of goals may have wider implications, in this case placing the responsibility for contraception and childbirth on women alone, reinforcing existing gender stereotypes. The fact that the goal is aimed at providing services to women in a stable relationship not only may help to explain its lack of real success with adolescents, but also promotes ideas of what is considered appropriate sexual behaviour. The influence of the Catholic Church in this case is clear, and the strength of its influence was demonstrated this year when the proposed sex education manual to be used in schools was withdrawn on their insistence.

The focus on 'technical fixes', such as promoting the use of contraception or hospital births, is clear within the PRSP framework. Such an approach focuses on symptoms not causes and has little chance of achieving real sustainable change.

Nutrition

The key target in this area is to reduce chronic malnutrition among those under two years of age and, related to this, attention to breast feeding women. No data is available in terms of how funds have been used, results or even actions in this area.

The key component laid out in the PRSP is the introduction of nutritional supplements in

basic foodstuffs, most notably flour and salt. Once again the project looks for a rapid technical fix rather than attempting to address the root causes of the problem. Even as a technical solution its success may be limited, not least since the very poor tend to rely on their own subsistence crops, use unrefined salt and rely on maize as their main dietary component. The long-term developmental effects on the target group, children under the age of 2 years old, of such food modification are not considered.

Pillar III – Vulnerable groups

It is difficult to measure the advancements in terms of the third pillar given that no intermediately indicators were presented in the final document for this pillar. The general goal of the government in the long term was that vulnerable groups would have the same access, if not favoured access, to social programmes and development as the rest of the population. The other problem with analysing the pillar is the lack of clear definition of what constitutes vulnerability and ‘vulnerable’ groups.

Those that have been targeted within the ERCERP, have been targeted either because of their poverty (rather than vulnerability) – the extreme poor- or their age – under 6 years of age via the Social Protection Network or the Pilot project. The documentation notes also the need to improve targeting in the future and this is one of the aims within this pillar, alongside rationalisation of services and the strengthening of the public institutions responsible for social programmes, such as MIFAMILIA. In concrete terms a register of beneficiaries has been formulated that contains information about 24 projects. However, most significant in terms of the aim of reducing vulnerability have been the Social Protection Network and the pilot project which have had mixed outcomes as noted above.

Pillar IV - Governance

Good governance, despite its new centrality in debates around development, not least economic development, has been given very little importance in the Nicaraguan PRSP in terms of developing policies and in terms of budget provision. The government’s own assessment of the implementation of the PRSP to date does not include a budgetary breakdown related to this pillar and it is not made clear if funds obtained via HIPC debt relief will be destined for actions related to this pillar.

While there have been some important advancements in this area no clear governance goals are identifiable among the MDGs and the interim PRSP indicators by which to assess these advancements.

Projects have focussed on a number of issues. In terms of anti-corruption activities a number of initiatives have been developed including increasing transparency through greater provision of information via the internet about the execution of investment resources¹⁵, official cooperation funds¹⁶ and the national budget and other associated activities¹⁷. While these advances are welcome, in a country where only 5% of the population have access to the Internet these advances need to be complemented by other actions.

A number of new laws have also been approved that are related to issues of governability

¹⁵ See <http://www.snip.gob.ni>

¹⁶ See <http://www.sysoda.cancilleria.gob.ni>

¹⁷ See <http://www.hacienda.gob.ni>

including those related to the peoples of the autonomous Caribbean coast, and indigenous peoples of the Atlantic coast. Perhaps most notably advances around 'rules of autonomy' have been made, 17 years after they were first discussed, that suggests an agreement between the key actors including central government and the key actors within the autonomous regions of the Caribbean Coast. This being said, it is important to remember occurrences in other areas, not least the refusal of the *Consejo Supremo Electoral* to recognise the elected authorities in the Caribbean Coast, especially the RAAS. The institutional crises this provoked was not an isolated event and other institutions have also demonstrated there is much work still to do, most notably in terms of the '*Contraloría General de la República*' and the Supreme Court of Justice. An analysis of the recent problems suggests their roots lie with the government rather than the institutions per se, in as much as the ruling party can still use these institutions for their own ends.

However, the present government does represent an improvement in terms of openness and dialogue, compared to the Aleman regime, but once again there are clear areas that need improvement. While the general atmosphere has improved, and open persecution of civil society actors and organisations has ceased, changes in one of the key spaces for dialogue warrant attention. The actors that make up CONPES spent 5 months without being called to meet, and when a meeting was held a new structure appeared to have been introduced that meant that over 50% of the membership is now drawn from the business sector. The areas for discussion with CONPES have also been reduced and many key actions were not discussed prior to implementation, nor afterwards, for example the costs of implementing PAI (see above). Wider civil society participation should have been improved via the approval of the 'Law of citizen participation', however as it passed through parliament the legislation incorporated some new, and worrying aspects, such as the inclusion of representatives from political parties in these spaces for 'civil' dialogue.

Overall to date activities have focussed on establishing the legal framework for governance, without really tackling the key issues of implementation and ensuring respect for this legal framework. Evidence suggests that this remains a problem, not least since forum for discussion and debate are being utilised for political ends.

Cross cutting themes

Decentralisation

The past year has seen discussions around the Policy of Decentralisation between diverse actors including those from civil society and these remain on going. Some concrete advances have been made with the approval in June 2003 of a new law regarding relations between central and local government. This does appear to be an advance on past initiatives that decentralised responsibility but not resources, and commits central government to transfer monies to the local level. The ministry of education has also begun a dialogue over decentralisation of education, however, concerns exist that this is only a means to transfer problems that are at present the responsibility of central government to the local level, most notably around the issue of teacher's pay and conditions.

Overall while recent developments are to be welcomed, there is continued centralisation of resources and decisions over the use of these resources, as the PAI demonstrated, suggesting the need for consideration of decentralisation at all levels and within all policy arenas.

Environmental and ecological vulnerability

There have been important advancements during the period principally in the area of

policies and laws relating to natural resources. Despite this legal framework laws have not always been implemented and issues of transparency remain, in particular with relation to the management of the forestry sector. It cannot be concluded that the PRSP process has contributed to halting or slowing down the deterioration of the environment and in fact a number of actions during this period may have further harmed the situation. For example, the mining of metals (gold and silver) has been approved even though it is to be undertaken in environmentally sensitive areas. There have also been some new initiatives that may have serious environmental consequences, such as the recent interest in exploiting carbon reserves.

Activities highlight that economic growth remains the key focus of the government and the PRSP process, and that other issues are secondary to this. For example, under the PRSP initiative there will be a continued expansion of the Free Trade Zones, particularly textile manufacturing which has consequences in terms of use of resources, most notably water, and contamination of resources, via unregulated disposal of manufacturing by-products. The focus is on the economic growth gains to be had from such investments, rather than the environmental costs that will be incurred.

Social equity

The Government suggests that practically all the PRSP will improve equity. This perhaps explains why this is the only area that does not have any budget. It should be noted that this area also demonstrates a lack of clarity and a lack of cohesion, not least in terms of a mismatch between the priorities mentioned, the actions laid out in the matrix and the indicators of achievement.

One area covered in the PRSP is gender equity. In concrete terms little has been achieved in this area and some deterioration in the situation has actually occurred. For example, while the objective of guaranteeing equal access for men and women in all areas, economic, social, cultural and political, may have been advanced via the Law of Equal Opportunities debated during the period, the law is still to be approved. Moreover, the original contents of the law or rather the very basic concepts and ideas on which it rests – such as understandings of notions of equality and equity - have changed through the involvement of the Catholic Church in the process. This reflects their growing influence on the Government, despite the fact that separation of the Church and State is clearly stated in the Constitution. Other very concrete advances, such as the joint initiative between the National Police, the Network of Women Against Violence and the Nicaraguan Institute of Women to provide services for those living with intra family and sexual violence, are not being supported through PRSP funds and continue to rely on international cooperation and the support of women's organisations for funding.

It appears there is a lack of willingness on the part of the government to take steps to improve the situation of women or even support those programmes that are of real benefit. In part this lack of political will must be understood in the context of a politically influential Catholic Church.

Another important area relates to indigenous peoples. Again some advances have been made, most notably in terms of laws approved relating to the Atlantic coast. However, Nicaragua is still presented as a country with one culture, one language and of one ethnic group and little advancement has been made to change this, even to the extent that official documents are still only distributed in Spanish. One area where some improvement has been made in terms of trying to build a more inclusionary society is recent initiatives within

MINSA to translate some presentations into sign language. However, there are few other concrete initiatives within the PRSP framework for peoples with different abilities.

The PRSP framework is dominated by a homogenous conceptualisation of 'the poor' and diversity and difference, be it by ethnicity, gender or (dis)ability, is not recognised and as such actions to promote greater equality are largely absent. This lack of attention to equality related issues, such as the unequal distribution of resources, casts doubt over the ability of the PRSP process to bring about any real, sustainable change.

6. Conclusions and Policy Recommendations

Conclusions

Nicaragua is not only the poorest country in Latin America, it is also one of the most indebted and aid dependent countries in the world. Social indicators show the majority of the population living below the poverty line with deterioration during the 1990s in literacy rates, child malnutrition and access to water and sanitation.

Earlier structural adjustment policies of the IFI in the late 1980s and ESAF of the 1990s, have largely been associated with increases in people's poverty, vulnerability and social exclusion in Nicaragua, and were brought into stark reality when Hurricane Mitch hit the region in October 1998 leading to one of the worst disasters in Central America in over 200 years.

Poverty Reduction Strategy Papers are a welcome policy commitment and represent the latest change in a long line of IFI instigated development policies. Entry onto the HIPC II debt relief initiative is conditional on the production of a poverty reduction strategy, which is to be formulated by participatory processes involving various stakeholders and is to be nationally owned.

It has been over three years since decision point when Nicaragua was accepted onto the HIPC II initiative. In Nicaragua HIPC Completion point is dependent on a number of conditions relating amongst other things to financial accountability. Some of the IFI completion point conditions relate to the need for the realignment of donor assistance, the definition of steps for labour intensive economic growth, a poverty and social impact analysis of programs of fiscal reforms, privatisation and trade liberalisation.

In January 2004 Nicaragua reached the enhanced HIPC initiative completion point. The overall benefit to Nicaragua, after the application of traditional debt relief mechanisms and with full potential assistance under the HIPC II is represented by an estimated 73% reduction on external debt (in terms of the 1999 Net Present Value of debt).

The government also recently began to report the use of HIPC debt relief in their national accounts. During the HIPC interim period 2001-2003 Nicaragua received total debt relief of US\$ 580.3 million and of which only 40% was HIPC assistance for poverty spending. Indeed, in 2002 HIPC relief for poverty spending was only 30% of total HIPC relief. The majority of HIPC interim resources have been used to finance other domestic priorities, including the internal debt, rather than poverty reducing programs as was planned in the enhanced HIPC initiative with its links to the PRSP.

The macroeconomic policy conditions of the IMF within the PRGF agreements dictate government spending limits and are an important influence on overall poverty reduction policy development and investment programs within the PRSP.

Despite attempts to bring different actors and agents together in the development of the PRSP, at the heart of the process are strong differences in power relations, representations and meanings between the IFIs, national governments and civil society organisations and the poor themselves, about what the IFIs mean by poverty reduction.

The mix of both top-down and bottom-up policy formulation processes set up

contradictions within PRSP policy development that are not easy to resolve. The lack of guidance on the type and extent of civil society participation and the extension of IFI influence over social policy and governance, diminished the participatory expectations of many civil society organisations.

The urgent need for debt relief often means participation is neither very deep nor is it very broad and is often reduced to invited consultations rather than full participation. These contradictions favour existing dominant interests rather than those of the poor who tend to have least power within political, economic and social institutions.

A parallel alternative civil society PRSP process emerged in Nicaragua among fears that involvement in the official process would do little more than legitimise a limited consultation around the PRSP. The recommendations of this parallel process were not included in the official PRSP and the process was essentially a lockout for many civil society organisations, with detrimental implications for implementation.

Problems in the PRSP policy development process stem from external constraints inherent within the neo-liberal policy framework within which PRSP are constructed and operate, and also from internal constraints and capacity limitations within which national governments and civil society organisations operate. In particular there is a lack of political will on the part of government to instigate open and participatory policy formulation processes.

Corruption is a major concern in Nicaragua and despite recent attempts to prosecute the previous administration, including the ex-president, and improve institutional practices most citizens do not have a great deal of trust or confidence in government institutions and their elected functionaries.

One of the main conditions for PRSC lending is a strengthening of fiscal and financial management systems and the continued implementation of institutional reforms. At present information on the national budget is highly aggregated and sufficient information to hold the government accountable for its financial management is rarely provided. Observers cannot easily see if activities achieved their intended results in a cost effective way and that political commitments are being met.

Within the PRSP process there is often confusion concerning the extent to which policy and institutional change should be a precondition or an outcome of IFI lending. Despite high levels of corruption and significant inherent risk and high control risk in the use of loans and HIPC funds, further loans could be provided to improve financial accountability (PFM) as an outcome of adjustment lending rather than a precondition for further lending.

While the government has tried to maintain poverty spending in the face of severe fiscal austerity measures introduced under the PRGF, both public spending and poverty spending has been reduced in Nicaragua in current and real terms.

Of the interim debt relief that has been obtained under the HIPC scheme more than half of the debt relief has been used to pay off the internal debt. While internal debt may be more expensive than external debt there are concerns about debt in general and the growing internal debt, which has to be repaid irrespective of policy success.

The HIPC II initiative suggests that debt alleviation should add to public spending, not take the place of spending, this has not been the case in Nicaragua. Funds have ensured that spending on health, education and other prioritised areas has not decreased too much, rather than representing an increase in spending in these areas. It is surprising then that essential public expenditure is being reduced in Nicaragua from 50% of GDP in 1999 to 37% of GDP by 2004-2005.

Within PRSP spending, expenditure on human capital was to receive 33% of resources to be divided between the three elements of the pillar. This means that, for example, health expenditure accounts for some 10% of the total planned PRSP expenditure, an average of nearly \$25 million per year and social protection has a similar planned budget. In comparison economic growth initiatives will receive four times as many resources - an average of nearly \$100 million per year. Spending on governance, at only 0.01% of the total budget is the smallest element. In all scenarios social equity has no budget assigned to it.

As social equity has no budget ascribed to it, it can be assumed then that there are no activities planned to specifically improve social equity and as such advances can not be expected in this area. This includes advances toward achieving the Millennium Development Goal of promoting gender equality and empowering women.

Sector studies show that public spending on health has declined and health spending is largely being maintained by private household expenditure. Poor households are increasingly having to privately pay for services and this type of incremental privatisation is reducing the services used and excluding the poor who can least afford services through market provision. This is likely to have a detrimental long-term impact on health and poverty levels.

The desire to develop local participatory processes in the elaboration of PRSP strategies run into difficulties at the higher level related to policy conflicts between IMF conditionalities, such as privatisation, and local priorities in respect to health and education. With the privatisation of essential public services being imposed as a PRSP conditionality they represent contradictions in the extent to which local priorities can really be delivered in a context of general international and central government policy.

The governance pillar is increasingly being recognised as having an important role to play in poverty reduction, via its economic growth promoting properties. Despite its reported importance for achieving the economic growth goal the area that will receive the least resources is that of governance. For every \$1 invested in improving governance over \$30 are invested in economic growth initiatives.

Increasingly economic growth projections and future prospects for poverty reduction are being called into question as macroeconomic conditions are becoming increasingly unfavourable. Projections suggest that in order to meet the 2015 extreme poverty reduction target GDP per capita needs to grow at 2% from 2003 onwards. This is highly unlikely and both UNDP and even the World Bank now suggest that meeting the poverty target, while possible, is unlikely. As the National Development Plan highlights, high internal debt, coupled with poor economic growth rates, could lead to fiscal instability after the completion point is met.

Recent (2001) government and IFI claims are that progress has been made in meeting

poverty reduction indicators expressed as a proportion of the population. These figures hide the fact that absolute numbers in general poverty have increased in Nicaragua. In addition the extent of the change in depth of poverty has markedly increased during the 1990s and in some places is very severe.

The focus of the PRSP may allow achievement of the main PRSP indicator of reducing numbers in extreme poverty, but not necessarily the number of poor. Poverty lines are the official poverty metric and as such people are moving from Extreme Poverty into General Poverty, that is they are over the extreme poverty line, but remain under the poverty line. Similarly it appears that targets allow the possibility for people to be deemed to suffer from chronic malnutrition but not be considered to suffer from 'extreme poverty'. A number of the PRSP goals, even when met will mean little in terms of improving the well being of the poor.

A number of goals within the PRSP framework will not be met. It is very unlikely that targets relating to the provision of access to reproductive health services for all and a decrease in the illiteracy rate to 10% by 2015 will be met. In addition it seems unlikely that chronic malnutrition will be reduced to 7%, and maternal mortality rates will be reduced by three quarters, and national water coverage will be increased for all by 2015. It is interesting that of the two goals that target women specifically one is deemed as unlikely to be fulfilled and the other very unlikely.

The recent National Development Strategy suggests that after only one year the PRSP has fulfilled the majority of the social indicators and thus the new focus should be on achieving higher rates of growth and long term fiscal sustainability. The National Development Strategy defines a number of geographical development clusters which are highlighted for investment since they are thought to have high potential productivity. However, these areas are not the areas with high concentrations of poor and extreme poor.

The fact that the PRSP to a great extent has largely remained unimplemented suggests that what gains may have been made in poverty reduction have largely not been attributable to the PRSP. This suggests that some of the goals are too low, and can be achieved without full implementation of the PRSP.

In the first two years very few programmes were implemented. The two key projects have been the Implementation Support Program (PAI), said to be a useful tool for 'testing' the PRSP, and the Social Protection Network (RPS), a welfare focussed project giving resources to targeted groups of children.

The RPS provides food, money and other services to the most vulnerable, but does not tackle the causes of that vulnerability. As such the possibilities for it to lead to real sustainable change are limited.

While the giving of grants to the poor has seemingly had a noticeable positive impact on the minority who do benefit the RPS has very little impact overall with a maximum 2.5% of the extreme poor benefiting. Taking into account the wider poverty context in which the RPS is being implemented, and the multidimensionality of poverty, the RPS appears not only narrow in its implementation, but also narrow in its orientation.

During the second three-year phase it is intended to gradually cut back the amounts offered to some participating families to evaluate the impact of such measures in terms of

behaviour change. That is the extreme poor are to be used as 'guinea pigs' to explore how few resources can be offered for the same gains.

The impact of distributing resources within the targeted households via women has not been considered. In some cases such targeting of resources has been associated with a rise in conflict if not violence within households and the very least it reinforces gender stereotypes and increase women's working day.

The PRSP Implementation Support Program (PAI) represents only 2% of the total PRSP budget and the distribution of funding within it is largely concentrated on the pilot projects of the line Ministries giving resources such as milk in schools, animals, seeds and storage silos.

Pilot project spending and implementation has been low in relation to planned budget expenditures. Evaluations suggest that in 2003 most of the line ministries spent less than 10% of their project budgets. Only half of the pilot projects planned in the Integrated Work Plans had been initiated.

Civil society evaluations note the centralisation of resources and decision making often leading to inappropriate projects. Project resources are often brought in from outside local areas reducing local multiplier effects. Poverty is often not the main program criteria but rather the ability to execute projects.

Budgets for local training are seen as being not only low but least implemented and this could be a factor in the other problems since overall the cost of consultants accounts for 14% of the total budget.

The holistic approach envisaged is not taking place, for example those who get storage silos are not necessarily those who get seeds, and there is no medicine for sick animals sourced outside the areas. While technical support staff are provided, they are located in one place and lack transport expenses to become more mobile.

Despite a project information strategy knowledge about the implementation support program is low and in some cases confused. Indeed, a recent survey conducted in seven municipalities of the country found that fewer than 20% of those interviewed, or only 1 in 5, knew of any government poverty reduction initiatives in their community.

Policy Recommendations and Future Advocacy Areas

Based on the experience of the PRSP in Nicaragua to date there are a number of recommendations directed at various national and international actors within the PRSP process. These recommendations are not exhaustive but merely starting points designed to improve the PRSP process and make it work more in the interests of the poor.

In general to date evaluations of the PRSP policy development process and implementation suggests that very little has changed with regard to top down policy formulation, and in terms of implementation very little has been done for very few people. The PRSP is in danger of degenerating into a social welfare support program with little progress in its other aspects. While poverty reduction is a difficult long term policy objective to achieve on a sustainable basis, little progress has been made both nationally and internationally to change the socio-economic and political conditions reproducing the high poverty levels in

the country. This seriously questions the ability of the existing PRSP alone to surmount the enormity of the problems faced in Nicaragua.

PRSPs are themselves an HIPC II conditionality for obtaining debt relief, and are 3-4 year medium term programs, and further expand IFI influence and control to social policy as well as economic. Since their introduction in 1999 there have been a number of problems with the PRSP policy development processes and implementation. IMF policies tend to emphasise stabilisation rather than reconstruction and investment for the future. The HIPC completion point is dependent not only on the PRSP but also on other IFI conditionalities such as budget approvals and privatisations. These conditionalities have caused debt relief delays.

To date, the PRSP focus is narrow and is principally macro economic with an emphasis on income poverty and pro-poor growth, often to the neglect of other important poverty components such as rights. While income poverty is important, evidence suggests much of the past decade has been characterised by increasing inequality both between and within nation states of the North and South. Recent work by UNDP suggests that redistribution is more efficient than growth in reducing poverty. While growth is necessary it is not sufficient, and there is arguably a greater need for redistribution. Income poverty reduction from growth alone may take a very long time.

PRSPs do not change partnership relations, which are driven by the lender and not recipients. PRSPs are largely written by lenders and there is little domestic discussion, and no national legislative approval. There is an inadequate poverty focus, which is dominated by the macro economic framework and weakly linked to the Millennium Development Goals (MDGs). The PRSP goals, which minimally attempt to address poverty and inequality are often viewed from a Civil Society perspective as a starting point only, and for many are wholly inadequate.

Participation is symbolic and is often limited to consultation with no formalised mechanism for Civil Society participation, which is largely dependent on the will of national government. PRSPs have largely failed to satisfy civil society expectations of participation. The somewhat sterile policy formulation context can lead to conflict rather than consensus, through perceived co-option, as little account is taken of the Civil Society agenda in developing countries.

The power relations of donor driven agendas often mean that IFI policy advice and assistance to the national government often ends up as IFI policy imposition. PRSP reforms are mainly, but not exclusively, changes that lenders and donors should mostly make, rather than the national government. At present the macro economic framework is dominating PRSPs through the Poverty Reduction and Growth Facility (PRGF). Every policy should be judged by its poverty impact including trade policies being negotiated with World Trade Organisation (WTO). The framework should be for a poverty reduction policy with a macro economic derivative, rather than the other way round.

The macroeconomic policy conditions of the IMF within the PRGF agreements are an important influence on overall poverty reduction policy development within the PRSP. The same so called 'participatory' design process within the PRSP is not afforded to civil society actors within the PRGF agreements. There is a real need to make PRGF more responsive to the wishes of civil society and local level actors.

If participation is to be encouraged there is a need to recognise both national and Civil Society Organisations capacity constraints and the disadvantage this often places on countries with regard to IFI negotiations.

The improvement in local capacity building of both civil society organisations and local government is an essential step within the PRSP process to ensure fuller participation and local execution in the management of project resources. These are vital considerations if there is to be further decentralisation of funds, which are focused on local poverty issues, and if there is to be more local control over their use.

There is a need for a change in relations between donors and recipients to improve national ownership of PRSPs. Ownership needs participation, localisation of MDGs and an end to policy conditionalities, since these undermine ownership principals. PRSPs should be debated nationally and could work when PRSPs become a framework for donor assistance.

Civil society organisations need to reposes the PRSP process and make it work more in favour of the poor rather than the IFIs. There exists an opportunity for donors and project designers to 'subvert' the present PRSP agenda for their own aims. This would include the development of closer links between problems and policy solutions at local level, national level and international level. Local agendas would then feed into international policy agendas such as the CAFTA and other international trade issues often omitted from policy agendas.

The focus on poverty within the PRSP agenda represents a real opportunity to recognise diversity and difference among 'the poor' in particular in terms of the rights of women, ethnic minority groups, older people and those with different abilities. In each case there is a need to ensure these actors are visible within society and within the PRSP process as active participants in that process.

PRSPs seem to be off course in terms of national ownership, participation and implementation. Hopefully with some of the reforms above PRSPs can work more in the interests of the poor and be rescued as the main policy tool in designing, implementing and evaluating national development policy and in coordinating international development assistance.

There is a need for civil society organisations to instigate projects for monitoring and evaluating PRSP implementation. While to some extent small local evaluation efforts are being undertaken by civil society there is a need to develop a larger scale national evaluation as a continuation of the Social Audit project. This should be fully supported by both national and international advocacy groups.

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Glossary: Abbreviations and Acronyms

AE	Autonomous Entities
ALMA	Municipal Government of Managua
AMUNIC	Association of Nicaraguan Municipalities
AN	National Assembly
BANIC	Nicaraguan Bank
BAVINIC	Nicaragua Housing Bank
BCIE	Central American Bank for Economic Integration
BCN	Central Bank of Nicaragua
CAE	External Assessment Committee
CDM	Municipal Development Council
CEI	Center for Exports and Investments
CENAGRO	National Agricultural Census
CFAA	Country Financial Accountability Assessment
CGR	Comptroller General's Office
CNE	National Energy Commission or National Education Council
CONADES	National Council for Sustainable Development
CONPEP	National Council for Social and Economic Planning
CSE	Supreme Electoral Council
CSJ	Supreme Court of Justice
DFID	Department for International Development of the United Kingdom
DGCG	Director General of Government Accounting
DGCP	General Director of Public Credit
EMTAC	Economic Management and Technical Assistance Credit
ENACAL	Nicaraguan Water and Sewerage Company
ENAP	National Ports Administration Company
ENEL	National Electricity Company
ENITEL	National Telephone Company
ESAF	Extended Structural Adjustment Facility
FISE	Emergency Social Investment Fund
FSS	Supplementary Social Fund
FUHNEMUNI	Fundación para el Desarrollo de las Mujeres y la Niñez
GDP	Gross Domestic Product
HIPC	Reinforced Initiative for Heavily Indebted Poor Countries
ICE	Foreign Trade Tax
IDB	Interamerican Development Bank
IDR	Rural Development Institute
IFI	International Financial Institutions
IGV	General Sales Tax
IMC	Instituto "Mujer y Comunidad"
IMF	International Monetary Fund
INETER	Territorial Studies Institute
INGES	Instituto de Investigaciones y Gestión Social
INIFOM	Municipal Development Institute
INPRHU	Instituto de Promoción Humano
INPYME	Small and Medium Enterprises Institute
INSS	Social Security Institute
INTUR	Tourism Institute
INVUR	Urban and Rural Housing Institute
IPADE	Instituto para el Desarrollo y la Democracia
IR	Income Tax
LSMS	Living Standards Measurement Survey
MAGFOR	Ministry of Agriculture and Forestry

MARENA	Ministry of Environment and Natural Resources
MECD	Ministry of Education, Culture, and Sports
MHCP	Ministry of Finance
MIFAMILIA	Ministry of the Family
MIFIC	Ministry of Development, Industry, and Trade
MINGOB	Ministry of Government Affairs
MINREX	Ministry of Foreign Affairs
MINSA	Ministry of Health
MTI	Ministry of Transport and Infrastructure
NGO	Non-Governmental Organization
ODESAR	Organización para el Desarrollo Municipal
PAINAR	Program for Integral Attention for Children at High Social Risk
PAININ	Program for Integral Attention to Children and Adolescents
PAI-SGPRS	Program for the Implementation of the Growth and Poverty Reduction Strategy
PANIC	Nicaragua's Environmental Plan
PASE	Program for Appropriation, Follow Up, and Evaluation of the SGPRS (PRSP)
PDH	Attorney General's Office for Human Rights
PESA	Special Program for Food Security
PFM	Public Financial Management
PGR	Office of the Attorney General
PINE	Integral Program for School Nutrition
PIP	Public Investment Program
PISA	Poverty and Social Impact Assessment
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PTI	Integrated Work Plan
RAAN	Northern Atlantic Autonomous Region
RAAS	Southern Atlantic Autonomous Region
RPS	Social Safety Net
SAS	Social Action Secretariat
SECEP	Secretariat of Coordination and Strategy of the Presidency
SETEC	Technical Secretariat of the Presidency
SGPRS	Strengthened Growth and Poverty Reduction Strategy (also official PRSP)
SIGFA	Integrated System for Financial Management and Auditing
SINASIP	National System for the Monitoring of Poverty Indicators
SNIP	National System of Public Investment
SPNF	Non-Financial Public Sector
SREC	Secretariat for Economic and Cooperation Relations
SWAps	Sector Wide Approaches
UCE	Strategic Coordination Unit
UIP	Public Investment Unit
UNDP	United Nations Development Program
UTIP	Territorial Units for Public Investment
WB	World Bank
WFP	World Food Program