

# **Evaluation of General Budget Support – Nicaragua Country Report**

**A Joint Evaluation  
of General Budget  
Support 1994-2004**



**May 2006**

The Joint Evaluation of General Budget Support is supported and guided by the following organisations and countries, which form its Steering Group:

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Japan Bank for International Cooperation (JBIC)

Japan International Cooperation Agency (JICA)

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Malawi

Mozambique

Nicaragua

Rwanda

Uganda

Vietnam

**JOINT EVALUATION OF GENERAL BUDGET SUPPORT 1994–2004**  
*Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, Vietnam*



# Nicaragua Country Report



**May 2006**



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## **PREFACE**

The Joint Evaluation of General Budget Support (GBS) was commissioned by a consortium of donor agencies and 7 partner Governments\* under the auspices of the DAC Network on Development Evaluation. The evaluation followed a DFID GBS Evaluability Study which established an Evaluation Framework for GBS. This framework was agreed with DAC Network members in 2003. A Steering Group (SG) and Management Group (MG), both chaired by DFID, were established to coordinate the evaluation. The study was carried out by a consortium of consultants led by the International Development Department, University of Birmingham (IDD).

The purpose of the evaluation was to assess to what extent, and under what circumstances, GBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth. The evaluation identifies evidence, good practice, lessons learned and recommendations for future policies and operations.

This report is one of 7 country level evaluations (Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda and Vietnam). Fieldwork took place between October-December 2004 and May-July 2005.

**This report represents the views of its authors and not necessarily the views of the Steering Group or its members.**

\*The consortium comprised the Governments of Australia, Austria, Belgium, Canada, Denmark, France, Germany, Ireland, Japan, The Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and USA, plus the European Commission (EC), the Japan Bank for International Cooperation (JBIC) and the Inter American Development Bank (IADB), the IMF, OECD/DAC and the World Bank. The evaluation was undertaken in collaboration with the Governments of Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, and Vietnam, who were also members of the SG. The study was designed to interact closely with aid agencies and with government and other stakeholders at country level. There were government and donor contact points in each country.

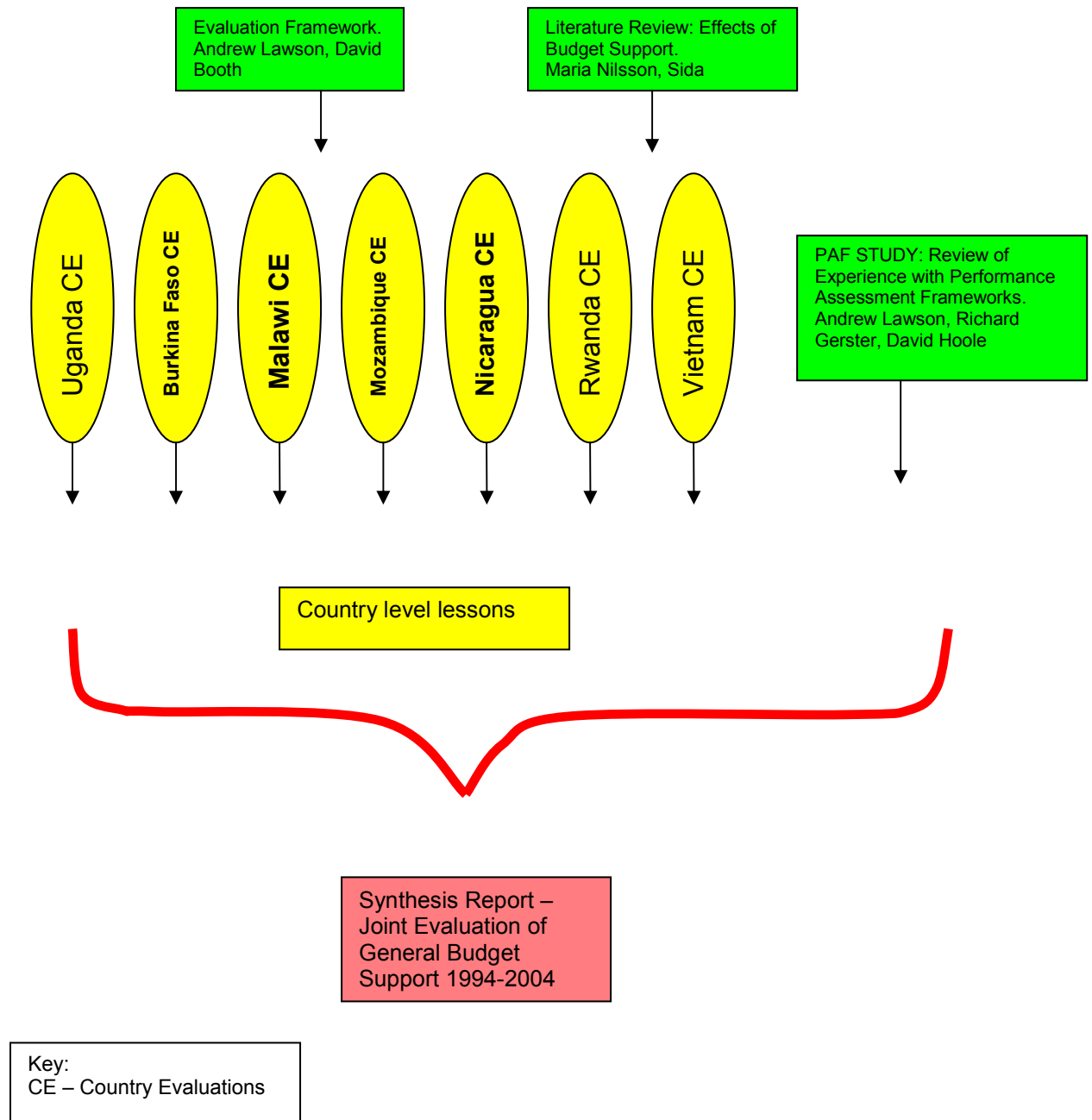
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## Joint Evaluation of General Budget Support 1994-2004

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The Evaluation Framework, Literature Review and PAF Study were contracted separately. The remaining reports were authored by a consortium of consultants led by the International Development Department, University of Birmingham (IDD).

The diagram below shows how the reports in this series fit together:



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or from the OECD/DAC website at :

[www.oecd.org/dac/evaluation](http://www.oecd.org/dac/evaluation)

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# Joint Evaluation of General Budget Support NICARAGUA COUNTRY REPORT

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## Abbreviations and Acronyms

AAP	Assessment and Action Plan (HIPC)
ACP	Africa Caribbean Pacific
BANADES	National Development Bank
BCIE	Central American Bank of Economic Integration ( <i>Banco Centroamericano de Integración Económica</i> )
BCN	Central Bank of Nicaragua ( <i>Banco Central de Nicaragua</i> )
BOP	Balance of Payments
BS	budget support
BSG	Budget Support Group
CABEI	Central American Bank for Economic Integration
CAFTA	Central American Free Trade Agreement
CAS	Country Assistance Strategy (WB)
CC	Coordinadora Civil (NGO)
CDD	Departmental Development Committee ( <i>Comité de Desarrollo Departamental</i> )
CDM	Municipal Development Committee ( <i>Comité de Desarrollo Municipal</i> )
CEPS	Centre for Studies and Social Development ( <i>Centro de Estudios y Promoción Social</i> )
CERAP	Executive Committee for Public Administration Reform ( <i>Comité Ejecutivo para la Reforma de la Administración Pública</i> )
CFAA	Country Financial Accountability Assessment
CG	Consultative Group
CGR	Comptroller General of the Republic ( <i>Contraloría General de la República</i> )
CIDA	Canadian International Development Agency
CINCO	Centre of Investigation and Communication (NGO)
CISAS	Centre for Information and Advisory Services in Health ( <i>Centro de Información y Servicios de Asesoría en Salud</i> )
CNE	National Energy Commission ( <i>Comisión Nacional de Energía</i> )
CONADES	National Council for Sustainable Development ( <i>Consejo Nacional de Desarrollo Sostenible</i> )
CONPES	National Council for Economic and Social Planning ( <i>Consejo Nacional de Planificación Económica Social</i> )
COSEP	Superior Council of Private Enterprise ( <i>Consejo Superior de la Empresa Privada</i> )
CPAR	Country Procurement Assessment Report
CSJ	Supreme Court ( <i>Corte Suprema de Justicia</i> )
CUT	Single Treasury Account ( <i>Cuenta Única del Tesoro</i> )
CWP	Common Work Plan
DAC	Development Assistance Committee
Danida	Danish International Development Agency
DFID	Department for International Development (UK)
DGI	General Directorate of Revenue ( <i>Dirección General de Ingresos</i> )
DPMP	Medium Term Budget Office ( <i>Dirección de Presupuesto de Mediano Plazo</i> )
EC	European Commission
EEF	Enhanced Evaluation Framework
EFA	Education For All
EMTAC	Economic Management Technical Assistance Credit (WB)
ENACAL	Nicaraguan Aqueduct and Sewerage Company ( <i>Empresa Nicaragüense de Acueductos y Alcantarillados</i> )
ENADE	National Development Strategy ( <i>Estrategia Nacional de Desarrollo</i> )

ENEL	National Electricity Utility ( <i>Empresa Nicaragüense de Electricidad</i> )
ENITEL	Nicaraguan Telephone Company ( <i>Empresa Nicaragüense de Telecomunicaciones</i> )
ERC	Economic Recovery Credit (WB)
ERCERP	Nicaragua's Poverty Reduction Strategy Paper ( <i>Estrategia Reforzada de Crecimiento Económico y Reducción de la Pobreza</i> )
ESAF	Enhanced Structural Adjustment Facility
FISE	Emergency Social Investment Fund ( <i>Fondo de Inversión Social de Emergencia</i> )
FOGADE	Insurance Fund for Deposits in Financial Institutions ( <i>Fondo de Garantía de Depósitos de las Instituciones Financieras</i> )
FONSALUD	Health Sector Support Fund
FSLN	Sandinista Front for National Liberation ( <i>Frente Sandinista de Liberación Nacional</i> )
FSS	Supplementary Social Fund ( <i>Fondo Social Suplementario</i> )
FYIP	Five Year Implementation Plan
GBS	General Budget Support
GDP	gross domestic product
GEF	Global Environment Facility
GNI	gross national income
GON	Government of Nicaragua
H&A	harmonisation and alignment
HIPC	Heavily Indebted Poor Countries Initiative
HIV/AIDS	Human Immunodeficiency Virus/ Acquired Immune Deficiency Syndrome
HQ	headquarters
IADB	Inter-American Development Bank
IBI	Real Estate Tax
IDA	International Development Association (WB)
IDD	International Development Department (University of Birmingham)
IDR	Institute of Rural Development ( <i>Instituto de Desarrollo Rural</i> )
IFAD	International Fund for Agricultural Development
IFI	International Financial Institution
IFS	International Financial Statistics (IMF)
IMF	International Monetary Fund
INEC	National Institute of Statistics ( <i>Instituto Nacional de Estadísticas y Censos</i> )
INIFOM	Municipal Development Institute ( <i>Instituto Nicaragüense de Fomento Municipal</i> )
INTECNA	Nicaraguan Technical Institute ( <i>Instituto Tecnológico de Nicaragua</i> )
INVUR	Institute of Urban and Rural Housing ( <i>Instituto de la Vivienda Urbana y Rural</i> )
IOB	Policy and Operations Evaluation Department, Netherlands Ministry of Foreign Affairs ( <i>Inspectie Ontwikkelingssamenwerking en Beleidsevaluatie</i> )
IPADE	Institute for the Development of Democracy ( <i>Instituto para el Desarrollo de la Democracia</i> )
IPs	international partners
I-PRSP	Interim Poverty Reduction Strategy Paper
ISS	Institute of Social Studies (The Hague)
JBIC	Japan Bank for International Cooperation
JCLA	Joint Country Learning and Assessment
JFA	Joint Financing Arrangement
JICA	Japan International Cooperation Agency
KfW	German Development Bank ( <i>Kreditanstalt für Wiederaufbau</i> )
LG	local government

m	million
M&E	monitoring and evaluation
MAGFOR	Ministry of Agriculture and Forestry ( <i>Ministerio Agropecuario y Forestal</i> )
MARENA	Ministry of Environment and Natural Resources ( <i>Ministerio del Ambiente y los Recursos Naturales</i> )
MCA	Millennium Challenge Account
MDGs	Millennium Development Goals
MECD	Ministry of Education, Culture and Sports ( <i>Ministerio de Educación, Cultura y Deportes</i> )
MHCP	Ministry of Finance ( <i>Ministerio de Hacienda y Crédito Público</i> )
MIFAMILIA	Ministry of the Family
MIFIC	Ministry of Development, Industry and Commerce ( <i>Ministerio de Fomento, Industria y Comercio</i> )
MINREX	Ministry of External Relations ( <i>Ministerio de Relaciones Exteriores</i> )
MINSA	Ministry of Health ( <i>Ministerio de Salud</i> )
MOU	Memorandum of Understanding
MTEF	Medium Term Expenditure Framework
MTI	Ministry of Transport and Infrastructure ( <i>Ministerio de Transporte e Infraestructura</i> )
NA	National Assembly
NDP	National Development Plan
NERPEs	Rural School Networks ( <i>Núcleo Educativo Rural en Participación Educativa</i> )
NGO	non-governmental organisation
NIO	Nicaraguan Gold Córdoba
NORAD	Norwegian Agency for Development Cooperation
NPV	net present value
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OED	Operations Evaluation Department (World Bank)
OPEC	Organization of the Petroleum Exporting Countries
PA	public administration
PAI	Programme of Support to the Implementation of the ERCERP ( <i>Programa de Apoyo a la Implementación de la ERCERP</i> )
PAI-NIC	Programme of Institutional Support for Nicaragua ( <i>Programa de Apoyo Institucional, Nicaragua</i> )
PAM	Performance Assessment Matrix (JFA)
PAP PND	Programme of (General) Budget Support for the National Development Plan ( <i>Programa de Apoyo al Plan Nacional de Desarrollo</i> ) (EC)
PAPSE	Programme of (General Budget) Support for the Education Sector ( <i>Programa de Apoyo a la Política del Sector Educativo</i> ) (EC)
PASE	Programme of Support to the Monitoring of the ERCERP ( <i>Programa de Apoyo al Seguimiento de la ECERP</i> )
PASEN	Education Project (WB)
PBA	programme-based approach
PCU	project coordinating unit
PE	public expenditure
PEFA	Public Expenditure and Financial Accountability
PER	Poverty Expenditure Review (WB)
PFM	public finance management
PGBS	Partnership General Budget Support
PIM	Municipal Investment Plan ( <i>Plan de Inversión Municipal</i> )



PIP	Public Investment Programme
PIU	project implementation unit
PLC	Liberal Constitutionalist Party ( <i>Partido Liberal Constitucionalista</i> )
PMU	project management unit
PND	National Development Plan ( <i>Plan Nacional de Desarrollo</i> )
PND-O	Operational National Development Plan ( <i>Plan Nacional de Desarrollo Operativo</i> )
PNDR	National Rural Development Programme ( <i>Programa Nacional de Desarrollo Rural</i> )
POA	Annual Operation Plan ( <i>Plan Operativo Anual</i> )
PPP	purchasing power parity
PR	poverty reduction
PREAL	Program to Promote Educational Reform for Latin America and the Caribbean ( <i>Programa de Promoción de la Reforma Educativa en América Latina y el Caribe</i> ) (UNESCO)
PRGF	Poverty Reduction and Growth Facility (IMF)
PRODEP	Land Administration Project ( <i>Proyecto de Ordenamiento de la Propiedad</i> ) (WB)
PRPE	Poverty Reducing Public Expenditure
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit (WB)
PRSP	Poverty Reduction Strategy Paper
PSAC	Programmatic Structural Adjustment Credit (WB)
PSIA	Poverty and Social Impact Analysis
PSTAC	Public Sector Technical Assistance Credit (WB)
SBS	sector budget support
SDC	Swiss Agency for Development and Cooperation
SDR	Special Drawing Rights
SECEP	Secretariat of Strategy and Coordination of the Presidency ( <i>Secretaría de Coordinación y Estrategia de la Presidencia</i> )
seco	State Secretariat for Economic Affairs (Switzerland)
SETEC	Technical Secretariat for the Presidency ( <i>Secretaría Técnica de la Presidencia</i> )
SGPRS	Strengthened Growth and Poverty Reduction Strategy
Sida	Swedish International Development Cooperation Agency
SIGFA	Integrated System for Financial Management and Auditing ( <i>Sistema Integrado de Gestión Financiera y Auditoría</i> )
SIGFAPRO	Integrated Project Administration System ( <i>Sistema Integral de Administración de Proyectos</i> )
SINASID	National System of Development Indicators ( <i>Sistema Nacional de Seguimiento a Indicadores de Desarrollo</i> )
SINASIP	National Monitoring System of Poverty Indicators ( <i>Sistema de Información Nacional para el Seguimiento de Indicadores de Pobreza</i> )
SNIP	National System of Public Investment ( <i>Sistema Nacional de Inversión Pública</i> )
SREC	Secretariat for Economic Relations and Cooperation ( <i>Secretaría de Relaciones Económicas y de Cooperación</i> )
SWAp	sector-wide approach
SysODA	GON database of official aid ( <i>Sistema de Información de la Cooperación Oficial al Desarrollo para Nicaragua</i> )
TA	technical assistance
TOR	terms of reference
TWG	Technical Working Group
UCRESEP	Coordination Unit for the Public Sector Reform and Modernisation Programme ( <i>Unidad de Coordinación del Programa de Reforma y Modernización del Sector Público</i> )

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*General Budget Support in Nicaragua*

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UN	United Nations
UNAG	National Union of Farmers and Cattle Ranchers ( <i>Unión Nacional de Agricultores y Ganaderos</i> )
UNAIDS	United Nations Programme on HIV/AIDS
UNCDF	United Nations Capital Development Fund
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNTA	United Nations Regular Programme of Technical Assistance
US	United States
USA	United States of America
USAID	United States Agency for International Development
USD	US dollars
WB	World Bank
WFP	World Food Programme (UN)

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Findings and opinions in this report are those of the evaluation team and should not be ascribed to any of the agencies that sponsored the study.

## Currency, Exchange Rate and Fiscal Year

<b>Currency</b>	Nicaraguan Córdoba Oro (NIO)
<b>Exchange Rates</b>	1 USD = NIO 17.1500 1 EUR = NIO 20.5998 <i>(Source: Financial Times 6 March 2006)</i>
<b>Fiscal Year</b>	Calendar Year



## **EXECUTIVE SUMMARY**

### **Part A: Context and Description of Partnership General Budget Support**

#### **Introduction and Conceptual Framework**

S1 Nicaragua is one of seven case studies in a Joint Evaluation of General Budget Support (GBS). Budget support is a form of programme aid in which Official Development Assistance (ODA) that is not linked to specific project activities is channelled directly to partner governments using their own allocation, procurement and accounting systems. GBS (in contrast to sector budget support [SBS]) is not earmarked to a particular sector or set of activities within the government budget. The finance in GBS is usually accompanied by other inputs – a process of dialogue and conditions attached to the transfer, technical assistance and capacity building, and efforts at harmonisation and alignment by the GBS donors. Other forms of programme aid, including debt relief and other balance of payments support may also be considered as budget support when they generate resources that can be used to finance the government budget, but this evaluation concentrates on so-called 'new' or 'Partnership' GBS (PGBS). This focuses explicitly on poverty reduction, and it attempts to support nationally developed strategies rather than imposing external policy prescriptions.

S2 Although the evaluation focuses on PGBS, it covers the period from 1994–2004 in order to assess whether and how PGBS differs from other variants of budget support. The purpose of the evaluation is to assess to what extent, and under what circumstances, PGBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth. The Nicaragua study followed the same methodology as the other country cases, working through 'levels of analysis' described in an Enhanced Evaluation Framework (EEF), from the entry conditions at the point that GBS was adopted (Level 0), to the inputs made by GBS (Level 1), their immediate effects (Level 2), outputs (Level 3), outcomes (Level 4) and impacts on poverty reduction (Level 5). Each chapter addresses the evaluation questions shared by each country team. Because, in Nicaragua's case, PGBS is very recent, there has not been enough time for PGBS in Nicaragua to have reached Levels 4 and 5 of the EEF. Given this, the evaluation also considers the future prospects.

S3 The main benefits from PGBS are expected to derive from reinforcing countries' ownership, enhancing the performance and accountability of partner governments' public finance management systems, minimising transaction costs and increasing the predictability of resources and reducing volatility. This study examines these themes as well as assessing the extent to which other effects occur, such as increased harmonisation and alignment, strengthening of policy and processes, supporting macroeconomic stability and increasing the efficiency and effectiveness of service delivery.

#### **Context for Budget Support in Nicaragua**

S4 Nicaragua is heavily aid dependent. The country received an average of USD 801m a year in ODA during 1994–2004 and the annual average of ODA/gross national income (GNI) during 1994–2004 was 21%. ODA amounts to around one quarter of its gross domestic product (GDP), or around 50% of its deficit in the current account.

S5 The relationship changed between the Government of Nicaragua (GON) and international partners (IPs) during the period 1994–2004 as dialogue opened up from a mainly macroeconomic focus to include poverty reduction and governance issues. This change was influenced by the Heavily Indebted Poor Countries (HIPC) initiative and the Poverty Reduction

Strategy Paper (PRSP) process. Nicaragua arrived at the decision point of the HIPC initiative in December 2001 and the completion point in January 2004. The size of debt forgiveness obtained meant that the HIPC initiative played a crucial role in driving the pace of institutional reform carried out by GON in a relatively short period. Meeting the conditionality of the HIPC initiative has been of vital importance in ensuring that the preconditions for the disbursement of PGBS exist in Nicaragua.

S6 As a precondition of HIPC, the first version of the Poverty Reduction Strategy Paper (I-PRSP) was approved in August 2000 and the full PRSP known as the ERCERP (*Estrategia Reforzada de Crecimiento Económico y Reducción de la Pobreza*) was approved in 2001. The new Bolaños administration presented the National Development Plan (PND – *Plan Nacional de Desarrollo*) to IPs in August 2003 and in September 2004 the operational version of the National Development Plan (PND-O – *Plan Nacional de Desarrollo Operativo*) covering the period 2005–2009. (The final version of this document was approved as the second generation PRSP by the World Bank [WB] Board in February 2006.) With the new Bolaños administration there has been an important shift in GON's poverty reduction strategy (PRS) from the initial focus on social expenditure for poverty reduction, to sustained economic growth through support to local development and productive clusters with interventions aiming at human capital development, protection of vulnerable groups, and building public institutions and governance.

S7 While the HIPC-driven reforms served to bring traditionally conflicting institutional and political forces together, in recent years there has been a progressive deterioration of the relationship between the Executive and the National Assembly, and in 2005 President Bolaños was in an isolated political position, with the National Assembly using its political power to slow down the pace of structural reforms. This has knock-on implications for GON management of aid relationships, since International Monetary Fund (IMF) on-track status and disbursement of the Poverty Reduction Growth Facility (PRGF) depend on the legislation of these reforms. Throughout the period, the status of the IMF programmes has always been of central importance. The on-track status of the GON with the IMF is used by IPs (either formally or in practice) as the key reference point in their decision to disburse funds. The latest IMF programme, PRGF 2, was signed in 2002 with conditionalities linked to the ERCERP, macroeconomic stability (in particular the fiscal deficit) and a number of key reforms in the financial, public, and legal sectors.

### **Evolution of Partnership GBS in Nicaragua**

S8 Partnership GBS as defined by this evaluation is very new in Nicaragua. Since 2002 the Bolaños administration has undertaken reforms in Nicaragua's aid management and coordination based on the implementation of sector roundtables and the development of sector-wide approaches (SWAps). The international aid coordination forum started discussions on the necessary preconditions for providing sector and general budget support in 2003, fuelled by the HIPC and PRSP process, the signature in 2002 of the IMF PRGF 2 and the growing consensus that the highly earmarked, fragmented and supply-driven character of aid in Nicaragua was hampering impact and sustainability. The key initiative by IPs on the development of GBS in Nicaragua took place in 2003 with the formation of the Budget Support Group (BSG) as the IP forum for discussing budget support. With rotating leadership, this group has involved a wide group of bilateral and multilateral IPs. Current members include: the European Commission (EC), Finland, Germany, Inter-American Development Bank (IADB), the Netherlands, Norway, Sweden, Switzerland, the United Kingdom (UK) and the WB.

S9 Disbursements of the first PGBS programmes started with Sweden's provision of GBS in 2002. The EC and the WB then also provided GBS in 2004; the WB Poverty Reduction Support Credit (PRSC) and the EC Programme of General Budget Support for the Education Sector

(PAPSE – *Programa de Apoyo a la Política del Sector Educativo*). The first formal harmonised arrangement was agreed mid-2005, when the Joint Financing Arrangement (JFA) developed by the BSG was signed by nine IPs and the GON. The JFA lists commitments/pledges from IPs for 2005–2007 which amount to a doubling of GBS funds from USD 63m (11% of total ODA) in 2004 to approximately USD 110m (18% of total ODA) in 2005. In October 2005 the commitment of PGBS for 2005 reduced to USD 89m. IPs are providing PGBS in substitution for, rather than in addition to project aid; thus there is an increase in the proportion of aid committed as PGBS rather than an increase in the overall total amount of aid given by IPs. The JFA incorporates the existing Swedish, EC and WB programmes, and also includes two other EC programmes and other bilateral commitments. The JFA establishes the mechanisms for dialogue, review, disbursement and reporting, and includes a Performance Assessment Matrix (PAM).

S10 In 2005, as of June no funds had been disbursed from either PRSC or PAPSE, except for USD 5.2m from KfW linked to the first PRSC instalment. On 29 June the BSG communicated to the Ministry of Finance (MHCP – *Ministerio de Hacienda y Crédito Público*) that it was not in a position either to decide on the amount expected to be disbursed for 2005 or to make preliminary indications for 2006 (as JFA procedure establishes), owing to the existing lack of on-track status with the IMF. The BSG also indicated that the paucity of adequate information regarding the programme with the IMF could lead IPs to reallocate their funds to other countries. As a result, the second JFA review, originally foreseen in August, was postponed until after the new mission of the IMF scheduled for September. After the IMF September review took place, the BSG communicated to GON the amount of PGBS funding to be made available in 2005 and the commitments for 2006.

## **Part B: Main Evaluation Findings**

### **Relevance of Partnership GBS**

S11 Both the assessment of results achieved under the HIPC process (with the HIPC completion point achieved in January 2004) and the signature of the IMF PRGF 2 in 2003 were crucial signals that the country was going in the right direction and that GON could be eligible for PGBS. They were combined with the election of Bolaños as President at the end of 2001. His commitment to end corruption, his previous involvement in the main public sector reforms and the launch of a partnership dialogue with the IPs were judged as a sufficient guarantee of the continuity of the reform process undertaken since the 1990s that had deepened under HIPC influence.

S12 Entry condition assessment included a vast array of public finance management and risk analyses. While these reported the fragility of recently introduced reforms and highlighted important weaknesses, overall they confirmed that the minimum conditions for the development of PGBS were in place. Furthermore, several key donor assessments of the effectiveness of aid in the 1990s highlighted the negative experience of previous aid modalities (particularly project aid): the inefficiency, the limited impact on poverty reduction and economic growth and the disruptive effects on strengthening of national government institutions. These evaluations recommended a move towards programme-based aid modalities and a country-owned approach. International movements in favour of increasing aid effectiveness through aid harmonisation and alignment with recipient government systems were also important influencing factors in the Nicaragua country context of high transaction costs and lack of donor coordination.

S13 PGBS development is to be seen against the counterfactual. Comprehensive support to the national development policy and the government could not be realised by the traditional structural adjustment approach or project aid, while support at sector level alone would not

ensure inter-ministerial links and coherence between the macroeconomic framework and sector policies.

S14 However, the analyses carried out in preparation of PGBS underestimated the role of Nicaragua's institutional and political fragility for the feasibility of a systemic approach to reforms and did not sufficiently take on board the lessons from the recent history of aid. The relevance of the design of PGBS in Nicaragua is moderate.

S15 There has been progress in the evolution of the earlier forms of PGBS to the current JFA in the following areas: joint conditionality, harmonisation of review mechanisms, promotion of sector policies, use of nationally established coordination mechanisms and alignment with the PND strategy for poverty reduction. However differences in approach are still significant, particularly with regard to the link between conditionality and disbursement, the type of indicators and the use of technical assistance.

S16 Although there is no doubt that the current development of PGBS can be defined as the result of a partnership, there are reservations on the effective quality of this relationship based on the current type of dialogue, conditionality and ownership. So far the dialogue has been conducted with the traditional partners of the Executive, with little inclusion of other state stakeholders such as civil society, the National Assembly and representatives of local governments. There are still a large number of conditions associated with this dialogue. Conditionality is still more like previous efforts to influence and control the content of decisions than a real reflection of the principle of national ownership of the development process. The conditionality requires a degree of "reform absorption" capacity which contrasts with the fragile social, political and institutional context of a country like Nicaragua which is still in the process of democratic transition. In addition, using the IMF agreement as a pre-condition in practice for all PGBS disbursements limits the flexibility of PGBS dialogue, which by definition embraces more than solely the economic and public finance context. Furthermore it reduces the effectiveness of the JFA as a partnership instrument since the dialogue becomes highly influenced by an IP (the IMF) which is not part of the BSG and is not a signatory of the JFA.

S17 The Performance Assessment Matrix (PAM) annexed to the JFA is a key element of the planned mechanism for establishing the amount of funds to be disbursed. While it is already a success in terms of harmonisation, it is considered a 'work-in-progress' and requires development. The PAM as it stands at the moment primarily serves the interest of IPs rather than being a GON instrument. This is due to the excessive number of indicators, the lack of GON capacity in many of the sectors covered, and because it is not embedded in the national monitoring system (SINASID – *Sistema Nacional de Seguimiento a Indicadores de Desarrollo*).

### **Harmonisation and Alignment**

S18 Since the Bolaños government entered into power, GON has taken more initiative in aid coordination; however, by the end of the evaluation visit there was no finalised national action plan for harmonisation and alignment. There is a harmonisation and alignment group (GON and IPs) which has developed a zero draft action plan that was presented at the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) High Level Forum 2005 (Harmonisation and Alignment Group 2005). Since then, it has been working on an action matrix, to be agreed by the end of 2005. The May 2005 draft harmonisation and alignment action plan promotes the implementation of national policies with specific actions that relate to the use of PGBS and the JFA.



S19 Both GON and IPs are actively promoting a best practice harmonisation and alignment agenda. The BSG and the JFA provide the coordinating framework for the provision of PGBS so increasing the harmonisation and alignment of IPs. The JFA has added the European bilateral agencies to the traditional International Financial Institutions–GON policy dialogue. However, there have been limited achievements in practice. The JFA was only signed in May 2005 and therefore changes to IPs' practice will take longer to be seen.

S20 Factors slowing overall progress in harmonisation and alignment are the size of project aid in total compared to GBS and the fact that influential large donors (Japan, IADB, Spain and USAID) are operating outside the JFA. Most significantly, while the JFA is coordinating IP dialogue and the overall approach to PGBS, the streamlining of conditionalities and indicators requires further work. At the time of the evaluation IPs had not harmonised on the diagnostics of fiduciary risk undertaken in Nicaragua. In addition there are no formal bridges with either SBS or project aid built into the JFA.

### Public Expenditure

S21 Poverty-related public expenditure (PRPE) in Nicaragua was first defined in the first generation PRSP (the ERCERP) with capital spending related to four pillars of the strategy. The PND has redefined PRPE and from 2005 it was calculated by four criteria:

- 1) resources transferred to the extremely poor
- 2) provision of basic social services
- 3) programmes orientated to strengthen capacity of the poor to increase income
- 4) programmes to enhance expenditure efficiency in health, education and social sectors.

PRPE rose from 46.5% of public expenditure in 2003 to 48.1% in 2004, when it was equivalent to 12.7% of GDP.

S22 There has been a noticeable increase in the proportion of external funds that are on-treasury in recent years following the 2001 establishment of the Single Treasury Account (CUT – *Cuenta Única del Tesoro*) and the strengthening of the Secretariat for Economic Relations and Cooperation (SREC – *Secretaría de Relaciones Económicas y de Cooperación*). By 2004 all aid loans and the majority of aid grants were channelled through the CUT and were therefore 'on-treasury'. However, this does not necessarily mean that all funds were 'on-budget' as the funds administered through the CUT include separate project funds. The channelling of aid through the public accounts at the implementation stage does not necessarily mean that it is integrated in planning and budget preparation. Also, a certain amount of funding (including the USAID Millennium Challenge Account and some JICA funding) remains outside the CUT.

S23 The flow of PGBS funds is very recent, and requires caution in assessing effects. In 2004, the total amount of PGBS funds amounted to USD 62.6m – equivalent to 15% of central government capital expenditure and 5% of total central government spending in that year. This is equivalent to 10% of pro-poor expenditure. However, as PGBS is given more in substitution rather than in addition to project aid, this is primarily a re-badging of funds. While it is not adding significantly to the total envelope of donor resources, it is introducing greater flexibility in the use of these resources, with potentially important effects on the planning and budgeting system. Given the limited timeframe, while PGBS is bringing more external funds under the discretion of the national budget, it is too early to observe subsequent effects. It is also too early to tell whether PGBS is likely to lead to an increase in resources for service delivery. At the same time PGBS funds are affected by the constitutional earmarking of public expenditure. GON earmarked in 2005 10% of the public expenditure of the total budget (6% earmarked to universities and 4% to the Supreme Court) and 6% of domestic revenue which was transferred

to the municipalities. The constitutional earmarking is a key structural rigidity which limits the discretion of the planning and budgeting process, the flow of funds to pro-poor expenditure and ultimately the effectiveness of the government's poverty reduction strategy. Some of the bilateral JFA signatories also provide support to poverty reducing public expenditure through the Supplementary Social Fund (FSS – *Fondo Social Suplementario*), which in the past has been protected from constitutional earmarking but does not have the same principles of transparency and alignment with GON systems and mechanisms for planning and allocating resources.

S24 In principle PGBS should increase the predictability of aid flows channelled through the official public expenditure system. However, there is a significant danger of a perverse effect if GON failure to meet conditions leads to short-term suspensions, or delays in disbursement, of PGBS, as occurred during the first half of 2005. It is important to highlight that thus far PGBS has not succeeded in increasing the predictability of aid.

### **Planning and Budgeting Systems**

S25 Since the 1990s, donors have been supporting the improvement of planning and budgeting systems in Nicaragua. Beginning in 1995, the Integrated System for Financial Management and Auditing (SIGFA – *Sistema Integrado de Gestión Financiera y Auditoría*) has been gradually established in the MHCP. In 2001 the CUT was established, rationalising the hundreds of separate bank accounts previously maintained by the government. In 2003 the National System of Public Investment (SNIP – *Sistema Nacional de Inversión Pública*) was launched with the objective of improving the prioritisation of investment, linking to poverty reduction and development plans.

S26 There is strong circumstantial evidence that the process of donor harmonisation and alignment that preceded the introduction of PGBS and the JFA (including the innovations stimulated by the HIPC initiative) contributed somewhat to improving government ownership and management capacity over planning and the budgetary process. PGBS can be seen as a continuation and reinforcement of the impetus initially derived from HIPC. Again, since substantial PGBS is so recent, improvements that can be attributed directly to PGBS by end-2004 are negligible.

S27 There is evidence of a significant degree of complementarity between the financial and non-financial (technical assistance [TA], capacity building, dialogue and conditionality) inputs of PGBS in addressing capacity development. Several donors that signed the JFA are funding TA related to the implementation of PGBS. The WB Public Sector Technical Assistance Credit (PSTAC) is co-financed by bilateral JFA donors (the Netherlands, Sweden and the UK) while the EC provides TA support to the PND and seco plans to provide capacity-building support to the MTEF. However the fact remains that PSTAC – the main TA support associated with PGBS – is used primarily to pay the salaries of line ministry officers and senior level staff within the MHCP and SECEP. Although it enables the GON to guarantee progress in the reforms by attracting well qualified staff, this approach is highly detrimental to the sustainability of capacity development and institutional strengthening. Resulting problems include: vertical lines of responsibility within government institutions, a distorted image of the size of the public sector administration and a high turnover of staff.

### **Policies and Policy Processes**

S28 Since 2003 the BSG has been a GON counterpart in the dialogue over overall pro-poor reform process. The signature of the JFA, with the alignment of PGBS donors to the PND objectives, represents an important step forward from the dialogue in the context of HIPC and should allow increased country ownership.

S29 However, despite an increasing ownership of the planning process, participation of other stakeholders in policy formulation has been limited in recent years, particularly with regard to civil society and the dialogue with the National Assembly. By the time of the mission (May 2005) the contribution of PGBS in modifying this situation had been limited.

S30 In June 2005 the PND-O was not yet finalised. There were still significant question marks over the content and philosophy of the plan, including a widely held view that the PND-O needed further consultation, understanding and buy-in by all involved actors. There are signs that PGBS hopes to influence the content of sector policies, as indicated by the fact that the PND-O has been extensively discussed with the BSG since its elaboration in 2004. Therefore, providing PGBS through the JFA offers IPs the possibility to influence the policy making process and content in a way that few of donors could have individually, particularly the bilaterals.

S31 Since 2003 there have been improvements in government sector planning and aid coordination following the government initiative of creating sector roundtables. Progress is most noticeable in those sectors, such as education, where a SWAp exists and where the corresponding sector roundtable has worked effectively. PGBS is based on and is contributing to this overall coordination process, but at sector level, improvements can be attributed to overall aid rather than solely PGBS. The JFA harmonised review mechanism and commitment to joint evaluation should contribute to the learning process from sector and policy reviews and should increase the efficiency of sector working.

S32 Given the recent history of PGBS in Nicaragua, there is a strong link between the content of policy in relation to the public administration reform (which is the main area of the PRSC and was already at the core of the previous WB loans) and the preparation of a MTEF (the focus of recent TA provided within the PGBS context).

### **Macroeconomic Performance**

S33 It is too early to assess the impact of the recently begun PGBS financial flows. They have the potential to continue the macroeconomic stabilising effect of financial aid to the Bolaños government since late 2001.

### **Public Service Delivery**

S34 The main challenge to the analysis is posed by the limited period covered by PGBS when compared to the time lag necessary to transform policies and institutions into better services and better service providers. The analysis concentrates on those policy aspects/areas supported by PGBS, particularly the participatory education policy.

S35 Basic education in Nicaragua has been a sector that is of great interest to IPs and a focus of concern by GON as a priority area for reform. As a result, throughout the period 1994–2004, the sector has undergone a series of reforms and institutional capacity-building measures. PGBS has supported the implementation of autonomous schools, one approach to reform the sector. At the same time the institutional strengthening of the Ministry of Education (MECD – *Ministerio de Educación, Cultura y Deportes*) depends on the activities of many more donors than just the PGBS IPs and also on the strong leadership shown by the MECD through the sector dialogue (sector roundtables) and the SWAp.

### **Poverty Reduction**

S36 Given the recent nature of PGBS in Nicaragua there has not been enough time for PGBS in Nicaragua to have reached Levels 4 and 5 of the EEF. The JFA PAM encourages a continuing commitment by the GON towards social sector expenditure aimed at non-income poverty reduction. The link between PGBS disbursement and IMF conditionality, as spelled out in the JFA, ensures that PGBS will only be delivered in the context of prudent macroeconomic policy, itself a prerequisite for sustainable poverty reduction. PGBS is supporting empowerment approaches already under way (municipal decentralisation of education, autonomous schools etc) though the impact of such measures should not be exaggerated. Donors have also focused attention on improving accountability, citizen participation and the administration of justice by including governance, participation and justice as performance indicators in the JFA PAM. On the other hand, PGBS impact in these areas may be limited by the reduced attention to local government capacity development and the lack of a formal link between service delivery at the local level and the implementation of the decentralisation policy.

### **Sustainability of PGBS**

S37 Compared to the review mechanism associated with the ERCERP and to the first programmes of PGBS, the JFA represents important progress: its biannual reviews should provide effective feedback to stakeholders and the single matrix for performance assessment (the PAM) is the first important output of the harmonisation process among IPs.

S38 Nevertheless, the PAM design bears the mark of being a product of compromise due to the complexity of the harmonisation process undergone. It includes process, output and outcome and a few impact indicators, thus indicating an effort to create a monitoring system covering the full causality chain. However, the unbalanced use of different types of indicators across sectors and within each of them reflects the limitations of the design of the review system, the unfinished discussion about the philosophy behind the review system, the varying degrees of progress in the elaboration of sector policies, and the prevalence of donors' concerns rather than a systematic coverage of all stages of the chain. In addition very little attention is paid to the detailed monitoring of pro-poor expenditure flow of funds, to the development of very poor areas and to the use of indicators disaggregated by gender and vulnerable groups. Finally, the link between monitoring the on-going implementation of policies and evaluating the long-term results, i.e. linking the short term perspective to a medium–long term scenario is not covered by the current performance review system.

S39 As it stands at the moment, there is the risk that the system primarily serves the interests of IPs (as a tool to measure performance and decide on disbursements) and that it becomes an additional performance assessment instrument as it is not embedded in the national monitoring system (SINASID).

S40 So far there has been little thinking on how to incorporate key stakeholders such as civil society and the NA in the dialogue and review process, and for the time being the exercise remains with donor and central government actors, with little transparency and accountability towards the rest of the country.

S41 Finally, the de facto link of PGBS disbursement with the IMF PRGF on-track status may (in the event of the PRGF going off-track and PGBS donors delaying the disbursement of PGBS funds) affect the flow of funds to sectors which provide pro-poor services but do not have a direct influence on the factors affecting IMF conditionality.

## Part C: Cross-Cutting Issues

### Policy CCIs

S42 *Gender*: The PAM states as an aim the reduction of inequality between men and women and has some specific gender-focused indicators. *HIV/AIDS*: Two HIV/AIDS indicators are included in the JFA PAM, but little effort is made to ensure mainstreaming through policies and sufficient budget. *Environment*: Environmental problems are linked to overexploitation of natural resources and vulnerability to natural catastrophes. The JFA includes support to sector plans and the plan for rural development and water and sanitation. However there are concerns that the PND does not pay sufficient attention to urban pollution linked to rapid urbanisation. Furthermore, the PAM does not systematically relate environmental issues to the most vulnerable and poor groups. *Democracy and Human Rights*: The PAM includes an area on governance focusing on justice, human rights and citizen security and participation, a clear indication of the importance that PGBS donors give these issues in their partnership with GON.

### Public and Private Sector Issues

S43 The JFA has embraced the overall approach of the PND and moved from an approach strongly oriented towards social services to an inclusion of a more balanced attention to social areas and the private sector. Structural reforms are supported through the incorporation of the PRSC trigger indicators in the area of public sector and public finance, and as part of the overall dialogue on the appropriate macroeconomic framework assessed through the satisfaction of the PRGF, which also includes structural reforms.

### Government Capacity and Capacity Building

S44 The JFA, and in general, PGBS, fosters the use of government structures, especially at sector level, but limited attention has been paid to plans for capacity building and human resources development. The biggest TA in terms of budget provided in the framework of PGBS is the PSTAC, which provides an important amount of funds. However, the sustainability and effectiveness of TA and the state reform process supported by PGBS in general, will remain at risk until there is an open discussion on the necessary civil service reform and a GON human resources development plan is elaborated.

### Quality of Partnership

S45 *Ownership*: The signature of the JFA should allow an increase in GON ownership of the development process, shown by the alignment of the JFA with the PND. However while GON's relationship with IPs is based in theory on the principles of partnership and trust, at best, the situation of PGBS in Nicaragua is ambiguous. In practice there is still some tension between government ownership of the process and IP dominance of the relationship. This is demonstrated by the high number of indicators framing the assessment of GON in the use of the JFA funds, and the still strong policy conditionality on macroeconomic/finance management issues. Also ownership requires strong leadership, coordination, management and organisation – capacities that not all the government departments enjoy. The fragmentation of Nicaraguan politics and administration, and the volatility reflected in the re-drafting of national strategies, inevitably limits the strength of national ownership. Furthermore, with a public debt representing 140% of GDP and foreign aid a high percentage of public expenditure, GON ownership is still greater in theory than in practice.

S46 *Interaction between aid modalities*: The Nicaragua aid scene is characterised by a multitude of donors and the use of parallel aid modalities, though project aid is the principal modality. The sector roundtables are an important government initiative to coordinate the different aid modalities at sector level. However, the use of different aid modalities by the same donor does not always correspond to a clear use of an aid modality for a given objective or in a given sector. In the case of structural reforms and public expenditure management there is a strong synergy between the different modalities used by donors; while in contrast, the use of aid modalities is not coherent or coordinated in the area of local development and decentralisation. There is no bridging dialogue with non-PGBS donors foreseen in the JFA.

S47 *Transaction costs*: With PGBS there are clear transaction cost savings for GON inasmuch as PGBS funds are disbursed entirely through GON systems without special procurement or accounting requirements for the donors. A reduction of transaction costs in the negotiation of aid and the monitoring of its use is not yet observable due to the limited share of PGBS in total aid and the strong persistence among PGBS IPs of using project aid too. There is a risk that, at least at first, transaction costs will shift in nature, rather than decrease, as PGBS requires high-level technical skills and time for negotiation and consensus-building, both in GON and IPs.

### **Political Governance and Corruption**

S48 Governance (democratic accountability) has always been part of the theme of the donor dialogue with GON and is included in the key principles of the JFA but there is little evidence so far that PGBS has helped set the basis for either a more inclusive dialogue or an increasingly transparent and shared performance assessment system. ■

S49 In spite of all the legal and administrative reforms, perception of corruption is high. The fight against corruption is one of JFA's fundamental principles, and is high on the political dialogue agenda. In the first annual revision of the JFA, IPs expressed their concern of the quality of the PAM's governance matrix and are pushing for a more extended anti-corruption strategy. The close dialogue between the PGBS IPs and the Executive has raised concerns among civil society actors that they are excluded from the discussion on key policies and reforms.

## **Part D: Overall Conclusions and Recommendations**

### **Overall Assessment of PGBS in Nicaragua**

S50 PGBS in Nicaragua is still in a formative stage – so much so that it is too early for a proper retrospective evaluation. This is reflected in the necessarily limited findings on causality. At the same time, PGBS is taking place in a difficult context of:

- The institutional and political fragmentation of the Nicaraguan government.
- The limitations of both the government policies and the government systems which PGBS is meant to align with and support.
- The heterogeneity amongst IPs.

S51 PGBS emerged from HIPC and from earlier programme aid, and effects to date are in many areas intermingled indistinguishably with these. As such PGBS is part of wider moves towards more coordinated and country-led aid management (roundtables, programme-based approaches etc). The systemic approach adopted by PGBS is also a direct answer to the need to reduce the past negative effects of aid on the country's institutional development and policy making process and is also an answer to national and international pressure for increased

country ownership and leadership in the decisions over development policy and the reform agenda.

S52 The PGBS effect that has emerged most clearly so far is the boost it has given to harmonisation among donors, from a very low base, and the resulting joint effort to evolve a design for PGBS which is increasingly relevant to its context. This is a positive, attributable effect which causes the overall assessment of PGBS in Nicaragua to be that it is a promising beginning to tackling deep-seated problems of aid in a difficult political environment.

S53 The challenges it faces include:

- How to break away from the limitations of previous aid modalities.
- How to move beyond excessive earmarking.
- How to create a long-term approach.
- How to align with national plans for growth and poverty reduction.

S54 With its systemic approach embracing the key service delivery sectors and the core reforms related to governance, undertaking PGBS is an ambitious strategy in a country with the deep political divisions of Nicaragua. At the same time, it is an instrument that reduces some of the key inefficiencies of aid provided in the past. The overall conclusion is that PGBS is an appropriate instrument which needs to be seen as evolving to be understood in relation to the difficulties it faces in the context, and to be linked explicitly to strategies for other instruments.

### **PGBS in Nicaragua – Future prospects**

S55 In making recommendations, this chapter deliberately avoids detail, for two reasons: (a) such detail is beyond the scope of our study, and risks obscuring the key strategic issues, and (b) there is a serious danger of overloading PGBS. We therefore offer design principles more than design details.

S56 A number of general design issues arise:

- Partnership: A partnership with the Executive is not enough to allow the implementation of programmes addressing global reforms and overall development policy in an efficient and effective way when the Executive does not enjoy the support of the other state powers.
- Priority to planning and budgeting quality: To date, planning and budgeting has received less priority for donors in PGBS than have fiduciary risk issues.
- Unify monitoring of PND and PAM: Ensuring that donor monitoring of the PAM is embedded in the national government monitoring of the PND is important.
- Staged approach to solving PGBS implementation problems: Achieving timely disbursement and reducing risk of PGBS suspension will require an ongoing exploratory joint effort to find solutions – not a set of conditionalities.
- Capacity building of key departments in government: Integrating funding for technical expertise into PGBS; this is likely to involve revising the current structure of the civil service further so as to establish permanent professional civil service capacity in essential posts.

S57 There are also a number of specific design issues that focus on how to develop the PAM. Our conclusion is that while the PAM is a step forward in harmonisation and alignment, its

complex conditionalities reflect the inadequacies in the broader design of PGBS. The main weaknesses are the following:

- Little GON ownership and risk of running in parallel to the GON system of monitoring overall development policy performance.
- The stop-start pattern in programme aid to Nicaragua has been caused in part by how the on-track status with PRGF has been included in the review of the fundamental principles of the JFA (IMF is presently seeking ways to make its cautions regarding PRGF status less alarming to donors and this needs to be taken into account in the PAM).
- Much discretion left to individual donors and unclear links between assessment and amount to be disbursed, with consequent implications for predictability of funds.
- Unresolved issues concerning the balance between input, output, outcome and impact indicators, and the appropriate use of different indicators as disbursement triggers.
- Very little attention in the PAM is paid to monitoring the flow of funds for pro-poor expenditure in detail.
- Indicators are seldom disaggregated by gender or vulnerable groups, which makes it difficult to conduct thorough monitoring and evaluation of impact on these groups.
- Despite the large number of indicators and areas covered, few refer to the institutional development efforts implicit in the reform agenda. The risk is that this process will not be factored into the overall performance assessment.
- Review results are shared only within a restricted circle of donors and central government despite the implications these have for the political economy of the country.

### **Recommendations**

S58 There must be realistic expectations of PGBS: it cannot solve every problem or do everything at once. Issues are about priorities, risk management, and linking PGBS to wider poverty reduction and aid strategies. PGBS is an evolving instrument which should form part of an overall strategy for increasingly nationally owned and coordinated management of aid. Along with PGBS the overall strategy includes sector roundtables and programme-based approaches, all as part of the PRSP approach.

S59 Hence our main recommendations are:

- R1 PGBS dialogue should involve a wider cross-section of the state (including local authorities) and civil society and thereby promote wider ownership.
- R2 There should be a more inclusive involvement of donors, to attain a critical mass of PGBS funding and a critical mass of donors committed to PGBS.
- R3 Donors and the GON should treat SBS, project aid and PGBS approaches as complementary, ensuring that sector modalities do not undermine development of national systems.
- R4 PGBS donors should forge clearer links to the IMF in relation to policy dialogue and performance assessment on structural and macroeconomic policies.
- R5 IADB participation in the BSG should lead to its policy-based loans and relevant TA credits becoming part of the JFA and their performance assessment made in the framework of the dialogue on PGBS.
- R6 Donors and the GON should further support the coherent planning of public services, investments and revenues, by putting it at the centre of PGBS, linked to a medium-term budgetary framework.



- R7 Donors and the GON should work towards a medium-term reform timetable.
- R8 Donors and GON should focus on the key institutional improvement of a stronger civil service (requires a national strategy that IPs can support, in which agreed systemic improvements supported by PGBS are complemented by technical assistance and capacity building).
- R9 GON, supported by donors, should integrate funding for technical expertise into PGBS via human resources plans for departments related to raising productivity.
- R10 The practice of paying GON staff with aid funds should be brought to an end.
- R11 Donors and the GON should seek convergence between PAM and PND targets.
- R12 Donors and the GON should support national monitoring and evaluation of both PND and PAM, with regard to annual progress and long-term results, spelling out results chains, increasing gender and regional disaggregation in indicators, and providing more harmonised capacity building in this area at sector and local levels.
- R13 Donors and the GON should review the definition of pro-poor expenditure, including discussion of constitutional earmarking.
- R14 Donors should avoid all-or-nothing disbursement of PGBS and revise the system of conditionality accordingly, making their criteria fully transparent to the GON.
- R15 Donors should reduce fragmentation of funding via the Supplementary Social Fund (FSS – *Fondo Social Suplementario*).
- R16 Donors need to improve commitment procedures to allow better budget planning by the GON.



## PART A: CONTEXT/DESCRIPTION

### A1. Introduction and Conceptual Framework

#### Introduction

A1.1 Nicaragua is one of seven case studies in a Joint Evaluation of General Budget Support (GBS). Each country study has contributed to the Synthesis Report of the evaluation, but is also intended to be a free-standing report of value to country stakeholders. This chapter explains the background to the evaluation, its methodology and the process that has been followed in Nicaragua. Annex 1A to this report is a concise summary of the study methodology. Full details of the background and methodology for the multi-country evaluation are in the Inception Report (IDD & Associates 2005).

#### Objectives and Approach to the Evaluation

##### What is General Budget Support?

A1.2 Budget support is a form of programme aid in which Official Development Assistance (ODA) that is not linked to specific project activities is channelled directly to partner governments using their own allocation, procurement and accounting systems. GBS (in contrast to sector budget support) is not earmarked to a particular sector or set of activities within the government budget. The foreign exchange in GBS is usually accompanied by other inputs – a process of dialogue and conditions attached to the transfer, technical assistance (TA) and capacity building, and efforts at harmonisation and alignment by the international partners (IPs) providing GBS. Other forms of programme aid (including debt relief and other balance of payments support) may also generate resources that can be used to finance the government budget; therefore they could also be considered as budget support. However, the present evaluation focuses on a particular form of budget support that has recently become prominent.

A1.3 A new rationale for GBS emerged in the late 1990s, closely linked to the development of Poverty Reduction Strategies. So-called "new" or "Partnership" GBS focuses explicitly on poverty reduction, and it attempts to support nationally developed strategies rather than imposing external policy prescriptions. The range of expected effects from Partnership GBS is very wide. The Terms of Reference (TOR)<sup>1</sup> for this study draw attention to:

- Improved *coordination* and *harmonisation* among IPs and *alignment* with partner country systems (including budget systems and result systems) and policies
- *Lower transaction costs*
- *Higher allocative efficiency of public expenditures*
- *Greater predictability* of funding (to avoid earlier "stop and go" problems of programme aid)
- *Increased effectiveness of the state and public administration* as GBS is aligned with and uses government allocation and financial management systems
- *Improved domestic accountability* through increased focus on the government's own accountability channels.

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<sup>1</sup> The full Terms of Reference are annexed to the Inception Report (IDD & Associates 2005).

## **Purpose and Focus of the Evaluation**

A1.4 As summarised in the Terms of Reference:

The purpose of the evaluation is to evaluate to what extent, and under what circumstances (in what country contexts), GBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth. The evaluation should be forward looking and focused on providing lessons learned while also addressing joint donor accountability at the country level.

A1.5 Although the evaluation focuses on more recent Partnership GBS (PGBS), it covers the period from 1994–2004 in order to assess whether and how PGBS differs from other variants of budget support. It is not a comparative evaluation of different aid modalities, although the assessment of PGBS requires examination of its interactions with project aid and other forms of programme aid. The joint donor approach to evaluation recognises that PGBS has to be evaluated as a whole, since it is not possible to separate out the effects of different IPs' financial contributions. However, there is a special interest in comparing various different approaches to the design and management of PGBS.

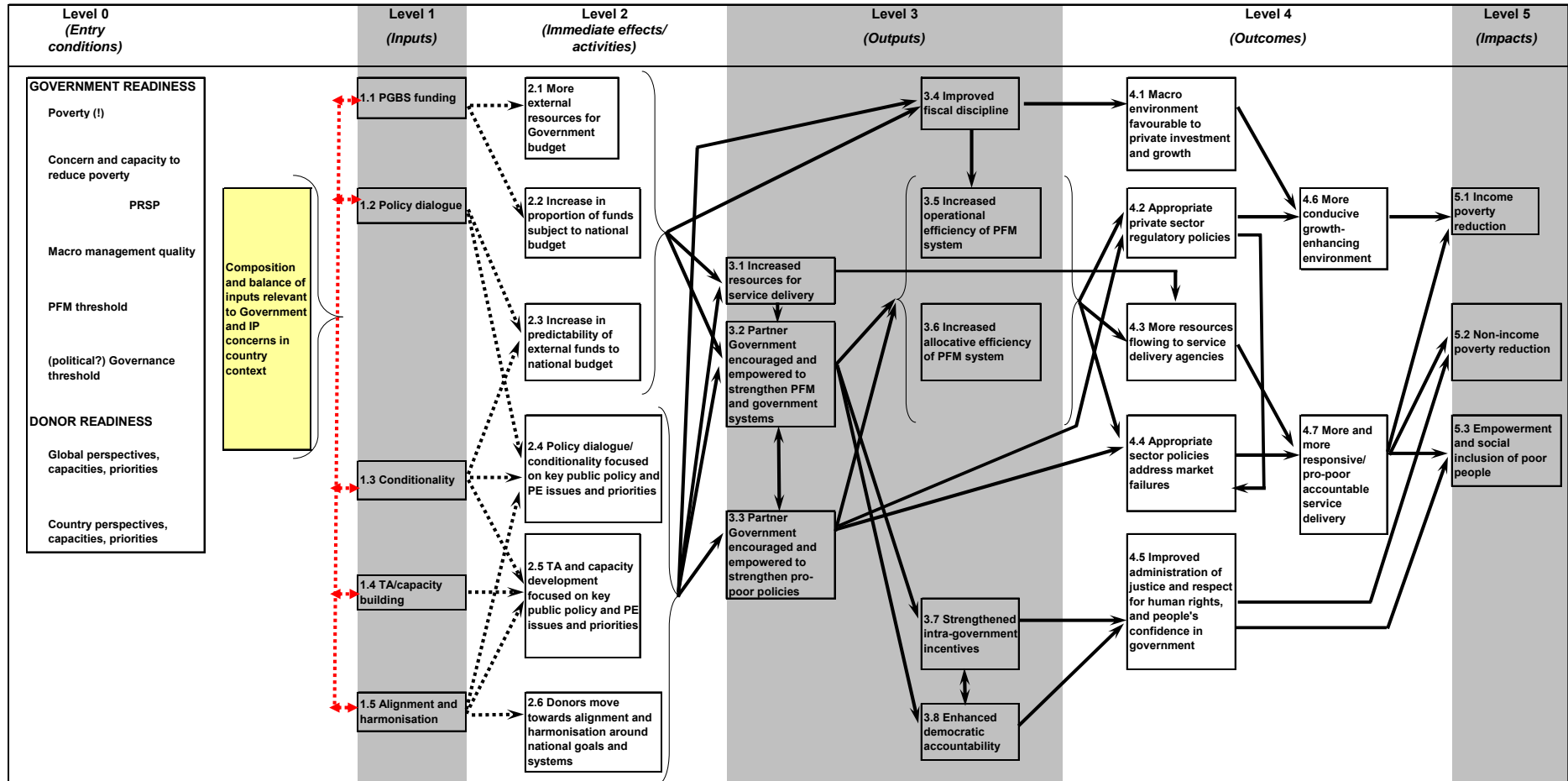
## **Evaluation Methodology**

A1.6 The evaluation is based on a specially developed methodology which has been further refined during the inception phase of the study. The Enhanced Evaluation Framework (EEF) has the following key elements:

- It applies the five standard evaluation criteria of the OECD's Development Assistance Committee (DAC) – relevance, effectiveness, efficiency, impact and sustainability.
- A logical framework depicts the possible sequence of effects of PGBS and allows them to be systematically tested. There are five main levels:
  - Level 1: the inputs (funds, plus dialogue and conditionality, harmonisation and alignment, TA and capacity building)
  - Level 2: the immediate effects (activities)
  - Level 3: outputs
  - Level 4: outcomes
  - Level 5: impacts.
- The entry conditions for PGBS (i.e. the circumstances in which PGBS is introduced) are conceived as "Level 0" of the logical framework.
- PGBS is conceived as having three main types of effect: flow-of-funds effects, institutional effects and policy effects. These effects overlap and interact with each other.
- There is particular attention to monitoring and feedback effects at all levels of the framework.
- The framework allows for the disaggregation of PGBS inputs, and notes their interaction with non-PGBS inputs.
- Similarly, it allows for the disaggregation of the poverty impacts of PGBS (income poverty, non-income dimensions reflected in the Millennium Development Goals and empowerment of the poor).

A1.7 Annex 1A sets out these elements of the EEF more fully. From them, a Causality Map has been developed (Figure A1.1 below), which depicts the main cause-and-effect links to be tested by the evaluation.

Figure A1.1: Causality Map for the Enhanced Evaluation Framework



## Country Report Structure

A1.8 The methodology ensures a standard approach to the evaluation across the seven case-study countries, and all seven country reports follow the same structure based on the same overarching evaluation questions. To enhance consistency across the country studies, a simple rating system is used in addressing the evaluation questions posed in Part B of the report; this is explained in Annex 1A. The TOR require special attention to gender, environment, HIV/AIDS, and democracy and human rights. These and a number of other cross-cutting themes are addressed in an additional section (Part C). A final section (Part D) presents the overall assessment and recommendations for Nicaragua. The report structure is summarised in Box A1.1. The final section of this chapter describes the study process in Nicaragua.

### Box A1.1: Structure of the Country Report

#### Executive Summary

#### Part A: Context/Description

- A1. Introduction and Conceptual Framework
- A2. The Context for Budget Support in Nicaragua
- A3. The Evolution of Partnership GBS in Nicaragua

#### Part B: Evaluation Questions: Analysis and Main Findings

- B1. The Relevance of Partnership GBS
- B2. The Effects of Partnership GBS on Harmonisation and Alignment
- B3. The Effects of Partnership GBS on Public Expenditures
- B4. The Effects of Partnership GBS on Planning and Budgeting Systems
- B5. The Effects of Partnership GBS on Policies and Policy Processes
- B6. The Effects of Partnership GBS on Macroeconomic Performance
- B7. The Effects of Partnership GBS on the Delivery of Public Services
- B8. The Effects of Partnership GBS on Poverty Reduction
- B9. The Sustainability of Partnership GBS

#### Part C: Cross-Cutting Issues

- C1. Cross-Cutting Policy Issues (gender, environment, HIV/AIDS, democracy and human rights)
- C2. Public and Private Sector Issues
- C3. Government Capacity and Capacity Building
- C4. Quality of Partnership
- C5. Political Governance and Corruption

#### Part D: Synthesis – Overall Conclusions and Recommendations

- D1. Overall Assessment of PGBS in Nicaragua
- D2. PGBS in Nicaragua – Future Prospects
- D3. Summary of Conclusions and Recommendations

#### Bibliography

#### Annexes

- 1. Approach and Methods
- 2. Country Background
- 3. Aid to Nicaragua
- 4. Public Finance Management
- 5. Summary of Causality Findings
- 6. Institutional Context (Decentralisation and Service Delivery for Basic Education)

## The Evaluation in Nicaragua

A1.9 The Nicaragua study was based on two field trips: a two-week inception visit in November 2004, followed by another three-week field visit in June 2005. A team of five people undertook the evaluation; three of the team were involved in both visits. The team met a large number of relevant stakeholders within the donor community, central government, line ministries involved with PGBS, and civil society representatives. The purpose of the inception visit was to undertake five specific analyses covering the period 1994 to 2004, following the initial agreed methodology and to produce an interim report as part of the first visit outputs. The purpose of the second visit was to focus specifically and in more detail on answering the overall evaluation questions in relation to PGBS according to the methodology agreed in the Inception Report (IDD & Associates 2005). During the second visit, two districts (Boaco and Chontales) were visited with the objective of reaching local stakeholders to investigate the decentralisation and deconcentration process in Nicaragua and the efficiency and effectiveness of pro-poor services (with the study focus on education – see Chapter B7 and Annex 6B).

A1.10 The evaluation was undertaken through a review of secondary literature to provide the analytical basis of the study and to provide relevant evidence for the key evaluation questions and causality chains (see bibliography). The information gathered from secondary sources was supplemented by interviews with international partners (IPs), the Government of Nicaragua (GON) (central agencies, sector ministries, and local authorities) and non-governmental organisations (NGOs) and other representatives of civil society, which allowed for further triangulation of information. See Annex 1B for further details on approach and methodology and a list of interviewees.

A1.11 The in-country donor focal points for the study were Switzerland and Sweden. The government focal point was the Ministry of Finance (MHCP – *Ministerio de Hacienda y Crédito Público*). At the end of the first visit a debriefing presentation was organised with interested IPs and at the end of the second field visit a debriefing presentation of preliminary findings was held to a wider audience of GON, IP and civil society representatives in order to raise awareness of the study and also to obtain preliminary feedback.

A1.12 The GBS Evaluation Steering Group provided feedback on both the Inception Report and the draft country report. The final draft of the country report took into account and responded to these comments.





## A2. The Context for Budget Support in Nicaragua

### Overview

A2.1 Nicaragua is the largest but also the least populated of the Central American countries: in 2003 the population was estimated at 5.3m (UNDP 2005). It has one of the highest population growth rates of the region – 2.5% p.a. during 1975–2003 (UNDP 2005). Nicaragua is one of the poorest countries in Latin America. Following the years of civil war during the 1980s, the Nicaraguan economy underwent a series of structural adjustment programmes in the 1990s aimed at restoring macroeconomic stability. However, while still in a period of democratic transition, Nicaragua has endured a series of crises that have put a severe strain on the country's capacity to progress poverty reduction strategies (World Bank 2003c:7). In 1998 Hurricane Mitch ravaged Nicaragua with resulting reconstruction costs totalling nearly USD 500m. The economy also has been hit hard by the worldwide crash in prices for coffee, Nicaragua's main export. A small open economy, Nicaragua imports an estimated 50% of its gross domestic product (GDP) and exports approximately 20% of its GDP (primarily coffee, shrimp, lobster, beef and sugar), which renders it extremely vulnerable to commodity price fluctuations (World Bank 2003c:6). In recent years the economy has been affected by the banking crisis (with the collapse of commercial banks 2000–2001) and also by the political crisis that culminated in the prosecution of former government officials (including former President Alemán) on charges of corruption (World Bank 2003c:7).

### Poverty and Poverty Reduction Strategy

A2.2 According to Nicaragua's National Institute of Statistics (INEC – *Instituto Nacional de Estadísticas y Censos*) between 1993–2001 the proportion of the population living in poverty reduced by 4.5 percentage points (50.3% 1993, 47.9% 1998, 45.8% 2001) while the proportion of the population living in extreme poverty reduced by 4.3 percentage points (19.4% 1993, 17.3% 1998, 15.1% 2001) (INEC 2003:6). However, due to population growth, only one region (Managua) recorded an absolute reduction in the number of people living in poverty. Overall the number of people living in poverty during the period 1993–2001 is estimated to have risen by around 280,000 (INEC 2003: 4-5). In addition, there have been substantial variances in poverty changes by region, illustrating the high vulnerability of specific populations to commodity shocks. Inequality has remained consistently high.<sup>2</sup> Progress in education is mixed, access to basic water and sanitation infrastructure has progressed modestly, and diarrhoea and upper respiratory infections for children under five show little progress since the early 1990s (IMF and WB 2004b). Annex 2A provides further poverty incidence data for Nicaragua and Annex 2B further detail on the Nicaragua Millennium Development Goals (MDGs) profile.

A2.3 As in many low income countries, an explicit government poverty reduction strategy (PRS) emerged in response to the Highly Indebted Poor Countries (HIPC) initiative conditionality rather than as a domestically driven process. The first version of the Poverty Reduction Strategy Paper (I-PRSP) undertaken as a precondition of the HIPC was approved by the International Monetary Fund (IMF) and the World Bank (WB) in August 2000 and the full PRSP (known as the ERCERP – *Estrategia Reforzada de Crecimiento Económico y Reducción de la Pobreza*) was approved in 2001. However, the process has come under criticism from some observers for being led by technocrats following donor directives. There appears to have been limited ownership even among the government while the civil society consultations that were undertaken had little impact on the PRS (Dijkstra 2005). With the election in 2001 of Bolaños as

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<sup>2</sup> Consumption Gini coefficient 0.49 1993, 0.44 1998, 0.43 2001 (INEC 2003: 14); income Gini coefficient 0.54 1998, 0.55 2001 (World Bank 2003d: Annex 3, p10).

President, there has been an important shift in GON's PRS from the initial focus on social expenditure for poverty reduction to a broader approach based on four key areas: 1) broad-based growth and competitiveness, 2) investment in human capital, 3) protection of vulnerable groups, and 4) building public institutions and governance. The current PRS focuses on geographical areas with high economic growth potential. The GON's PRS targets are based on the MDGs. See Annex 2B on MDGs and Chapter B3 for discussion on pro-poor expenditures.

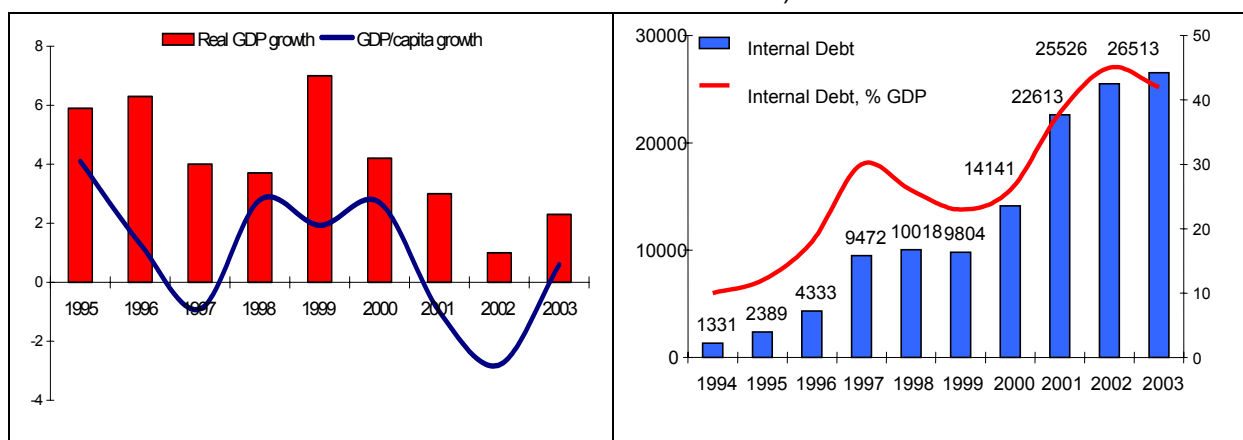
## Macroeconomic Management

A2.4 The average growth rate in real GDP was 4.2% throughout the 1995–2003 period. In USD per capita terms, progress has been considerably less favourable, with an average annual growth rate of 1% over the same period (Central Bank of Nicaragua). During the period 1994–2004 there have been repeated bouts of financial indiscipline and macroeconomic instability. Pre-2001 was a period characterised by poor macroeconomic performance and an overly expansionary fiscal policy. Crises included the bankruptcy of four main private banks and allegations of mismanagement of the external funds that flowed into the country for post-Hurricane Mitch emergency and reconstruction work. By contrast, and in spite of a breakdown in collaboration between the Executive and the legislature, the period since 2002 has been characterised by a high level of macroeconomic stability and the strengthening of systems within the Ministry of Finance (MHCP – *Ministerio de Hacienda y Crédito Público*) and the Central Bank of Nicaragua (BCN). There remain concerns over the rise in public domestic debt. Annex 2A provides further economic data for the period 1994–2004.

**Figure A2.1: GDP Growth and Internal Debt**

(1) Real GDP<sup>3</sup> and GDP/capita percentage growth

(2) Internal Debt 1995–2003<sup>4</sup> (NIO million/% of GDP)



Source: Central Bank of Nicaragua.

A2.5 The repeated outbreaks of monetary instability are reflected in a stop-start relationship with the IMF. During the 1990s, IMF programmes went repeatedly off-track. The current IMF programme, Poverty Reduction and Growth Facility (PRGF) 2, was signed in 2002, with conditionalities linked to macroeconomic stability and in particular the fiscal deficit, the ERCERP and a number of key reforms in the financial, public, and legal sectors.<sup>5</sup> The IP community has taken the PRGF agreement as a sign of Nicaragua's progress in the right direction.

<sup>3</sup> In 1994 prices.

<sup>4</sup> In 2003, the Central Bank of Nicaragua reviewed its national accounting methodology, with 1994 as its base year, leading to significant changes in the indicators. Systematic coverage is available for the 1995–2003 period.

<sup>5</sup> The IMF focus on the structural reform agenda includes conditionalities related to the laws on financial administration, the superintendency of banks, the insurance fund for deposits in financial institutions (FOGADE – *Fondo de Garantía de Depósitos de las Instituciones Financieras*), the banking law and the tax code.

A2.6 Nicaragua arrived at the decision point of the HIPC initiative in December 2001 (a month after the election of Bolaños as President) and reached completion point in January 2004. According to BCN data (Central Bank of Nicaragua 2004a), Nicaragua received USD 794m in interim debt relief from 2001–2004 and on reaching completion point in January 2004 the country obtained the cancellation in nominal terms of USD 4,014m of its external debt. Together with additional Paris Club relief, this has resulted in a reduction of external debt service of around USD 199 million per year since 2001. Annex 3C provides further detail on HIPC relief.

A2.7 Associated HIPC conditionality included (i) implementation of the ERCERP, (ii) a tracking mechanism for HIPC funds, (iii) maintenance of a stable macroeconomic framework supported by a PRGF arrangement, and (iv) the implementation of reforms to promote human capital development, social protection and strengthening of governance. The size of the debt forgiveness obtained and the broad national consensus on achieving HIPC completion meant that the HIPC initiative played a crucial role in driving the pace of institutional reform carried out by GON in a relative short period. See Box A3.3 for the details of HIPC conditionality. Annex 3C provides a breakdown of the allocation of HIPC funds 2001–2004 and Annex 2C the timeline of structural reforms including key laws that have been approved.

### **Public Finance Management**

A2.8 Between 2001 and 2003 the WB carried out a series of analyses: the Public Expenditure Review (PER) (World Bank 2001b), the Country Financial Accountability Assessment (CFAA) (World Bank 2003a) and the 2003 Country Procurement Assessment Report (CPAR). These highlighted significant weaknesses in GON's public finance management, as well as the fragility of recently introduced reforms and the vulnerability of the country to external shocks. The HIPC public expenditure tracking Assessment and Action Plan (AAP) was updated July 2004 (World Bank 2004c). The AAP reports that reforms implemented since 2001 include the expansion and strengthening of the Integrated System for Financial Management and Auditing (SIGFA – *Sistema Integrado de Gestión Financiera y Auditoría*) and the inclusion of poverty reducing public expenditure (PRPE) tables in the general budget. The main reform executed to improve the government's PRPE tracking capacity was the restructuring of the Supplementary Social Fund (FSS – *Fondo Social Suplementario*), the tracking mechanism used by the government to address the immediate priorities of its poverty reduction strategy. See Annex 3C for further details on the FSS. See Annex 4 for further details on public finance management.

A2.9 Nicaragua is a democratic republic with independent legislature, executive, and judiciary branches of government. The President of the Republic is Head of the Executive, as well as Head of State and Supreme Commander of the Army. The president serves a 5 year term and appoints the cabinet of ministers. The National Assembly (NA) has 92 members elected by proportional representation: 20 of them to serve nationally and 70 to represent the provinces, known as departments. The remaining two seats were allocated as part of a political pact between the two main parties, the Liberal Constitutionalist Party (PLC – *el Partido Liberal Constitucionalista*) and the Sandinista Front for National Liberation (FSLN – *el Frente Sandinista de Liberación Nacional*), to their then leaders, Alemán and Ortega. The president proposes the national budget, and after the 1995 constitutional reforms, approval from the NA is required to initiate any changes in tax legislation.

A2.10 For administrative purposes, the national territory is divided into 15 departments and 2 autonomous regions of the Atlantic Coast which have regional councils serving as mini-legislatures with 45 members. There are 153 municipalities. Decentralisation is an integral part of the government's approach for implementing its poverty reduction strategy and work in 2005 was under way to develop and strengthen the functions of both departments and municipalities. The decentralisation process was launched in 2003 as part of the overall public administration

reforms with strong support from the Poverty Reduction Support Credit (PRSC). In 2004 the municipal transfer law<sup>6</sup> set a transfer of 4% of domestic revenue to the municipalities (raised to 6% in 2005). Annex 6A provides further background on the decentralisation process.

## Governance

A2.11 Nicaragua is in a period of democratic transition. The civil war was formally over by 1990; however small outbreaks of political violence continued into the 1990s. Throughout the last decade political life was polarised between the FSLN and the PLC, until the pact between the parties' leaders in 2000 which was made in the context of 'post-Mitch' national reconstruction. The pact allowed the two major parties to exercise joint control over important institutions, especially those involved in combating corruption: the Supreme Court (CSJ – *Corte Suprema de Justicia*) and the Comptroller General of the Republic (CGR – *Contraloría General de la República*), and to change the election rules to make it far more difficult for minor parties to challenge the Liberal and Sandinista dominance. While the HIPC-driven reforms served to bring traditionally conflicting institutional and political forces together, there has been a progressive deterioration of the relationship between the Executive and the legislature, and by 2005 President Bolaños was in an uncomfortably isolated political position. In 2003 the PLC, on whose platform Bolaños was elected president, joined the opposition bench, and in the same year the PLC and the FSLN united to fill nine vacancies for Supreme Court justices, thus securing their vested interests. The relationship between the Executive and the NA in 2005 has been extremely tense, with the NA using its political power to slow down the pace of structural reforms. This has knock-on implications for GON management of aid relationships, since IMF on-track status and disbursement of the PRGF (and de facto the great majority of other IP programmes) depend on the passage of these reforms. The conflict between the Executive and the legislature is extreme even by Latin American standards and has led to a situation of 'dual leadership' in the country. Presidential elections are due to take place in 2006.

A2.12 A significant institutional weakness in Nicaragua is the absence of virtually all features of a professional civil service. Careers within the public administration are associated with relationships formed on the basis of patronage and clientelism. The resulting lack of permanence within the public administration is increased by the extremely high dependence of ministerial staff on project-driven recruitment practices. Staff loyalties are overwhelmingly to the 'project'/department rather than to the respective ministry itself. In 2004 separate laws were approved for the introduction of a professional civil service in central and local government.<sup>7</sup> However, by 2005 there was no evidence that these laws were being implemented.

## Aid Flows

A2.13 Nicaragua is heavily aid dependent. The country received an average of USD 801m a year in ODA during 1994–2004. Net ODA/gross national income (GNI) in 2004 was 29% and the annual average 1994–2004 of ODA/GNI was 21% (OECD DAC 2005–2006).

A2.14 There is a variance between GON ODA data and OECD data due to: i) different sources of data (OECD – donor headquarters / GON – in-country disbursement agreements), ii) classification of loans (i.e. IMF is outside GON definition of ODA), and iii) classification of funds to international NGOs (included in OECD / not included in GON). According to GON data ODA flows for the evaluation period 1994–2004 have averaged at USD 534m a year, with grants accounting for 55% and loans 45% of the total (MINREX 2005).

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<sup>6</sup> Law No 466 on Municipal Transfer approved in June 2003.

<sup>7</sup> The implementation of these laws is included in the PGBS Performance Assessment Matrix (PAM) as an action to be monitored. See B9 for detailed discussion on the PAM.

**Table A2.1: ODA flows 1994–2004 (OECD DAC data)**

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Average
<b>ODA Net (USD million) [1]</b>	629	701	962	463	714	745	588	988	546	890	1,582	<b>801</b>
<b>Loans Extended (USD million)</b>	317	159	223	134	263	326	217	201	200	283	336	<b>242</b>
<b>Grants Net (USD million)</b>	312	542	738	329	451	420	371	787	346	607	1,246	<b>559</b>
<b>ODA per Capita (USD million)</b>	139	148	205	88	125	136	111	179	97	152	220	<b>145</b>
<b>ODA as % GNI (%)</b>	24	23	31	13	18	19	15	25	14	21	29	<b>21</b>

Source: OECD DAC 2005–2006.

Notes: [1] ODA Net is the sum of loans extended and net grants.

**Table A2.2: Nicaragua aid 1994–2004 (GON data)**

USD million	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Average
<b>Grants</b>	310	333	287	273	241	283	296	298	312	296	307	<b>294</b>
<b>Loans</b>	327	261	206	177	252	271	196	203	198	258	295	<b>240</b>
<b>Bilateral</b>	334	310	291	271	214	267	257	263	271	245	205	<b>266</b>
<b>Multilateral</b>	304	284	202	179	279	288	235	237	239	309	397	<b>268</b>
<b>Total</b>	<b>637</b>	<b>594</b>	<b>492</b>	<b>450</b>	<b>493</b>	<b>555</b>	<b>492</b>	<b>500</b>	<b>510</b>	<b>553</b>	<b>602</b>	<b>534</b>

Source: MINREX 2005.

A2.15 In 2004 there were 42 sources of external finance to Nicaragua, 19 bilaterals and 23 multilaterals, and a total of 411 programmes and projects in execution (MINREX 2005). Using OECD DAC data, the top ten IPs by average net ODA 1994–2004 are (in descending order): Germany, the WB, the Inter-American Development Bank (IADB), Spain, the United States (US), Japan, the European Commission (EC), the Netherlands, Sweden and Denmark (OECD DAC 2005). Annex 3A contains the detailed OECD data of ODA disbursements by IP for 1994–2004.

**Table A2.3: Nicaragua aid by IP 1994–2003 (OECD DAC data) [1]**

USD m	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Total	Av. 1994–2004
<b>Germany [2]</b>	48.18	175.12	403.25	29.05	50.24	28.53	27.07	32.66	36.62	152.60	460.68	1,444.00	131.27
<b>WB</b>	66.37	90.73	55.40	67.43	108.48	85.22	70.07	112.51	107.45	101.60	144.11	1,009.37	91.76
<b>IADB</b>	52.07	18.13	68.80	50.48	104.62	120.27	87.26	68.27	79.74	120.73	136.13	906.50	82.41
<b>Spain</b>	12.85	34.34	31.68	17.44	40.20	22.05	19.67	399.47	24.98	76.01	207.75	886.44	80.59
<b>United States</b>	60.00	30.00	30.00	41.00	65.48	64.18	72.77	100.56	66.81	70.15	80.68	681.63	61.97
<b>Japan</b>	54.69	51.87	70.53	49.02	29.03	44.84	76.47	63.90	36.43	29.80	148.89	655.47	59.59
<b>EC</b>	22.33	31.77	43.87	30.18	30.73	26.81	42.76	31.21	33.77	52.67	61.31	407.41	37.04
<b>Netherlands</b>	30.18	53.00	42.01	27.03	29.37	22.59	18.42	52.31	26.01	22.26	40.84	364.02	33.09
<b>Sweden</b>	30.66	31.82	49.43	21.48	19.83	33.29	33.32	22.72	38.65	35.92	41.10	358.22	32.57
<b>Denmark</b>	20.59	44.41	33.56	25.76	28.47	24.42	27.17	27.97	24.99	32.04	37.70	327.08	29.73
<b>Other IPs</b>	230.78	139.64	132.96	104.06	207.27	273.39	113.19	76.31	70.60	195.73	222.58	1,766.51	160.59
<b>Total</b>	<b>628.70</b>	<b>700.83</b>	<b>961.49</b>	<b>462.93</b>	<b>713.72</b>	<b>745.59</b>	<b>588.17</b>	<b>987.89</b>	<b>546.05</b>	<b>889.51</b>	<b>1,581.77</b>	<b>8,806.65</b>	

Source: OECD DAC 2005–2006.

Notes:

[1] Aid by IP is the sum of total grants and total loans extended by IP.

[2] The 2004 OECD DAC ODA data includes a German donation of USD 443m debt forgiveness grant – which brings the total ODA for 2004 to more than double total ODA for the previous year (2003). Not including the German debt relief entry, total ODA for 2004 is USD 1,139m.



## A3. The Evolution of Partnership GBS in Nicaragua

### Introduction

A3.1 This chapter covers the identification and origins of PGBS. Annex 3B contains a detailed inventory of programme aid in Nicaragua. It covers PGBS together with other forms of budget support and related programmes. The inventory gives details of: years, funds, intent and earmarking, alignment with government strategies, disbursement procedures, conditionality and performance indicators, dialogue procedures, and donor harmonisation and alignment. It also covers related technical assistance (TA).

A3.2 The relationship between GON and IPs in the period 1994–2004 changed as dialogue opened up from the initial stark macroeconomic focus to the inclusion of poverty reduction and governance issues. This change has occurred within the context of the HIPC initiative and the PRSP process. A point of continuity throughout the period is that the status of the IMF programmes has always been of central importance. The “on-track” status of the GON with the IMF has been used by IPs (either formally or in practice) as the key reference point in their decision to disburse funds.

A3.3 During 1994–2004 there are three main sub-periods of the relationship between GON and IPs, shaped by the change in dialogue between GON and the International Financial Institutions (IFIs):

*1994–97:* The first IMF Enhanced Structural Adjustment Facility (ESAF) with strict monetary and fiscal policy conditionality was signed in 1994; however, none of the three annual programmes kept on track. Other programme aid in the form of import support and balance of payments support was supplied by multilaterals, WB and IADB, and bilaterals (Dijkstra 1999). Import support was provided by: Finland, France, Germany, the Netherlands, Norway, Spain and Sweden. Debt relief was provided by: Australia, Austria, Denmark, France, Germany, Italy, Japan, the Netherlands, Russia, Sweden and Spain, and other non-Paris Club bilaterals (OECD DAC 2005–2006; Dijkstra and Evans 2003). Throughout this period debt forgiveness was the largest category of external finance to GON.

*1998–2001:* Post-Hurricane Mitch, the IP and GON Consultative Group met in 1998 to coordinate the international community response, which during 1999–2001 was channelled through the Central American Reconstruction Programme. The second ESAF signed with the IMF in 1998 was still on track in 1999 but this was mainly because of the large amount of aid flowing into the country after Hurricane Mitch (Dijkstra 2005). Programme aid began to decline as the Alemán administration, seemingly uninterested in cooperating with donors, became dogged by corruption allegations and struggled with the banking crisis (2000–01). The result was a weakening of fiscal and monetary policies (2000–2001). Nonetheless, the Alemán administration produced the requisite Poverty Reduction Strategy Paper (I-PRSP) for the HIPC initiative under WB leadership in 2000 and Nicaragua arrived at the HIPC decision point in 2001. The full PRSP (ERCERP) was approved in 2001.

*2002–2005:* Nicaragua reached the HIPC completion point in January 2004.<sup>8</sup> IFI programmes signed in 2002 and 2003 aligned with the ERCERP.<sup>9</sup> The IMF PRGF 2 was signed in

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<sup>8</sup> The intention of further cancellation of debt owed to WB and the IMF was announced by the G8 in June 2005 – Nicaragua is one of the 18 countries eligible for this cancellation.

<sup>9</sup> See the ISS reports for a detailed analysis of the PRSP process and strategy in Nicaragua (ISS 2003a, 2003b, 2003c, 2004a and 2004b) and Dijkstra’s latest summary of the PRSP approach in Nicaragua (Dijkstra 2005).

December 2002 with the new Bolaños government after 9 months of negotiations. The PRGF was purportedly embedded in the overall strategy for growth and poverty reduction; however, there is agreement that overall in design it:

did not change significantly from previous ESAF supported arrangements, with stabilisation the main priority and less attention to growth (IMF and World Bank 2004c: 8).

The WB programmes were the Programmatic Structural Adjustment Credit (PSAC) started in 2002 and the Poverty Reduction Support Credit (PRSC) in 2003. The new Bolaños administration started work on its National Development Strategy (ENADE – *Estrategia Nacional de Desarrollo*), which after wider consultation during 2002–2003 became the National Development Plan (PND – *Plan Nacional de Desarrollo*). The PND was officially shared with the WB in September 2005 and made public at the national level with a presentation to National Council for Economic and Social Planning (CONPES – *Consejo Nacional de Planificación Económica Social*). The government has developed the operational version of the National Development Plan (PND-O – *Plan Nacional de Desarrollo Operativo*). This covers the period 2005–2009 and is intended to become a second generation PRSP. (The final version of this document was approved as the second-generation PRSP by the WB board in February 2006.)

**Box A3.1: Chronology 1990–2005<sup>10</sup>**

Date	Event
1990	Election President Chamorro
1994	ESAF 1 (IMF)
1996	Election President Alemán
1998	ESAF 2 (IMF)
1998	Consultative Group (GON and International Partners [IPs])
1999–2000	Sandinista Front / Liberal Alliance Pact
2000 Dec	I-PRSP presented
2001 Sep	Full PRSP (ERCERP) approved by IMF and WB
Nov	Election President Bolaños
Dec	HIPC decision point reached
2002	Sweden provides PGBS (2002–2004)
Jun	First Forum of “Coordination of International Cooperation” (GON and IPs)
Dec	PRGF signed (IMF)
2003 Feb	Presidential Decree 71-2003 – established sector coordination roundtables
Jun	Second Forum of “Coordination of International Cooperation” (GON and IPs)
Aug	PND presented by GON
Oct	Declaration of Managua (GON and IPs): commitment to H&A and SWAp
Dec	PRSC signed (WB)
2004	OECD Joint Country Learning and Assessment (JCLA) pilot country (1 of 4 countries chosen) – survey on progress in Harmonisation and Alignment
	EC PAPSE programme signed
Jan	HIPC completion point reached
Sep	Third Forum of “Coordination of International Cooperation” (GON and IPs)
Sep	Draft PND-O
Oct	H&A action plan presented
Oct	OECD JCLA – Managua conference
Dec	Central American Free Trade Agreement (CAFTA) signed by governments of Nicaragua, Honduras, Guatemala, El Salvador (Pending approval of National Assembly)
2005 Feb	OECD DAC High Level Forum on Joint Progress toward Enhanced Aid Effectiveness, Paris: presentation of Joint Country Learning Assessment (JCLA) Nicaragua
	EC PAP-PND programme signed
May	Joint Financing Arrangement (JFA) signed by GON and 9 IPs
2005	<i>(Draft) PRSP II (2005–2009) still to be approved</i>
	<i>(Draft) Harmonisation and Alignment Action Plan (2005–2007) to be agreed</i>
2006	<i>Presidential elections</i>

<sup>10</sup> Annex 2C provides a more detailed chronology of key events (aid management, structural reforms and national political events).



## Overview of Programme Aid

A3.4 A Sida study was undertaken on the effectiveness of aid conditionality in programme-based lending in eight countries during the 1990s (Dijkstra 1999). Nicaragua was one of the countries included and the lessons from this experience provide a useful background to the evolution of later PGBS approaches. (See Box A3.2.)

### Box A3.2: Programme Aid in the 1990s

#### Aid to Nicaragua by modality 1990–97

USDm	1990	1991	1992	1993	1994	1995	1996	1997	Total 1990-97
Debt relief	5	311	25	9	0	94	36	22	501
BOP support	99	525	390	52	217	72	84	47	1485
Tied imp support	307	116	121	91	198	204	211	199	1446
Projects	150	115	147	217	176	242	257	212	1517
TA	16	24	23	54	72	54	77	82	400
<b>Subtotal</b>	<b>577</b>	<b>1,090</b>	<b>706</b>	<b>422</b>	<b>662</b>	<b>666</b>	<b>665</b>	<b>560</b>	<b>5348</b>
Restructuring	0	1,059	153	102	362	271	762	390	3099
Interest capitalization	0	0	31	13	20	34	35	37	171
Debt forgiveness	0	259	53	148	142	1,453	4,208	104	6366
<b>Overall total</b>	<b>577</b>	<b>2,508</b>	<b>944</b>	<b>685</b>	<b>1,185</b>	<b>2,424</b>	<b>5,669</b>	<b>1,091</b>	<b>15083</b>

Source: Central Bank of Nicaragua – Dijkstra 1999.

#### Key findings

- In the 1990s IPs gave non-earmarked financial support to incoming administrations – support that was important in enabling the administrations to sustain themselves.
- Programme aid, including balance of payments (BOP) support, import support and debt relief, constituted 64% of total aid over 1990–1997.
- Programme aid in general was a large share of total aid, but share of freely spendable programme aid was more limited.
- Large share of BOP support was tied to import support or commodity import support.
- In practice most freely spendable BOP support was also used for multilateral debt service and other “priority debt service”.
- A programme aid cycle is identifiable, with high programme aid disbursed in the years of an IMF agreement.

Source: Dijkstra 1999.

A3.5 MINREX classifies aid as earmarked and unearmarked (Table A3.1). Unearmarked aid fell steadily from 44% of total ODA during 1990–96 to 17% in 1997–2001, but since 2002 has risen from 12% in 2002, to 16% in 2003 and 19% in 2004 (data supplied by MINREX 2005).

**Table A3.1: Aid to Nicaragua earmarked/unearmarked 1990–2004**

USD million	1990–96	%	1997–2001	%	2002	%	2003	%	2004	%
<b>Unearmarked</b>										
Grants	781		97		24		26		62	
Loans	1,193		315		35		60		51	
<b>Total</b>	<b>1,974</b>	<b>44%</b>	<b>411</b>	<b>17%</b>	<b>59</b>	<b>12%</b>	<b>86</b>	<b>16%</b>	<b>113</b>	<b>19%</b>
<b>Earmarked</b>										
Grants	1,728		1,295		283		257		246	
Loans	823		784		164		198		244	
<b>Total</b>	<b>2,551</b>	<b>56%</b>	<b>2,079</b>	<b>83%</b>	<b>447</b>	<b>88%</b>	<b>455</b>	<b>84%</b>	<b>490</b>	<b>81%</b>
<b>GRAND TOTAL</b>	<b>4,525</b>		<b>2,490</b>		<b>506</b>		<b>541</b>		<b>602</b>	

Source: MINREX 2005.

Note: there is a small variance in annual totals of MINREX data - Table A3.1 and Table A2.2.

## Aid Management and Coordination

A3.6 Recognising the weaknesses of previous aid management, the international PRSP process along with the new approach by the Bolaños administration has, since 2002, resulted in important developments in Nicaragua's aid management and coordination:

### *Issues*

A3.7 There is a widespread consensus among GON and IPs in Nicaragua that ODA provided since the end of the civil war, while essential for the country, has been hampered in terms of impact and sustainability by a low level of relevance, efficiency and effectiveness. This has been due to the prevalence of: i) the high degree of earmarking of aid, ii) the fragmentation of aid in a large number of projects; and, iii) the supply-driven character of aid rather than responding to demand (Jané et al 2004). IPs and GON agree that the presence of multiple IPs and the lack of a coordinated aid strategy placed a considerable administrative burden on GON's already weak institutional capacity, with negative effects on governance (OECD DAC 2004). A recent evaluation of non-project aid to Nicaragua by USAID (Burke et al 2004) indicates that a number of institutional and structural problems (such as limitations of financial control and accountability; ministry technical and managerial weaknesses; generally weak budget processes and planning functions vis-à-vis line ministries) have been created or at least aggravated by donors.

A3.8 The most important weaknesses of aid management systems in Nicaragua are summarised as:

- a. Use of project management units instead of the government structure. Mostly staffed with national consultants under donor pay-rolls, project units have been set up to compensate for lack of GON capacity in specific areas; at the same time, the use of such units stops the capacity building of government institutions.
- b. Excessive multiplication of aid management procedures and individual aid processes. A typical example of this is the number of individual missions taking place in the country, reported to be as many as 300 per year (OECD DAC 2004).
- c. Lack of coordination and information-sharing among agencies. This has resulted in duplication and overlapping of programmes, and contradictory and incoherent approaches in complementary areas.
- d. Short term perspective and weak sustainability of projects, which do not allow for due consideration of how to sustain results once external funds are finished. There is an issue of sustainability, with (in 2005) a reported 70–80% of staff directly involved in project implementation. In key ministries key technical posts are funded by external funds.
- e. Supply-driven approach and limited ownership by GON. Projects are often proposed by donors, rather than requested by beneficiaries on the basis of a clear analysis of needs and problem areas. The strong influence and control by the donors results in a low level of ownership by the government, and is also considered one of the causes of the limited proactive and problem-solving attitude of potential beneficiaries, especially at the local level.
- f. Projects and loans negotiated by and with single institutions without considering the overall context and coherence with sector and more general country policies. A consequence has been the lack of interministerial dialogue and particularly limited dialogue between MHCP and line ministries.

- g. Off-budget funds. Funds managed between the project management unit within the relevant institution, the financing donor and the commercial bank, meant that the link with the national budget was made only when the government needed to contribute counterpart funding.

*Responses: dialogue and coordination*

A3.9 In June 2002 the first Forum of Coordination of International Cooperation was held and was an important initiative with the overall aim of increasing aid effectiveness and efficiency. The forum was opened by President Bolaños with a significant phrase:

We want donors to be our partners not our godfathers” (MINREX 2002).

Presenting GON’s public administration and economic policy reform programme, Bolaños underlined the need to focus both internal and external resources on the objectives and priorities of the ERCERP. He made the following requests that IPs:

- observe GON’s institutional framework for the management of cooperation and to strengthen sector institutions in designing, planning, implementing and monitoring sector strategy and policies;
- supply information on available aid to enable efficient multi-annual programming of external aid and expenditure;
- support the set-up and implementation of an information system on external aid;
- support the allocation of foreign aid through the national budget and via a single treasury account (CUT – *Cuenta Única del Tesoro*).

A3.10 The second Coordination Forum in 2003 focused on the use of sector-wide approaches (SWAp) as a modality that can serve to improve the coordination and coherence of international aid with national priorities (MINREX 2003). In a move widely supported by IPs, Bolaños created sector roundtables (*mesas sectoriales*) in 2003 as the mechanism for the coordinated implementation of sector policies.<sup>11</sup> The roundtables provide the structure for sector policy discussion and implementation, to coordinate government institutions and IPs around poverty reduction policy objectives. This was a step forward in the improvement of the traditionally weak inter-institutional and intra-institutional coordination and a clear sign of increased GON leadership and ownership. Sector roundtables have been established for the sectors of: education, health, production and competitiveness, governance, infrastructure, social protection and donors. In 2004 guidelines for the structure and operation of the sector roundtables were elaborated and sub-working groups were created with defined objectives and themes.

A3.11 The functioning of this coordination mechanism and results achieved vary significantly by sector:<sup>12</sup>

*Education:* one of the most advanced sectors, the Ministry of Education, Culture and Sports (MECD – *Ministerio de Educación, Cultura y Deportes*) heads the roundtable and there are five working groups, including a group on harmonising finances and donors. Aligned with the National Education Plan 2001–2015, this has been the first sector to develop a SWAp modality to support sector policy. A Memorandum of Understanding (MOU) (2003) and a Common Work Plan (CWP) (2004–2006) have been elaborated. CIDA and Danida provide SBS within this framework. In 2005 WB, IADB and USAID were providing project aid to the education sector following the spirit and objectives of the SWAp. See Annex 3B (Table 3B.2 – sector budget support) for further details.

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<sup>11</sup> Presidential Decree 71, February 2003.

<sup>12</sup> The MINREX document *Coordination, Harmonisation and Alignment of International Development Cooperation with Nicaragua* details the progress of the sector roundtables (MINREX 2004a).

*Health:* the other most advanced sector, the health sector takes its operational framework from the National Health Policy 2004–2015 and the Five Year Implementation Plan (FYIP) 2004–2009. The SWAp MOU is in draft stage. With the current polarised political situation there is a risk that the approval of the SWAp by the NA and its future execution could be affected (World Bank 2005a). IPs active in the SWAp with funds committed from 2005 are Finland, Sweden and the Netherlands, (all providing budget support to the health sector), the WB (with the second phase of its programmatic loan to the health sector) and the IADB, (earmarked against a subgroup of the SWAp's objectives, but using the Ministry of Health's institutional structure to execute the project and with shared supervision with the rest of the SWAp partners). Also USAID, another big player in Nicaragua's health sector, while unable to pool funds, has committed to support the FYIP.

*Production and Competitiveness:* coordination in this sector is nascent. The sub-group for rural development is further advanced and is in the process of formulating the work plan to define coordination and financing mechanisms. A SWAp (PRORURAL) is in development and implementation of a common financing mechanism is anticipated 2005–2006.

*Governance:* this sector has a broad remit and the group has found it difficult to get started (it includes the sub-groups of Justice, Citizen Security and State Reform and Modernisation). However, despite institutional difficulties, the WB and bilateral donors Denmark, the Netherlands, Sweden and the UK have worked within the sub-group State Reform and Modernisation to develop a basket fund for technical assistance (Public Sector TA credit – PSTAC).

*Other sectors – Infrastructure, Social Protection:* these are embryonic, still at the stage of developing norms to regulate operations and producing/collating sector diagnostics, strategies and policies.

A3.12 See Chapter B5 for further analysis of the sector roundtables.

## **Towards PGBS**

### *HIPC Initiative*

A3.13 As detailed in ¶A2.6, Nicaragua reached completion point of the HIPC initiative in January 2004. Implementing the conditionality of the HIPC initiative has been of vital importance in ensuring that the preconditions for the disbursement of PGBS exist in Nicaragua. The conditions for reaching completion point were: (i) implementation of the PRSP, (ii) a tracking mechanism for HIPC funds, (iii) maintenance of a stable macroeconomic framework supported by a PRGF arrangement, (iv) implementation of reforms to promote human capital development and social protection, (v) implementation of governance strengthening measures, (vi) pension reform and (vii) disinvestment of ENITEL (Nicaraguan Telephone Company – *Empresa Nicaragüense de Telecomunicaciones*) and energy generating units of ENEL (National Electricity Utility – *Empresa Nicaragüense de Electricidad*). In addition, (viii) the new government committed itself to reforming the judicial system. See Box A3.3 for the status of these conditions in 2003 as reported in the second ERCERP progress report:

A3.14 The amount of HIPC relief allocated to finance the ERCERP objectives is calculated per year by the BCN according to a methodology agreed with the WB and the IMF.<sup>13</sup> Poverty reducing public expenditure (PRPE) rose overall from USD 455.1m in 2001 to USD 471.8m in 2003. During this period HIPC directly funded between 18% and 22% of the total expenditure in poverty reduction. See Chapter B3 and Annex 3C for more detail on PRPE. In 2004 the allocation of HIPC relief was decided as follows: capital expenditure priorities by the Secretariat

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<sup>13</sup> See the Completion Point Document for HIPC 2004 for a detailed description of this methodology (IMF and WB 2004b:9)

of Strategy and Coordination of the Presidency (SECEP – *Secretaría de Coordinación y Estrategia de la Presidencia*) through the National System of Public Investment (SNIP – *Sistema Nacional de Inversión Pública*) and the Technical Committee of Investments (CTI – *el Comité Técnico de Inversiones*), and current expenditure by MHCP based on the priorities of the ERCERP.<sup>14</sup>

**Box A3.3: Conditionality to reach HIPC Completion Point**

Measures	Status
1 Second SGPRS Progress Report	Done
2 Interim HIPC relief usage. Reliable poverty expenditure mechanism	Done
3 Stable macroeconomic framework and satisfactory performance backed by a PRGF	Done
4 Human capital development and social protection a. Approval of the School Participation Law b. Approval of the General Health Law and its implementation c. Introduction of an effective social protection system	Done Done Done
5 Governability a. Approval of the Social Service Law and implementation advance b. Introduction of a satisfactory management and inspection of public sector spending c. Satisfactory progress in the implementation of a plan to strengthen and improve the CGR's efficiency d. Approval of the Penal Processing Code Reform Law e. Approval of the Public Ministry's Organic Law	Under way Done Done Done Done
6 Restructuring of INSS and the introduction of a Private Pension System	Under way
7 Privitisation a. ENITEL b. ENEL	Under way Energy sector strategy being elaborated

Source: Second ERCERP (SGPRS) Progress Report (Government of Nicaragua 2003d).

*Supplementary Social Fund*

A3.15 HIPC poverty expenditure is tracked using the Supplementary Social Fund (FSS – *Fondo Social Suplementario*). As well as the HIPC PRPE, the FSS tracks other possible sources of financing (donations from bilaterals and certain IADB loans) that are allocated to finance PRPE. It was first set up in 1998 in response to bilateral donor concerns regarding the social effects of the second ESAF (Dijkstra 1999). Initially planned to operate for a period of 3 years, from 2000 it continued with the aim of channelling resources to poverty expenditure priorities identified as requiring immediate funding (GON communication 2005). The FSS was then redesigned in 2003 to improve GON's PRPE tracking capacity by establishing the norms and procedures for the allocation, tracking and execution of resources to PRPE. The FSS produces annual reports which provide data on total PRPE by pillar, institution and project and sources of financing, including HIPC debt relief funds (World Bank 2004c; SECEP 2002, 2003, 2004, 2005). FSS funds are registered as supplementary to the budget, thus they are not subject to the constitutional earmarking of 6% of the total public expenditure budget to universities and 4% to the Supreme Court. The FSS channels resources to priority programmes of the ERCERP in the sectors of education, health, social protection, economic growth, investment in human capital, protection to vulnerable groups and institutional development. A breakdown of the allocation of FSS funds is included in Annex 3C along with further detail on the operation of the FSS.

A3.16 Since 2002 IPs that have provided funds to the FSS have included Denmark, Finland, IADB, the Netherlands, Norway, Switzerland and the WB (MINREX 2005 and GON communication 2005). See Annex 3C for data on donations to the FSS.

<sup>14</sup> In November 2005 SECEP changed its name back to SETEC (*Secretaría Técnica de la Presidencia*) but there has not been a significant change in function.

*IADB – programme loans*

A3.17 IADB is the third largest funder to Nicaragua (average 1994–2004, OECD DAC 2005–2006) and in 2005 is providing support to the ERCERP via two policy-based loans:

- 1) Modernisation of the State and Fiscal Reform
- 2) Social Policy Reform Program to Support the Poverty Reduction Strategy.

These loans have not been classified as PGBS for the purposes of this study. The Modernisation of the State and Fiscal Reform loan is disbursed unearmarked to MHCP and designated as “Balance of Payments Support” while the Support to the Poverty Reduction Strategy loan is channelled through the FSS. See Annex 3B (Table 3B.2 Other Programmes Relevant to the Evaluation) for further details on these loans.

*Moves towards budget support*

A3.18 In 2003 the international aid coordination forum started discussions on the necessary preconditions for providing sector and general budget support (Box A3.4).

**Box A3.4: Preconditions for budgetary support in Nicaragua**

- Political will and mutual trust between the donors and the country
- Macroeconomic framework guaranteed by the agreement with the IMF (PRGF)
- Existence of a development strategy with clear intermediate and impact indicators
- Progress in the implementation of the Integrated System for Financial Management and Auditing, (SIGFA – Sistema Integrado de Gestión Financiera y Auditoría)
- Capacity in managing the budget and the progress in defining multi-annual programmes
- Progress in aid coordination (sector roundtables and SWAp)

Source: MINREX 2003.

A3.19 The budget support discussion was fuelled by the positive outcomes of feasibility studies completed by bilateral donors in 2003 and 2004 (Government of Finland 2003; Norad 2003a). The key initiative by IPs on the development of PGBS in Nicaragua took place in 2003: the formation of the Budget Support Group (BSG) as the IP forum to discuss budget support. With rotating leadership, this group has involved a wide group of IPs (bilateral and multilateral). Current members include: EC, Finland, Germany, IADB, the Netherlands, Norway, Sweden, Switzerland, the UK and the WB.

**PGBS**

A3.20 The following programmes are PGBS programmes in Nicaragua (see the inventory in Annex 3B for full details):

*Sida*

A3.21 Sida disbursed a total of USD 22.1m of PGBS from 2002 to 2004. Sweden made its decision to give PGBS in 2002 based on various factors: the positive steps in the fight against corruption; the establishment of a PRS that had met with donor approval; and, Nicaragua's overall performance in relation to its programmes with the IMF and the WB. In 2003 and 2004 Sida used IMF and WB report information to evaluate performance and decide on continued PGBS disbursement. The objective of Sweden's PGBS funding was to support the ERCERP and the government's implementation of economic reforms to achieve poverty reduction (Sida 2003a, 2003b).

**WB**

A3.22 The WB PRSC covers the period 2004–2005 with a total of USD 70m. It covers all pillars of the ERCERP with a primary focus on Pillar IV (Building Public Institutions and Governance) (World Bank 2003c). Germany co-finances the PRSC and made a disbursement of USD 5.2m in 2005.

**EC**

A3.23 The EC PAPSE (Programme of GBS for the Education Sector – *Programa de Apoyo a la Política del Sector Educativo*), covers the period 2004–2006 for a total of EUR 52.5m and is focused on the education sector (EC 2003). Although the programme has a sector focus, the funds are not earmarked and therefore are GBS.<sup>15</sup> The other EC GBS programme is the PAP-PND (Programme of GBS for the National Development Plan – *Programa de Apoyo al Plan Nacional de Desarrollo*) which covers the period 2005–2009 for a total of EUR 68m and supports the PND (EC 2004b).

**JFA**

A3.24 During 2004 the BSG focused on the development of a common harmonised mechanism and agreement for providing PGBS. The outcome is the first harmonised PGBS arrangement in Nicaragua: the Joint Financing Arrangement (JFA) signed in May 2005 by nine IPs with the intent to disburse PGBS from 2005 to 2009. The nine signatory donors are shown in Box A3.5. The JFA incorporates the two PGBS programmes that started in 2004 (EC PAPSE and WB PRSC) and also includes a number of bilateral contributions. It establishes the mechanisms for dialogue, review, disbursement and reporting, and includes a Performance Assessment Matrix (PAM). It lists commitments/pledges from IPs for 2005–2007, which amount to a doubling of PGBS funds from USD 63m (11% of total ODA) in 2004 to approximately USD 110m (18% of total ODA) in 2005 (Budget Support Group 2005a).<sup>16</sup> In October 2005 the commitment of PGBS for 2005 reduced to USD 89m (15% of total ODA). See Table A3.3 for the breakdown of the individual donor commitments.

**Box A3.5: IP involvement in PGBS**

Donor	BSG	Associated TA
EC	BSG member and signatory of JFA (May 2005)	Support to PND (PAI-NIC)
Finland		
Germany		
The Netherlands		PSTAC
Norway		
Sweden		PSTAC
Switzerland		Support to development of MTEF
UK		PSTAC
WB		PSTAC
IADB	BSG member	
France	BSG observer	
JICA		
USAID		

Source: Interviews with BSG and other stakeholders, 2005.

<sup>15</sup> The same applies to EC Access to Justice Programme (in preparation).

<sup>16</sup> On the assumption that GBS is not additional and donors diminish their project support by the amount of their GBS.

**Table A3.2: PGBS Total Disbursements and Commitments 2003–2006**

USD million	2002	2003	2004	2005		2006
	Disbursed	Disbursed	Disbursed	Committed [2]	Disbursed	Committed [2]
<b>PGBS</b>						
<i>EC</i>	0	0	19	20	0	32
<i>Sida</i>	6	8	8	8	0	9
<i>WB</i>	0		36	35	0	20
<i>Germany</i>				6	5	2
<i>Other PGBS donors</i>				21		24
<b>Total PGBS</b>	<b>6</b>	<b>8</b>	<b>63</b>	<b>89</b>	<b>5</b>	<b>88</b>
<b>PGBS as % of total ODA [1]</b>	1%	1%	11%	15%	1%	15%
<b>Other ODA</b>	<b>504</b>	<b>546</b>	<b>539</b>			
<b>Total ODA</b>	<b>510</b>	<b>553</b>	<b>602</b>			

Source: MINREX 2005; Budget Support Group 2005a, 2005c.

Notes:

[1] % based for 2002 on 2002 total ODA disbursement, 2003 on 2003 total ODA disbursement, 2004–2006 on 2004 total ODA disbursement.

[2] Source - BSG letter to Mario Arana, MHCP 14 October 2005 (Budget Support Group 2005d).

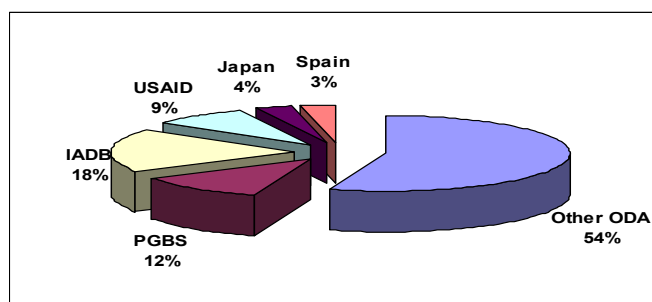
**Table A3.3: PGBS Commitments by IP 2005–2007**

USD million	2005	2006	2007	Total
	(made Oct. 2005)		(made May 2005)	
<b>EC</b>	19.9	32.4	44.7	<b>97.0</b>
<b>WB</b>	35.0	20.0		<b>55.0</b>
<b>The Netherlands</b>	10.8	12.0	14.4	<b>37.2</b>
<b>Sweden</b>	7.7	9.0		<b>16.7</b>
<b>Switzerland</b>	5.1	5.1	5.5	<b>15.7</b>
<b>Germany</b>	5.6	2.4		<b>8.0</b>
<b>Finland</b>	1.8	2.4		<b>4.2</b>
<b>Norway</b>	3.1	2.9		<b>6.0</b>
<b>UK</b>	0.0	1.8	1.5	<b>3.3</b>
<b>Total</b>	<b>89.0</b>	<b>88.0</b>	<b>66.1</b>	<b>243.1</b>

Source: Budget Support Group 2005a, 2005h.

A3.25 In terms of the level of funding (from both the GON and individual IP perspective), PGBS is not the dominant aid modality in Nicaragua. See Figure A3.1 which displays an approximation of the relative size of total PGBS compared with important non-PGBS IPs. In addition, the aid landscape is made more complex by the development of SWAps and the provision of SBS by PGBS and non-PGBS donors.

**Figure A3.1: PGBS and non-PGBS ODA**



Source: PGBS – 2004 disbursements (Budget Support Group 2005b) ; Other IPs – 2003 disbursements (MINREX 2005).



A3.26 For the majority of IPs providing PGBS, the PGBS commitments constitute a minor share of their overall ODA (based on 2004 commitments as a benchmark). However, looking at the 2005 PGBS commitments, it appears that a number of bilaterals are moving over to commit a larger share of their ODA to Nicaragua to PGBS. Table A3.4 provides an analysis of PGBS for 2004 and 2005:

**Table A3.4: PGBS 2004 and 2005 commitments as % total aid**

USD million	2004	2004		2005	
	Total ODA committed	PGBS	PGBS as % of total ODA [1]	PGBS	PGBS as % of total ODA [1]
<b>EC</b>	74.9	18.6	24.8%	<b>19.9</b>	26.6%
<b>WB</b>	115.5	36.0	31.2%	<b>35.0</b>	30.3%
<b>Sweden</b>	56.5	8.0	14.2%	<b>7.7</b>	13.6%
<b>Germany</b>	18.2			<b>5.6</b>	30.8%
<b>The Netherlands</b>	17.2			<b>10.8</b>	62.8%
<b>Switzerland</b>	9.3			<b>5.1</b>	54.8%
<b>Finland</b>	22.7			<b>1.8</b>	7.9%
<b>Norway</b>	1.8			<b>3.1</b>	n/a
<b>United Kingdom</b>	2.8			<b>0.0</b>	
<b>Total</b>	<b>318.9</b>	<b>62.6</b>		<b>89.0</b>	

Source: MINREX 2005; Budget Support Group 2005h

Note: [1] percentage based on ODA 2004 commitment.



## PART B: EVALUATION QUESTIONS: ANALYSIS AND MAIN FINDINGS

### B1. The Relevance of Partnership GBS

*How does the evolving PGBS design respond to the specific conditions, strengths and weaknesses of the country, to government priorities and to the priorities and principles of the international partners?*

#### Introduction

B1.1 This chapter relates to the design of PGBS in relation to the international and national context and its evolution. Starting from an analysis of the entry conditions, it looks at the relevance of PGBS from the point of view of its components: funds, policy dialogue and conditionality, technical assistance and capacity building, and harmonisation and alignment. It refers to Level 0 and 1 of the EEF.

B1.2 The DAC definition of relevance is: the extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, global priorities and partners' and donors' policies.

B1.3 Before examining the relevance of PGBS we provide an overview of the design of PGBS. The detailed inventory of PGBS and related programmes is provided in Annex 3B. It is important to note that PGBS in Nicaragua is a new and evolving aid instrument.

#### Relevant Facts: The Design of PGBS

##### Objectives and Intent of PGBS

B1.4 As illustrated in Chapter A3, PGBS started in Nicaragua in 2002 with bilateral PGBS from Sweden. In 2004, as well as the annual disbursement of Swedish PGBS, the first disbursements from the WB PRSC and the EC PAPSE were made and Germany (KfW) signed a bilateral loan agreement to be a PRSC co-financer. The Joint Financing Arrangement (JFA) was signed in 2005 and provides the structure for PGBS programmes to be disbursed from 2005–2009. It includes:

- WB PRSC 1 and commitments of the pledged PRSC 2.
- EC PAPSE and two other PGBS programmes (with a sector focus) foreseen for the period 2005–2009:
  - EC Support to the National Development Plan with focus on rural development (PAP PND).
  - EC Programme of GBS for Access to Justice in Nicaragua (PAP Access to Justice – *Programa de Apoyo Presupuestario Acceso a Justicia en Nicaragua*).<sup>17</sup>
- Bilateral commitments of PGBS funds for 2005–2007.

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<sup>17</sup> The final decision by the EC for this programme, (prior step to the preparation of the bilateral agreement), had not been taken by November 2005.

B1.5 The Swedish PGBS objective is to support the country reform programme as represented by the national PRS (ERCERP) and the IMF programme (PRGF2) and the WB (PRSC 1) in terms of economic reforms and poverty reduction.

B1.6 The overall objective of the WB's PRSC 1 is to support the implementation of Nicaragua's poverty reduction strategy: the ERCERP. The PRSC focuses on the following areas of the ERCERP:

- *Building Public Institutions and Governance* (Pillar IV) and in particular: the reform of the civil service, the development of the Medium Term Expenditure Framework (MTEF) and the programme of public investment, the management of public sector expenditure (the Integrated System for Financial Management and Auditing, [SIGFA – *Sistema Integrado de Gestión Financiera y Auditoría*]), public sector procurement, citizen participation, decentralisation policy and poverty analysis.
- *Human Capital of Poor and Vulnerable Populations* (Pillar II and III) and in particular: support to coordination and sector resources management; sector reforms in primary education, health, population, social security and water and sanitation.
- *Economic Growth and Competitiveness* (Pillar I) and in particular: land property rights, agriculture, infrastructure, competition policy and investment climate, financial sector and reform of the pension system (World Bank 2003c).

B1.7 The EC PGBS has a sector focus with specific objectives for each programme:

- PAPSE – support to education sector policy (EC 2003).
- PAP PND – support to the implementation of the PND with a rural development focus (EC 2004b).
- PAP Access to Justice – support to the implementation of the new Penal Process Code focusing on aspects of access to justice, inter-institutional coordination and citizen security (EC 2005b).

B1.8 The EC guidelines for GBS (EC 2004a) define the main difference between SBS and GBS as: in GBS the focus of dialogue and of disbursement conditions is upon overall policy and budget priorities, whereas for SBS the focus of the dialogue is on sector-specific concerns. This differentiation is not clear cut in the case of Nicaragua. While the EC programme names give the impression that sector concerns are the prevailing focus, in fact the programme dialogue for all three programmes focuses on both overall policy and sector-specific concerns. The fixed tranche of the disbursement is based on the overall country performance in the framework of macroeconomic stability and the PRS, while the variable tranche is linked more to sector policies.

B1.9 The JFA provides a coordinated and harmonised structure to PGBS in Nicaragua by: creating a common definition of PGBS; defining the responsibility of GON and IPs; setting up shared monitoring and review mechanisms; and establishing a coordinated framework for GON and IP dialogue and consultation (see Box B1.1 for further detail on the JFA).

### **Level and Nature of PGBS Funding**

B1.10 The Swedish PGBS is a grant of SEK 60m per year to be paid in one instalment following signature of the agreement with the country. The first PGBS (2002) agreement was linked to the agreement with the IMF and of a national PRS, following the general Swedish

guidelines of 1998 on aid instruments. The subsequent agreements were signed on the basis of progress in the commitments with IMF and WB (Sida 2003b, 2004).<sup>18</sup>

**Box B1.1: JFA – Scope, Goals, Responsibilities and Issues for Dialogue**

<p><i>Scope</i></p> <ul style="list-style-type: none"> <li>• Sets the joint terms and procedures for harmonised budget support to GON and Nicaragua’s PRS.</li> <li>• Serves as coordination framework for consultation with GON, for joint reviews of performance, for common procedures on disbursement and for reporting and audits.</li> <li>• Donors set bilateral arrangements compatible with the spirit and provisions of this JFA. In case of inconsistency or contradiction between JFA and any of the bilateral arrangements/agreements, the provisions of the bilateral arrangements will prevail.</li> </ul>
<p><i>Goals</i></p> <ul style="list-style-type: none"> <li>• Support GON’s efforts to achieve long-term sustainable economic growth and poverty reduction as defined by the PRS.</li> <li>• Donors endeavour to align themselves to the highest degree with the GON budgetary system, to enhance the effectiveness, efficiency and predictability of financial assistance in achieving the development goals, to reduce the administrative burden and to minimise transaction costs of GON.</li> </ul>
<p><i>Responsibilities of Donors</i></p> <ul style="list-style-type: none"> <li>• To base support on progress made in implementation of PRS as measured against the Performance Assessment Matrix (PAM).</li> <li>• To commit to improve predictability of budgetary support by informing GON of anticipated multi-year support.</li> </ul>
<p><i>Responsibilities of Government</i></p> <ul style="list-style-type: none"> <li>• To be responsible for: a) maintaining and adhering to a satisfactory macro economic policy framework; b) satisfactory progress in carrying out the PRS, c) adhering to the fundamental principles as mentioned in the preamble (vii) of JFA, d) ensuring accountability towards the Signatories.</li> </ul>
<p><i>Issues for Dialogue</i></p> <p>a) The fundamental principles of the JFA; b) macroeconomic stability and growth; c) progress on the implementation of the PRS; d) public sector reform and governance; e) domestic resource mobilisation, debt policy and public financial management; f) assessment and review of performance of budget execution and expenditure priorities on the basis of agreed indicators as described in the PAM; g) alignment and harmonisation of practices, transparency and predictability of donor commitments and disbursements; and, h) implementation of the JFA.</p>

Source: Budget Support Group (2005a).

B1.11 The PRSC is an International Development Association (IDA) credit of USD 70m with two annual instalments of USD 35m to be disbursed in the first half of each year following a performance review. This review is based on a matrix of indicators covering the “basic premises” of macroeconomic stability, the protection of poverty expenditure and the four pillars of the ERCERP.

B1.12 Germany provided USD 5.2m of PGBS in 2005. The entry condition was the signature of the PSRC. The signature of the loan (on IDA terms) was subsequent to the positive appraisal of the fulfilment of the PRSC 1st tranche conditions carried out in December 2003 by KfW, following the signature of PRSC 1.

B1.13 The EC programmes are: PAPSE EUR 52.5m (2004–2006), PAP-PND EUR 68m (2005–2009) and PAP Access to Justice EUR 17m (2005–2009). The design of the EC GBS programmes is derived from a model tested in African Caribbean Pacific (ACP) countries that have experience of GBS since 2000 (in particular Burkina Faso). The aim of using the fixed and variable tranche mechanism is to avoid stop-start situations by ensuring continuity of funds while linking funds to results. See B1.18 for further discussion of the fixed/variable tranche and EC conditionality.

<sup>18</sup> This is based on the agreement of 2004. Previous agreements are not available; however, from the Sida country programme 2003–2005 it is possible to see that this approach has been used also for 2003.

B1.14 IPs are providing PGBS in substitution for, rather than in addition to project aid; thus there is an increase in the proportion of aid committed as PGBS, not an increase in the overall total of aid given by IPs. Disbursements of PGBS in 2004 were around USD 5m less than planned, due to the non-disbursement of the EC PAPSE variable tranche. In 2005, as of June no funds had been disbursed from either PRSC or PAPSE, except for Germany's PRSC co-financing of USD 5.2m disbursed in March 2005. On 28 June 2005 the BSG communicated to MHCP that it was not in a position either to decide on the amount expected to be disbursed for 2005 or to make preliminary indications for 2006 (as JFA procedure establishes), owing to then lack of agreement with the IMF. They also indicated that the lack of adequate information regarding the programme with the IMF could lead to IPs reallocating funds planned to other countries (La Prensa 2005c).<sup>19</sup>

### Policy Dialogue and Conditionality

B1.15 The PRSC matrix is divided between triggering indicators, conditions for disbursement, and non-triggering indicators. There are a total of 61 indicators, negotiated between the WB and a restricted number of GON officials. For both of the annual instalments there are 19 triggers divided between the ERCERP pillars (see Box B1.2).

**Box B1.2: PRSC Triggers**

Focus		Total Indicators	Triggering Indicators
Basic premises	<i>Macroeconomic stability and poverty expenditure protection</i>	8	8
Pillar I	<i>Economic Growth and Competitiveness</i>	17	3
Pillar II and III	<i>Human Capital of the poor and vulnerable populations</i>	13	4
Pillar IV	<i>Building Public Institutions and Governance</i>	23	4
Total		61	19

Source: World Bank 2003c.

B1.16 The majority of the trigger indicators for the first and second tranche are related to actions under the responsibility of MHCP.<sup>20</sup> There is a prevalence of trigger indicators in relation to macroeconomic stability, poverty expenditure and government reforms, a sign of the WB and IMF partnership on macroeconomic and structural reforms. There is continuity with previous WB programmes.<sup>21</sup> For instance, in public administration reform and sector policy (e.g. education) the triggers and other indicators are related to reforms initiated under the PSAC and Economic Recovery Credit (ERC).<sup>22</sup> There is also continuity with HIPC policy reforms and other conditions.

B1.17 The PRSC agreement does not make explicit reference either to a policy dialogue scheme or to dialogue with sector ministries. Instead there is a section on conditions for disbursements and monitoring arrangements, while dialogue is reduced to a performance assessment of the large matrix, undertaken by a technical task force set up with the MHCP, SECEP and Central Bank.

<sup>19</sup> After the JFA second review (at the end of September) the commitment for PGBS fund release was officially communicated on October 14 2005 to the GON, one day before the presentation of the budget to the National Assembly. A total of USD 89m was committed for 2005. The difference with the amount pledged in the JFA for 2005 (USD 105m) is reportedly due to not all conditionality having been fulfilled (Budget Support Group 2005d).

<sup>20</sup> 7 out of 9 for the first tranche, 5 out of 9 for the second tranche.

<sup>21</sup> The PRSC refers to coordination with the IMF around PRGF approval and subsequent monitoring (World Bank 2003c).

<sup>22</sup> These include: SIGFA, CUT, civil sector reform, pension scheme reform and the law on participatory education.

B1.18 The Swedish PGBS is linked to Nicaragua's overall performance in relation to its programmes with the IMF and the WB and Sida uses the reports provided by these institutions and the ERCERP progress reports to assess performance of the GON's PRS. In the case of KfW, disbursement is linked to the signature of the PRSC.

B1.19 EC programme disbursement is linked to indicators. For the fixed tranche these relate to overall performance of the implementation of ERCERP (PAPSE) and PND (the other two programmes), to the dialogue with the IFIs and expenditure and service performance in the given sector in the framework of the sector plan. For the latest two EC programmes, compliance with the JFA review and dialogue is a condition for the disbursement of the fixed tranche. The indicators for the variable tranche are agreed each year with the relevant ministry in alignment with targets and indicators included in the sector common work plan (CWP) and in the PND-O. Each indicator is associated with a proportion of the total variable tranche and disbursement is based on whether the target is achieved.<sup>23</sup> On the whole the division of funds between variable and fixed tranches is similar for the three programmes – around half of total funds for each type of tranche, with the proportion of the variable tranche size increasing in the final years of the programmes. (The inventory in Annex 3B provides a detailed breakdown.)

B1.20 The EC programme PAPSE differs from the later EC programmes in the policy dialogue detailed. In the PAPSE, there is no explicit mention of a dialogue with GON but rather of a one-way assessment of key aspects such as overall macroeconomic stability, progress in the implementation of the ERCERP, institutional development, and progress in PFM and the education sector (EC 2003). The assessment of progress in the education sector is carried out by the EC and the Ministry of Education (MECD – *Ministerio de Educación, Cultura y Deportes*) with agreed indicators. The proposed method of assessment of the other more global aspects is not detailed, although implicitly there is the reference to other IPs' methods (i.e. the progress reports on the ERCERP and the IMF reports on the macroeconomic context). In the two later EC programmes, policy dialogue is carried out in the context of the JFA and the sector roundtables.

B1.21 An entire section of the JFA is devoted to detailing the policy dialogue for PGBS, from the content to the mechanisms to be used. The JFA includes two levels of dialogue: a technical level with quarterly meetings focussing on the different areas covered by the PAM and a policy level with biannual meetings of the BSG at which policy is discussed and revised. In these two meetings, the review also includes a global assessment of country performance in relation to the key principles of the JFA among which feature democracy, rule of law, macroeconomic stability (Budget Support Group 2005a) The dialogue, disbursing mechanisms and performance assessment mechanisms are analysed in more detail in relation to the answers to the Evaluation Criteria in this chapter and also in Chapter B2 and Chapter B9.

### **Harmonisation and Alignment**

B1.22 For the first years of the Swedish PGBS dialogue was based on performance assessments of the national PRS and the IMF and WB programmes. Swedish PGBS is now given within the framework of the JFA.

B1.23 The PRSC programme supports the GON aid coordination effort and the sector roundtable mechanism by fostering sector-wide programming in at least three sectors: education, health and agriculture. In addition PRSC-supported procurement and financial management reforms aim to increase confidence that resources provided under sector-wide

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<sup>23</sup> This is calculated by multiplying the amount foreseen by an index as follows: no compliance= 0; partial compliance= 0.5; total compliance=1.

approaches (SWAp) will be used in a transparent and effective fashion. KfW's PGBS loan was fully harmonised with the WB PRSC.

B1.24 The implementation mechanism for the EC programmes is aligned with the GON sector structure for dialogue and coordination, except for the PAP Access to Justice which sets as a precondition the creation of a specific ad hoc structure for inter-institutional dialogue.<sup>24</sup>

B1.25 Compared to the earlier PGBS approaches, the main evolution in the JFA is the increased IP harmonisation, as PGBS dialogue is now based on agreed general principles and there is a consensus on the review and response mechanisms needed, and a shift in alignment from the WB PRSC and ERCERP to the GON's PND. The JFA dialogue embraces the main themes of the GON's PRS and encourages a high degree of collegiality, with the donors operating together as a group through the donor coordination mechanisms set up by GON.

### Technical Assistance and Capacity Building

B1.26 There are two TA programmes provided within the framework of PGBS: 1) the WB PSTAC (Public Sector Technical Assistance Credit) co-funded by Denmark, the Netherlands, Sweden and the UK, and 2) the EC programme of institutional support to the implementation of the PND (PAI-NIC).

B1.27 The PSTAC objectives are to strengthen public sector capacity and to develop and implement sector policies. It focuses on improving the efficient and effective use of resources and the promotion of good governance and institutional development to increase transparency and reduce corruption within the public sector (World Bank 2004a). It is implemented through a project implementation unit with local consultants in high-level and line staff positions in the relevant ministries (primarily: SECEP, MHCP, MINREX and MECD).<sup>25</sup> The PSTAC comprises USD 36.3m for 2004–2008 and disbursed USD 9.2m in 2004.

B1.28 EC PAI-NIC totals EUR 5m and includes international TA for EUR 3.3m for the period 2005–2007, a fund for training, study tour and local consultancy (EUR 900,000) and other inputs. It aims to support the implementation of the PND with a specific focus on civil society. While the first two components are directly coordinated by GON (SECEP) using EC procurement rules, smaller inputs are channelled through UNDP and the WB. It started in March 2005 and has a two-fold objective: to facilitate the implementation of EC PGBS and support implementation of the PND. The main component includes the provision of five long-term international experts for an estimated 3 years in donor coordination, planning and use of GBS and SWAp. This is provided in the areas of public finance, rural development, education, and justice.

B1.29 In addition to the above two programmes, there are other major TA projects that have supported the implementation of the PRS and other reforms in the area of public finance management at level of central government. These are: i) the WB EMTAC (2000–2003; USD 20.9m); ii) IADB loans: efficiency and transparency in procurement loan (2000–2004; USD 18m); TA to the SECEP (2004–2009; USD 7m) to strengthen SECEP, SNIP and SIGFA;

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<sup>24</sup> Under the leadership of the Ministry of the Interior (*Ministerio de Gobernación*) (with the following institutions: the Public Prosecutors Office [*Fiscalía*]; the Supreme Court; the Ministry of the Family [MIFAMILIA]; the National Police; and MHCP), the "*Acuerdo de Coordinación Interinstitucional*" (Inter-institutional coordination agreement) defines the planning, execution, distribution of the budget among the institutions and the monitoring of the EC GBS programme (EC 2005a).

<sup>25</sup> For instance, all the SIGFA management is paid out of this credit, as well as the unit in the MHCP in charge of the Medium Term Expenditure Framework implementation.



Modernisation and Strengthening of the General Auditing Office (2003–2006; USD 5.4m); and iii) the co-financed anti-corruption programme (2002–2003; USD 0.54m); iv) seco (State Secretariat for Economic Affairs – Switzerland) TA to support the implementation of the MTEF (support to the Action Plan 2004–2005 and capacity building for the MTEF 2006–2009; USD 1.2m). (See the inventory in Annex 3B – Table 3B.2 Technical Assistance.)

## Assessment against Evaluation Criteria

### Relevance to the Context

The extent to which the strengths and weaknesses of the financial, economic, social, political and institutional context are taken into account in the evolving PGBS design.

Level: \*\*

Trend: =

Confidence: \*\*\*

#### *Financial and economic context*

B1.30 The signature in 2002 of the IMF PRGF 2, with conditionalities linked to the ERCERP and to a number of key reforms in the financial, public, and legal sectors, was considered by the donor community as a sign that the country was progressing in the right direction and provided the necessary guarantee to allow a GON-IP debate on the viability of disbursing PGBS in Nicaragua. The HIPC initiative greatly contributed to improving the sustainability of Nicaragua's debt and in particular made it possible to restructure the internal debt, reducing the rate of interest and the overall pressure of repayments, which were considered important conditions for promoting and sustaining economic growth. Nevertheless, the package of reforms included in the PRGF requires a number of crucial laws to be approved by the NA (see ¶A2.5). In the context of lack of support from the NA to the Executive the reforms have proceeded at a very slow pace since the achievement of the HIPC completion point (January 2004).

#### *Public finance management context*

B1.31 Design of PGBS has drawn on extensive analyses of PFM issues (see Annex 4). The HIPC assessments (AAPs in 2001 and 2004) were especially important in focusing attention on the practicalities of disbursing through government systems and of tracking poverty-related expenditures undertaken by GON (World Bank 2001c, 2004c). Between 2001 and 2003 the WB carried out a series of analyses (Public Expenditure Review in 2001 [World Bank 2001b], Country Financial Accountability Assessment in 2003 [World Bank 2003a] and the Country Procurement Assessment Report in 2003) which highlighted a continuing significant risk of limited progress in the approval of further legislative reforms in key areas such as the judiciary and the fragility of recently introduced reforms, as well as the high vulnerability of the country to external shocks. Nevertheless, in terms of public finance there was a general agreement that the conditions were satisfactory. In 2003 the EC carried out a conformity test to verify the PFM requisites required to start GBS which indicated a sufficient improvement in PFM transparency. This result was taken into consideration by KfW in the decision to co-finance the PRSC.

#### *Institutional context*

B1.32 The institutional landscape of Nicaragua is fragmented. In addition to ministries there are powerful semi-autonomous institutions such as the Emergency Social Investment Fund (FISE – *Fondo de Inversión Social de Emergencia*), the Institute of Rural Development (IDR – *Instituto de Desarrollo Rural*) and the Coordination Unit for the Public Sector Reform and Modernisation Programme (UCRESEP – *Unidad de Coordinación del Programa de Reforma y Modernización del Sector Público*). In addition there are special funds/foundations created and funded nearly exclusively by the donor community through project aid. Direct dialogue between funding agencies and implementing institutions has contributed to short term vision and lack of planning beyond single project boundaries as well as limiting intra-institutional and inter-

institutional ministerial dialogue, particularly between MHCP and sector ministries. In addition it has made the effective prioritisation of objectives difficult.

B1.33 An important proportion of GON staff has consultant status with salaries funded through external aid. Resulting problems include: vertical lines of responsibility within government institutions, a distorted image of the size of the public sector administration and a high turnover of staff. This affects the sustainability of institutional capacity building efforts and the implementation of long-term reforms. An analysis of these weaknesses is included in the PRSC document (World Bank 2003c). Key reforms had been approved as part of the HIPC conditions (participative education law, civil service reform, citizen participation law, public administration law and municipal transfer law); however the implementation of these laws had not started and the fiscal impact of their implementation was not fully known at the time of the first multilateral PGBS disbursements in 2004.<sup>26</sup> In contrast with the PRSC and PAPSE, the JFA does not include further reflections on the institutional needs of the country and the reasons for the slow implementation of the reforms.

#### *Political context*

B1.34 The election of Bolaños as President was the key factor for IPs in the final assessment of the feasibility of providing PGBS. During the Alemán administration, as vice president Bolaños had been in charge of the main public sector reform programme financed by the WB.<sup>27</sup> As president, Bolaños' strong commitment to the fight against corruption (demonstrated by the judicial reform programme and the action taken against Alemán for corruption) was an important foundation for the launch of the partnership dialogue with IPs. GON's important progress in increasing its ownership of the development process through IP coordination and alignment around nationally-defined policies was welcomed and praised by the IP community, as going in the direction of the recommendations of recent evaluations and the general policies of their HQs. However, the national political context has deteriorated since the election of Bolaños; since 2003 opposition to the President has formed within the NA from the two main parties. Political strife has caused near-paralysis in legislative activity resulting in a large backlog of the bills proposed by the Executive soon after the achievement of the HIPC completion point in January 2004. The institutional crises in the first semester 2005 led to the IMF PRGF 2 being put on hold and caused a delay to the implementation of PGBS a few weeks after signature of the JFA. The role of civil society in political dialogue has been deteriorating. The National Council for Social and Economic Planning (CONPES – *Consejo Nacional de Planificación Económica Social*) was virtually not functioning by mid-June 2005 and the large-scale peaceful demonstration against the Sandinista Front and the Liberal Alliance pact by civil society organisations that took place mid June 2005 is an indication of the deterioration of the democratic context and the reduction of inclusive policy dialogue.

#### *Risk assessment*

B1.35 IPs have been aware of the risks present. These included the lack of a MTEF and the criticisms of the ERCERP/PND (see Chapter A3) especially as regards the content of the national economic policy, but also the delays in the definition and implementation of sector policies. The PRSC rightly identifies the political/institutional conflict between the Executive and the NA as a critical risk. On the other hand, it also bases its analysis on the consideration that the reforms supported by the PRSC are on the whole those already envisaged for the HIPC

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<sup>26</sup> For example, the municipal transfer law foreseeing a progressive transfer up to 10% of GON own resources to the municipalities has been passed and implementation started without a transfer of responsibility of selected investment expenditures, thus creating the risk of additionality rather than fiscal neutrality.

<sup>27</sup> Since 1995 a number of key restructuring policies for the public sector and training of the core technical staff of the central government, (particularly in MHCP, SECEP, SREC [the Secretariat for Economic Relations and Cooperation– *Secretaría de Relaciones Económicas y de Cooperación*] and MECD) were carried out under this programme.

completion point, for which the political forces found an agreement (World Bank 2003c) and therefore should not be at risk. It appears that the recent lessons learnt from the WB performance assessment of ERC 1 and ERC 2 have yet to be taken on board (World Bank 2003b):

- IDA must tone down its expectations of what reforms can achieve in a short time. IDA identified correctly the nature of the risks of failure, but it overestimated the response to the reforms supported by both credits....
- When the adjustment program requires deep economic changes, problems that need long-run solutions must be tackled early, under a global strategy whose rationale, constraints and benefits must be understood and accepted prior to approval of the credit. IDA and the Borrower should work to prepare civil society for the changes needed and forthcoming, and whose benefits are not evident to the general public at first.

B1.36 The design of the first PGBS programmes (both EC and WB) includes measures to address risks/weaknesses related to PFM, through technical assistance and conditionality aimed at the consolidation of reforms approved in the HIPC context. They do not include measures to ensure an improvement of the dialogue and consensus-building by state powers. The JFA indirectly addresses these weaknesses through the overall principle of governance and democracy. The fact that the JFA and the PAM incorporate the judiciary as well is another step forward in the promotion of the dialogue among the state powers. However, for the time being the only measure that has been used to promote this dialogue and create the momentum for continuation of the requested reforms has been the threat of freezing or even reallocating PGBS funds (Budget Support Group 2005c) and the postponement in finalising some components (EC PAP Access to Justice).

*Conclusion*

B1.37 The evolving design is judged as moderately relevant to the context. Political and institutional weaknesses and risks are the least well addressed.

**Dialogue, Conditionality and Ownership**

The extent to which PGBS policy dialogue and conditionalities are consistent with high levels of ownership by government and sensitivity to country constraints.		
Level: **	Trend: =	Confidence: **

B1.38 There is no doubt that the current development of PGBS can be defined as the result of a partnership. This stems from the readiness of a number of key IPs in Nicaragua to respond to the GON initiative to move towards a new era with an increased alignment of aid with GON-defined national priorities. The progressive move to use sector roundtables for discussion of sector policies and to define priorities, and within this framework, the definition of sector policy and the development of coordinated financing mechanisms, are all key factors in increasing GON level of ownership and achieving higher-quality dialogue.<sup>28</sup> The JFA has taken on board the GON development of its PRS since the ERCERP, and has aligned with the PND. The JFA has also added new partners in the traditional policy dialogue with the government thus increasing GON's opportunities for negotiation and dialogue, hitherto a dialogue that has been dominated by the IFIs. However, there are reservations based on (a) the quality and internal ownership of the PRS, (b) the continuing relevance of IMF conditionality as a de facto condition for PGBS disbursements, (c) ownership of the PAM, and (d) ownership of TA considering the

<sup>28</sup> For instance, in the education sector, this mechanism (operational since 2003) is reported to have opened up dialogue with donors from specific project and management performance issues to sector policy and themes such as the quality of education.

practice of funding TA and salaries through projects that have tended to undermine the integrity and capacity for ownership by the GON.

*The overall PRS framework*

B1.39 Effectiveness of the PND as a basis for ownership is limited because: (i) the PND is not fully developed, particularly at the level of sector strategies, (ii) its formulation process (particularly the PND-O) is considered to have lacked meaningful participation by a number of actors;<sup>29</sup> and (iii) it recognises but leaves unresolved an important financing gap to achieve the MDGs. It is not fully costed, nor prioritised, nor linked to GON budgets.

*Ownership of the Performance Assessment Matrix (PAM)*

B1.40 The PAM as it stands at the moment primarily serves the interest of IPs rather than being a GON instrument. This is due to the excessive number of indicators, the lack of GON capacity in many of the sectors covered, and because it is not embedded in the national monitoring system (SINASID – *Sistema Nacional de Seguimiento a Indicadores de Desarrollo*).

*The role of the dialogue with the IMF and its conditionality*

B1.41 There is a strong technical and policy dialogue between the IMF and the MHCP that has traditionally been considered central to the achievement of reforms. The maintenance of an appropriate macroeconomic framework is a pre-condition for all donors. While not always explicitly stated, this corresponds de facto to an alignment with the IMF assessment of progress in the reforms included in the PRGF and it limits the flexibility of PGBS dialogue, which by definition embraces more than solely the economic and public finance context. Furthermore it reduces the effectiveness of the JFA as a partnership instrument since the dialogue becomes highly influenced by an IP (the IMF) which is not part of the BSG (albeit that it has been reported as participating in the meetings in early 2004) and is not a signatory of the JFA.

**Poverty Orientation**

The extent to which the PGBS design reflects objectives and strategies related to all dimensions of poverty reduction.

Level: \*

Trend: +

Confidence: \*\*

B1.42 With the signature of the JFA, the PGBS has moved from supporting the poverty reduction strategy included in the ERCERP to that set out in the PND (2003) and operationalised in the PND-O (2004–2005), (the second generation PRSP). Bolaños' GON criticised the first generation PRS for being too "socially oriented" and has moved to a new PRS based on economic dynamism around areas of economic potential (clusters) with poverty reduction achieved as a consequence of sustained growth. However, questions have been raised as to how the focus on economic growth will eventually lead to poverty reduction. A result of this new focus is an ambiguous definition of pro-poor expenditure, since all expenditure promoting economic growth can be defined as pro-poor. According to some civil society respondents the PND approach risks limiting poverty reduction strategy to pure rhetoric (Hunt and Rodrigues 2004). It was particularly felt that this strategy does not sufficiently take into account the different dimensions of poverty in Nicaragua: the extreme poor, the rural poor, the role of women in the society and economy and, finally, the inequality in income distribution

<sup>29</sup> Several interviews and civil society evaluations (CONPES; *Coordinadora Civil*, Trócaire) report that consultation was restricted and was more a one-way flow of information rather than an effective participatory dialogue. The PND-O has to be approved by the IMF and Bank, but is not subject to approval by the NA. At the time of the field visit (May 2005), the PND-O had not been officially presented to the NA, though it had been through several revisions following donor comments.

which results in unequal access not only to economic opportunities, but also to social and government services (Hunt and Rodrigues 2004; Acevedo Vogl 2003).

B1.43 Though BSG donors support the objectives of the PND, differences in opinion exist over the effectiveness of the policies included in the PND-O for addressing market failure and for promoting the correct balance between the state and private sectors to achieve poverty reduction.<sup>30</sup> Only a few of the policies included in the PND-O are at the moment fully elaborated with a clear strategy and action plan. Therefore the capacity of PGBS to reflect all dimensions of poverty will depend on the dialogue and participation of the PGBS partners in the definition of sector policies.

### Coherence and Consistency of the Design

Coherence and consistency of the PGBS design, taking into account the extent to which the different partners (various IPs and government) show differences in expectations and approaches related to PGBS or some of its components.

Level: \*

Trend: +

Confidence: \*\*\*

B1.44 There is a general agreement between GON and IPs on the overall expectations of PGBS: to increase partnership, to increase government ownership and alignment of IPs with government policies and structures and to improve donor coordination, all with the aim of increasing the overall effectiveness of aid (MINREX 2003). An additional expectation of GON was that PGBS would result in a reduction of transaction costs at both the point of negotiation and for the management of external assistance. This was expressed clearly in one interview with a key representative of MHCP:

We expect to reduce the cost of projects and to have only one plan, one dialogue and one time frame. Our dream is to have only one matrix.

B1.45 Among IPs the justification for the use of PGBS in Nicaragua is: i) evidence of limited effectiveness of aid at country level attributed to the lack of aid coordination, government ownership, national planning and weak national institutions (reviews of aid effectiveness in Nicaragua have been undertaken by OECD DAC, USAID, Finland, Norway, Sida) and ii) a move towards programme aid already employed in the poorest African countries in the context of clear national commitment to PRS and to a stable macroeconomic environment.<sup>31</sup>

B1.46 Compared with the first PGBS programmes, the JFA represents progress in certain areas: joint conditionality; harmonisation of the review mechanism, promotion of sector policies and medium-term financing plans, the use of nationally-established coordination mechanisms and alignment to the PRS encapsulated in the PND.

<sup>30</sup> For instance, the Institute of Social Studies (ISS) 2004 country report published by Sida (ISS 2004a), includes a quite severe analysis of the economic development policy included in the PND/PND-O (a view shared by the *Coordinadora Civil*) indicating that this approach resulted from the negotiations with the private sector, the financial institutions and some donors.

<sup>31</sup> The WB Country Assistance Strategy (CAS) for the period 2003–05 proposes an increased reliance on programmatic lending in order to increase government ownership and improve donor coordination (World Bank 2002b). For the EC, the approval of the ERCERP, followed by the new agreement with the IMF and the results of a recent evaluation of its aid performance to Nicaragua combined with a general policy review at HQ aimed at increasing aid effectiveness through wider application of sector budget support and GBS opened up the possibility of applying this new aid modality to Nicaragua under the new country strategy for the period 2002–2006 (EC 2002).



B1.47 Nevertheless, differences in approach are still important. Donors still differ on how PGBS should work, particularly with regards to the link between conditionality and disbursement, the type of indicators and the use of TA. For example, the WB PRSC is disbursed if triggering indicators, which include policy conditionality, process indicators and outcome indicators, are met (in the event that they are not met disbursement is postponed to the next year/revision), while the EC disburses the variable tranche of its PGBS programmes when a mix of policy and outcome indicators are met, through a mechanism that is agreed ex ante to avoid a stop-go situation.

B1.48 With regard to TA, while all donors recognise the need to provide institutional capacity building, the individual donors vary significantly in approach. For the WB and other bilaterals financing the PSTAC, a main element of capacity building is filling key government positions – posts that GON cannot afford to have (because of the ceiling on overall public expenditure and level of salary paid) but which are essential for the progress of the agreed reform plan. For the EC, TA mainly consists of international experts working alongside GON officials on issues related to GBS with the aim of facilitating the process of implementation of the PND through PGBS.

B1.49 Among the BSG partners there is a clear tension between the willingness to change approach in the name of better partnership and in support of the current GON, and an aversion to take on the risk involved in supplying PGBS given Nicaragua’s current political crisis, the fact that PGBS is in a pilot phase and the need to be accountable to their organisation’s constituency for the use of public funds, particularly those set for the achievement of MDGs. This goes some way to explain the attitude of some IPs that seek to tightly control the implementation and use of the funds provided through PGBS (as illustrated by the high number of detailed indicators included in the PAM) and the certain degree of bilateral assessment undertaken in parallel with the joint PGBS review in May.<sup>32</sup> On the other hand, the discussion of the BSG partners at the end of the mission (June 2005) raises two questions: firstly, the extent to which the move towards PGBS and its design and implementation mechanisms were thoroughly discussed/analysed at the country level, and secondly, whether its formulation is a result of, and shaped to, the country context or whether it is based on a theoretical model and IP headquarter decisions.

### **Response to Previous Weaknesses in Aid Management**

The extent to which the PGBS design responds to analyses of previous weaknesses in aid management systems and processes.

Level: **	Trend: +	Confidence: **
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B1.50 There is no doubt that PGBS originates from an analysis of previous weaknesses in aid management. During the 1990s there was very little investment planning at the central level with ministries and state institutions dealing bilaterally with IPs. The limits on government expenditure set by the ESAF meant that priority was given to projects with no requirement for counterpart funds. At times the lack of coordination led to a chaotic situation, where ministries would agree to projects that required counterpart funds without the knowledge of the MHCP (Dijkstra 1999). Public sector restructuring and the development of central government institutions was supported by IPs from 1995 onwards but there has been recognition that the structural reforms required are of a medium to long-term nature (World Bank 2003b). The 2001 WB Poverty Expenditure Review (PER) is a thorough – and still relevant – analysis of the

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<sup>32</sup> Finland carried out a risk assessment review to decide whether to provide PGBS, DFID undertook its own risk assessment and discussed corresponding mitigation strategies and the EC headquarters was reported to be questioning the feasibility of GBS in Nicaragua following a review of the pace of disbursement of allocated funds.

detrimental effects on planning and budgeting of fragmented project aid delivered off-budget (World Bank 2001b).

B1.51 However, the extent to which PGBS design contributes to ending the above weaknesses is not always clear. For instance: TA associated to the PRSC still uses a project management unit within the government structure; the use of PSTAC funds to pay the salary of core staff of key ministries involved in the reforms (MHCP, SECEP, MINREX and MECD) does not overcome the traditional institutional weakness produced by project aid. In addition the JFA includes a number of exceptions to the harmonised procedures with the specificities of bilateral IP agreements prevailing over the common agreement.

B1.52 Furthermore, the JFA tends to focus its attention and relationship at the level of key officials of the Executive; this is despite the fact that the aid history of the country has clearly shown that this is not sufficient to enable sustainable implementation of crucial structural reforms in a limited period of time. While previous project aid did not pay sufficient attention to the strengthening of central government thus provoking weak policy coherence and limiting any long-term perspective, the focus of PGBS on central public administration risks an underestimation of the importance and role of other actors (particularly local government) for the implementation of sector policies.<sup>33</sup>

### **Principal Causality Chains**

B1.53 There is no causality chain under investigation here. This chapter is focused on investigating the relationship between Levels 0 and 1 and capacity to learn from the past experience in designing PGBS. While one could argue that there has been a learning process from the earlier forms of PGBS and that the JFA is bound to be imperfect at the start, it seems not to have managed yet to get rid of some typical shortcomings of project aid: very ambitious objectives; limited predictability of funds; and an analysis of risk factors not sufficiently reflected in adjustments to the strategy.

### **Counterfactual**

B1.54 PGBS has emerged out of an analysis of the shortcomings of previous modalities and particularly of the drawbacks of non-harmonised and coordinated aid. Though it has not yet been able to overcome the shortcomings of previous modalities, a comprehensive support to the national development policy and government could not be realised by traditional structural adjustment approach or project aid. Support at sector level alone would not ensure interministerial links and coherence between the macroeconomic framework and sector policies. However, PGBS is treated as a complement to other aid modalities, the issue therefore is whether the introduction of PGBS has enhanced (or is likely to enhance) overall aid performance.

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<sup>33</sup> The JFA signatories agree that a major constraint is represented by the lack of formal support from government to other state branches and civil society. By protocol donors are supposed to use the executive channels only but donors have been promoting meetings with the NA and civil society. See discussion in ¶B5.14.





## **B2. The Effects of Partnership GBS on Harmonisation and Alignment**

*Has PGBS contributed to greater harmonisation and alignment of the aid process?*

### **Introduction**

B2.1 The part of the causality map being tested in this chapter is whether harmonisation and alignment (H&A) inputs at Level 1 of the EEF result, at Level 2, in IPs moving towards alignment and harmonisation around national goals and targets. The causality chains are shown in Figure A1.1 (the causality map of the EEF).

B2.2 There is a strong presumption by donors that harmonisation and alignment, if implemented, will make aid more effective. This present chapter is concerned with whether harmonisation and alignment (harmonisation, alignment on policy and alignment with systems) is taking place and to what extent this is due to PGBS. Also of note is that H&A features both as itself an input (inasmuch as PGBS itself includes and embodies harmonisation and alignment) and – possibly – as an effect on other (non-PGBS) aid inputs.

B2.3 The scope for donor H&A is strongly influenced by government. Alignment with government strategies presupposes that such strategies exist and are operational (Lister 2004); alignment with government systems requires donors to find these systems adequate, and, in practice, donors make most progress in harmonising with each other when they can converge on government systems.

### **Relevant Facts**

B2.4 Since the Bolaños government entered into power, GON has shown increasing momentum towards improved coordination capacity (see Chapter A3); however, as yet there is no defined national action plan for harmonisation and alignment. There is an H&A Group (facilitated by MINREX and with main IP involvement by the EC, UNDP and latterly the Netherlands and Japan). The Group has developed a zero draft action plan which was presented at the DAC High Level Forum 2005 (Paris). Since then, it has been working to develop an action matrix, aiming for this to be agreed by the end of 2005 for implementation in 2006. The May 2005 draft H&A action plan promotes the implementation of national policies with specific actions that relate to the use of PGBS and the JFA. These include: i) in the long term 50% of operations financed by 2 or more donors to use common mechanisms such as the JFA and PAM for reporting and monitoring on funds, and; ii) an increase by 50% of funds disbursed through common funding mechanisms (such as budget support). The JFA signatories, having subscribed to the DAC H&A principles, are further supporting this process by facilitating the discussion of the national H&A Plan. The JFA also stipulates that IPs will provide GON with all relevant information for the annual monitoring of the GON's H&A plan (Budget Support Group 2005a).

B2.5 The JFA is an example of the expressed commitment of IPs to harmonisation and alignment. It sets out common procedures for policy dialogue, donor commitment of funds and disbursements, auditing and reporting, monitoring and evaluation, and the exchange of information and cooperation between the signatories (Budget Support Group 2005a).

B2.6 Within the JFA, the PRSC (WB and co-financier Germany) is supporting the creation and strengthening of sector roundtables – a key national mechanism of donor coordination – and the EC TA aims to support the process of H&A and the development of SWApS.

## Assessment against Evaluation Criteria

### Policy Alignment

The extent to which PGBS has contributed to increased IP alignment with government policies at national and sectoral levels through:			
(a) aligning aid objectives and conditions with government objectives and targets			
General Situation:	Level: *	Trend: +	Confidence: ***
PGBS Influence:	Effect: *	Efficiency: **	Confidence: ***

B2.7 A major rationale of PGBS is to align aid with government objectives and targets. The various PGBS instruments attempt to do this. However, as already noted, the government planning documents that are the focus of alignment are themselves weak, subject to change, and subject to limited ownership within government. Conditions (e.g., in the PAM) are not drawn directly from the government strategy, although there is some government involvement in developing the PAM. Therefore the overall effect of PGBS so far is assessed as weak.

### Government Leadership

(b) increasingly relying on government aid coordination, analytic work, TA management			
General Situation:	Level: *	Trend: +	Confidence: ***
PGBS Influence:	Effect: *	Efficiency: **	Confidence: ***

B2.8 Overall, this effect has been weak, because although GON and many donors agree on the importance of GON taking the lead, this is often an aspiration rather than the present reality. GON has shown initiative in fostering greater ownership and encourages PGBS (along with SBS) but weak government capacity in some sectors means that donors do not rely on a government lead in these sectors (namely the water, transport and governance sectors) (OECD DAC 2004).<sup>34</sup> This impacts on the extent of IPs' (including PGBS IPs') reliance on government aid coordination.

B2.9 GON ownership over the JFA PGBS process was put at risk by a prolonged debate over the GON designated global owner of the PAM. This has been resolved with a unit in MHCP taking responsibility. Still lacking however is the designation of GON counterparts responsible for the individual five sectors of the PAM, recognised by BSG as crucial for GON ownership and for effective future monitoring (Budget Support Group 2005b).

B2.10 The implementation mechanism associated with the PGBS programmes is aligned with the GON sector structure for dialogue and coordination. An exception is the PAP Access to Justice programme (still to be finally approved by the EC) that requires a separate implementation mechanism

<sup>34</sup>For example, the Ministry of Education (MECD) has stated "the government exercises full authority in coordinating development assistance" while in the water sector "most of the time, projects do not reflect sector priorities, but rather donor priorities" (OECD DAC 2004).

B2.11 PGBS associated TA has not changed in terms of management, as it is still guided by donor procedures and procurement and is still managed through contracts with IPs rather than the beneficiary GON institution.

### Alignment with Government Systems

#### Government planning and budget cycles

(c) aligning fund commitment and disbursement with government planning and budget cycles			
General Situation:	Level: *	Trend: +	Confidence: ***
PGBS Influence:	Effect: *	Efficiency: **	Confidence: ***

B2.12 The GON cycle is as follows: in July, MHCP and BCN establish the budget policy framework within the framework of the PRGF; from May–July SECEP prepares the Public Investment Programme (PIP); by the beginning of September each budget entity prepares sectoral plans; by the end of September the President and the Economic Council make a decision on the consolidated pre-draft Revenue and Expenditure Budgets and; by October 15<sup>th</sup> the President sends the draft budget to the NA (WB 2003a).

B2.13 A central goal of the JFA is for IPs to align with the budgetary system of GON, in order to enhance the effectiveness, efficiency and predictability of financial assistance, reduce the administrative burden and to minimise transaction costs of GON (Budget Support Group 2005a),<sup>35</sup> and this is reflected in the mechanism designed for review and decision-making on commitments and disbursements. There are two annual meetings timetabled to synchronise with the GON planning and budget cycles. The BSG annual meeting in May serves to identify the budget support projections for the coming year, while the mid-year meeting in August is used to discuss policy issues related to the progress in the financial year to date and to the national budget proposal for the next fiscal year. Donors are supposed to confirm their commitments for the next fiscal year no later than September 15<sup>th</sup>.

B2.14 However, the JFA includes a provision for IP-specific response mechanisms and disbursement schedules. WB disbursement mechanisms are laid out in the PRSC and are also aligned with the GON budget cycle (actions included in the policy matrix at the same time IMF agrees with MHCP on expenditure ceilings for the following year and the annual ERCERP progress report is presented towards the end of the third quarter, at the same time MHCP prepares the following year's budget) (World Bank 2003c). The EC specifies the use of the split response mechanism, with a fixed tranche followed by a variable tranche, which is triggered by performance evaluations of the results of the previous year. The EC commits to give the exact amounts to be disbursed for the variable tranche by September of year n for disbursement in year n+1. As the disbursement of the variable tranche is not guaranteed, GON prefers to leave these funds out of the budget and resort to supplements to the budget if the performance criteria are met and the funds are disbursed. This results in uncertainty and inefficiency in the implementation of the GON budget (thus, for example the PAPSE first tranche was disbursed after approval of the 2004 budget and required an amendment to the budget law). Seco also uses a split response mechanism, linking part of its PGBS disbursement to the performance of specific parts of the PAM (actions in the area of PFM and private sector development). Unlike the EC response, the seco disbursements do not have a variable response according to the how far the specified targets/indicators are achieved.

<sup>35</sup>The other stated goal is to support the GON's efforts to achieve long-term sustainable economic growth and poverty reduction as defined by the PRS (Budget Support Group 2005a).

B2.15 Alignment has been so far more in theory than in practice. After the first review, the calendar foreseen in the JFA has not been respected due to subsequent postponement of the IMF review mission to Nicaragua. Aligning with GON long-term planning is made more difficult by the absence of a Medium Term Expenditure Framework (MTEF) (OECD DAC 2004). When (if) the MTEF is implemented (planned for 2006) the design of PGBS will have to change in order to align with the GON multi-year framework. The WB PRSC involves a commitment for 2 years (with multi-year indicative commitment within the World Bank Country Assistance Strategy), the EC PAPSE for 3 years, and other PGBS IPs have signed up to 2-year or 3-year pledges within the JFA.

*Government implementation systems*

(d) increasingly relying on government cash management, procurement, implementation, monitoring, reporting and auditing.			
General Situation:	Level: *	Trend: +	Confidence: ***
PGBS Influence:	Effect: *	Efficiency: **	Confidence: ***

B2.16 In the past much of aid has operated outside the government implementation system. The introduction of the Single Treasury Account (CUT – *Cuenta Única del Tesoro*) is a significant improvement as regards cash management (see ¶B3.2).

B2.17 The JFA stipulates that GON is fully accountable for the management of the financial contributions of the IPs, keeping financial records of flows of funds between BCN and the CUT with the GON integrated financial management system (SIGFA). To carry out its review process, the JFA relies on GON reporting systems for monitoring PRS, expenditure execution, use of the FSS, and on other reports produced by the GON related to PFM and it also agrees to use the annual report of the General Comptroller of the Republic. Use of GON cash management is also a trigger for the PRSC, which requires that all donor funds channelled through public sector entities be recorded in the CUT, in coordination with GON signatory agencies and donors (World Bank 2003c).<sup>36</sup>

B2.18 While the JFA states that the WB will follow the same dialogue and monitoring process as the JFA, in July 2005 the WB completed its own individual review for the PRSC. The PRSC sets in place a reporting mechanism consisting of quarterly meetings with a task force to monitor implementation of conditions in PRSC (including representatives from MHCP, BCN, SECEP, most of which are also counterparts to the IMF's PRGF programme) and the preparation by GON of the annual ERCERP progress reports which include the status of compliance with PRSC actions and triggers. It was under discussion whether in the future the PRSC review will be absorbed within the one foreseen under the JFA. The BSG are aware of the need to absorb the PRSC review within the one foreseen under the JFA, with bilateral members emphasising the work in progress to address this issue of harmonisation between the JFA and PRSC reviews.<sup>37</sup>

B2.19 The PAM is the matrix designed for monitoring PGBS and is consistent with the PND-O. At the same time, as mentioned, the PAM has been developed at the same time as the PND-O. Therefore it is difficult to say which one informed the other, and there are indications that the PND was aligned to the PAM. There is as yet no complementary national monitoring system of

<sup>36</sup> This increased reliance is not consistently applied by the BSG however. The EC stipulates that disbursed PAPSE funds are immediately changed from Euros to Córdoba.

<sup>37</sup> The PRSC supervision was carried out as part of the 2005 JFA mid-year meeting.

the PND. If and when such a monitoring system is developed, the challenge for PGBS will be to align with this system (see also Chapter B9).

B2.20 There is also a provision within the JFA for IPs to reserve the right to request independent auditors (Budget Support Group 2005a).

### Harmonisation among Donors and Modalities

The extent to which PGBS has contributed to improving overall coordination and complementarities of IPs' programmes.			
General Situation:	Level: **	Trend: +	Confidence: ***
PGBS Influence:	Effect: **	Efficiency: ***	Confidence: ***

B2.21 There has been a progressive move towards overall coordination and complementarity of IPs' programmes, following from the experience of the HIPC initiative and of IP funding to the Supplementary Social Fund (FSS – *Fondo Social Suplementario*) (see ¶A3.13–¶A3.16).

B2.22 PGBS was only 11% of ODA disbursed in 2004; therefore, it is only one of a range of aid modalities used in Nicaragua. Though they are among the most important IPs, PGBS partners are only 9 IPs out of the total 42 IPs operating in Nicaragua. Therefore, PGBS is a small proportion, both as a proportion of total ODA flows to GON and in terms of the number of IPs involved. At the same time, H&A by IPs extends beyond the PGBS group: according to OECD DAC 2004 Survey on Harmonisation and Alignment, 88% of IPs consider their ODA to be aligned with the GON PRS (OECD DAC 2004). The BSG supports the H&A Group, with the JFA stipulating that all IPs will provide GON with the relevant information for the annual progress report on harmonisation and alignment.

B2.23 There has been an important evolution in the design of PGBS. The individual IP programmes of 2004 are now harmonised along with all other committed PGBS funds within the coordinating framework of the JFA. This is the result of the BSG, in operation as a consultative forum since 2003, which in practice has held open discussions for any interested IPs. The JFA also represents an increased number of IPs committed to providing PGBS; an increase from 4 IPs in 2004 to 9 in 2005.

B2.24 The JFA has also added new partners in the traditional policy dialogue with GON: the European bilateral agencies. This holds the potential for opening up the space for negotiation and dialogue with GON, a process to date dominated by the IFIs. GON also views PGBS as a modality that acts to increase harmonisation and alignment and one that can work with the sector coordination approach. All of these factors provide GON with the motive to, through the JFA, dialogue with IPs on a wide range of development and institutional policies despite the fact that PGBS in monetary terms represents only a limited proportion of total external aid.

B2.25 Importantly, significant IPs such as IADB, Japan, Spain and the USA (all within the top 10 IPs by average net ODA 1994–2004 [OECD DAC 2005–2006]) do not provide PGBS. The BSG has made efforts to be inclusive of IPs and has enjoyed the participation of some IPs that do not provide PGBS. However, on the one hand not all members have signed the JFA and made the commitment to provide PGBS (e.g., IABD), while on the other, important donors are not members (USA and Japan, for example). Significantly, the IMF has not been an active participant. There are other important initiatives underway in Nicaragua: the IADB policy-based loans which are outside of the JFA coordination, and the development of sector-wide approaches which are not coordinated with PGBS IPs on a systematic basis.

B2.26 At the time of the evaluation there was no joint fiduciary risk assessment.<sup>38</sup>

The extent to which there have been specific complementarities between PGBS and other forms of aid.			
General Situation:	Level: *	Trend: +	Confidence: ***
PGBS Influence:	Effect: *	Efficiency: *	Confidence: ***

B2.27 There are complementarities of PGBS with the sector approach and with projects, with the PAM based on sector indicators and goals. The PAM has been used as a template for the draft SWAp matrix for the rural sector, PRORURAL. At the same time, the indicators set in the common work plan of the education sector have been used for the PAM. In addition, there are examples of JFA IPs providing support to sectors and policies covered by JFA with other modalities. For example, the WB supports the education sector policy both with PGBS through the PRSC and with project aid through the education project PASEN. However, the relationship with the sector roundtables in the review mechanism has yet to be formalised, and the BSG has noted that this is a vital step to take in order to avoid duplication (Budget Support Group 2005b). At this stage there are no formal bridges with SBS nor with project aid built into the JFA.

### **Principal Causality Chains**

B2.28 In examining the causality chain hypothesised in ¶B2.1, overall a moderate link is identified with both GON and IPs actively promoting a best practice harmonisation and alignment agenda. In practice to date there has been limited progress (bearing in mind the limited time frame of PGBS in Nicaragua). However, one important achievement is the BSG and the resulting JFA which provides the coordinating framework for the provision of PGBS thus increasing the harmonisation and alignment of IPs. H&A through PGBS has been part of a wider H&A agenda, whose effects extend across modalities.

### **Counterfactual**

B2.29 Developing PGBS has provided additional opportunities and impetus for H&A. The development community (GON and IPs) in Nicaragua views PGBS as the focus for increased harmonisation and alignment, as the 'spearhead' of reform to lead the way in promoting harmonisation and alignment. An array of aid instruments that did not include PGBS would be less effective at promoting harmonisation and alignment.

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<sup>38</sup> A PEFA assessment started in early 2006 as a joint IADB, WB, EC and DFID exercise.



## B3. The Effects of Partnership GBS on Public Expenditures

*How efficient, effective and sustainable has been the contribution of PGBS to the performance of public expenditures?*

### Introduction

B3.1 This chapter relates to the transition from Level 2 (immediate effects) to Level 3 (outputs) of the EEF. The chapter is based on the two hypothesised causality chains as follows:

- an increased proportion of funds subject to the national budget (2.2) with increased predictability (2.3) empowers the government to strengthen systems (3.2) that increase operational and allocative efficiency of PFM systems (3.5/3.6).
- policy dialogue and conditionality focused on key public policy and public expenditure issues and priorities (2.4/2.5), with appropriate technical assistance and capacity building, contributes to increased resources for service delivery (3.1).

These causality chains are shown in Figure A1.1 (the causality map of the EEF).

### Relevant Facts: Trends in Public Expenditure

B3.2 Public expenditure data in Nicaragua needs to be treated with care. There has been a noticeable increase in the proportion of external funds that are executed through the treasury system in recent years following the 2001 establishment of the Single Treasury Account (CUT – *Cuenta Única del Tesoro*) and the strengthening of the Secretariat for Economic Relations and Cooperation (SREC – *Secretaría de Relaciones Económicas y de Cooperación*). By 2004 all aid loans and the majority of aid grants were channelled through the CUT<sup>39</sup> and were therefore ‘on-treasury’. However, this does not necessarily mean that all funds were ‘on-budget’ as the funds administered through the CUT include project funds. The channelling of aid through the public accounts at the implementation stage does not necessarily mean that it is integrated in planning and budget preparation. Also, a certain amount of funds (including the USAID Millennium Challenge Account and some JICA funding) remain outside the CUT.

B3.3 The PFM system has been weak for most of the evaluation period (see Annex 4 for a discussion of PFM in Nicaragua). There has been some improvement since 2002, especially with regard to the control and public dissemination of up-to-date financial data on both fiscal revenue and expenditure, however significant areas of weakness remain. The budget continues to be fragmented due to (i) the lack of adequate integration of ‘decentralised budgetary entities’ into the national budget; (ii) the continued separation of the planning function from finance (see ¶B4.7); (iii) the constitutional earmarking (see ¶B3.6); and, (iv) the split between recurrent and capital expenditure (and the ongoing practice of salary payment through project funding). The dominance of project funding means that precise allocations of aggregate expenditure are unknown as the budget is not a comprehensive measure of resource allocations.

B3.4 The GON annual report on poverty expenditure and the use of HIPC funds provides detail on the trends in expenditure (SECEP 2005a). Poverty-related expenditure rose from 46.5% of public expenditure in 2003 to 48.1% in 2004, when it was equivalent to 12.7% of GDP (see Table B3.1). This figure is higher than the overall target for 2005 of 11.6% set in the PRSC. Capital spending accounted for 61.9% of this poverty-related expenditure (see Table B3.1). Of the four pillars of poverty-related expenditure in the PND, non-income poverty-related

<sup>39</sup> MHCP interview.

expenditure (education, health, etc.) totalling USD 271m accounted for the largest share – 48%. There was a 31% increase from 2003 in the income-related (physical infrastructure) component of poverty-related expenditure, which rose to USD 155m in 2004, equivalent to 28% of the total. Social protection absorbed USD 45m, equivalent to 8% of total poverty-related expenditure, a 48% increase over 2003. Finally, expenditure on governance totalled USD 6.4m and accounted for 1.1% of total poverty-related expenditure. The two cross-cutting themes of decentralisation and environment totalled USD 58.9m and USD 23.3m respectively (see Table B3.2). The GON ERCERP progress reports appear not to provide a gender analysis of poverty-related public expenditure.

**Table B3.1: Poverty-related Public Expenditure 1997–2004**

USDm	1997	1998	1999	2000	2001	2002	2003	2004
<b>Poverty-related expenditure</b>	<b>302.0</b>	<b>295.5</b>	<b>429.2</b>	<b>457.0</b>	<b>455.1</b>	<b>409.2</b>	<b>471.8</b>	<b>559.6</b>
<b>Current</b>	133.9	148.9	165.9	187.1	186.6	194.2	197.2	213.1
<b>Capital</b>	168.2	146.6	263.2	269.9	268.4	214.9	274.6	346.5
<b>As a share of GDP %</b>								
<b>Poverty-related/GDP</b>	<b>8.9</b>	<b>8.3</b>	<b>11.5</b>	<b>11.6</b>	<b>11.3</b>	<b>10.2</b>	<b>11.4</b>	<b>12.7</b>
<b>Current</b>	4.0	4.2	4.4	4.7	4.6	4.8	4.8	4.8
<b>Capital</b>	5.0	4.1	7.0	6.8	6.7	5.4	6.6	7.9

Source: SECEP, MHCP (SECEP 2005a).

**Table B3.2: Poverty-related Expenditure by Pillar 2001–2004**

USDm	2001	2002	2003	2004*
<b>TOTAL</b>	<b>455.1</b>	<b>409.2</b>	<b>471.8</b>	<b>559.6</b>
<b>Pillars</b>	<b>387.3</b>	<b>366.1</b>	<b>420.0</b>	<b>477.5</b>
1. Economic growth	109.7	100.3	118.3	155.2
2. Human Capital	234.2	231.0	266.0	270.6
<i>Education</i>	114.6	113.6	123.4	133.0
<i>Health</i>	116.9	114.5	127.5	123.3
<i>Population</i>	1.8	0.1	2.3	5.0
<i>Nutrition</i>	0.8	2.8	12.8	9.3
3. Social protection	41.3	30.2	30.5	45.3
4. Governance	2.1	4.6	5.3	6.4
<b>Cross-cutting themes</b>	<b>67.8</b>	<b>43.1</b>	<b>51.9</b>	<b>82.1</b>
Environment	22.8	18.7	18.7	23.3
Decentralisation	45.0	24.4	33.1	58.9

Source: SECEP, MHCP (SECEP 2005a).

Notes: \* Preliminary

B3.5 The first estimations for 2005 indicate an increase of USD 36.9m in expenditure for economic growth, compared to USD 9.6m for education and a reduction of USD 4.2m for the health sector (SECEP 2005a).

B3.6 Nicaragua's budget is subject to constitutional earmarking. There is a legal requirement for a growing share (up to a maximum of 10%) of domestic revenue to be channelled to municipalities. There is also earmarking of public expenditure – 6% to universities and 4% to the Supreme Court. Critics label this earmarking 'structural blockage' to pro-poor expenditure. Some of the IP signatories of the JFA are providing funds for poverty reduction through the Supplementary Social Fund (FSS) (see details in Annex 3C). In the past funds included in the FSS have been protected from constitutional earmarking, but this has changed from 2005 when the FSS funds came under the ambit of constitutional earmarking.



### Box B3.1: Definition and Tracking of Pro-Poor Expenditures in Nicaragua

(Pro-poor expenditure is termed 'Poverty Reducing Public Expenditure [PRPE] in Nicaragua.)

#### **First generation PRPE**

The full PRSP, known as the ERCERP (*Estrategia Reforzada de Crecimiento Económico y Reducción de la Pobreza*), was approved in 2001 (Government of Nicaragua 2001). This elaborated for the first time in Nicaragua the definition of PRPE and a budget tracking system to monitor PRPE:

**Definition of PRPE:** The outlays, mostly capital outlays, are defined in the ERCERP expenditure programme (which provides a breakdown of programmes and policy actions). Capital spending defined in the ERCERP portfolio of programmes is linked to the four pillars of the strategy – 1) broad based economic growth and structural reform; 2) investment in human capital; 3) protection of vulnerable groups; 4) institutional development – and to the three cross-cutting themes – 1) environmental vulnerability; 2) social equity; 3) decentralisation. The current spending for the ERCERP refers mainly to the programmes related to the areas of education, health, agriculture, technology and social services (*GON ERCERP Second Progress Report 2003* – Government of Nicaragua 2003d).

The ERCERP identified disadvantages of this definition: it includes some non-poverty outlays (e.g. environmental, some infrastructure projects) and it includes some recurrent outlays and thus is not strictly comparable to the national public investment program. However, the advantages were seen as (a) the rigor with which ERCERP programmes are linked to its four pillars and three cross-cutting themes, and (b) the ease of deducting ERCERP current outlays from the budget (Government of Nicaragua 2001).

**Monitoring PRPE:** a tagging system was introduced in the ERCERP to identify government public investment projects classified as PRPE. The GON budget specifies origin, use and classification of HIPC-debt relief and PRPE. GON uses the Supplementary Social Fund (FSS) to manage the immediate priorities in the ERCERP and through SECEP provides a yearly PRPE report (World Bank 2004c).

The definition of PRPE used in the ERCERP was criticised by domestic and international stakeholders for including the total cost of the higher management of ministries (such as the Ministry of Education and the Ministry of Health) which encompassed the salaries of the high-level officials and other activities that did not necessarily have a pro-poor objective (Government of Nicaragua 2005a). Also from 2001 the PRPE definition expanded as new programmes directly linked to the ERCERP objectives were incorporated, particularly in the area of broad-based economic growth which was not developed in the original document (e.g., programmes related to territorial zoning, development of small and medium firms and environmental vulnerability among others) (Government of Nicaragua 2003d).

#### **Second generation PRPE**

The new Bolaños government (from 2002) considered that the ERCERP had too explicit a focus on social expenditure for poverty reduction and that it placed insufficient attention on directly growth-inducing expenditure. Consequently GON has developed a second generation PRSP, elaborated in the National Development Plan (PND – *Plan Nacional de Desarrollo*) 2005–2009 and the operational version of the PND (PND-O – *Plan Nacional de Desarrollo Operativo*). The main shift is that the economic growth pillar is now paramount in influencing development priorities. The ERCERP Poverty Map is replaced with a growth cluster map focused on strengthening the competitiveness of businesses in seven clusters (tourism, coffee, dairy, forestry, fish, textiles, energy).

**New definition PRPE:** In the PND, PRPE is now defined by 4 criteria: 1) resources transferred to the extremely poor; 2) provision of basic social services; 3) programmes orientated to strengthen the capacity of the poor to increase income; and 4) programmes to enhance expenditure efficiency in health, education and social sectors. From 2005 the PND uses this definition as the basis for the new medium-term PRPE framework.

**Monitoring PRPE:** the established monitoring system continues, using the FSS to track PRPE with SECEP providing annual reports.

There is some criticism that the definition of PRPE in the PND has become even more imprecise and includes "anything that contributes to growth and poverty reduction". One recent report noted, "The economic growth pillar of the strategy, which was initially the least developed, now threatens to replace the poverty reduction strategy altogether" (ISS 2004a).

## Assessment against Evaluation Criteria

### Influence on Expenditure Allocation

The influence of PGBS funds on the levels and shares of pro-poor expenditures.			
General Situation:	Level: **	Trend: +	Confidence: **
PGBS Influence:	Effect: *	Efficiency: **	Confidence: **

B3.7 The flow of PGBS funds is very recent and requires caution in assessing effects. Nevertheless, the total amount of PGBS funds disbursed in 2004 amounted to USD 62.6m – equivalent to 15% of central government capital expenditure and in the region of 5% of total central government spending in that year (MINREX 2005; SECEP 2005a). This is equivalent to about 10% in pro-poor expenditure. However, as PGBS is given more in substitution rather than in addition to project aid this is a re-badging of funds rather than an overall increase. At the same time, while it is not adding to the total volume of donor resources it is introducing greater flexibility in the use of these resources.

B3.8 Concerning effects on shares of expenditure, it is necessary to consider if there are explicit commitments associated with PGBS that have direct or indirect implications for the shares of particular types of expenditure (e.g. explicit commitments about expenditures in the PAM etc., or implicit expenditure requirements to meet commitments not expressed in financial terms). The EC PAPSE component represents an increase in funds for the education sector (or at least an increase in the certainty of their availability to MECD [Ministry of Education]) as there is an understanding between MHCP and MECD that 92% of the EC PAPSE funds will be destined for this sector. See discussion in ¶B3.10.

### Discretionary Expenditure

The extent to which the PGBS funds have contributed to the increase in the proportion of external funds subject to the national budget			
General Situation:	Level: **	Trend: +	Confidence: ***
PGBS Influence:	Effect: *	Efficiency: **	Confidence: ***

B3.9 PGBS funds are a reorientation of existing aid and therefore do not significantly increase the volume of aid funds flowing through the CUT. However, they are fully fungible – GON can allocate them by the same procedures as applied to domestic revenue – and so represent an increase in GON discretion. See ¶B2.17.

B3.10 There is also an issue as to whether, in practice, the EC portion of the PGBS funds increases budgetary discretion (see Chapter B1). It could be argued that this "voluntary earmarking" merely reflects the performance indicators attached to the grants. Whether this is inconsistent with the aim of increasing GON discretion depends on whether the GON genuinely shares the priorities implicit in the agreed performance indicators.

B3.11 Some local government authorities fear that an increase in PGBS over the medium term could lead to a reduction in the volume of foreign aid channelled directly to municipalities through project aid. This fear appears unfounded because of the legal requirement for a growing share (up to a maximum of 10%) of domestic revenue to be channelled to municipalities. Others point to the structural blockage to the pro-poor objectives of PGBS caused by the earmarking of public expenditure for the universities and to the Supreme Court. There is an important point to raise here in discussion of discretionary expenditure. One of the principal arguments for budget support is that channelling funds through the national budget

enables a government to address its priorities more rationally than if expenditures are the arbitrary outcome of a fragmented set of donor (and sector ministry) decisions. But rigid laws that require the government to earmark (in 2005) a total of 10% of public expenditure (to universities, and the Supreme Court) and 6% of domestic revenues (to municipalities) themselves limit the discretion of the planning and budgeting process.

### Predictability

The extent to which the scheduling and delivery of PGBS funds have contributed to the overall predictability of aid flows and public expenditures.			
General Situation:	Level: **	Trend: -	Confidence: **
PGBS Influence:	Effect: perverse	Efficiency: na	Confidence: **

B3.12 In principle PGBS should increase the predictability of aid flows channelled through the official public expenditure system. However, there is a significant danger of a perverse effect if GON failure to meet conditions leads to short-term suspensions, or delays in disbursement, of PGBS, as occurred during the second half of 2005. It is important to highlight that thus far PGBS has not succeeded in increasing the predictability of aid.

B3.13 There is also an issue of how predictable PGBS funds that are disbursed through a variable tranche mechanism linked to performance will be (EC and Swiss PGBS). The GON so far prefers to leave these funds out of the normal budget and resort to budget increases if the performance criteria are met and the funds are disbursed. See ¶B2.14.

### Efficiency of Expenditure

The extent to which the scheduling and delivery of PGBS funds have contributed to the overall efficiency of public expenditures and aid flows.			
General Situation:	Level: *	Trend: +	Confidence: **
PGBS Influence:	Effect: null	Efficiency: *	Confidence: **

B3.14 Allocative efficiency of expenditure depends on appropriate allocations between and within sectors. Operational efficiency relates not only to the formulation of the budget but also to its execution. Annex 4, which reviews public finance management (PFM) in Nicaragua, draws attention to two well-known structural factors that contribute to inefficiency in public expenditure. First, the budget is traditionally drawn up on the basis of historical trend growth and not by a programme nor by a results-oriented approach. Second, that there is a long history of underspend because of the continuing problems of administrative capacity. The level of underspend varies between ministries and has been highest in the Ministry of Agriculture, the Ministry of Health (MINSAs) and the Ministry of Construction and Public Works. In the most recent period, 2002–2004, there has been a marked improvement on this count (MHCP 2005a).

B3.15 The way aid is managed has direct implications for the efficiency of public expenditures. The WB 2001 PER noted:

High aid dependency has led to an over-emphasis on capital spending, both at the expense of recurrent spending and in terms of a widespread misclassification of recurrent expenditures as capital expenditures. The dependence on donors has also tended to undermine the public sector's limited expenditure management capacity. One manifestation of this is the inordinately high fluctuations in capital spending which reduce program effectiveness (World Bank 2001b).

B3.16 The considerable gap between the approved and disbursed levels of public expenditure is also caused by delays in foreign aid disbursements, which affects all ministries. If the funding is not on time, then the aid-funded project does not proceed. However, the approved budget cannot be adjusted downwards nor can available local counterpart funds be vired for other purposes. In contrast, if extra aid funds arrive unexpectedly, a budget increase can be automatically approved without congressional approval. The difference between aggregate expenditure in the budget and actual expenditure was around 10% to 15% at the beginning of the reporting period but has fallen considerably in recent years. Total current expenditure in 2003 was 97.4% of the approved budget figure and total capital expenditure was 93.2% of the approved budget figure (World Bank 2004c).

B3.17 In principle, PGBS should enable GON to manage public expenditures more efficiently. It offers the potential for improvement in efficiency from the clear classification of recurrent and capital costs (a condition for the PRSC) and an increased predictability of funds. The MTEF process which is being supported by PGBS donors should also improve the budgeting process, with sectoral allocations decided on the basis of the national development plan and allocations within sectors based on performance indicators. It is too soon to perceive such an effect. Whether the effect materialises in due course depends heavily on progress in strengthening PFM generally (see Chapter B4 and Annex 4). This also links back to the discussion of how predictable PGBS funds in practice will be (¶B3.13).

B3.18 An ongoing issue for the GON is the problem of budget increases decreed during the fiscal year, often caused by late disbursement of aid flows. The package of laws that were waiting approval by the NA in the first semester of 2005 included a new law on financial administration and the budget, which coordinates all systems of public expenditure management: the budget, the treasury, accounting and public credit. This law will regulate all processes related to the formulation, approval, execution, control, evaluation and liquidation of the national budget. In particular, it reduces the possibility of increases in the budget decreed by the Executive during the financial year without the approval of the NA. Delay in its approval along with other factors (the large wage increases approved by the NA in the 2005 budget as well as the delayed passage of other laws) resulted in the IMF postponement of the PRGF review, which in turn triggered the suspension of the 2005 PGBS disbursement. The freezing of PGBS funds because of the lack of approval of these laws, combined with the risk of being declared off-track by the IMF, is expected to create sufficient pressure on the NA to lead to a rapid (without major modifications) approval of the package of laws despite the current tense dialogue between the Executive and the legislature.<sup>40</sup> These reforms would lay the basis for a strong future contribution of PGBS to improvements in the efficiency of public expenditure.<sup>41</sup>

### Transaction Costs

The influence of PGBS on the transaction costs of the budget process and utilising aid.			
General Situation:	Level: *	Trend: =	Confidence: **
PGBS Influence:	Effect: *	Efficiency: **	Confidence: **

B3.19 There are clear transaction cost savings for GON inasmuch as PGBS funds are disbursed entirely through GON systems without special procurement or accounting requirements for the donors. In principle there should also be transaction cost savings (at least

<sup>40</sup> According to key informants in the GON, the 29<sup>th</sup> June Declaration of the President of the BSG to the MHCP, prepared in agreement with the Government, should be interpreted in this context (La Prensa 2005c).

<sup>41</sup> The discussion of the IMF signalling role and how donors react to it, along with the counterfactual in the long term (i.e. implications of providing budget support in a context of macro instability) is taken up and developed in the GBS Evaluation Synthesis Report.

for GON) in dealing with donors jointly (as agreed in the JFA). However, any new arrangement introduces start-up transaction costs, and it is too soon to judge whether the JFA system will result in a significant transaction cost saving.

### **Principal Causality Chains**

B3.20 PGBS is bringing more external funds under the discretion of the national budget, but it is too early to observe subsequent effects (2.2/2.3–3.2–3.5/3.6). It is too early to tell whether PGBS is likely to lead to an increase in resources for service delivery (2.4/2.5–3.1).

### **Counterfactual**

B3.21 Alternatives to PGBS include structural adjustment type programme aid, project-focused aid and attempts to address acknowledged weaknesses in aid management and public expenditure management through better coordination at sector level. Bringing project funds on-budget through the CUT is a valuable improvement but, per se, has only a limited effect on GON's budget discretion. Although the fungibility associated with PGBS can increase discretionality and efficiency in public expenditure management, these can also be achieved through SBS, although in a more limited way. Indeed, there is some evidence of improvements in coordination and focus of aid at sector level through the sector roundtables and associated moves towards programme-based approaches. However, these sector-level improvements and PGBS are not mutually exclusive, and PGBS operating at national (rather than sectoral) level is more likely to be effective in addressing the overall and systemic aspects of public expenditure management. Finally, the reduction in transaction costs associated with PGBS is potentially higher than for other aid modalities. However this and many other positive effects attributable to PGBS remain at risk from the current low level of predictability.



## B4. The Effects of Partnership GBS on Planning and Budgeting Systems

*How efficient, effective and sustainable has been the contribution of PGBS to improving government ownership, planning and management capacity, and accountability of the budgetary process?*

### Introduction

B4.1 This chapter addresses the effects of PGBS on planning and budgeting systems. It focuses on Level 3 of the EEF and traces through the causality chain from Levels 2 to 3 to evaluate whether:

- policy dialogue, conditionality, TA and IP alignment and harmonisation (2.4/2.5/2.6) has enhanced partner government's ability to strengthen PFM and government systems (3.2), leading to operational and allocative efficiency of PFM systems and strengthening intra-governmental incentives and enhanced democratic accountability (3.5/3.6/3.7/3.8).

These causality chains are shown in Figure A1.1 (the causality map of the EEF).

### Relevant Facts: Planning and Budgeting Systems in Nicaragua

B4.2 Information about the planning and budgeting system is contained in Annex 4. It is important to point out that while technical reforms are continuing, they are subject to underlying domestic political factors. Donor and IFI pressure has a short-term influence, but doubts remain about the depth and durability of the changes that result.

B4.3 Diagnostic studies undertaken 1993–1994 (WB, USAID and IADB) showed that public finance management (PFM) was poor, constrained by the government's limited ability to execute policies and programs in a cost effective and transparent manner (World Bank 2003a). From 1995 to 2000 WB TA (Institutional Development Credit) of USD 23m accompanied the WB Economic Recovery Credit to support the implementation of public sector restructuring and development of central government. This was instrumental in achieving some important milestones in public sector development, such as the 1998 public sector reform law (Law 290), which established the roles and operation of core government ministries, and the introduction from 1995 of the integrated financial management and audit system SIGFA (see Box A4.1 for further details). SIGFA is the public finance management arm of a donor-supported programme of public sector reform. From 2000–2003 the development of SIGFA was supported by the WB Economic Management Technical Assistance Credit (EMTAC) with funds of USD 21m. It is supported by the WB and bilaterals with the USD 24m Public Sector Technical Assistance Credit (PSTAC).<sup>42</sup> See Annex 3B for further details of these programmes.

#### Box B4.1: SIGFA (Integrated Financial Management and Audit System)

Implementation began during the second half of 1995:

- Operational in 1998 for MHCP's core financial management operations: budgeting, accounting and treasury.
- Two subsystems introduced: cash management subsystem for the CUT and GON payroll system.
- Fully established in the budgetary process for 2002.
- By mid-2005 58 public sector organisations linked to SIGFA, including all 12 central government ministries.

Source: Country Financial Accountability Assessment (World Bank 2003a).

<sup>42</sup> Interview with UCRESEP, June 2005.

B4.4 Since 2003 the investment planning process has been carried out through SNIP (*Sistema Nacional de Inversión Pública*). This system was created with the support of Germany, IADB and the WB. Its development has been funded by the WB EMTAC and current PSTAC (SNIP 2005). The objective of this system is (a) to rationalise the use of public expenditure by defining the process and procedure to select investment proposals, and (b) to monitor the implementation of public investments through the supervision of the disbursements of individual projects. Although based in SECEP, it is an inter-institutional initiative. The MHCP, BCN, SREC, sector ministries and departments are all represented through various consultation and implementation bodies. In the long term SNIP should enable the preparation of a national investment plan that is consistent with the objectives of the PND and in line with the Medium Term Expenditure Framework (MTEF) (under development in 2005). It aims to ensure that public sector bodies do not make individual agreements with donors on investment programmes that are not included in the national and sectoral development plan. The project database of central and local government investment projects enables online monitoring of project execution. Most of the information is available on the internet<sup>43</sup> and since 2003 the real time data can be consulted by the MHCP, BCN, the NA and the regional investment planning units.

B4.5 The introduction of the CUT in 2001 (as discussed in ¶B3.2) rationalised the hundreds of separate bank accounts previously maintained by GON and is an improvement in bringing external aid flows on-treasury (if not all on-budget). This improvement has been achieved largely thanks to the strengthening of SREC within MINREX. SREC is responsible for signing all new foreign aid agreements and has developed a comprehensive and publicly available database of official aid flows to Nicaragua: SysODA (*Sistema de Información de la Cooperación Oficial al Desarrollo para Nicaragua*) (MINREX 2005–2006). This provides an online aid breakdown by geographical department, sector and donor. Other reforms include the increased transparency introduced by the public service MHCP website that came on-line in 2003 and government procurement information that is also available on-line through the MHCP website.<sup>44</sup>

B4.6 Although these represent major advances, there are still major deficiencies in the degree of integration between the processes for planning, budgeting and public expenditure in Nicaragua. First, there has been a history of a lack of inter-institutional coordination between the body responsible for planning (SECEP) and that responsible for budgeting (MHCP). This has been an obstacle to effective coordination between the SNIP and SIGFA initiatives (as well as the proposed MTEF) and may be one of the reasons why aid disbursements channelled through FISE (the Emergency Social Investment Fund) and IDR (the Institute of Rural Development), as well as expenditure by municipalities and some state-owned enterprises, are still not captured in SIGFA. The decision in the JFA to designate MHCP as lead coordinator of the GON in negotiations with PGBS donors, including overall responsibility for monitoring the implementation of the PAM, suggests that this rivalry may be diminishing. Second, the common practices of budget increases decreed during the financial year, and of executive approval – with the tacit approval of the IMF – of grants and loans after the national budget has been passed by the NA, wreak havoc on financial forecasting.

B4.7 SNIP also still has some limitations. Up to now the investment project selection process does not include such institutions as the Emergency Social Investment Fund (FISE – *Fondo de Inversión Social de Emergencia*) which undertake most of the infrastructure projects in the social sector, and investment projects funded through aid grants do not follow the SNIP procedures and selection process. Similarly, there is no link yet with SIGFA (this is planned). The reliability of the information provided by SNIP still needs to be improved. Finally, the regional offices of SNIP do not cover all parts of the country.

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<sup>43</sup> [www.snip.gob.ni](http://www.snip.gob.ni)

<sup>44</sup> [www.consultaciudadana.mhcp.gob.n](http://www.consultaciudadana.mhcp.gob.n) and [www.hacienda.gob.ni](http://www.hacienda.gob.ni)



B4.8 Important progress in all processes is expected with the newly approved law on budget and financial administration in the second semester of 2005 (part of the PRGF conditionality). This law regulates all processes related to the formulation, approval, execution, control, evaluation and liquidation of the national budget. It reduces the possibility of increases in the budget decreed by the Executive without approval of the NA, and increases transparency in the process. It links SNIP to the (proposed) MTEF and to the annual budget formulation process, thus promoting overall allocative efficiency.

B4.9 The NA's conflict with the Executive has reduced effective executive control over the overall budgetary process. Since 2002 the NA has regularly sought to effect significant alterations to expenditure allocations. This has caused long delays in budgetary approval. In the absence of hard budgetary constraints, the NA has also authorised unilateral increases in public expenditure during the fiscal year. In 2004 such an increase forced the Executive to press for emergency legislation to raise tax revenue correspondingly in order to keep within the IMF-agreed ceiling for the fiscal deficit.

## Assessment against Evaluation Criteria

### Systemic Effects on the Budget Process

#### Ownership

The extent to which an increase in predictable and discretionary resources has helped to increase ownership of the budget process and commitment to improved budgeting.			
General Situation:	Level: *	Trend: +	Confidence: *
PGBS Influence:	Effect: *	Efficiency: *	Confidence: *

B4.10 Annex 4 mentions that there has been significant progress in strengthening instruments for budgets. However, there are doubts about the depth and breadth of GON ownership of the reforms. The reforms are mainly technical and do not focus much on the political level. As noted, the deterioration of the relationship between the Executive and the NA also undermines the ownership of the reforms outside core government departments.

B4.11 There are serious doubts regarding the predictable and discretionary nature of PGBS itself (see discussion in Chapter B3). Furthermore, it is too early to judge the effects of PGBS given that the first substantial disbursements were made in 2004.

#### Accountability

The extent to which the increased use of government systems and processes helped to improve the accountability of public expenditures.			
General Situation:	Level: *	Trend: +	Confidence: ***
PGBS Influence:	Effect: null	Efficiency: **	Confidence: ***

B4.12 Since 2002 there has been an important improvement in bringing more public resources within the scope of GON's formal accountability systems (see Annex 4). In particular, SIGFA has played an important role in making more donor contributions visible within the GON budget system. However, as Annex 4 notes, those systems are not very robust. PGBS reinforces the trend towards using government accountability systems; this is positive, but not sufficient in itself to ensure adequate accountability. Because it is so recent, the effect of PGBS up to the end of 2004 is rated as negligible.

*Durability*

The extent to which PGBS supports government in internalising such improvements (ensuring the sustainability of the whole process).			
General Situation:	Level: null	Trend: =	Confidence: ***
PGBS Influence:	Effect: null	Efficiency: **	Confidence: ***

B4.13 There is some evidence that these improvements have been internalised in the GON in order to ensure sustainability of the whole process. This is most evident in the BCN and MHCP. However, a major concern is that the technical improvements, such as the creation of the SIGFA and the establishment of the CUT, have not been accompanied by any significant moves towards the introduction of professionalism within the public administration in general. Nor do they address the fragmentary tendencies in Nicaragua's political system and government institutions which are inimical to sustained and stable improvements in public expenditure management. Thus the sustainability of recent improvements is far from assured.

*Capacity development*

The extent to which PGBS is supporting capacity development in PFM.			
General Situation:	Level: *	Trend: -	Confidence: ***
PGBS Influence:	Effect: null	Efficiency: *	Confidence: ***

B4.14 Analyses cited in Annex 4 show that weaknesses in PFM are both deep-seated and long-standing. ¶B4.3–¶B4.5 detail donor TA and government reforms in this area since the mid-1990s. In the context of the HIPC initiative the concerns of both donors and the GON led to a more comprehensive and concerted approach to PFM reform (with the Public Expenditure Review [World Bank 2001b] and the regular reports of the HIPC Public Expenditure Tracking Assessment and Action Plan [World Bank 2001c, 2004c]). The prospect of securing HIPC resources provided an incentive for systematic reforms related to PFM and poverty expenditure tracking. PGBS can be seen as a continuation and reinforcement of the impetus initially derived from HIPC. There is evidence of significant complementarity between the financial and non-financial (TA, capacity building, dialogue and conditionality) inputs of PGBS in addressing capacity development. Although the TA needs of PGBS received little overt attention in the negotiations leading up to the signing of the JFA, several donors that signed the JFA are funding TA related to the implementation of PGBS through the PSTAC and the EC PAI-NIC.

B4.15 The creation of a basket funding arrangement for TA (PSTAC) and the TA dialogue among the BSG increase the prospect of better coordination of the PGBS non-finance inputs in the future. Indirectly, the cooperation between the IADB and the WB should allow coordination with capacity-building inputs provided by other donors. However the fact remains that PSTAC – the main TA support associated with PGBS – is used primarily to pay the salaries of line ministry officers and senior level staff within the MHCP and SECEP. Although it enables the GON to guarantee progress in the reforms by attracting well qualified staff, this approach is highly detrimental to the sustainability of capacity development and institutional strengthening. Again, since substantial PGBS is so recent, improvements that can be attributed directly to PGBS by end-2004 are negligible.

**Principal Causality Chains**

B4.16 In examining the causality chain hypothesised in ¶B4.1, there is circumstantial evidence that the process of donor harmonisation and alignment that preceded the introduction of PGBS and the JFA (including the innovations stimulated by the HIPC initiative) contributed somewhat to improving government ownership and management capacity over planning and the budgetary

process. While PGBS is too recent for substantial effects of PGBS per se to be visible, PGBS is likely to reinforce incentives for government and donors to collaborate in continued reform of PFM. There have been some significant technical and procedural improvements, but – as the assessment in Annex 4 indicates – substantial further improvements are required.

### **Counterfactual**

B4.17 In principle, technical improvement in planning and budgeting systems can be introduced through projects. In practice, success in achieving institutional reforms is more likely when they are tackled on a sector-wide and cross-sectoral basis. The PGBS-related dialogue (and before that the dialogue around HIPC) has enabled government and donors to engage with systemic issues in a way that project and sector work alone does not achieve.



## B5. The Effects of Partnership GBS on Policies and Policy Processes

*How efficient, effective and sustainable has been the contribution of PGBS to improving public policy processes and policies?*

### Introduction

B5.1 This chapter addresses the extent to which PGBS has resulted in improved public policy and processes. As such it focuses on tracing causality from Levels 2 to 4 in the EEF to evaluate whether, through PGBS:

- policy dialogue/conditionality focused on key public policy and PE issues and priorities (2.4); TA and capacity development focused on key public policy and PE issues (2.5); and IPs moving towards alignment and harmonisation around national goals and systems (2.6); has led to pro-poor policies and targeting (3.3) which in turn leads to appropriate sector policies to address market failure (4.4), and appropriate private sector regulatory policies (4.2).

These causality chains are shown in Figure A1.1 (the causality map of the EEF).

B5.2 The main challenges are: i) to attribute results to PGBS in relation to the policy process going on at sector level given the high number of other donors which are active at sector level through the sector roundtables and SWAps, and ii) to distinguish the effects on policies and policy process of PGBS from those due to aid modalities or projects in force prior to 2003, particularly the HIPC process.

### Relevant Facts

B5.3 In the 1990s support for the policy reform process came mainly through multilateral programmes under the leadership of the WB and IMF. Conditionality was numerous, short term and often overly ambitious; for example the WB evaluation of its own ERC programmes reported that the goals were too ambitious and institutional level reforms needed more time to be sustainable (World Bank 2003b). Reforms carried out during this period focused on macroeconomic stabilisation and restructuring of the public sector – key conditions for obtaining the external aid needed by GON. Since the mid 1990s WB support to reform process was accompanied by TA credit (see ¶B4.3). This TA was instrumental in the achievement of some of the important milestones of public sector development. Though many of the reforms were initiated by GON, the influence of the IFIs was very strong in the definition of strategies and policy objectives (Dijkstra 1999, World Bank 2003c). The dialogue was mainly with MHCP – traditionally the IFIs' preferred interlocutor. Through this special dialogue MHCP was able to undertake reforms that were necessary, with effective "protection" from political interference.<sup>45</sup>

B5.4 From 2000, the following facts represent the framework of the policies and policy process: i) the formulation of the first PRSP in 2000 and the subsequent achievement of the HIPC decision point in December 2001, one month following the result of the presidential elections; ii) the elaboration of the ERCERP, the first structured PRS of the country to which donors started to align their programmes and to which government poverty expenditure tracking was linked; iii) the PND, presented in October 2003 to the donor community and representing

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<sup>45</sup> Interviews in 2005 revealed that the need to respect the conditionality set by donors was often the only way to achieve carrying out certain reforms.

the country's position on its future development policy (and presented as a further elaboration of the ERCERP Pillar I economic growth); iv) the Presidential Decree No.71-2003 which launched the mechanism of the sector roundtables for the dialogue with IPs and civil society on global and sector policies, and the subsequent organisation of a general donor roundtable; v) the approval of a number of key laws in the area of public sector reform (Annex 2C) between 2001 and end of 2003 leading to the achievement of the HIPC completion point in January 2004; vi) the presentation of the operational version of the PND, the PND-O 2005–2009, in September 2004; vii) the OECD Joint Country Learning and Assessment (JCLA) completed in October 2004 and followed by the preparation of a national Harmonisation and Alignment plan presented to the DAC Group in March 2005; viii) the progressive elaboration of a kind of “roadmap” for sector policies implementation represented by a SWAp with a sector policy and plan to achieve the MDGs, a MOU and a medium-term common working plan; and ix) the presentation of a strategy and action plan for the development of a MTEF in April 2005 and the inclusion of three pilot sectors (education, health and transport) in the MTEF for the 2006 budget.

B5.5 The above developments have occurred in a context of i) progressive deterioration of the relations between the Executive and the NA; ii) cessation of activity by the National Council for Social and Economic Planning (CONPES – *Consejo Nacional de Planificación Económica Social*), the civil society and GON consultative body; and, iii) inactivity of the Supreme Court and a widespread lack of trust of the population in the judicial system.

## Assessment against Evaluation Criteria

### Influence on Reform Process

#### *Ownership and effectiveness*

The extent to which PGBS (allowing for the time lags of its operations) has helped (is helping) to establish/maintain a comprehensive, coherent and effective pro-poor reform process, owned by the government.			
General Situation:	Level: *	Trend: +	Confidence: **
PGBS Influence:	Effect: *	Efficiency: **	Confidence: **

B5.6 Chapters A2 and B3 have highlighted reservations about the coherence, durability, and pro-poor orientation of national strategies. PGBS donors therefore cannot simply support a proven, coherent strategy, but are nonetheless engaged in strategy formulation, with inevitable risks to national ownership of the process.

#### *Overall development policy process*

B5.7 There is a strong link between PGBS and the national development policy process, due to the evolution of the relationship between the HIPC initiative and the ERCERP process, with increasing GON ownership. Since its formation in 2003 the BSG has acted as a GON counterpart in the dialogue on the overall pro-poor reform process.

B5.8 The alignment of PGBS donors (including the WB) with the PND objectives rather than to the ERCERP (to which PRGF and PRSC are linked) represents an important difference from HIPC and should allow for increased country ownership. However the influence of the PGBS IPs on the policy process is still high. Firstly in 2005 it was foreseen that the PND-O would be approved by the IMF and WB, but not by the NA. Secondly the JFA PAM has been elaborated in parallel with the revision of the PND-O following WB and other donor comments. This means that JFA objectives are aligned with the PND and the indicators included in the PAM are taken from the PND-O matrix. It has been a two-way process: while the PGBS dialogue influenced the national policy formulation process by guiding it towards the production of a more operational

and consulted plan, at the same time the increased GON leadership of this process has required a progressive alignment of PGBS to the PND rather than to ERCERP. However, the fact that the JFA was signed before the PND-O was finalised casts some doubt on the extent to which the reform process is nationally-owned, mainly due to the government's preparedness in terms of institutional capacity (with weak government capacity in some sectors) and political structure (with the fragmentation of Nicaraguan politics and administration). See discussion ¶C4.1–¶C4.4.

*Pro-poor sector policy process*

B5.9 At sector level, the pro-poor reform process has been largely influenced by GON's own approach launched in 2003 based on the creation of sector roundtables to facilitate donor coordination and intra/inter-ministry dialogue on financial and sector policies. These tables represent today the locus of sector policy discussion and formulation and are used to develop the PND into a concrete and measurable plan and strategies. Given that in 2003 PGBS had just started, its contribution to the launch of this approach is limited. Indeed in the case of the education sector, the functioning roundtable and associated sector policy<sup>46</sup> have been instrumental to the inception of PGBS. On the other hand, not all sectors have progressed in the same way as the education sector. In sub-sectors such as rural development, or in the justice sector, the roundtables are being revamped and sector policies developed through PGBS.<sup>47</sup> It is important to remember that in key pro-poor sectors such as education, health or rural development, the existence of project aid and SBS provided by donors other than the signatories of the JFA is important both in terms of funds and donor influence. Therefore sector progress has to be attributed to overall aid rather than solely PGBS.<sup>48</sup>

*Public administration and institutional reform process*

B5.10 The public administration reform process is closely linked to PGBS. Public administration is central in the analysis of the preconditions of PGBS since a well functioning government is key to the success of GBS. However, the attribution of registered improvements to PGBS is complicated given that key reforms were launched before PGBS started, either as preconditions for HIPC or as extensions of the reform process set in motion from the 1990s (for instance SIGFA, CUT, SNIP) through other programmes (such as WB ERC and accompanying TA).

*Participation*

...in which, an appropriate range of stakeholders is involved in policy formulation and review			
General Situation:	Level: **	Trend: +	Confidence: ***
PGBS Influence:	Effect: *	Efficiency: *	Confidence: ***

B5.11 Since the mid 1990s a number of institutions have been created to increase participation in the dialogue over policies and policy process. This includes the National Council for Sustainable Development (CONADES – *Consejo Nacional de Desarrollo Sostenible*) (1994) which gathers representatives at local level of both government and civil society and has in its mandate the discussion and assessment of all sectoral policies related to sustainable development; CONPES (1995) which is formed of representatives of the government, economic sectors, civil society, representatives of the parties, trade unions and other public institutions; and the *Coordinadora Civil* (1998) which is an umbrella organisation for NGOs working in the

<sup>46</sup> This was the result of strong ministerial leadership, but also due to the support the sector received through several projects in previous years through the framework of the Education For All (EFA) fast track initiative.

<sup>47</sup> For instance, in the justice sector the EC through its TA is facilitating the review of the sector policy and the preparation of a financing plan coherent with the mid term financial perspectives.

<sup>48</sup> The justice case may be an exception, given the relative low presence of donor funding compared to other sectors, and the fact that, if finalised the EC PAP Access to Justice, will represent an important player at least in terms of institutional support and in sub-areas such as application of the new penal code and citizen security.

field of sustainable human development. Over the evaluation period a number of laws have been approved to enhance quality and quantity of various stakeholders in the policy and reform process.

B5.12 Despite the improvement in government ownership over the planning process, the budget process itself has not become significantly more accountable in recent years, although IPs have consistently sought to encourage the 'voice' of the poor in the formulation of government development strategy. CONPES includes actors representing very different interests and consequently can obtain agreement only on a very basic common denominator. This has limited the efficacy of its recommendations and consultation. Another factor weakening the role of CONPES is that there is no mechanism for feedback on its recommendations nor any obligation for the President to take them into account. The Bolaños government restructured the membership of CONPES in order to strengthen the representation of private business interests, which now represent 60% of its membership. Although the GON points to its continued existence as evidence of civil society participation in the national planning process, from 2002 to mid-2005 the influence of CONPES on policy formulation and over the preparation of the annual budget has declined markedly i.e. precisely during the 'run-up' to the introduction of PGBS.

B5.13 The involvement of other stakeholders in policy formulation and review has been limited in recent years. In particular the lack of involvement of civil society in the sector roundtables has been criticised (ISS 2004a). The cessation of activity by CONPES has caused civil society to be completely excluded from the structured and formal locus of policy dialogue. The NA has so far had a limited association with policy dialogue. The overall process of elaboration of the PND and PND-O is still considered by civil society as scarcely participative, with inclusion in the dialogue limited to a few districts and few representatives of civil society (Coordinadora Civil 2003; Hunt and Rodriguez 2004; ISS 2004a).

B5.14 Against the above background, so far the contribution of PGBS has been limited. BSG has interacted with GON in order to increase consultation on the PND and has expressed concern over the limited role lately played by CONPES but it has not been able to set in motion the needed change in the overall process of policy formulation. Civil society organisations in particular are concerned that they have been excluded from the dialogue related to PGBS.<sup>49</sup> At the time of the mission (May 2005), PGBS had not improved the interchange with the NA either, which was left out in the dialogue between the donors and government over PGBS and the supported reforms.

B5.15 In its current formulation the JFA does not reflect the new mechanisms of citizen participation introduced in 2003 to ensure a better link between municipality and central government, particularly in the elaboration of policies and investment planning. Neither does the JFA include a mechanism of dialogue with the other donors which have an important role at country level either in terms of aid volume, policy influence, or participation in supporting sector policies.

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<sup>49</sup> GBS donor representatives interviewed indicated that involvement of civil society was not a priority during the preparation of the May 2005 review due to time constraints. After the lengthy consensus building process, IPs considered it better to sign the agreement and set the process in motion, and to work on improving and refining the mechanism afterwards.



*Learning*

...in which, policy processes encourage both government and IPs to learn from experience and adapt policies to country circumstances			
General Situation:	Level: *	Trend: +	Confidence: **
PGBS Influence:	Effect: *	Efficiency: *	Confidence: **

B5.16 There is no strong tradition of information sharing and learning from the past in Nicaragua. This was one important weakness of aid during the 1990s. However, in recent years several important steps have taken place to improve this. Since 2002 the GON has set up a database of aid (SysODA), an important input for any analysis on aid. The sector roundtables, the donor roundtable and the annual aid coordination forums are important mechanisms for policy discussion, information exchange and the general learning process for GON and IPs since they were set up in 2003. The first Joint Country Learning and Assessment (JCLA) on aid H&A took place in Nicaragua in October 2004. It is too early to see how these new mechanisms will be used to adapt/improve policies.

B5.17 The JFA review mechanism represents an additional learning process. With its two yearly reviews based on a set of performance indicators it represents a potential first step towards a national system of performance review. However it is too early to see how these mechanisms will interact in order to create a coordinated learning capacity rather than parallel systems and the impact it will have on shaping future policies. PGBS donors' commitment to undertake joint evaluations as well as joint identification missions will further enhance the capacity of IPs and GON to learn from the past and to adapt policy to the country circumstances. However, for the time being the theory is ahead of actual practice, as is demonstrated by the fact that the annual review of the PRSC was conducted in July 2005 separately from the joint review of the JFA foreseen for August.<sup>50</sup>

**Influence on Policy Content**

*Public and private sectors*

.. in which policies address major market failures, the regulatory environment and the appropriate balance between public and private sectors			
General Situation:	Level: **	Trend: +	Confidence: **
PGBS Influence:	Effect: *	Efficiency: **	Confidence: ***

B5.18 During the 1990s, Nicaragua underwent an important programme of state-owned enterprise privatisation and reduction of the size of the overall public administration as part of agreements with IFIs. This programme has continued under the Bolaños administration with commitments undertaken in the PRGF 2 and PRSC 1, covering: the banking sector (regulatory framework, supervision and prudential rules), tax reform, trade liberalisation and improvement of the judicial system. The implementation of these reforms has progressed with ups and downs due to the increased deterioration of the relationship between the Executive and the NA. Often the content of the proposed laws have been changed by the NA, reducing their effectiveness. The country's historical background and the difficulties encountered in the approval of the latest reforms required by the IMF cast doubt on the pace of their implementation, and therefore on the effective capacity of these policies to address the current market failures.

<sup>50</sup> This situation has been modified in the second JFA review which took place at the end of September 2005. The PRSC review took place in the context of this JFA review thus eliminating previous parallel working.

B5.19 The PND has put priority on completion of the transition to the market economy with strong emphasis on developing and strengthening the national private sector and attracting foreign direct investment, so as to ensure future growth and poverty reduction. In this context the role of the state is as the provider of support to the private sector by means of physical infrastructure, support for increased competitiveness, administrative simplification, entrepreneurship training and access to credit, particularly for micro and small enterprises. According to some key respondents, this approach is risky because it assumes that the market is by itself able to accommodate the changes brought about by implementation of the policies (particularly those related to migration, urbanisation, changes in agricultural production methods) (Acevedo Vogl 2003).<sup>51</sup> At the same time the PND rightly focuses on the issue of land rights and security and of access to credit by the small enterprises and farmers. However, there is also the problem of high concentration of land (6% of farms cover 50% of the land whereas 70% are concentrated in only 10% of the land). A major criticism concerns the lack of acknowledgment of the role of women with consequences for the effectiveness of the credit policy developed for small farmers and micro-enterprises (Acevedo Vogl 2003). As indicated above, the operationalisation of the PND was still in progress at the time of the evaluation and the productive sector policy was one of those still to be finalised.

B5.20 The PND-O has been extensively discussed with the BSG since its first elaboration in October 2004. One result is that the PAM indicators correspond to those of the PND-O. On land issues, the conditionality included in the PRSC and EC PAP PND (which focuses on rural development) plays an important role on the future shape of this policy.<sup>52</sup> The indicators in the private sector development area of the PAM are mainly taken from the PRSC. Germany's contribution is linked to the PRSC and 25% of Switzerland's PGBS is linked to performance assessment in the private sector development area. On the other hand, other influential donors (IADB and USAID) work extensively in support of the private sector development, with the former also active in sector policy reforms (such as trade and banking reforms).

B5.21 PGBS reinforces the IFI conditionality on structural reform policies to be undertaken by the GON, as PGBS disbursement is linked to PRSC triggering indicators<sup>53</sup> and to EC programme fixed tranche conditionality which is linked to overall performances in the framework of macroeconomic stability. There is also an indirect PGBS influence on the reforms carried out in the framework of the PRGF since the existence of an agreement with IMF is an explicit or implicit pre-condition for PGBS donors to disburse funds.

### Sector policies

...in which, appropriate sector policies complement public expenditures			
General Situation:	Level: *	Trend: +	Confidence: *
PGBS Influence:	Effect: null	Efficiency: *	Confidence: *

B5.22 The sector policies included in the PND are at different degrees of development and the MTEF, which is a crucial missing link between policy and expenditure plans, was being planned at the time of the evaluation. Therefore (see Chapter B4) the articulation of sector policies with expenditure plans is weak, and it is too soon for PGBS to have made a visible difference.

<sup>51</sup> Interview with representative of small farmers, November 2004.

<sup>52</sup> The WB Land Administration Project (PRODEP – *Proyecto de Ordenamiento de la Propiedad*) is also important in this area.

<sup>53</sup> Eleven of the 19 trigger indicators included in the PRSC are related to macroeconomic stability (7) and poverty expenditure protection (1), and to Economic Growth and Competitiveness(3).

B5.23 In general the elaboration of sector policies started prior to PGBS in the context of the PRSP/HIPC initiative and other international initiatives such as Education For All (EFA). Some sectors, such as education and health, are considered well advanced with policies accompanied by operational strategies and financial analysis. Others, such as justice and rural development are at various stages (for example the rural development operational plan [PRORURAL] was in its last phase of elaboration in mid-2005). Taking education and rural development as examples, in both cases the operational plans correctly include actions at the institutional level – to strengthen the central ministry in its role of overall coordinator, planner and supervisor – as well as at the level of improving the coverage and quality of the provided services, thus focusing on a more sustainable, efficient and effective role of the state as service provider. However, as with other policies in the PND-O, both cases suffer from the persistence of a financing gap, (generally between 20% and 30%), in meeting the fixed targets for the next three years and, consequently, there is a lack of prioritisation in financing the activities.

### **Principal Causality Chains**

B5.24 Looking at the causality chains hypothesised in ¶B5.1, given the size of PGBS disbursements and the short time period, the only significant link is through increased policy dialogue. There is a focus on influencing the content of policy with regard to public administration reform, because this is the main area of the PRSC and was already at the core of the previous WB loans, and with regard to the preparation of a MTEF, which is the focus of recent TA. Despite this link through policy dialogue there is little effect of PGBS on the changes of traditional patterns in institutional behaviour with regards to a greater involvement of relevant stakeholders or the promotion of increased accountability to civil society. In a way it could be said that PGBS has accommodated itself to the circumstances, thus absorbing the limits of the current processes, rather than acting as a factor of change. However, the short period of time that PGBS has been in place means it is not possible to say if this observed attitude is the result of the current circumstances and due to PGBS being in a pilot stage or whether this will continue in the future.

### **Counterfactual**

B5.25 The existence of functioning roundtables and an increased capacity of the ministries to dialogue, coordinate and plan, would make it possible to have a coherent link between sector policy and public expenditure through SBS and eventually project aid, if aligned with the government priorities. However, sector roundtables by themselves do not address the mutual consistency of sector policies and expenditure proposals.

B5.26 PGBS is not seen as a substitute for efforts to support policy strengthening and reform through project and sector approaches, but it is seen as the aid modality that is more able to address systemic issues. PGBS through the JFA offers IPs the possibility to influence the policy making process as well as policies themselves, where possibly few donors could have done so individually, particularly the bilaterals.



## B6. The Effects of Partnership GBS on Macroeconomic Performance

*How efficient, effective and sustainable has been the contribution of PGBS to macroeconomic performance?*

### Introduction

B6.1 This chapter examines how efficient, effective and sustainable the contribution of PGBS is to macroeconomic performance. Two chains of causality are involved in the EEF:-

- The first chain posits that a combination of more external resources for the government budget (2.1), the increase in those funds that are subject to the national budget (2.2) and the increase in their predictability (2.3) will all lead to improved fiscal discipline (3.4), which in turn will lead to a more favourable macroeconomic environment for private investment and growth (4.1), which will lead to a more conducive growth-enhancing environment (4.6).
- The second causality chain posits that the policy dialogue/conditionality, and TA and capacity development focused on key public policy and public expenditure issues and priorities (2.4), together with donors' moves towards harmonisation and alignment around national goals and systems will all lead to improved fiscal discipline (3.4), which in turn will lead to a more favourable macroeconomic environment for private investment and growth (4.1), which will lead to a more conducive growth-enhancing environment (4.6).

These causality chains are shown in Figure A1.1 (the causality map of the EEF).

### Relevant Facts: Macroeconomic Performance

B6.2 Since recovery from the hyperinflation of the late 1980s, Nicaragua has suffered repeated outbreaks of monetary instability, in a stop-start relationship with the IMF and donors (who generally make their assistance conditional on the country being on track with the IMF). Three periods stand out since 1990, punctuated by monetary instability and break up/make up between Nicaragua's polarised political groupings, and between the Executive and donors:

- *1990–97*: the newly-elected, US-backed Chamorro government on its own initiative took immediate measures to control hyperinflation, including making the local currency convertible and phasing out multiple exchange rates, liberalising domestic trade, reducing government spending and tightening credit. Investment and growth were restored within two years and there was an initially strong inflow of aid. But by 1992 the US government suspended aid because implementation of conditions was too slow, IFIs followed suit as did many bilaterals (despite an IMF plea to them to continue assistance). The volume of aid diminished throughout the mid-1990s.
- *1998–2001*: The disaster of Hurricane Mitch brought renewed unity between rival political factions and renewed commitment from donors with a resurgence of aid. The HIPC negotiations reached a decision point in December 2000 and the first PRSP emerged. But the GON came off track with the IMF as first, inflation increased (the result of pro-cyclical rise in government expenditure as public revenues rose, fuelled by high aid inflows and rising export revenues) and then the budget deficit increased as the export boom ended. Programme aid declined and ended sharply when the government of President Alemán was accused of money laundering.

- 2002–2005: With the commitment of the incoming government of President Bolaños to regaining monetary stability and reducing corruption, there was a resurgence of aid. This was led by the PRSC and PRGF programmes of the WB and IMF with bilateral donors following suit, notably Sida providing the first PGBS in 2002–2004, based on the IMF PRGF and WB PRSC. IADB also provided policy loans at this time through the FSS and MHCP, in addition to HIPC relief. The HIPC completion point was reached in January 2004. Despite the stresses of this period – notably the collapse of commercial banks and the cost to government of payments to depositors, controversially funded by increased domestic debt<sup>54</sup> – macroeconomic stability has been maintained. Economic growth has recovered, interest rates have fallen, external debt is expected to fall from 163% of GDP in 2003 to 74% in 2005 (mainly the result of HIPC relief) and domestic debt from 50% of GDP in 2002 to 39% in 2005.<sup>55</sup> Threats to macroeconomic stability remain, particularly from the continuing dispute between the legislature and the Executive. But there has been institutional strengthening in both BCN and MHCP with the assistance of donors (see Chapter B4).

B6.3 Each of the periods began with a substantial increase in aid. The first two periods tailed off as donors lost confidence in the responsiveness of government. As in the two earlier periods, relations with donors in the current period began well, until early 2005 when the IMF unofficially suspended a three-year PRGF owing to insufficient progress with five laws agreed in the PRGF. Although the budget support donors' review in May was satisfactory, they felt unable to disburse while Nicaragua was not on track with PRGF (Budget Support Group 2005c).

## Assessment against Evaluation Criteria

### Macroeconomic Effects

#### *Fiscal discipline and macroeconomic stability*

The extent to which PGBS has contributed to fiscal discipline and macroeconomic stability.			
General Situation:	Level: **	Trend: +	Confidence: ***
PGBS Influence:	Effect: null	Efficiency: *	Confidence: ***

B6.4 The extent to which the improved macroeconomic performance of Nicaragua from 2002 can be attributed to recovery in aid flows is uncertain. Aid as a percentage of GNI is lower in this period than in the mid-1990s but possibly more was flowing to government (via HIPC and FSS). Macroeconomic stability and recovery in economic growth no doubt benefited from the inflow of HIPC funds and from the strong financial support donors gave to the incoming Bolaños government in late 2001, on the grounds that its policies would be more favourable to macroeconomic stability, growth and combating corruption. Substantial flows of PGBS funds began only in 2004, and given the hiatus in PGBS flows occurring in 2005, it is too early to comment on its overall effects.

B6.5 Regarding institutional change, donor support for policy reform and capacity building has been in the form of sector programmes to support the ERCERP, particularly in education, health and public finance management (see Annex 3b and Annex 4). As in the case of financial flows from donors, the effect of donor support to reform and capacity building is positive but the size of its contribution to overall fiscal discipline and macroeconomic stability is uncertain. An important

<sup>54</sup> Payments by government to depositors were funded by central bank bonds (CENIS). These bonds are the subject of heated debate, centred on dissatisfaction that HIPC money is being diverted to servicing domestic debt at high interest rates, and with civil society calling for restructuring of domestic debt (Acevedo Vogl 2005).

<sup>55</sup> BCN; MHCP; and IMF staff estimates/projections.

example is support to the influential single treasury account (CUT), which began operation in 2001, and emerged from programme aid policy dialogue in the mid-1990s. This is designed to enable the treasury to be more liquid by channelling all revenues – domestic and external – through the treasury, thereby reducing borrowing requirements, borrowing costs and any crowding out of the private sector. Although informants believe that the CUT already has had a beneficial influence,<sup>56</sup> and is a step forward in efficiency for the treasury, other factors seem predominantly responsible for the macroeconomic stability since 2002 – particularly the contribution of recovered growth and HIPC funds to government revenues.

B6.6 Overall therefore, the assessments for the general situation since 2002 is that macroeconomic stability and fiscal discipline have been on an upward trend, the costs of financing the budget have fallen, and that aid programmes have contributed to these, but effects of PGBS were not yet evident – since the major financial flows and associated TA began only in 2004, and PGBS policy dialogue, conditionality, harmonisation and alignment efforts in this period were directed towards creating the JFA. A broader interpretation of PGBS policy dialogue might argue that PGBS thinking has been an essential part of the overall dialogue around poverty reduction strategies since the late 1990s and that therefore the benefits of donor support to capacity building in the early 2000s (much via sector programmes) should be attributed in part to PGBS. But on the narrower interpretation adopted for this evaluation the assessment must be that PGBS is too recent to have made any contribution yet to macroeconomic stability and fiscal discipline.

*Cost of budget finance*

The extent to which PGBS funding has reduced the cost of budget financing.			
General Situation:	Level: **	Trend: +	Confidence: ***
PGBS Influence:	Effect: null	Efficiency: **	Confidence: ***

B6.7 The cost of financing the budget in Nicaragua has fallen since 2002, because the volume of government borrowing has fallen as well as the cost of borrowing (interest rates paid on government debt) (Central Bank of Nicaragua 2004b). This is partly the result of a return to normality after government compensation to depositors in failed banks sharply raised both government borrowing and interest rates in 2001. But, as indicated in the previous paragraphs, inflows of HIPC funds and support from donors have also helped to reduce the need for the government to borrow. Since substantial PGBS disbursements only began in 2004, they did not contribute to this fall in the cost of financing the budget. However, as it comprises grants and soft loans, PGBS is a relatively low-cost source of budget finance. Institutional strengthening in macroeconomic management (notably the CUT) appears to have contributed to lower financing costs. But as indicated in the previous paragraph, only on a broad definition of PGBS dialogue could such institutional strengthening be attributed in any part to PGBS.

*Private investment*

The extent to which PGBS financing of public expenditures has adversely affected private investment.			
General Situation:	Level: *	Trend: =	Confidence: **
PGBS Influence:	Effect: null	Efficiency: **	Confidence: **

<sup>56</sup> A BCN spokesperson believed the CUT has already made some contribution to lowering government borrowing and interest rates.



B6.8 There is sometimes a concern that the expansion of public expenditure, supported by PGBS, may directly or indirectly crowd out private investment. PGBS in Nicaragua is too recent for any such effect to be observable. In any case, there is no evidence that such a crowding out effect is operating in Nicaragua.

*Domestic revenue*

The extent to which PGBS funding of public expenditure has adversely affected domestic revenue collection.			
General Situation:	Level: **	Trend: +	Confidence: **
PGBS Influence:	Effect: null	Efficiency: na	Confidence: ***

B6.9 There is a general concern that aid funding of the budget could lead to a reduction in the revenue collection effort by the government. On the other hand, non-financial inputs associated with aid may strengthen revenue collection, e.g., by supporting tax administration. However, PGBS flows are too recent to allow any relationship behind PGBS and domestic revenues to be established. In recent years revenue collection have been close to budgeted estimates and the tax share of GDP has been above the levels of the late 1990s (see Annex 2A, Table 2A.2).

**Facilitating Institutional Change**

The extent to which such improvement has been stable over the years and has allowed changes in institutional behaviour (private sector investment, central bank decisions, etc.).			
General Situation:	Level: *	Trend: +	Confidence: **
PGBS Influence:	Effect: null	Efficiency: null	Confidence: **

B6.10 As stated above, during the period 1994–2004 there have been repeated bouts of financial indiscipline and macroeconomic instability. However, by contrast, and in spite of political uncertainties, the most recent period since 2002 has been characterised by a high level of macroeconomic stability. Institutional capacity in macroeconomic management clearly improved over the past decade, as evidenced by the strengthening of systems within MHCP and BCN. Although the contribution of such institutional development to greater recent stability must as yet be limited, it provides a foundation for greater future stability. PGBS is too recent to claim any share as yet in this institutional development. But the policy dialogue and funds of programme aid, including sector programmes, have played a key role. As PGBS comes on stream more reliably, it is likely to play a key role in the future –arguably more efficiently than previous programmes owing to the harmonisation built into JFA.

B6.11 Factors affecting private investment are reviewed in Chapter C2. However, a lively response of investment to the current macro stability should not be expected. Investors use current stability as an indicator of future stability, because it is the future in which they will or will not make profits. Current stability is a weak indicator of future stability when there is a history of instability, and the period of stability is short. In other words, stability has to be sustained in order to increase confidence that it will be sustained. Thus despite the marked improvement in macroeconomic stability since 2002, there has been no corresponding surge in private investment and associated faster growth. Political uncertainties stemming from the bitter conflict between the Executive and the legislature, and a long-term lack of public investment in rural infrastructure, seem to be the underlying factors holding back private investment. If current macroeconomic stability is sustained this may help, but only to a limited extent.



### Principal Causality Chains

B6.12 In examining the causality links hypothesised in ¶B6.1, given that the first major disbursements under PGBS financing programmes in Nicaragua were in 2004, the observations are that it is too early as yet to claim macroeconomic impacts of PGBS. However, had the prospect of PGBS been absent from the policy dialogue and funding programmes since the late 1990s there might have been less motivation to build capacity and for donors to collaborate.

B6.13 Undoubtedly, the associated conditionality implicit in donor funding supporting the PND is encouraging a greater, more predictable and 'on-budget' flow of PGBS funds that will lead to greater fiscal discipline, though PGBS is too recent to claim a share (hence the null effects in this chapter). But the predictability of PGBS funding is still uncertain in a country where governance conflicts between the legislature and the Executive reduce confidence of investors and donors, as evidenced by the suspension of PGBS in 2005.

B6.14 The causality links hypothesised in ¶B6.1 include improved fiscal discipline leading to a more favourable macroeconomic climate for private investment and consequently to a more growth-enhancing environment. Despite current macroeconomic stability, the record is of repeated bouts of instability. Therefore it would be premature to look for an investment response to current macroeconomic stability.

B6.15 There is a strong causal link from the closer relations that have arisen between donors and GON in the evolving PRSP/HIPC/PGBS policy dialogue to the fiscal management reforms taking place, which have the potential to strengthen macroeconomic stability. As mentioned in earlier chapters, the negotiations prior to the signing of the JFA suggest that the prospect of PGBS may have contributed to strengthening the existing conditionality arrangement by bringing other donors more explicitly into the framework of the 'umbrella' of the IMF PRGF 2.

### Counterfactual

B6.16 With regard to macroeconomic performance, if PGBS had not taken place in Nicaragua what would have been lost? Since PGBS has only just begun, there would be little immediate change. But the achievement of these first financial flows under PGBS is the result of long-term negotiation around the JFA, and indicates the prospect for increased future flows of PGBS funding. So evaluating the impact of financial flows only as those which have occurred to date would underestimate the likely future impacts.

B6.17 Had the prospect of PGBS been absent from the HIPC and PRSP policy dialogues would any of the achievements of these partnership processes have been reduced in any way? Arguably the contribution of anticipated PGBS to that dialogue has been to motivate both donors and government to a joint effort to raise government ownership and capacity and change donor practices so that finance from donors can be increasingly non-earmarked and on budget. The current fiscal reforms (including the CUT and strengthened revenue administration) have benefited from this dimension to the dialogue, and therefore might have been weaker/slower or even absent without it. Disentangling such effects of different strands in the policy dialogue would require detailed historical study, and there are no clear PGBS programme contributions which can as yet be claimed. However, a counterfactual in which the prospect of PGBS was absent from policy dialogue and funding programmes since the late 1990s might be one in which some of the motivation to build capacity in government (including in BCN and the treasury), and for donors to collaborate more, was also absent.



## B7. The Effects of Partnership GBS on the Delivery of Public Services

*How efficient, effective and sustainable has been the contribution of PGBS to improving government performance in public service delivery?*

### Introduction

B7.1 The analysis of the effects of PGBS is challenged by three factors: i) the limited period covered by PGBS (2002–2004) when compared to the time lag necessary to transform funds into policies and institutions and then into better services and better service providers, ii) the parallel funding of pro-poor sector policies through PGBS, project aid, and in particular, through the Supplementary Social Fund (FSS) since 2002. Taking into account only the pro-poor expenditure included in the FSS for the period 2002–2004, this is significantly higher than PGBS funds that have been disbursed (see Annex 3C for details), iii) the first two years that PGBS was provided (2002–2003) correspond to Sida PGBS which was fully fungible with GON own resources and aimed to support the overall ERCERP implementation. It is only since 2004 that it is possible to distinguish specific links between PGBS and pro-poor services, with the funds and sector conditionality included in the PRSC 1 and EC PAPSE.

B7.2 The causal hypotheses on service delivery that are derived from the EEF are that PGBS contributes to:

- more responsive/pro-poor accountable service delivery (4.7), through increased resources for service delivery (4.3), due to more resources flowing to service delivery agencies (3.1);
- more responsive/pro-poor accountable service delivery (4.7), by appropriate sector policies to address market failures (4.4) as a result of increasing the operational and allocative efficiency of the public financial management system (3.5/3.6) and of encouraging and empowering the partner government to strengthen pro-poor policies (3.3).

These causality chains are shown in Figure A1.1 (the causality map of the EEF).

B7.3 With regard to a), Chapter B3 has already observed that there was no significant additional flow of resources to service delivery agencies resulting from PGBS donors during the evaluation period. With regard to (b), Chapters B4 and B5 have indicated that the hypothesised improvements in the public financial management system and in sector policies resulting from PGBS are, at best, incipient. There is therefore no possibility of discerning effects further along these causality chains that could be attributed to PGBS.

B7.4 However, the TOR request a forward perspective, and the team reviewed aspects of service delivery in education, from the perspective of the ‘relevance’ rather than the ‘performance’ of PGBS.<sup>57</sup> The team concentrated on the policy areas in the education sector supported by PGBS. This includes the participatory education policy, which has been supported by PGBS donors, particularly the WB, for many years; and the programme of school

<sup>57</sup> The education sector was selected because: a) it features strongly in the MDGs and in GON's anti-poverty strategy; b) PGBS donors have a history of support to the sector; c) there is an education policy complemented by a common work plan (2005–2008) in the framework of a SWAp and an estimation of the financing needs to achieve the MDGs targets set in the PND-O; d) it will be one of the pilot sectors included in the MTEF as from 2006; e) there has been a fiduciary risk assessment of using the systems for procurement and aid management of the MECD; and f) it provides insights into decentralised service delivery.

decentralisation to municipalities, which is the current Ministry of Education (MECD – *Ministerio de Educación, Cultura y Deportes*) policy approach and is supported by the EC PAPSE. Both of these sub-policies were examined during the team's visit to the Departments of Chontales and Boaco between 30<sup>th</sup> May and 3<sup>rd</sup> June 2005.<sup>58</sup>

### **Relevant Facts: The Delivery of Basic Education**

B7.5 As background to this chapter, Annex 6B provides further institutional context for the service delivery of basic education. Basic education in Nicaragua has been a sector of great interest to IPs and has been a focus of concern by GON as a priority area for reform. The GON-IP partnership in the sector has strengthened since 2003 through the agreement on a SWAp and the establishment of a coordination mechanism. This has resulted in an agreed sector policy for primary and secondary education and the Common Work Plan (CWP) for the period 2005–08.

### **Sector Policy for Primary and Secondary Education**

B7.6 The future sector development is foreseen along the lines of three main policies: quality and relevance of education (Policy 1); amplification and diversification of the education offer and stimulation of demand through increased access and equity (Policy 2); and institutional development focused on the education institutions and ministry management capacities, sector monitoring and evaluation (M&E) and participation (Policy 3).

### **The Common Work Plan 2005–08**

B7.7 The CWP 2005–08 includes policy measures that are designed to address the core problems of the sector, with specific measures directed to new physical infrastructure, improving the relevance of the curriculum, scholarship programmes for poor children and complementary food programmes. Under Policy No.3, improvement of children's attendance is indirectly sought by ensuring a better relationship between the school and families via the participation of the latter in the management of the school, in addition to providing a direct economic incentive for the schools to increase the enrolment of children. Under this policy the extension of the school autonomy system and education decentralisation is planned, with support from the PRSC and EC PAPSE. The MECD has calculated that to achieve the results for the period there is a financing gap of about USD 350m.

### **Background to the Education Sector**

B7.8 Although the average number of years pupils spend in school was only 4 years in 2001, with extremely poor children spending just 1 year in school, between 1997 and 2004 the number of students has increased by about 4.6% per year, with 3% in primary, 6.7% in secondary and 11.3% in adult education. The percentage of pupils completing primary school in 6 years has increased from 20% in 1990 to 41% in 2003. However some 800,000 children are still outside the education system. This corresponds to a net enrolment rate of 84% for primary education and 40% for secondary education. Based on data from the 1998 household survey, the MECD reports that the main reasons for absenteeism among pre-school and primary school age children were economic (50%) and the lack of an available school (17%). For children of secondary school age, the main reasons were economic (34%) and occupation in economic or household supporting activities (30%) (MECD 2005a).

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<sup>58</sup> Annex 6B provides a detailed description of basic education in Nicaragua and the main reforms that have been undertaken, specifically the programmes for school autonomy and for education municipalisation (part of the overall decentralisation process that was under way in Nicaragua in 2005). The annex also provides details of the steps that have been taken in the areas of sector finance, planning and coordination by GON and IPs.

B7.9 With regard to the quality of learning, 2002 tests indicate that between 62% and 88% of children have only a basic knowledge of mathematics and Spanish. An analysis of the reasons does not highlight major differences between type of schools (autonomous or central, private or public); rather they point mainly to school management under the leadership of the director and teacher performance.

### Sector financing

B7.10 In terms of costs: a teacher's salary in 2004 was an average of USD 123 per month (corresponding to 80% of the household basic expenditure basket); the unit cost of education in 2003 was USD 98, USD 69 and USD 929 per year for primary, secondary and tertiary education respectively; and in 2003 the MECD budget represented 2.5% of GDP and 11% of GON expenditure.

B7.11 The only protected expenditure relates to higher education, for which there is constitutional earmarking (see Chapter B3); however, the unit cost in basic education has decreased since 2001. For 2005, the sector budget was USD 151.7m, which corresponds to 16% of total government expenditure. This percentage is expected to be maintained over the following five years (MECD 2005a).<sup>59</sup> In 2005 the education sector was funded by domestic resources (58.4%), external loans (6.5%) and grants (35.1%).

### PGBS funds

B7.12 The flow of PGBS funds to the education sector can be traced for the EC PAPSE.<sup>60</sup> In 2004, a total of EUR 15m was disbursed, which went entirely to MECD. According to MHCP figures, only 53% of this amount was spent by April 2005.<sup>61</sup> EC PAPSE funds contributed to the Policy No.3 (MECD 2005c).

B7.13 With regard to the other PGBS funds, given their fungibility it is reasonable to think that in 2002 they contributed to the sector budget according to the policy commitment of the ERCERP, and since 2003 taking into consideration the WB PRSC triggering indicators on participatory school regime. The JFA annual review in May 2005 indicated that the PRSC indicator for the education sector had been met.<sup>62</sup>

## Assessment against Evaluation Criteria

### Pro-Poor Public Service Delivery

The extent to which PGBS has contributed to increasing the efficiency and effectiveness of pro-poor public service delivery and improving the access of poor people.			
General Situation:	Level: *	Trend: +	Confidence: **
PGBS Influence:	Effect: na	Efficiency: na	Confidence: **

B7.14 While there has been an improvement in education delivery over the past period in terms of education coverage, access to school, and school internal efficiency, the overall results show that a lot still needs to be done. Access for the poor is still highly limited, particularly for

<sup>59</sup> This includes all levels of education and culture and sport.

<sup>60</sup> PAPSE funds are not earmarked by the donor, however because of the official title of PAPSE (GBS for the Education Sector) in practice the MECD has been able to negotiate with the MHCP to receive up to 92% of the funds foreseen in PAPSE.

<sup>61</sup> The modality for transferring the remaining portion to the 2005 budget was not agreed with the EC at the time of the mission (June 2005), as this amount was not originally included in the budgetary law for 2005.

<sup>62</sup> However, the 2005 annual operation plan for the education sector that was approved at the end of 2004 indicates that a slightly lower number of schools will be incorporated into this programme in 2005.

secondary school. Quality in terms of learning is generally low across all types of school. Since PGBS started, enrolment in primary education has not increased substantially. The main increase over the period is registered in the year 2002, corresponding to the starting of the HIPC initiative, the FSS reform and the signature of the PRGF.

**Table B7.1: Variation in enrolment (%) per year and programme 1997–2004**

Programme	1997–98	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04
Primary	0.67	4.29	2.66	3.59	6.32	0.41	1.64
Secondary	7	5.92	3.68	6.21	8.66	3.41	4.7
Teacher training	-3.45	-5.36	9.43	6.9	9.68	-8.82	-4.84
Adult education	37.53	48.47	-1.71	-3.14	-6.12	-15.33	16.14

Source: MECD 2004c.

B7.15 PGBS is primarily concerned with the implementation of the decentralisation and participatory education policy and since 2004 at least 1,680 new schools have been included in the system.<sup>63</sup> The PAM indicators focus on a higher enrolment rate and the expansion of the participatory system, with an assumption that the strategy to implement the latter will have a positive impact on the former. However, the PGBS contribution to more relevant pro-poor education services will be limited if these policies are not shown to have positive effects on the quality of education and on improving access to education for the poor. The selected indicators do not allow monitoring of quality. Several studies carried out on the regime of the autonomous schools indicate a limited incidence of this system on quality of learning.<sup>64</sup> Quality depends on the leadership of the directors, type of management and quality of the teachers (Arcia et al 2004a). On the other hand, the drop-out and repetition rates were lower for autonomous schools than for centrally administered ones over the total period covered (Arcia et al 2004b). The participatory system has also contributed to improve the living standards of the teachers thus potentially reducing their absenteeism rate, with a positive impact on this education input. However, this does not seem sufficient to compensate difficult teaching conditions in remote rural areas. Furthermore, the number of non-qualified teachers (*empiricos*)<sup>65</sup> and teachers with a few years of working experience is still very high (see Annex 6B). Improving teaching skills and pedagogical support to teachers is not a focus of PGBS support to the sector.

B7.16 The statistics produced by MECD on the performance of the sector in terms of efficiency, quality and the provision of education services are not presented in a manner that takes into account the poverty profile of the country, and the differential degree of vulnerability of individual municipalities or population groups.<sup>66</sup> Therefore it is difficult at this stage to determine whether there has been any significant prioritisation of educational expenditure on the most vulnerable groups to ensure more access to school for the poorest<sup>67</sup> and if there has been a contribution of PGBS. However, with the support of the EC TA PAI-NIC (Programme of Institutional Support for Nicaragua [*Programa de Apoyo Institucional, Nicaragua*]), the MECD in 2005 was developing a vulnerability indicator that should allow such prioritisation.

<sup>63</sup> These are the numbers required by the PRSC, but FSS projects have also supported this system.

<sup>64</sup> See for instance the reports included in the MECD publication on the state of education in Nicaragua for 2004 (MECD 2004c).

<sup>65</sup> Non-qualified teachers represent an estimated 30% of the teachers in primary and secondary with an average of 12–13 years of school attendance.

<sup>66</sup> For instance, the disaggregation shown in the document on 'The State of Education 2004' is only to the district level and between rural and urban areas. However, a first attempt to link education results to poverty has been made by MECD in the analysis of the recently started process of decentralisation of education to 21 municipalities (Porta et al 2005).

<sup>67</sup> During the field visit it was observed that school autonomy programme has been associated with provision of resources for children meals cooked by parents. This funding was supplied by NGOs, or programmes funded in the framework of the FSS-HIPC initiative. However, no system to target the poorest children was reported as used.

### Capacity and Responsiveness of Service Delivery Institutions

The extent to which PGBS has contributed towards developing the sustainable capacity of service delivery institutions			
General Situation:	Level: **	Trend: =	Confidence: **
PGBS Influence:	Effect: na	Efficiency: na	Confidence: ***

B7.17 There is evidence that the participatory school system has improved the overall management of the schools, but this has been often at the expense of the pedagogical role of school directors and managers. The main challenge for the future capacity building effort will be to support the change of structure inside the MECD to conform with the shift in the ministry's role, from that of provider of education services to that of supervisor of the education services provided in a decentralised manner and responsible for the overall strategic guidelines, including quality of education inputs (teachers, textbook and curriculums). This requires new skills in planning, strategy definition, budget and negotiation and coordination that MECD lacks. It also requires stronger policy, research and monitoring units to supervise the implementation of the service. TA associated with the EC PGBS covers these latter areas but the major TA effort (at least in terms of funds) comes from the WB PASEN which focuses on the stewardship role of the MECD, and also from other donors (such as USAID and IADB). The possibility of these efforts to be complementary will depend on the effective GON leadership of the roundtable and in sector policy implementation.

B7.18 Sustainability of the ministerial capacity remains a pending issue. Appointment of high level technical staff within the MECD is highly affected by the frequent change of Minister and by the fact that central staff salaries have often been covered through projects. Staff stability depends on the implementation of the new civil service law, but also on finding a sustainable solution to retaining senior technical staff whose salaries are paid out of donor project funds. Although the implementation of the civil service law is part of the PRSC indicators, according to respondents this approach does not tackle the real nature of the problem.

The extent to which PGBS has contributed towards service delivery institutions becoming more responsive to beneficiaries.			
General Situation:	Level: *	Trend:=	Confidence: **
PGBS Influence:	Effect: not found	Efficiency: not found	Confidence: **

B7.19 The application of the law on education decentralisation to municipalities does not yet provide evidence of improving the capacity of the school to adapt to the local environment.<sup>68</sup> The autonomous school system offers willing parents the opportunity to follow their children's performance more closely, but has not prepared them to play a proactive role.<sup>69</sup> The fact that the school directors have more flexibility in organising the budget may enable them to respond more effectively to specific school needs. However, evaluations indicate that this depends very much on the personality and profile of the director rather than on the system, at least for the time being.

B7.20 For the foreseeable future the contribution of PGBS is likely to be greater in supporting capacity building to accompany the new role of the school directors and MECD representatives

<sup>68</sup> The study carried out by the MECD on the first 21 municipalities does not allow drawing clear conclusions on this point. However during the field visit some timid examples in this direction have been mentioned.

<sup>69</sup> In the schools visited by the team, parents showed little understanding of their rights and obligations in the autonomous school participative system. See also Annex 6B.

at local level, and this could improve responsiveness to beneficiaries. However this is at too early a stage to be realised.

B7.21 There was no evidence of a mechanism to provide the MECD and donors with regular feedback on the local stakeholders' satisfaction with the implementation of the participatory system and education decentralisation process in terms of responsiveness to the beneficiaries. The small amount of dialogue undertaken with local stakeholders and civil society organisations in the framework of PGBS in general and the education sector in particular does not favour the creation of such mechanisms, nor the implementation of user feedback.

### **Principal Causality Chains**

B7.22 As noted in the introduction, the hypothesised causality links affecting service delivery are not applicable, because PGBS has not been in operation long enough to influence the preceding links in this causality chain.

### **Counterfactual**

B7.23 Support to the education sector has come from a variety of modalities, and is becoming more coherent as a result of the roundtable approach. The team's review in this chapter suggests a relevant role for PGBS in some ways that are specific to the PGBS modality. First, it can reinforce dialogue and policy review for the sector as a whole. Second, and unlike other modalities, it could be used to support recurrent costs and thus address aspects of performance that are not amenable to solutions through capital investment. Although the analysis focused on the education sector, analogous issues in public service delivery are likely to arise in other sectors where PGBS may also have a relevant role.



## B8. The Effects of Partnership GBS on Poverty Reduction

*How far has PGBS strengthened government impact on poverty?*

### Introduction

B8.1 This chapter relates to the transition from Level 4 (outcomes) to Level 5 (impacts) of the EEF. The four main causal hypotheses in the EEF to be tested in this chapter are that PGBS has:

- led to the empowerment and social inclusion of poor people (5.3), through more responsive service delivery (4.7);
- reduced income poverty (5.1), through increasing the scope for a more conducive growth enhancing environment (4.6);
- reduced non-income poverty (5.1/5.2) through improved administration of justice and respect for human rights and people's confidence in government (4.5) which has been as a result of strengthened governmental incentives (3.7) and partner governments empowered to strengthen systems (3.2);
- reduced non/income poverty (5.1/5.2) through improved administration of justice and respect for human rights and people's confidence in government (4.5) which has been as a result of enhanced democratic accountability (3.8) and partner governments empowered to strengthen systems (3.2).

These causality chains are shown in Figure A1.1 (the causality map of the EEF).

B8.2 This analysis of the impact of PGBS at the outcome level is limited by the very short time period during which it has been implemented. Furthermore, the effects of the flow of PGBS funds on poverty reduction has been completely overshadowed by those emanating from FSS resources, which were all destined for projects and other activities identified in the PRS. During 2002–2004 FSS funds amounted to USD 294m compared with only USD 77m disbursed PGBS funds.

B8.3 Since the first major disbursements of PGBS took place in 2004 this chapter will be devoted more to assessing the existence of the conditions to ensure that outcomes and impacts can take place in the future and the adequacy of the current design of PGBS to this end. The analysis is more an interim evaluation than an impact evaluation.

### Relevant Facts: Poverty Reduction

B8.4 (As detailed in ¶A2.2) between 1993–2001 the proportion of the population living in poverty fell by 4.5 percentage points while the proportion of the population living in extreme poverty reduced by 4.3 percentage points (INEC 2003). However, due to population growth, the overall number of people living in poverty during the period 1993–2001 is estimated to have risen by around 280,000. In addition, there have been substantial variances in poverty changes by region, illustrating the high vulnerability of specific populations to commodity shocks, and inequality has remained consistently high. See Annex 2A and Annex 2B for further detail on poverty trends.

### **Income Poverty**

B8.5 Central to the Bolaños government's thinking on poverty reduction and at the heart of its PND is the belief that economic growth – as well as pro-poor social expenditure – is an effective route for poverty reduction. Undoubtedly, GON has set in motion a 'growth-inducing' environment by reducing taxation and relaxing regulatory requirements on new investment. This has led to a surge in investment in two main areas – industrial sites of production – '*maquilas*' – and tourism. However there is limited evidence of any significant impact of investment in the *máquila* and tourism sectors on reducing income poverty. Some 20,000 are now employed in the six export processing zones that constitute the *maquila* sector. The vast majority of these jobs are in Korean-owned textile factories, where wage levels are low and job security is minimal. Furthermore, a question mark hangs over the long-term sustainability of this 'footloose' sector after 2006 when textile quotas for the US market will be abolished following the termination of the (World Trade Organization) Multi Fibre Arrangement. By contrast, the tourism sector has greater prospects for sustainable employment creation. However, much of this highly profitable investment has involved the purchase, development and resale of coastal land. Requiring access to extensive bank credit, it is normally carried out by elite families in partnership with foreign investors. Together with related hotel, restaurant and real estate development in Managua, this growth of tourism is leading to a further widening of income inequality.

### **Basic Services for the Poor**

B8.6 Improvement in non-income poverty levels during the decade 1994–2004 has been limited (Annex 2B provides detailed data on Nicaragua's progress towards the MDGs). Progress in education has been mixed. Though primary enrolment accelerated and secondary enrolment improved considerably, indicators of efficiency for primary education have not improved. Most young children do not receive any early childhood development, and youth and adult literacy rates have stagnated. Production infrastructure has remained stagnant, with little progress in electrification. Progress in access to paved roads has been largely concentrated in urban areas. Basic water and sanitation infrastructure has shown very limited progress, with less than half of the homes in rural areas having access to basic services. Sanitation conditions in densely populated slums have worsened. Diarrhoea and upper respiratory infections for children under five show little progress. Although the prevalence of malnutrition has consistently fallen over the past decade, one in five children still remain chronically malnourished.

### **Empowerment of the Poor**

B8.7 The fact that respect for civil rights in Nicaragua is on the whole higher than in many other Central American countries has been attributed to the tradition of community policing – unique in Latin America – that was introduced during the Sandinista government, a legacy that predates the PFM reforms introduced from the late 1990s.

B8.8 IPADE, a reputable think tank, (Institute for the Development of Democracy – *Instituto para el Desarrollo de la Democracia*), monitors the level of people's confidence in government regularly and has recorded extremely high levels of mistrust of politicians in general, and in the members of the NA in particular. The polarisation of political life between the FSLN and the PLC over the last decade, followed by the post-2000 pact with the two parties exercising joint control over important institutions (the Supreme Court and the General Comptroller Office), has taken its toll on the public trust in key 'governance' organisations.<sup>70</sup>

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<sup>70</sup> A poll carried out by M&R Consultants between May 27 and June 2 2005 in urban and semi-urban areas of Nicaragua revealed that 72.4% of Nicaraguans responding believed that "the country is a prisoner of the Pact of 2000 between the FSLN and the PLC." Surprisingly, 66.5% of Sandinistas and 70.2% of Liberals supported that position. 67% of those polled agreed with the statement that the constitutional reforms of January 2005 had as

## Assessment against Evaluation Criteria

### Basic Services for the Poor

The extent to which PGBS (allowing for the time lags of its operations) has strengthened — or is strengthening — the impact of government on the different dimensions of poverty reduction, including:

(a) the use of health, education and other basic services by poor groups.

General Situation:	Level: *	Trend: +	Confidence: **
PGBS Influence:	Effect: not found	Efficiency: **	Confidence: **

B8.9 There is no significant effect to be found as yet. The most that can be said is that PGBS has the potential to be an efficient means of influencing expenditures in a pro-poor direction.

B8.10 External pressure on governmental resource allocation is particularly relevant in a country that is characterised by extreme inequality in income and wealth. Given that domestic elites do not display a significant degree of commitment towards poverty reduction, these pressures to maintain the level of pro-poor social expenditure are particularly important. The JFA PAM encourages a continuing commitment by the GON towards social sector expenditure, all forms of which are key dimensions of non-income poverty reduction. The major components of social expenditure – health, education and water – are identified ‘in total’ in the PAM but are rarely broken down by indicators that would demonstrate evidence of a poverty focus (e.g. urban/rural, gender, geographical region). The combination of a broadly-defined definition of pro-poor expenditure, the absence of social expenditure targets in the PAM and the use of constitutional earmarking of public expenditure are factors that may limit the positive impact of PGBS on poverty reduction.

### Income Poverty

The extent to which PGBS (allowing for the time lags of its operations) has strengthened —or is strengthening— the impact of government on the different dimensions of poverty reduction, including:

(b) the improvement of the macroeconomic environment leading to increased incomes and economic opportunities for the poor.

General Situation:	Level: ***	Trend: +	Confidence: ***
PGBS Influence:	Effect: not found	Efficiency: **	Confidence: **

B8.11 Again, as yet, no significant effects for PGBS can be found. Its potential effects are of two types. First it acts as a general reinforcement of the macroeconomic stability that is the focus of IMF PRGF. Secondly, it could have wider effects by supporting, and helping to finance, policy reform with a pro-poor direction in the economic environment. It is not clear that national strategies are especially effective in income poverty reduction and helping to develop, as well as support, such policies will be a challenge for the PGBS donors.

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their objective taking power away from the executive and "creating instability and uncertainty" (La Prensa 2005b).

## Empowerment

The extent to which PGBS (allowing for the time lags of its operations) has strengthened – or is strengthening – the impact of government on the different dimensions of poverty reduction, including:

(c) the empowerment of poor people because of improvements in the accountability of government, greater participation in processes of decision making, or improvements in the administration of justice.

General Situation:	Level: *	Trend: +	Confidence: **
PGBS Influence:	Effect: not found	Efficiency: *	Confidence: *

B8.12 PGBS is supporting empowerment approaches already under way – basic education, municipal decentralisation etc., though the potential impact of such measures should not be exaggerated, and it is too soon to expect discernible results.

B8.13 Donors have also focused attention on improving accountability, greater citizen participation and the administration of justice by including performance indicators on governance, participation and justice in the JFA PAM,. Potentially, some of these indicators in the JFA could trigger disbursement decisions. For example, the EC PAP Access to Justice programme (to be finalised) has a variable tranche that is linked to indicators in the area of access to justice and citizen security. PGBS impact in these areas may be limited by the reduced attention to local government capacity development and the lack of a formal link between service delivery at the local level and the implementation of the decentralisation policy. At the same time, inequality and disempowerment of poor people have very deep social, political and institutional roots and the impact of aid on removing these underlying factors is likely to be very limited. Although donors have long contributed to efforts to improve the administration of justice, the neutrality of judicial rulings at the highest level is still questionable, creating a climate of widespread mistrust in the legal system. On the whole, citizen confidence in government remains extremely low. Again, it is important not to exaggerate the potential impact of aid, including PGBS.

## Principal Causality Chains

B8.14 As previously stated, there has not been enough time for PGBS in Nicaragua to have reached Levels 4 and 5 of the EEF.

## Counterfactual

B8.15 Since it is too soon to make a credible assessment of the poverty impact of PGBS, it is similarly too soon to apply a counterfactual in assessing observed impacts. One potentially relevant counterfactual would be to compare PGBS inputs with those of the aid funds promoted through FSS for poverty reduction (which were disbursed predominantly through the project modality). To our knowledge, no such evaluation of FSS expenditures has been undertaken.

## B9. The Sustainability of PGBS

*Is the PGBS process itself sustainable?*

### Introduction

B9.1 This chapter looks at the feedback loops between results and design of PGBS as illustrated in Annex 1A, Figure 1A.1. It relates in particular to the mechanism of monitoring and performance assessment associated with PGBS and how progress is measured and lessons are fed back into the PGBS cycle.

B9.2 In the case of Nicaragua it is too early to assess the overall cycle. Harmonised PGBS started officially with the signature of the JFA in May 2005. For the PAPSE and the PRSC which started in 2004, no annual review had taken place by mid-2005. For Swedish PGBS, the performance review for the years 2003 and 2004 was taken from the progress reports on the implementation of the ERCERP. This chapter will focus more on the design of the instrument and review mechanisms foreseen by the JFA and on the results of the first annual review carried out in May 2005 in order to see if they can potentially ensure the feedback loop and be a basis for shared learning and adjustments.

### Relevant Facts: Monitoring and Feedback

#### Poverty Monitoring in the Framework of the ERCERP

B9.3 In 2003 the project PASE (Programme of Support to the Monitoring of the ERCERP) was launched with the support of IADB. As part of this project a poverty monitoring system was established – National System of Monitoring Poverty Indicators (SINASIP – *Sistema de Información Nacional para el Seguimiento de Indicadores de Pobreza*) in SECEP with the objective of monitoring the ECERP through 33 indicators linked to the 6 MDGs selected by GON. Apart from one indicator on the share of central government poverty expenditure and one on GDP growth rate, all indicators relate to social services and infrastructure (health, education, water and sanitation), nutrition and environment, in line with the social/pro-poor dimension of the ERCERP. Until recently the indicators included in SINASIP formed the basis of the reports presented by GON. However, updated information is available for only half of the indicators, while the definition of poverty used is very general and broad. In addition, as PASE envisaged only the design and not the implementation of the system, its application was not systematic (GTZ 2004). PASE also included district representation of SINASIP with the objective of contributing to the formulation, implementation and monitoring of the programmes and projects of the ERCERP and of indicators at the local level. Another project, called PAI (Programme of Support to the Implementation of the ERCERP) supported by IADB, complemented this system at the municipal level in 22 pilot municipalities.

B9.4 In addition to the above, poverty monitoring is reported in the ERCERP annual progress reports. Since approval of the ERCERP, two reports have been presented in 2002 and 2003 (Government of Nicaragua 2002, 2003d). In contrast to SINASIP, these reports provide a performance assessment for the specific pillars of the ERCERP in light of the overall macroeconomic context and the HIPC initiative. While the first report included the same indicator matrix as SINASIP, the second one also added a matrix with policy actions from the four pillars; a detailed road map with different steps, deadlines and responsible organisations. With the presentation of the PND in 2003 and the achievement of the HIPC completion point in January 2004, ERCERP progress monitoring stopped. No progress report on the PRS

performance was produced in 2004. In February 2005, SECEP published a document presenting the situation and the progress in the use of HIPC funds and pro-poor expenditure for the year 2004 using the definition of poverty expenditure included in the PND (SECEP 2005a), but without reference to any poverty-related performance indicator matrix.

B9.5 FSS annual reports represent another source of information on poverty expenditure, but with a focus on the type of projects funded by the FSS rather than an assessment of the use of FSS resources in relation to agreed poverty reduction indicators. Neither is there a tracking system linking the funded projects to ERCERP or PND indicators.

B9.6 At the local level, the Municipal Development Institute (INIFOM – *Instituto Nicaragüense de Fomento Municipal*) is supporting the implementation of a monitoring system based on the municipal investment plan, but for the time being the link with poverty expenditure is not highlighted.

B9.7 Poverty maps have been created with data of the Standard of Living Surveys (INEC 1998; INEC 2001), and the censuses (population 1995 and agriculture 2001). The current poverty map is considered to be based on weak methodology as the key variable for identifying poverty was food consumption *rather than other human development indicators such as the infant mortality rate*. It is criticised for not giving an appropriate picture of the heterogeneity within small areas, and for being outdated, particularly with relation to the 1995 census data (GTZ 2004). This seriously limits the value of the poverty mapping exercise and subsequent poverty studies. Furthermore, basic health data only records births and deaths in government health posts. Consequently, the official infant mortality rate – 12 per 1,000 live births – is regarded as grossly underestimated. Similarly, it is estimated that 30–40% of births nationally are not registered.<sup>71</sup> The results of the population census carried out in May–June 2005 are therefore eagerly awaited.

B9.8 In addition to the above, there are three Poverty and Social Impact Analyses (PSIA) carried out at sector level by the WB,<sup>72</sup> and there are also reports prepared by civil society organisations, but none of them represent in a systematic and continuous fashion the evolving nature of poverty in Nicaragua.

### **The National System of Monitoring Development Indicators**

B9.9 From mid-2005, SINASIP has been substituted by SINASID (*Sistema Nacional de Seguimiento a Indicadores de Desarrollo*) which links monitoring to the PND, thus stressing the more comprehensive development policy approach of the PND compared to the ERCERP. This system, also based in SECEP, compiles and consolidates information and indicators from the institutions involved in the implementation of the PND. Its main objective is to support the decision-making process in relation to the achievement of the PND objectives and to provide information to a wider public through its website.<sup>73</sup> SINASID is formed by a technical statistical unit, a technical statistical committee (with representatives of the relevant ministries involved in the PND implementation) and regional monitoring units.

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<sup>71</sup> UNDP interview, November 2004.

<sup>72</sup> They cover (i) the fiscal reform, (ii) the Education For All basic education plan and (iii) the structure of public investment.

<sup>73</sup> [www.secep.gob.ni/sinasid](http://www.secep.gob.ni/sinasid)

## Assessment against Evaluation Criteria

### Shared Learning between Government and Donors

The extent to which PGBS allows a shared learning process between Government and IPs with flexible mechanisms for adjusting to experience (including adjustment to maximise the complementarities among different forms of aid).

Level: null

Trend:+

Confidence: \*\*

B9.10 The ERCERP progress reports represented a first step towards a shared process for assessing performance and the decision-making on disbursement. They have been used as a basis to monitor progress towards the achievement of the HIPC completion point and, for some bilaterals, they have been the basis for deciding on allocation of funds to the FSS or to the national budget (e.g., the first Swedish PGBS). Nevertheless, the dependence of this system on foreign aid meant that the progress monitoring was more like a project than part of the GON, and the information was collected mainly at the central level (GTZ 2004).

B9.11 The review mechanisms envisaged by the JFA and the regular activities of the technical working group of the BSG represent a structured modality for monitoring the implementation of the different policies. This could be an important opportunity for all involved parties to revise policies on the basis of a common agreed framework and benefit from shared reporting on results, something missing in the country up until now and which the ERCERP reports did not manage to provide.<sup>74</sup> The fact that the review process has been formulated in quite a general way leaves open the possibility of adapting it to lessons learnt and changing circumstances, thus providing the IPs and GON with a flexible instrument.

B9.12 The system as it stands at the moment primarily serves the interest of the IPs, i.e. as a tool to measure performance related to aid and to decide on disbursements; it risks becoming an additional performance assessment instrument with limited GON ownership and parallel to the GON monitoring and performance assessment system for overall development policy. This is suggested by the following aspects of the system: 1) the JFA is based on the PND objectives and the PAM uses some of the indicators included in the PND-O, but sometimes it is difficult to see if the PND-O informed the PAM or vice versa; 2) the Technical Working Group through which the PAM will be assessed is linked to the sector roundtables, but how this link is to work is not specified, and; 3) with 26 areas, the PAM roughly embraces all policies of the PND-O, creating the risk of a parallel system that prevails over the current national system for monitoring development policy implementation (SINASID).

B9.13 The JFA does not expressly indicate what the objective of the minutes produced at the end of each review is. It is not clear if they will be used as a guiding tool for the work to be done in the following period (as a roadmap) or for progress assessment at the next meeting. The minutes of the 2005 May review point to the first option. However, the minuted actions are quite broadly defined and it is not clear who is assigned responsibility to undertake them. The timeframe for the implementation of these actions is generically indicated as “next steps” with only a few actions clearly foreseen for the next meeting. Therefore, in the current model, this document falls short of being a working tool for effective feedback and implementation of lessons learnt.

<sup>74</sup> An indication of this is the high number of poverty reduction evaluations or country evaluations with a poverty reduction focus that have been carried out in these last years independently from and in parallel to the PRSP progress reports.



B9.14 If the above points are not clarified/improved, the current system could become a further burden for GON, even though one of the objectives of the JFA is to reduce transaction costs through alignment with GON systems. Finally, the current PAM may also divert GON's attention away from creating a comprehensive and coherent sustainable monitoring system of the PND and its sector components, as priority may be given to providing information for the monitoring system linked to disbursements.

### Comprehensive and Effective Review and Adjustment

The extent to which such a process encompasses all the three main flows of PGBS (funds, institutions and policies) with adjustments related to actual results at all stages in the chains of causality (from quality of inputs to overall poverty impact).

Level: null

Trend:=

Confidence: \*\*

B9.15 The single matrix (PAM) embracing all areas of support to the PND and all donors' concerns is an undoubted positive result of the current IP effort in harmonisation. It also reflects the length and complexity of the process that took place in 2003–2005 before the signature of the JFA, as well as the rigidities due to the need to incorporate review mechanisms based on indicators and approaches agreed bilaterally in the first PGBS programmes. As a consequence, the PAM at the time of the evaluation mission presented important weakness.

B9.16 It includes process, output and outcome and a few impact indicators, thus indicating an effort to create a monitoring system covering the full causality chain, but their use is not balanced across areas and within each area, thus showing a lack of agreement among the IPs on the review approach and ineffective design. In the case of the education sector, there is one process indicator and two outcome indicators, while for health there are process indicators, outcome indicators and impact indicators and for environment there are mainly process indicators, and output indicators, and so on. In general, the use of impact indicators is limited, and the link from the input to the impact, either in terms of reduction of poverty or in terms of more growth, is not clear.

B9.17 The fact that the different types of indicators are used differently within each area or sector, also reflects the incomplete discussion on, and the different degree of progress in, the elaboration of comprehensive sector policies. Where sector policies do not yet exist, such as in the case of the rural sector, the PAM tends to include indicators related to the process leading to these policies more than to the expected results of the policy.

B9.18 There is also an issue of indicators reflecting the specific donors' concerns rather than the complete causality chain and sector intervention logic. For instance, this is the case of the education sector where the link between process and outcome indicators reflects a specific stream of the sector policy – the implementation of the school autonomy system, which is supported by the WB and EC – and not the overall underlying sector strategy. It also reflects the different interpretation of PGBS among IPs, as evident in the strong sector focus of the PAM and in the area of public finance.

B9.19 Very little attention is paid to the monitoring of pro-poor expenditure. The only relevant indicator refers to the percentage of overall pro-poor expenditure of GDP (not of total public expenditure). For instance, there are no indicators related to the percentage of public expenditure that should go to the social services (such as basic education or health) or to the development of very poor areas (such as the North Atlantic Autonomous Region and the South Atlantic Autonomous Region), despite the fact that expenditure is an important (though not



sufficient) indicator of the feasibility of a given policy and of the commitment to it.<sup>75</sup> Finally, very little use is made of indicators by gender or vulnerable groups in the areas devoted to sector indicators which will make a thorough monitoring and evaluation on any impact on those groups difficult.

B9.20 Despite the fact that institutional analysis is one of the components of the pre-condition assessment for many donors engaged in PGBS, the PAM poorly reflects the institutional dimension behind the development policy implementation and the support provided by PGBS. The public sector reform process and corresponding institutional strengthening are covered indirectly through the public finance matrix. This focuses on only one aspect of the process (funds and their management), and undermines the importance of the institutional aspect for the sustainability of the policy and quality of processes. A clear example is the decentralisation case. The sole indicator in the PAM reflects the concern for fiscal neutrality. Attention is not paid to, for instance, the results that this transfer should produce in terms of management of public services and public expenditure and investment planning at a local level. While monitoring and evaluation capacity in the different institutions at central as well as local level is a clear requirement for effective implementation of overall policy, and also of PGBS, there is no attention paid in the PAM to follow up if and how this capacity is created.

B9.21 The reference to accountability mechanisms and to civil society involvement is also missing, despite their clear importance for the overall sustainability of the results. Both aspects are important to ensure more accountable and democratic government structures to achieve the empowerment and social inclusion of poor people.

B9.22 Finally, the de facto link of PGBS disbursement with the IMF PRGF on-track status may (in the event of the PRGF going off-track and PGBS donors delaying the disbursement of PGBS funds) affect the flow of funds to sectors which provide pro-poor services but do not have a direct influence on the factors affecting IMF conditionality.

### Feedback to Stakeholders

The extent to which the process provides appropriate and timely feedback to all stakeholders so as to ensure the continuity and durability of PGBS.		
Level: null	Trend: +	Confidence: **

B9.23 Compared to the review mechanism of the ERCERP, and the first programmes of PGBS, the JFA represents important progress. Its biannual reviews should provide frequent and rapid feedback to the stakeholders once the mechanism has been finalised. The fact that it is an agreement among 9 donors gives it a much stronger credibility and represents important progress in agreeing common solutions. This strengthens the credibility and effectiveness of PGBS as an instrument to improve aid effectiveness, and also ensures a wider and richer dialogue with GON.

B9.24 However, the output of the first annual review (June 2005) revealed the limits that exist in the review system,<sup>76</sup> and also how the effectiveness of the mechanism is affected by the current

<sup>75</sup> The only expenditure indicator in addition to the global one for poverty refers to ensuring fiscal neutrality of the transfer of funds to municipalities.

<sup>76</sup> These include the lack of clarity over the harmonisation of the PRSC with the JFA (for example, the separate PRSC evaluation mission and the assignment of different government counterparts – the MHCP for the PRSC and SECEP for the rest of the PAM). These limitations were overcome by the second review which took place September 2005. The review of the PRSC has been incorporated in the JFA review and the MHCP has been nominated as the institution in charge of monitoring the entire PAM and responsible for the dialogue with the BSG.

political context, particularly the uncertainty of the programme with the IMF and the tense relationship with the NA.

B9.25 One important limitation is related to the JFA's lack of transparent approach for the communication of the results of the reviews, which at the end, limits the possibility of third parties to monitor the process and its results, and reduces the credibility of the review mechanism. The NA, civil society and representatives of local government were not invited to the review or to the plenary sessions. The final minutes of the first review did not include a statistical annex by sector and there was no structured report of the working groups' analysis. The press coverage of the event focused on the signature of the JFA rather than on the results of the review and did not include an explanation of the JFA review mechanism. This could have been caused by the lack of experience of organising review meetings, the general weakness of the existing monitoring and statistical systems, and the specific circumstances of the country in June 2005. As a consequence, the result of this first review remained restricted to a limited number of key ministry and donor staff and the overall level of transparency and accountability to civil society and other state institutions was low.

### **Principal Causality Chains**

B9.26 There is a time dimension related to the effects of the use of PGBS that is not captured by a monitoring system. For a monitoring system to be an effective feedback instrument, it should be based on data that are easily and rapidly/frequently available. However the ultimate objective of a monitoring system is to ensure progress towards set policy objectives and this is usually assessed with a different time horizon through evaluations using baseline and progress data. At the moment this link between monitoring and evaluation, between assessing the achievement of the results and their quality and sustainability, is missing.

B9.27 The flow of funds which should accompany the implementation of PGBS is monitored only at the global level in terms of pro-poor expenditure as a percentage of GDP and indirectly through input indicators. This does not appear to be sufficient for effective monitoring of whether policies and strategies are able to meet targets through the support of an adequate level of resources, especially when the wide pro-poor expenditure definition also includes support to economic growth.

### **Counterfactual**

B9.28 At sector level, when policies are discussed in the framework of a SWAp and an agreed CWP with an annual programme (such as in the case of education), the sector roundtables facilitate coherent monitoring of the sector policy both in terms of meeting targets and of expenditure. Since the sector roundtable also usually includes representatives of other ministries (such as SECEP, MHCP, MINREX) it can ensure the coverage of the intra-institutional and inter-institutional dialogue of the overall reform process. However, as said before, the degree of functioning of the sector roundtables varies by sector and so does their capacity to perform sector review and monitoring processes, while the JFA review mechanism should allow revision of all sectors in parallel and with the same approach. Furthermore, for the time being, the monitoring carried out by sector roundtables is based on sector indicators and is not based on a matrix that reflects inter-institutional links. The PGBS approach is uniquely comprehensive and has the potential to complement and enhance sector-level revenue.

## PART C: CROSS-CUTTING ISSUES

### C1. Cross-Cutting Policy Issues

#### Gender

C1.1 Gender rights have always been a strong component of the dialogue between GON and civil society, and are well protected by the Constitution and key laws. The general focus of gender rights in Nicaragua is on aspects related to access to social services and financial resources with an anti-poverty focus. In contrast, little attention is given to empowerment, with the exception of the PND-O.

C1.2 The GON PRS PND-O incorporates a gender focus for a number of economic and social areas, and sets the empowerment of women as a central aim. Another initiative is led by the various institutions from the agriculture and environment sectors, which integrate the Inter-Institutional Commission on Women and Rural Development. The Commission has developed policies for the promotion of gender equality. However, it is important to note that in general such initiatives have not institutionalised the gender perspective in the management systems or in the budgets of the corresponding plans, programmes and projects. Also, most policies have been formulated without the opinion, participation or consensus of the very women they are supposed to be helping (Ocón Núñez 2003), thus limiting their effectiveness.

C1.3 The PAM of the PND-O states as an aim the reduction of inequality between men and women. Within the governance matrix, there are the following aims with a gender focus:

- National Consultative Commission of Women is established with government and civil society.
- Law for Equal Opportunities approved and associated regulations, as well as gender policy.
- Gender equity programme implemented.
- Number of local bodies that include representatives from women's organisations increased: Departmental Development Committee (CDD – *Comité de Desarrollo Departamental*) and Municipal Development Committee (CDM – *Comité de Desarrollo Municipal*).

Other indicators within the PAM are disaggregated by gender, which include: cases denouncing violation of human rights, cases passed through the Supreme Court and net rate primary schooling by sex. It is too early to see an effect of PGBS on gender inequality in Nicaragua.

C1.4 There is no specific statement in the JFA concerning gender as seen above for the PND-O. However, it can be said that gender is indirectly covered in overarching principles of policy dialogue which include the respect of democratic principles and human rights. This is backed by the formulation of a JFA PAM section on human rights which is gender specific – and explicitly states as an aim “to reduce the inequality between men and women” with an indicator of local bodies (CDD and CDM) that includes representatives from women's organisations while human rights cases are disaggregated by gender, ethnic group, territory, age and agency. The PAM foresees gender disaggregation in the application of the new public service law, in health and education and in access to justice. However there are other areas where gender specificity is not included: productive sector (microcredit), land property rights and security and citizen security.

## HIV/AIDS

C1.5 The prevalence of HIV/AIDS in Nicaragua is the lowest in Central America; calculations made by the health sector suggest that 7,000 to 8,500 people are infected. HIV/AIDS has been officially monitored since 1987, when the first case was registered. This low incidence has led to low fund allocation in the years prior to the implementation of the Global Fund. However, according to UNAIDS:

Although the 0.2 % adult HIV/AIDS prevalence rate in Nicaragua is lower than in other Central American countries, HIV prevalence rates in select population groups give cause for alarm. For instance, according to UNAIDS, HIV prevalence among men who have sex with men is 9.3%, and HIV prevalence is 4.6% among prisoners in Managua. Mobile populations, particularly migrant workers, and wives of men who engage in risky behaviours, are also at high risk of infection (UNAIDS 2005).

C1.6 The largest campaigns on prevention, education, sensitisation and advice are developed by NGOs and civil society organisations such as the Red Cross, Xochiquetazal, the Centre for Studies and Social Development (CEPS – *Centro de Estudios y Promoción Social*), the Centre for Information and Advisory Services in Health (CISAS – *Centro de Información y Servicios de Asesoría en Salud*) and SI Mujer, among others. A National Commission for the fight against AIDS was established 10 years ago with representatives from different public institutions, the Catholic Church, the private sector, and civil society. In spite of the Human Rights for HIV/AIDS Victims Law enacted in 1996, and its regulation in 1998, job discrimination and discrimination in the use of health services persists.

C1.7 The countries and agencies most involved in the fight against HIV/AIDS in Nicaragua are the Netherlands, Norway, Sweden and USAID. Two HIV/AIDS indicators were included in the JFA PAM. However there is little effort to ensure mainstreaming through sector and national policies or to ensuring that there is sufficient budget to prevent a rise in prevalence levels.

## Environment

C1.8 Environmental problems linked to the overexploitation of natural resources (due to cattle raising and agriculture activities and the high vulnerability to natural catastrophes) makes this sector crucial for Nicaragua's future economic development and poverty reduction. With agricultural and livestock farming expansion, forest fires and extraction of timber and firewood, in the last 30 years, vegetation coverage has diminished by between 50,000 and 100,000 hectares a year. The reduction in the area covered by forests has caused climatic changes and altered the water cycle, which in turn, has diminished the flow of the water network and thus modified the behaviour of the main water basins in the country. At the same time the indiscriminate use of agro-chemicals, salinisation, and inadequate treatment of domestic and industrial waste water, has led to contamination of the country's most important rivers. A number of plants and animals are now in danger of extinction as a result of the loss of their natural habitats. The proportion of the population that has access to sustainable and better sources of water and better sanitation services is relatively high at the national level, although the difference by area of residence, in detriment to rural areas, is significant.

C1.9 To conserve biodiversity, there is a national system of protected areas which includes seventy-six legally protected areas covering 17% of the country. In addition, a large number of standards have been enacted in comparison with other sectors; however, implementation suffers as a result of the divergences and contradictions with other economic laws, the clash of competencies between different institutions and levels of government and the lack of political will to enforce the regulations.

C1.10 Environmental degradation and ecological vulnerability was one of the cross-cutting themes of the ERCERP with policy indicators related to three main areas: environmental restoration and sustainable production process; forest management; strengthening local and institutional environmental management; and incorporation of the demographic dimension into the territorial planning. Associated to these themes, policy actions included the law on biodiversity, a national plan for sustainable development and the law on water, mining and natural resources management. A WB assessment of the extent to which countries (and the WB) have integrated (mainstreamed) environmental considerations into PRSPs ranks Nicaragua as a high-scoring country and it is identified as a good practice example of discussion of environmental proposals in the ERCERP progress reports (Bojö et al 2004).

C1.11 Environmental mainstreaming is one of the axes of the PND monitoring matrix with particular reference to the application of international agreements and sustainable development with the aim of stabilising the basis of production for rural population, ensuring the provision of water and soil preservation. However civil society has expressed concern that the PND does not pay sufficient attention to urban pollution connected with the projected progressive urbanisation of the population.

C1.12 The PRSC document does not include the environment in the matrix of indicators, nor do the indicators used show environmental mainstreaming in areas related to support economic growth and development of rural infrastructures. For instance, the matrix covers actions aimed at increasing productivity in agriculture and forestry, but the corresponding indicators do not refer to use of environmental impact assessment nor to the necessary link with the Natural Resources Law.<sup>77</sup> However, a separate annex provides details concerning environmental projects carried out by the WB and complementing the PRSC policy and reform actions (Bojö et al 2004).

C1.13 The JFA attention to environment mainstreaming is related to the application of the national natural resources management plan with indicators related to the percentage of territory covered by this plan, but without linking this to rural population or to other vulnerable groups. Following the PRSC, the JFA also covers the area of water and sanitation with an environmental and poverty reduction objective – indicators are disaggregated by rural and urban population, with rural focused on the provision of quality water and sanitation. The future plan for the rural sector (PRORURAL) is expected to be supported by PGBS. At the same time the JFA PAM focuses on the approval and implementation of a plan “which promotes private and public investments in products with high value added content” without any reference to environmental issues.

## **Democracy and Human Rights**

C1.14 Since independence in 1838, Nicaragua has gone through 120 years of war and only 47 years of peace. After the Somoza dynasty military dictatorship (1929–79), the war of liberation (1979), the revolutionary government and the civil war (1979–1990), Nicaragua began the political process of transition to democracy.

C1.15 The last 15 years have been characterised by the demobilisation and reinstatement into society of military personnel involved in the armed conflict of the 1980s, the privatisation of state-owned enterprises, the establishment of a market economy, a succession of partisan political conflicts and the implementation of state reforms which included, among others: public

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<sup>77</sup> This is despite the fact that the PRSC document indicates that there are problems with the implementation of provisions for ensuring correct application of the environment impact assessment.

administration reform, constitutional reform, modernisation of the justice system and property rights reform.

C1.16 In this period there have been also significant institutional and technical moves towards increasing accountability. These include: the creation of the *Coordinadora Civil* (umbrella organisation for NGOs working in the field of sustainable human development), the creation of the national councils, CONADES (National Council for Sustainable Development) and CONPES (National Council for Economic and Social Planning), the law on citizen participation, the laws on municipal transfer; the participatory education law; the dissemination of government information to the general public through the internet, the fight against corruption started by President Bolaños, and the move towards a national development plan with results-based indicators.

C1.17 According to the Nicaraguan Centre for Human Rights (CENIDH – *El Centro Nicaragüense de Derechos Humanos*) 2003 was a year marked by political instability in all sections of society. The government concentrated its efforts on signing the Free Trade Agreement with the USA and on carrying out its obligation with the IMF in order to have access to HIPC funds. In the 2003 UNDP development report Nicaragua fell from 118 to 121 out of 175 countries listed, ranked last among Central American countries (UNDP 2003).

C1.18 The weak judicial system directly affects the population, especially the poorest. The judiciary as a whole has lost credibility in society and the international community due to the actions of magistrates of the Supreme Court and other officials working in the judiciary. The result has been the worst institutional crisis in its history, with the Supreme Court subordinated to the political interests of the leadership of the FSLN and the PLC parties. The number of registered complaints against judicial officials rose 5% with respect to the number of registered complaints during 2002; the number of human rights violations ascertained rose by 9%.

C1.19 The inclusion in the PAM of an area on governance focusing on justice, human rights and citizen security and participation, gives a clear indication of the importance that PGBS donors attribute to these issues in their partnership with GON. Human rights and democratic principles, including free and independent elections, independence of judicial power and free and transparent democratic processes, feature among the key principles of the JFA and have a prominent place in the biannual reviews. However, progress in these areas is among the slowest so far and has been highly affected by the current political tensions in the country. The EC PGBS programme PAP Access to Justice designed to support some of the areas related to justice has not yet been approved. In addition while the aide memoire of the last JFA review emphasised the increased participation in the overall dialogue of the state institutions involved in the sector, it reported concerns due to the slow progress in the area of human rights and the implementation and adequacy of the judicial career law.

## **C2. Public and Private Sector Issues**

### **Introduction**

C2.1 This chapter draws on earlier findings for an overall assessment of public and private sector reforms (see ¶B5.18–¶B5.21).

### **The Private Sector and Growth in National Strategy**

C2.2 The reform of the public sector started in 1995 with a major public sector downsizing, linked to privatisation, and moving away from the centrally planned structure of the economy during the Sandinista period. Today the country is considered a full market economy, though some privatisation and structural reforms (related to banking and financial services, the regulatory framework, energy prices, trade, and infrastructure in rural areas) continue to be part of the conditionality of the PRGF and the PRSC. This continues the traditional support and influence of the IFIs in the overall process of market reforms undertaken since the early 1990s.

C2.3 The role of the state is still important in the provision of social services, such as education, health, water and sanitation and housing, although education and health services (among other services) are also provided on a private basis. In the case of education, GON provides scholarships to private schools especially in those areas where state schools do not exist.

### **Influences on the Private Market**

C2.4 There is limited entrepreneurial activity among the traditional private sector, mainly big farmers and ranchers. Instead the common attitude is that it is the responsibility of the state (and central government in particular) to reduce the main business risks they face, and widely-held suspicions that a few business magnates are able to manipulate the state for their own advantage. The absorption by GON of the losses to depositors created by the bankruptcy of four major private banks in 2000–01 and the subsequent scandal over who benefited from the bail-out is an example of this. The issuing of treasury bonds to finance the bailout raised interest rates, and therefore the cost of credit to both private enterprises and government. The government is financing productive infrastructures at the local level directly through institutions like such as FISE or via provision of credits through structures such as IDR using external aid resources (project aid).

### **PGBS and Private Sector Background**

C2.5 The PND includes a very strong private sector development policy as part of the new PRS focused on economic growth rather than social sectors (as the ERCERP). In this policy, the state operates as facilitator of the environment in terms of legal framework, infrastructure, vocational education, entrepreneurial support, increased access to the financial sector for micro, small and medium sized enterprises and attraction of foreign direct investment.

C2.6 In the view of some civil society organisations, the direct role of the state in reducing poverty has been decreased too much in the PND, leaving responsibility for poverty reduction to the private sector and to the market.

C2.7 The JFA has embraced the overall approach of the PND and moved from an approach strongly oriented towards social services of the first type of PGBS (see PRSC conditionality, EC PAPSE) to a greater inclusion of measures to stimulate the private sector and economic growth. Structural reforms are supported through the incorporation of the PRSC trigger indicators in the area of public sector and public finance and as part of the overall dialogue on the appropriate macroeconomic framework assessed through the satisfaction of the PRGF, which also includes structural reforms.

C2.8 Nicaragua has relatively high rates of gross fixed capital formation compared to its neighbours (Honduras, El Salvador, Costa Rica) (World Bank 2005b). Rates of fixed capital formation and foreign investment in Nicaragua post-2001 are on a flat trend, despite the more stable macroeconomic environment.<sup>78</sup> Thus the emphasis of the PND, PRSC and the JFA on development of the private sector and economic infrastructure has not as yet raised the trend.<sup>79</sup>

C2.9 Public expenditure and aid seem to have had little impact on the level of private investment in Nicaragua.<sup>80</sup> The development of the *maquila* industries in six 'duty-free' zones around the country seems to have been achieved with minimal public investment in infrastructure development. Similarly, the rapid development of the tourism sector around the coastal resort of San Juan del Sur has neither been 'kick-started' nor accompanied by major public investment from either central or local government.

C2.10 Data collected by the Ministry of Development, Industry and Commerce (MIFIC – *Ministerio de Fomento, Industria y Comercio*) on investment approvals since 2003 do not yet show any significant increase in the volume of private investment. Fear of 'political instability' in general and the continuing dispute over compensation for land confiscated during the Sandinista government in particular, are usually blamed for the relatively low rate of private investment. In May 2005, Carlos Pellas, a wealthy businessman in Nicaragua, stated that the political instability caused by perennial conflict between the Executive and the legislature was frightening off domestic and foreign investors alike (La Prensa 2005a). Fears of political instability might most reduce investment in sectors such as geo-thermal energy, urban water supply and telecoms that require close collaboration with the state. By contrast, investment in sectors such as tourism that do not require close involvement with the state may be more impervious to the prevailing political instability. Arguably, this difference may mean that domestic investors are discouraged more than foreign investors (who have found a niche in tourism development).

C2.11 But recent reports suggest even tourism sector investment is threatened by the political uncertainties:

Gildan Activewear of Canada had made plans to open a textile factory in Nandaime, promising to generate 500 new jobs and USD 60m of investment in the textile industry. A Mexican factory was to be a major producer of blue jeans. Both have held up their plans because of possible risk to their investments. Tourism also has taken a strong hit. A chain of Costa Rican hotels and a US hotel chain have decided to postpone their construction in Nicaragua until further notice. In total, eight different projects have been stopped as a result of the current political instability – the total being more than USD 500m (Nicaragua Network Hotline 2005).

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<sup>78</sup> Strengthening of the Córdoba since 2001, when combined with costs of living increases, has made Nicaragua's real exchange rate less competitive. But the strengthening currency probably reflects recovery of confidence in holding it after the uncertainties of 2001.

<sup>79</sup> The May 2005 JFA review indicated slow and mixed progresses in the last year compared to the indicators included in the PAM (Budget Support Group 2005b).

<sup>80</sup> This may happen in the future, considering that both the PRSC and the JFA support the development of the private sector, development of economic infrastructures, financial services. However, the May 2005 JFA review indicated slow and mixed progress in 2005 compared to the indicators included in the PAM (Budget Support Group 2005b).



C2.12 The crime rate is another governance factor that is often said to explain trends in private investment, particularly domestic investment. Nicaragua has by far the lowest crime rate in Central America. Nevertheless, the scale of domestic and foreign investment remains far lower than in other countries in the region such as Guatemala and El Salvador. Foreign investment in 2002 totalled USD 256m, with the creation of 21,300 jobs of which 8,741 were in the *maquila* sector.

C2.13 Low investment by small business people seems to be influenced strongly by Nicaragua's low level of rural development in a predominantly rural society. Roads, water, electricity – all requiring active public involvement – are poorly developed and incomes are much lower than the regional average. Thus the WB's business environment indicators scores Nicaragua broadly in line with Latin American averages: starting a business (number of procedures, time, minimum capital), hiring and firing workers (though easier to hire than to fire in Nicaragua), registering property (number of procedures, time, cost), getting credit (legal rights index, credit information index), protecting investors (disclosure index) enforcing contracts (rather fewer procedures and requiring less time in Nicaragua) and closing a business. But the big differences are in the high cost of starting a business in Nicaragua (170% of income per capita compared to 63% for the Latin American region) and in the low coverage of Nicaragua by private credit bureaux (0 borrowers per 1000 adults in Nicaragua, compared to 325 in the region) and by public credit bureaux (62 per 1000 adults in Nicaragua compared to 86 in the region) (World Bank 2005c).

C2.14 The above suggests that much of the blame for the low level of private investment in Nicaragua might be put at the door of government: as a result of instability of governance and insufficient public provision of rural development infrastructure and services. If this is correct, a redirection of government expenditure, as well as achieving stability in governance, will be essential for raising private investment, particularly by smaller local investors. As yet, aid (including PGBS) seems to have played no role in this process.



## **C3. Government Capacity and Capacity Building**

### **Introduction**

C3.1 Capacity is an issue, in both systemic and institutional terms, and not just concerning individual skills. One of the recognised negative effects of external aid in Nicaragua is the weakening of the GON structure, as a consequence of the use of project implementation units instead of government systems for aid implementation; the promotion of accountability to the donor instead of to the hierarchical superior and to citizens; and, most of all through the use of aid resources to finance line and high level positions within the government structure, which help to perpetuate a fragmented administration in the absence of an effective public service. In contrast to this situation, the logic of PGBS is that it supports systemic capacity development.

### **Capacity Development Issues**

C3.2 The decentralisation process under way in the education sector, and more generally the law of citizen participation and transfer of funds to municipalities, has created a new big demand for capacity building. This need is unfulfilled or covered in a fragmented way through project aid with little articulation with the main central level reform process. At the same time, local governments have to deal with different planning, reporting and management modalities according to the source of their funding, which results in a proliferation of systems. As also illustrated in Annex 6A, given the weakness of civil society in rural Nicaragua and the political strength of elite families at the local level, there is considerable doubt that the current decentralisation programme will necessarily lead to empowerment of the poor or to greater 'pro-poor' expenditure by municipalities without better guidelines and an effective monitoring and accountability mechanism

### **PGBS and Capacity Development**

C3.3 The biggest TA in terms of budget provided in the framework of PGBS is the PSTAC which annually is about 5% of PGBS committed funds. This is an important amount. In addition, the JFA and in general PGBS fosters the use of government structures, especially at sector level in those area such as education where the SWAp and the sector roundtable are working well. This will be in itself a promotion of institutional development and strengthening.

C3.4 There are still major challenges to overcome. PGBS itself requires management and leadership, as well as negotiation and consensus building skills while the move towards a results-based approach introduced with the PND and the JFA PAM requires skills in planning and budgeting, statistics, monitoring and evaluation. These are skills that are at present uneven within and across GON institutions. The PGBS associated with TA is mostly used to pay staff within the relevant ministries rather than increasing the ministries' capacities and there is a lack of a coordinated capacity-building strategy linking TA to systemic improvements. This is exacerbated by the "projectising" of GON staff. The sustainability and effectiveness of the TA provided, and more generally of the state reform process supported by PGBS, will remain at risk until there is an open discussion of the necessary civil service reform as regards GON human resources needs to manage both policy implementation and aid.



## C4. Quality of Partnership

### Ownership and Conditionality

C4.1 PGBS is premised on a change in the nature of conditionality – moving away from the coercive conditionality associated with structural adjustment programmes and instead aligning aid with a nationally-owned strategy, in which performance targets are jointly established, not externally imposed. At best, the situation of PGBS in Nicaragua is ambiguous: there is certainly an appearance of greater GON ownership, but there are reservations about the depth and effectiveness of that ownership.

C4.2 The signature of the JFA should allow an increase in GON ownership of the development process, shown by the alignment of the JFA with the PND. GON is also increasingly establishing its leadership and ownership within the sectors through the mechanism of sector roundtables and SWAps, despite Nicaragua's continued high dependence on external aid. While GON's relationship with IPs is in theory based on the principles of partnership and trust, in practice there is still some tension between GON ownership of the process and IP dominance of the relationship. This is demonstrated by the high number of indicators framing the assessment of GON in the use of the JFA funds, and the still strong policy conditionality on macroeconomic/finance management issues. Also, the process of increasing ownership requires strong leadership, coordination, management and organisation capacities that not all the government departments enjoy. Thus GON ownership tends to be unequal by sector. The fragmentation of Nicaraguan politics and administration, and the volatility reflected in the re-drafting of national strategies, inevitably limits the strength of national ownership.

C4.3 Ownership starts with the possibility of disposing of budget resources according to government plans and systems. PGBS is an important step forwards in this direction, but fungibility of resources is still limited to about USD89m of ODA compared to an average inflow of USD 534m per year.<sup>81</sup> Furthermore, with public debt representing 140% of GDP and foreign aid a high percentage of public expenditure, GON ownership is still greater in theory than in practice.

C4.4 The comments of one prominent GON official in the framework of the 2003 WB performance assessment of ERC 1 and ERC 2, illustrates the historical background of the influence of aid on policies and policy process in Nicaragua:

In general countries shifting from a command economy to a market oriented economy experience highly complex policy decisions. WB programmes (jointly with IADB and IMF programmes) encompass a whole set of policies that include complex design and planning problems and even more complex execution problems. [...]. The process should be made in such a way that there will be a strong "country ownership" of the reform programme in order to restore and maintain a stable macroeconomic environment. This whole process, however, should have high coordination among the IFIs and other donors. In the case of Nicaragua, it seems that it [coordination] was very low and some times contradictory.

... the need for institutional strengthening to be at the forefront of efforts to improve growth and reduce poverty should be further emphasised. [...] The main question still remains: what constitutes an appropriate reform agenda for a country like Nicaragua, in terms of institutional design and reform strategies and priorities?

... should be more aware of how vested interest might undermine the reform process. With burdens unequally and unfairly shared, the losers and especially well-organised domestic interest groups can undermine the reform efforts, influencing authorities' political cost-benefit calculation and delaying the

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<sup>81</sup> as reported by the GON in the September 2005 review of JFA.

decision-making process (Comments by Mr Mario Alonso Icabalceta on the World Bank review of ERC 1 and ERC 2 [World Bank 2003b])

### **Interplay between Aid Modalities**

C4.5 As indicated in Chapters A2 and A3, the Nicaragua aid scene is characterised by a multitude of donors and the use of parallel aid modalities, with project aid the principal modality used for delivering ODA.

C4.6 The launching of sector roundtables in 2003 was an important GON initiative to coordinate the different aid modalities operating at sector level and increase their coherence with the GON plans. PGBS is therefore operating within a common framework which, when it works, has increased alignment with GON and therefore facilitates the complementarity of different aid modalities. In the education sector for instance, project aid, SBS and GBS operate within a coordinated structure. The JFA affirms the PGBS donors' support for the OECD DAC principles for harmonisation and alignment by the PGBS partners, as indicated in the JFA preamble, and it is expected that these donors will be champions of the harmonisation and coordination process with the other donors in the framework of the roundtables, and in promoting the strengthening of the roundtables.

C4.7 Different aid modalities are also used by the same donor for similar purposes. For instance, the WB uses project aid (PA SEN) and programme aid (PRSC) to support identical policies within the education sector. Some of the bilateral JFA signatories also provide support to poverty reducing public expenditure through the FSS, which does not have the same principles of transparency and alignment with GON systems and mechanisms for planning and allocating resources. Another example is the EC which provides PGBS with a rural development focus, but also provides project aid to promote rural development through support to local and international NGOs (through specific budget lines such as food aid, and NGO co-financing). It is not always clear whether the combination of modalities is ad hoc or represents a deliberate effort to seek complementarity within the donor's portfolio.

C4.8 In contrast, there is a strong synergy among the different aid modalities used by donors in the area of structural reforms and public expenditure management, particularly as regards fiduciary risk. The IMF PRGF and the IADB policy based loans complement each other (and with the PRSC) in terms of the reforms proposed and conditionality (the inventory in Annex 3B provides further details). The PSTAC co-financing and the basket fund for the anti-corruption programme are other examples of coordination and complementarity between aid modality and donors. They show that where there is a strong common interest (such as reducing fiduciary risk) or a leading approach (such as the IFIs lead on structural reforms to achieve economic growth, stabilisation and fiscal discipline), donors have already been able to combine their efforts and dialogue with GON.

C4.9 The interplay of aid modalities is not so coherent and coordinated in the area of local development and decentralisation. Donors traditionally operating at local level such as JICA, Danida and IADB are not signatories of the JFA and the JFA does not include any bridging dialogue with these donors. Neither is there evidence (in terms of a formal agreement among the donors) on the division of work within the BSG on issues related to local development and support to the decentralisation process through capacity-building support coherent with reform and policy actions agreed at the central level. The use of the FSS and direct funding through institutions such as FISE or IDR for local development is another indication of the variance of aid modality use.

C4.10 There is room for more explicit consideration of the comparative advantages of, and the best fit between, different aid modalities. This applies both across and within sectors, and within individual IP portfolios.

### **Transaction Costs**

C4.11 The majority of aid is still provided through project aid following its own cycle and requiring individual negotiations, reporting procedures, evaluation and missions. For example, the MHCP reported that in the first half of June 2005, 17 different missions were expected. With PGBS there are clear transaction cost savings for GON inasmuch as PGBS funds are disbursed entirely through GON systems without special procurement or accounting requirements for the donors. Reduction of transaction costs in both the negotiation of aid and the monitoring of its use has also been one of the expected results of PGBS. This effect of PGBS over the total of the GON efforts in aid management is not yet observable due to the limited share of PGBS in total aid.

C4.12 PGBS may also change the nature of transaction costs. PGBS, even more than project aid or SBS, requires high-level technical skills, both in GON and IPs to ensure effective dialogue. Furthermore with PGBS it is necessary to get agreement on a number of reforms with a number of individual donors, which requires a good deal of time spent in negotiation and consensus building. Therefore, there is a risk that transaction costs will shift in nature with PGBS rather than decrease. They are certainly likely to be high during the initial phases of PGBS.

C4.13 A transaction cost that has been particularly high so far in Nicaragua is related to the low predictability of PGBS funds following the signature of the JFA. This reduces the ministries' planning capacity and requires continual adjustment of expenditure, with the risk of distracting managers' attention away from the implementation of plans.





## C5. Political Governance and Corruption

### Political Governance

C5.1 There is wide spread recognition that governance in Nicaragua is highly affected by the political situation and particularly by party polarisation, resulting in *caudillismo*, lack of representativeness, and conflictive political dialogue. The political scene is dominated by the PLC and the FSLN and, surprisingly, by the dominance of their main representatives, Arnoldo Alemán for PLC and Daniel Ortega for the FSLN. Their polarised view of the country's future development has meant that since the early 1990s the Executive has been obliged to use informal negotiation processes and a series of compromises with the different interest groups in order to be able to move ahead in the reform process.

C5.2 While Nicaragua has implemented an above average number of structural reforms compared with other Latin American countries, and institutional changes to increase transparency and inclusion, there is a general lack of confidence in the state institutions, which is reflected in the limited legitimacy and representativeness of the government actors and of the political system as a whole (Montenegro 2005). The institutional and political crises have been worsening since 2001 and the resulting tension between the Executive and the NA means that the occasions for dialogue with civil society have gradually decreased, as indicated by the slowdown of CONPES activity.<sup>82</sup> Civil society organisations have expressed their concern at being excluded from the dialogue between IPs and GON, and they have also protested at their exclusion from the GON and NA dialogue.

C5.3 Though the JFA includes governance among its key principles and democracy and justice related indicators in the PAM, the traditional focus on financial accountability and transparency and those aspects strictly related to fiduciary risks is dominant. There is little evidence so far that PGBS has helped set the basis for either a more inclusive dialogue or an increasingly transparent and shared performance assessment system.

### Corruption

C5.4 According to the World Bank governance indicators, the control of corruption index which measures perceptions of corruption (conventionally defined as the exercise of public power for private gain) for Nicaragua deteriorated until 2000 when there was a relatively sharp turn upward, when in 2001 the new Bolaños administration started its campaign against corruption (World Bank 2006). GON has taken important steps towards the formulation and implementation of laws and administrative regulations within the framework of the National Integrity Plan approved May 1999.<sup>83</sup>

C5.5 However, in spite of all the legal and administrative reforms, Transparency International recently recorded a rise in Nicaragua's Corruption Perception Index from 2.6 in 2003 (88 out of

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<sup>82</sup> With the NA's lack of support for the executive, CONPES has been used by the President as a basis for support rather than consultation, which has compromised CONPES and, for certain actors such as the *Coordinadora Civil*, has reduced the room for dialogue with central government. The recent nomination of a new Secretary General for the CONPES and the concerned expressed by donors over the reduced role of CONPES in the last months seem to have given a new impetus to CONPES (Budget Support Group 2005b).

<sup>83</sup> This includes, among others; the Electoral law (2000), Reform and Modification of the Criminal Code (2002), the setting up of the Public Ethics Office (2002), the Public Service law (2002), New Criminal Procedures Code (2002).

133 countries), to 2.7 in 2004 (97 out of 146 countries) (Transparency International 2005). The perception of corruption as revealed in the UNDP's Human Development report reflects that

In general citizen's opinion as expressed through annual surveys during 1997–2000 has shown that close to 90% of the population perceive the existence of corruption in the state (UNDP 2003).

C5.6 The anti-corruption programme financed between 2002 and 2003 by the bilateral PGBS donors was meant to support the Bolaños administration in its fight against corruption and to prepare the field for starting PGBS. Major improvements in the management of public funds have been achieved through the progressive development of SIGFA. However, there are important institutions in terms of volume of budget managed (such FISE and IDR) that are not yet included in SIGFA. At local level, municipalities use a system similar to SIGFA, but the multitudes of sources of financing make it difficult to control double financing and correct use of resources coming from the centre. Furthermore, the practice of publication and information about municipal budget and use of the resources is not widespread, leaving citizen organisations with limited capacity and possibility to exercise a monitoring and accountability function.

C5.7 The JFA signed recently by GON and IPs incorporates the fight against corruption as one of its fundamental principles, and it is very much on the political dialogue agenda. In the first annual revision of the JFA, IPs expressed their concern of the quality of the PAM's governance matrix and pushed for a more extended anticorruption strategy. The judicial system is particularly weak as it has been strongly affected by the political tensions between the Executive and the NA. The strong association of PGBS with the Executive has also meant that up to now the judicial power controlled by the Sandinista party has remained outside the institutional dialogue with PGBS donors and the work in the roundtable has not been able to progress quickly. This situation has been reported as improving in the last JFA review, following the recent agreement between Bolaños and Ortega (the so called '*acuerdo marco*').

## **PART D: SYNTHESIS – OVERALL CONCLUSIONS AND RECOMMENDATIONS**

### **D1. Overall Assessment of PGBS in Nicaragua**

#### **Introduction**

D1.1 This evaluation is required to be both retrospective and forward-looking. Accordingly, the present chapter provides a summary and overall assessment of the performance to date of PGBS in Nicaragua. Chapter D2 considers future prospects for PGBS, while the final chapter D3 summarises the report's recommendations and shows how they relate to the evaluation findings.

#### **Findings on Causality**

D1.2 The evaluation has been guided by the EEF and the Causality Map (see Annex 1A which sets out these elements of the EEF more fully and the Causality Map Figure A1.1 in Chapter A1). Each of the chapters in Part B includes consideration of specific causality links, and additional cross-cutting issues were reviewed in Part C. At Annex 5 we provide a summary of causality findings in Nicaragua.

D1.3 As we have shown, PGBS is still in its early, formative stages in Nicaragua; this naturally limits the possibility of robust findings on causality. More IPs have become involved in PGBS after the first individual bilateral PGBS of Sweden in 2002, through the first major individual programmes of the WB PRSC and the EC PAPSE, started in 2004, to the current harmonised PGBS in the framework of the JFA signed May 2005. There is also increased consolidation of donor approaches through the JFA.

D1.4 As a result of these limitations, the study's attempt to trace causality links between PGBS inputs, effects, outputs and outcomes, only yields clear links between entry conditions (Level 0), inputs (Level 1), immediate effects/activities (Level 2):

- There is an evolving relationship between the design of PGBS and the country context (Chapter B1).
- All the PGBS inputs are in place – funds, harmonisation and alignment measures, policy dialogue agreed conditions, and TA and capacity building. However, TA and capacity building are not linked to a systemic capacity-building strategy (Chapter B1).
- Harmonisation is a prominent immediate effect of PGBS, as well as of the HIPC process. The effect is strong because there was so little preceding harmonisation (Chapter B2).
- Strengthening of PFM by getting resources on the budget and through better tracking of public expenditure has been continued via PGBS but did not originate from it (Chapter B3).
- Increased pro-poor expenditure is not as yet the result of PGBS since PGBS funds are a minor element (Chapter B3).
- There is no evidence of increased resources for service delivery due to PGBS yet (Chapter B3).

## Overall Assessment

D1.5 PGBS in Nicaragua is still in a formative stage – so much so that it is too early for a proper retrospective evaluation. This is reflected in the necessarily limited findings on causality (see above).

D1.6 At the same time, PGBS is taking place in a difficult context: there is institutional and political fragmentation on the Nicaraguan side; limitations of both the policies and the systems which PGBS is meant to align with and support; and also heterogeneity among IPs.

D1.7 PGBS emerged from HIPC and from earlier programme aid, and effects to date are in many areas intermingled indistinguishably with these. As such PGBS is part of wider moves to more coordinated and country-led aid management (roundtables, programme-based approaches etc.) (¶A3.11). The systemic approach adopted by PGBS is also a direct answer to the need to reduce the past negative effects of aid on the country's institutional development and policy making process by promoting a structured approach for interministerial dialogue over policy, planning, financing and monitoring of results (¶A3.8). It is also an answer to national and international pressure for increased country ownership and leadership in the decisions over development policy and the reform agenda (¶A3.9).

D1.8 The PGBS effect that has emerged most clearly so far is the boost it has given to harmonisation among donors, from a very low base, and the resulting joint effort to evolve a design for PGBS which is increasingly relevant to its context (¶B1.22–¶B1.25). This is a positive, attributable effect which means the overall assessment of PGBS in Nicaragua is that it is a promising beginning to tackling deep seated problems of aid in a difficult political environment.

D1.9 The challenges it faces include:

- *How to break away from the limitations of previous aid modalities:* Limited GON ownership, disproportionate influence of aid, a prevailing short term vision and stop-start relationships with government are continuing problems. Programme design does not yet show a thorough incorporation of lessons from the performance of programme aid provided in the 1990s.<sup>84</sup> Nor has PGBS as yet acquired the critical size necessary to be strongly influential with all donors and with government (contrast the greater weight of HIPC, which brought together the Executive and legislature in a rare collaboration to ensure that conditions were met, so great was the prize).
- *How to move beyond excessive earmarking:* PGBS donors are keen to ensure that their money is directed to pro-poor expenditures, and as a result are reluctant to abandon earmarking. The constitutional guarantee of a fixed per cent of the total public expenditure budget to universities and the Supreme Court, led both HIPC and PGBS donors to direct their pro-poor funding via a special fund (FSS). Further, there is concern that PGBS may be more vulnerable to suspension than dedicated sector funding. Creating the confidence to reduce earmarking requires addressing these problems and risks.
- *How to create a long-term approach:* Long-term commitment is needed for raising predictability, for sustaining institutional change, and to end the stop-start process

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<sup>84</sup> See for instance, the project performance assessment report by the WB of the ERC programmes (World Bank 2003b).

which has characterised aid to Nicaragua since the early 1990s. There is the temptation to emphasise short term commitments in order to pressure for results, but doubts regarding the “reform absorption capacity” of a transition country such as Nicaragua, which is generally recognised to be at the stage of taking the first steps towards an effective process of government.

- *How to align with national plans for growth and poverty reduction:* The plan (PND-O) remains weak with little connection to the budget, which partly reflects the lack of cooperation between legislature and the Executive. This both limits participation and identifies donors with support for only part of the GON (Executive) and more particularly for an individual (Bolaños). This has implications for (a) engagement with the whole of the state (central government and sector agencies, legislature, decentralised level, non-government actors) and (b) for the potential of a long-term partnership between donors and GON, a challenge very much on the current agenda in Nicaragua given the context of national elections being held in 2006.

D1.10 Undertaking PGBS with its systemic approach embracing the key service delivery sectors and the core reforms related to governance is an ambitious strategy in a country with a deep political division as in Nicaragua. However, at the same time, it is an instrument that reduces some of the key inefficiencies of the aid provided in the past.

D1.11 The overall conclusion is that PGBS is an appropriate instrument which needs to be seen as evolving, to be understood in relation to the difficulties it faces in the context, and to be linked explicitly to strategies for other instruments. The case for continuing PGBS is therefore strong, as indicated in the next chapter.



## D2. PGBS in Nicaragua – Future Prospects

### Introduction

D2.1 The context that made PGBS relevant, as well as the factors that make PGBS difficult will continue. In this chapter we first identify what we expect to be the key features of the context for PGBS in Nicaragua, and then map out the directions in which we propose it should develop.

D2.2 In making recommendations, we have deliberately avoided detail, for two reasons: (a) such detail is beyond the scope of our study, and risks obscuring the key strategic issues (b) there is a serious danger of overloading PGBS. We therefore offer design principles more than design details. It is vital to prioritise and adopt a realistic timescale for the development of the PGBS model in Nicaragua. PGBS partners should not try to address all the issues we raise at once; PGBS is about designing sustainable processes that can work through an agenda of change.

### Context

D2.3 The Nicaraguan context is not about to change. Both the demand for and supply of aid for Nicaragua are likely to continue since Nicaragua remains one of the poorest countries in Latin America. Moreover, the need to coordinate aid and to link it to institutional development for poverty reduction will not diminish. Current economic growth, however welcome, will not alone generate institutional development. At the political level there can be no presumption that the rift between the Executive and the legislature will heal itself. Moreover, Nicaragua is vulnerable to earthquakes and hurricanes which drastically switch aid priorities towards disaster relief and, as in the case of Hurricane Mitch in 1998, can disrupt rather than consolidate longer term collaboration. Added to these sobering facts is HIPC completion. Owing to its size, HIPC has been strongly influential. The upcoming aid context is unlikely to feature a new collaborative effort on the scale of HIPC.

D2.4 All of the above emphasises that the PGBS effort cannot rely on changes in the Nicaraguan context to overcome the difficulties it faces. Developing the strategy and design of PGBS so that it is more effective in this context seems the only way forward.

### Design Issues

#### General Design Issues

D2.5 A number of general design issues arise:

D2.6 Partnership: A partnership with the Executive is not enough to allow the implementation of programmes addressing global reforms and overall development policy in an efficient and effective way when the Executive does not enjoy the support of the other state powers. Such an approach can put at risk the sustainability and continuity of the reforms themselves (¶B1.52, ¶C5.7). Foreign aid and in particular PGBS, because of its principles of partnership, ownership and of support to governance, should have a broader basis of dialogue that embraces the wider state.

*Recommendation:* Donors and the GON should promote ownership by working on PGBS with a wider cross-section of the state (including local authorities<sup>85</sup>) and civil society.

D2.7 Influence: Following the example of HIPC, donors should collaborate to strengthen the scale of incentives embodied in PGBS (¶B2.21–¶B2.25, ¶C4.5–¶C4.10).

*Recommendation:* Donors and GON should seek to attain a critical mass of PGBS funding and a critical mass of donors committed to PGBS. This will be helped by closer coordination of PGBS with other modalities.

*Recommendation:* Donors and the GON should treat SBS, project aid and PGBS approaches as complementary, ensuring that sector modalities do not undermine the development of national systems.

*Recommendation:* IADB participation in the BSG should lead to its policy-based loans and relevant TA credits becoming part of the JFA and their performance assessment being made in the framework of the dialogue on PGBS.

D2.8 Priority to planning and budgeting quality: To date planning and budgeting has received less priority for donors in PGBS than have fiduciary risk issues (¶B1.35–¶B1.37).

*Recommendation:* Donors should further support coherent planning of public services, investments and revenues, by putting planning at the centre of PGBS. This is not only a matter of introducing a medium-term budgetary framework and enabling legislation, which is beginning in 2006, but also of ensuring quality of the underlying implementation process.

D2.9 Unify monitoring of PND and PAM: Ensuring that donor monitoring of the PAM is embedded in the national government monitoring of the PND is important. (¶B1.40, ¶B2.19).

*Recommendation:* Donors and GON should establish joint monitoring of plan and budget implementation as well as support to developing monitoring and evaluation capacity in core government and sectors.

D2.10 Staged approach to solving PGBS implementation problems: Achieving timely disbursement and reducing risk of PGBS suspension will require an ongoing exploratory joint effort to find solutions – not a set of conditionalities (¶B1.41, ¶B3.18).

*Recommendation:* Donors should work with the GON towards a staged, medium-term timetable for achievement of changes needed for PGBS to function better, including improvements in PFM quality<sup>86</sup> and service quality, civil service capacity, local government planning and budgeting capacity.

*Recommendation:* Donors should improve commitment procedures to allow better budget planning by the GON.

*Recommendation:* Donors should avoid all-or-nothing disbursement of PGBS.<sup>87</sup>

D2.11 Capacity building of key departments in government: Integrating funding for technical expertise into PGBS; this is likely to involve revising the current structure of the civil service further so as to establish professional civil service capacity in essential posts (¶B1.33, ¶C3.4).

*Recommendation:* The GON, with donor assistance, should develop a human resource plan for key departments, linked to productivity increases.

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<sup>85</sup> Especially important given the ongoing decentralisation process.

<sup>86</sup> Including in particular, an alternative to the current constitutional earmarking of the budget (and reducing the fragmentation caused by the FSS).

<sup>87</sup> As part of this the more graduated signalling role that is envisaged for the IMF (see ¶D2.13) should assist.



*Recommendation:* Donors and the GON should focus on the key institutional improvement of a stronger civil service (requires national strategy that IPs can support, in which agreed systemic improvement supported by PGBS is complemented by TA/CB).

*Recommendation:* Donors should bring an end to the practice of paying GON staff with aid funds.

### Specific Design Issues

D2.12 More specific design issues focus on how to develop the PAM:

D2.13 Complex conditionalities in PAM result from inadequacies in the broader design of PGBS: While the PAM is a step forward in harmonisation and alignment, its complex conditionalities reflect the weaknesses in the broader design of PGBS, as indicated above. Since the alignment principle is that PAM indicators and targets should be those of the national development plan (PND), improvement of the PAM and of the PND should proceed together. The PAM is still a work in progress in that it is shaped by the inclusion of different approaches and rigidities created by the incorporation of the PAPSE and PRSC that were signed before. The main weaknesses are the following:

- In its current structure it risks becoming an additional performance assessment instrument enjoying little GON ownership and running in parallel to the GON system of monitoring the overall development policy performance (SINASID) (¶B9.12).
- The stop-start pattern in programme aid to Nicaragua has been caused in part by how on-track status with PRGF has been used in the application of the fundamental principles of the JFA (¶B1.41, ¶B3.18). The IMF is presently seeking ways to make its cautions regarding PRGF status less alarming to donors and this needs to be taken into account in the performance assessment linked to GBS disbursement (see the IMF paper exploring how the IMF's instruments and practices might be adapted to support sound policies in low-income members [IMF 2005a:15–16]).
- There is much discretion left to individual donors, and unclear links between assessment and amount to be disbursed, with consequent implications for predictability of funds (¶B1.47).
- Unresolved issues concerning the balance between input, output, outcome and impact indicators, and the appropriate use of different indicators as disbursement triggers (¶B9.15–¶B9.18).
- In addition very little attention is paid to monitoring the flow of funds for pro-poor expenditure in detail, (for example by using the share of pro-poor expenditure for a given service, area or target group). Finally, indicators are seldom disaggregated by gender or vulnerable groups, which makes it difficult to conduct thorough monitoring and evaluation of impact on these groups (¶B9.19).
- Despite the large number of indicators and areas covered, few refer to the institutional development efforts implicit in the reform agenda. The risk is that this process will not be factored into the overall performance assessment (¶B9.20).
- Review results are shared only within a restricted circle of donors and central government despite the implications these have for the political economy of the country (¶B9.21, ¶B9.25).

*Recommendation:* Donors and GON should seek convergence between PAM and PND targets.

*Recommendation:* PGBS donors should forge clearer links to the IMF in relation to policy dialogue and performance assessment on structural and macroeconomic policies.

*Recommendation:* Donors and GON should strengthen analysis of poverty incidence and impact of related policies by supporting national monitoring and evaluation (M&E) of both PND and PAM, with regard to annual progress and long-term results, spelling out results chains, and increasing gender and regional disaggregation, and providing more harmonised capacity building in this area at sector and local levels.

*Recommendation:* Donors and the GON should review the definitions of pro-poor expenditures, including discussion of constitutional earmarking.

## D3. Summary of Conclusions and Recommendations

### Introduction

D3.1 The Inception Report (see ¶3.3) noted the importance of distinguishing between:

*findings* (facts), *conclusions* (interpretation of the facts, drawing on the judgement of the evaluators) and *recommendations* (reasoned advice based on the evaluation findings and conclusions) (IDD & Associates 2005).

The matrix in Table D3.1 below is designed to summarise the recommendations of the Nicaragua Country Report, and in so doing to demonstrate the links from findings to conclusions to recommendations.

D3.2 The matrix covers sequentially all chapters in Part B and Part C of the report. The first column presents for each chapter a brief summary of the findings. In the second column, conclusions are presented which have been referenced to the relevant paragraphs in the Chapter reviewed. Recommendations, in the third column, have been referenced to the relevant issues raised in Chapters C1–D3.

D3.3 The last column indicates who/which structure(s) should be responsible for implementation of the recommendations. The timeframe for this to happen is also suggested with the following key:

- I means for immediate action
- ST means for action in the short term that is, within the next six months
- MT means for action in the medium term that is, will take more than a year

### Summary of Recommendations

D3.4 There must be realistic expectations of PGBS: it cannot solve every problem or do everything at once. Issues are about priorities, risk management, and linking PGBS to wider poverty reduction and aid strategies. PGBS is an evolving instrument which should form part of an overall strategy for increasingly nationally owned and coordinated management of aid. Along with PGBS the overall strategy includes sector roundtables and programme-based approaches, all as part of the PRSP approach. Hence:

- R1 PGBS dialogue should involve a wider cross-section of the state (including local authorities) and civil society and thereby promote wider ownership.
- R2 There should be a more inclusive involvement of donors, to attain a critical mass of PGBS funding and a critical mass of donors committed to PGBS.
- R3 Donors and the GON should treat SBS, project aid and PGBS approaches as complementary, ensuring that sector modalities do not undermine development of national systems.
- R4 PGBS donors should forge clearer links to the IMF in relation to policy dialogue and performance assessment on structural and macroeconomic policies.
- R5 IADB participation in the BSG should lead to its policy-based loans and relevant TA credits becoming part of the JFA and their performance assessment made in the framework of the dialogue on PGBS.
- R6 Donors and the GON should further support the coherent planning of public services, investments and revenues, by putting it at the centre of PGBS, linked to a medium-term budgetary framework.
- R7 Donors and the GON should work towards a medium-term reform timetable.

- R8 Donors and GON should focus on the key institutional improvement of a stronger civil service (requires national strategy that IPs can support, in which agreed systemic improvements supported by PGBS are complemented by technical assistance and capacity building).
- R9 GON, supported by donors, should integrate funding for technical expertise into PGBS via human resources plans for departments related to raising productivity.
- R10 The practice of paying GON staff with aid funds should be brought to an end.
- R11 Donors and the GON should seek convergence between PAM and PND targets.
- R12 Donors and the GON should support national monitoring and evaluation of both PND and PAM, with regard to annual progress and long-term results, spelling out results chains, increasing gender and regional disaggregation in indicators, and providing more harmonised capacity building in this area at sector and local levels.
- R13 Donors and the GON should review the definition of pro-poor expenditure, including discussion of constitutional earmarking.
- R14 Donors should avoid all-or-nothing disbursement of PGBS and revise the system of conditionality accordingly, making their criteria fully transparent to the GON.
- R15 Donors should reduce fragmentation of funding via the Supplementary Social Fund (FSS – *Fondo Social Suplementario*).
- R16 Donors need to improve commitment procedures to allow better budget planning by the GON.

Table D3.1: Standard Summary Table of Findings, Conclusions and Recommendations

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><b>EQ1 Relevance of PGBS</b></p> <ul style="list-style-type: none"> <li>The operations which conform to the definition of PGBS are Swedish PGBS from 2002, the World Bank's PRSC, and EC's general (PAP PND) and education-focused (PAPSE) PGBS operations. The multi-donor JFA, not signed until 2005, is intended to provide a common approach for these and other PGBS donors in future. PGBS design has thus been evolving throughout the evaluation period, and there have been significant differences in approach among the PGBS donors.</li> <li>PGBS design is moderately relevant to the Nicaraguan context as it addresses well-documented weaknesses in previous aid operations, notably lack of country ownership and fragmentation associated with projects.</li> <li>The Nicaraguan context poses various difficulties: macroeconomic uncertainties threaten the continuity of PGBS flows; the institutional fragmentation of GON, the rift between the Executive and legislature, and the lack of a professional civil service pose difficulties for ownership and partnership on the GON side.</li> </ul>	<ul style="list-style-type: none"> <li>Political and institutional risks are the least well addressed so far in the evolving PGBS design (¶B1.30–¶B1.36).</li> <li>While PGBS moves in the direction of partnership and greater country ownership, the PND provides a limited basis for country ownership because its sector coverage is incomplete, and it is weakly costed and prioritised despite acknowledging a financing gap vis-à-vis the MDGs (¶B1.38–¶B1.39).</li> <li>This means that IPs, in practice, take a leading role in defining targets and conditions (as reflected in the PRSC matrix and latterly the JFA PAM). At the same time there is not sufficient attention to GON absorptive capacity for reforms (¶B1.38, ¶B1.40).</li> <li>Linking PGBS conditions to the PRGF conditions of the IMF, although logical, reinforces the GON perception that conditionality has not changed much and makes the IMF an "invisible partner" in PGBS (¶B1.38, ¶B1.41).</li> <li>Differences in IP approaches, and their concern to limit perceived risks have made agreement on a joint approach more difficult and led to a rather complex PAM (¶B1.47–¶B1.49).</li> </ul>	<ul style="list-style-type: none"> <li>PGBS dialogue should involve a wider cross-section of the state (including local authorities), and thereby promote wider ownership (¶D2.6, ¶D2.7).</li> <li>PGBS donors should forge clearer links to IMF in relation to policy dialogue and performance assessment on structural and macroeconomic policies (¶D2.13).</li> <li>Donors should avoid all-or-nothing disbursement of PGBS and revise the system of conditionality accordingly, making their criteria fully transparent to the GON (¶D2.10).</li> </ul>	<ul style="list-style-type: none"> <li>GON and Donors MT</li> <li>GON and Donors ST–MT</li> <li>Donors ST–MT</li> </ul>

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><b>EQ2 Harmonisation and Alignment</b></p> <ul style="list-style-type: none"> <li>PGBS development has provided impetus to harmonisation and alignment.</li> <li>The extent of policy alignment is constrained by changes and weaknesses in the national policy documents with which IPs align.</li> <li>The GON-led move to develop sector roundtables is an important advance, which has helped to strengthen harmonisation and coordination among donors, but the extent of GON leadership is limited and varies significantly between sectors.</li> <li>Alignment with GON financial systems has been boosted by the single treasury account (CUT) (for all forms of aid) as well as by PGBS itself.</li> <li>PGBS itself is in principle aligned with the GON planning and budget cycle, but delays to JFA disbursement have undermined alignment in practice, and PGBS donors are still operating a short planning horizon.</li> </ul>	<ul style="list-style-type: none"> <li>PGBS carries forward the donor coordination and harmonisation process (already started with HIPC initiative). The fact that JFA signatories are among the most influential in the country and are expected to support the national H&amp;A plan should have positive influence on H&amp;A at national level (¶B2.22–¶B2.24).</li> <li>The IMF as the “invisible” strong partner of the BSG and of the JFA, has clear implications for the transparency of the policy dialogue, the true nature of the partnership, and for the effectiveness of the BSG/JFA mechanism of dialogue with the Government over its reform agenda (¶B2.25).</li> <li>Harmonisation among donors has been strengthened by collaboration among the BSG, but progress is limited by the fact that some large and influential donors (Japan, IADB, USAID) are operating outside of the JFA (¶B2.25).</li> </ul>	<ul style="list-style-type: none"> <li>There should be a more inclusive involvement of donors, to attain a critical mass of PGBS funding and a critical mass of donors committed to PGBS (¶D2.7).</li> <li>PGBS donors should forge clearer links to the IMF in relation to policy dialogue and performance assessment on structural and macroeconomic policies (¶D2.13).</li> <li>IADB participation in the BSG should lead to its policy-based loans and relevant TA credits becoming part of the JFA and their performance assessment being made in the framework of the dialogue on PGBS (¶D2.7).</li> </ul>	<ul style="list-style-type: none"> <li>Donors ST–MT</li> <li>Donors ST–MT</li> <li>Donors ST–MT</li> </ul>

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><b>EQ3 Public Expenditures</b></p> <ul style="list-style-type: none"> <li>The flow of PGBS funds is very recent and requires caution in assessing effects. PGBS is given more in substitution than in addition to project aid.</li> <li>PGBS funds are on-budget but the specific contribution of PGBS to increasing discretion is still marginal (PGBS only accounts for 10% of "poverty-reducing public expenditures" [PRPE] and overall discretion is limited, inter alia, by constitutional earmarking).</li> <li>PRPE as a share of percentage of public expenditure and GDP has risen since 2002 but it is not clear what the effect of PGBS has been on it given that same period saw inflow of HIPC funds.</li> <li>PGBS has not yet brought about an increase in predictability of funds. IMF judgement on macroeconomics and the implications of a weak institutional/political context for the assessment of the other key principles of the JFA have disrupted plans.</li> <li>There is limited evidence to determine any influence on transaction costs of the budget process and aid utilisation.</li> </ul>	<ul style="list-style-type: none"> <li>The mechanism for fund commitment and disbursement foreseen in the JFA complies with the budget cycle, but in practice it has not been sufficient to allow an effective and efficient budget planning process (¶B3.13)</li> <li>The much higher increase in pro-poor expenditure related to GDP compared to a smaller increase for human capital and social protection is due to ambiguity over the concept of pro-poor expenditure (¶B3.5, Box B3.1)</li> </ul>	<ul style="list-style-type: none"> <li>Donors should avoid all-or-nothing disbursement of PGBS and revise the system of conditionality accordingly, making their criteria fully transparent to the GON (¶D2.10).</li> <li>Donors need to improve commitment procedures to allow better budget planning by the GON (¶D2.10).</li> <li>Donors should reduce fragmentation of funding via FSS (¶D2.10).</li> <li>Donors and the GON should review the definitions of pro-poor expenditures, including discussion of constitutional earmarking (¶D2.13).</li> </ul>	<ul style="list-style-type: none"> <li>Donors ST–MT</li> <li>Donors ST–MT</li> <li>Donors ST–MT</li> <li>GON and Donors ST–MT</li> </ul>

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><b>EQ4 Planning and Budgeting Systems</b></p> <ul style="list-style-type: none"> <li>A number of technical systems to underpin planning and budgeting processes have been strengthened in recent years, drawing on TA from IPs (e.g. SIGFA, SNIP, and CUT). However, these do not automatically address underlying systemic weaknesses such as the fragmentation of responsibilities among GON agencies.</li> <li>PGBS seeks to continue and reinforce a number of improvements motivated by the HIPC process.</li> <li>It is too early to judge the systemic effects of PGBS on the budget process. PGBS reinforces the trend towards using government accountability systems, since PGBS funds automatically fall under GON accountability systems, but these systems are not themselves very strong.</li> <li>Key GON institutions outside of the new planning and budgeting systems are also funded by PGBS donors through other aid modalities, detracting from greater donor alignment with GON efforts at improved financial management.</li> </ul>	<ul style="list-style-type: none"> <li>TA provided in the framework of PGBS and its forerunners has been relevant and effective. TA has given GON possibility to hire staff to work at technical level on key reforms and to have access to relevant international expertise. However, the TA approach still shows a short term perspective in the support to the reform process as it does not tackle the key problem of the lack of a permanent professional civil service. The capacity building aspect is particularly weak at local level, both within the municipalities and in service delivery, despite the strong orientation towards decentralisation and deconcentration (¶B4.13–¶B4.15).</li> <li>There is an underestimation of the intensive institutional effort required by the reform process underpinned by PGBS, and a limited discussion on the human resources needs of GON and on implications of the existence of semi-autonomous institutions managing important resources but outside the framework of sector policy and ministry responsibility (¶B4.13–¶B4.15).</li> </ul>	<ul style="list-style-type: none"> <li>Donors and the GON should further support coherent planning of public services, investments and revenues, by putting planning at the centre of PGBS, linked to a medium-term budgetary framework (¶D2.8).</li> <li>Donors and the GON should work towards a medium-term reform timetable (¶D2.10).</li> <li>Donors and GON should focus on the key institutional improvement of a stronger civil service (requires a national strategy that IPs can support, in which agreed systemic improvements supported by PGBS are complemented by TA/CB) (¶D2.11).</li> <li>GON, supported by donors, should integrate funding for technical expertise into PGBS via human resources plans for departments related to raising productivity (¶D2.11).</li> </ul>	<ul style="list-style-type: none"> <li>GON and Donors MT</li> <li>GON and Donors ST–MT</li> <li>GON and Donors MT–LT</li> <li>GON and Donors ST–MT</li> </ul>



Findings	Conclusions	Recommendations	Implementation (who/when)
<p><b>EQ5 Policies and Policy Processes</b></p> <ul style="list-style-type: none"> <li>The policy dialogue between BSG donors and the GON has played an important role in the evolution from the PND to the PND-O in terms of increasing the consultation and including aspects that were originally underdeveloped.</li> <li>At the moment there is little involvement of local actors, particularly local governments in the mechanisms foreseen by the PGBS for review and discussion over implementation.</li> <li>There is a strong link with public administration reform which is the main area of the PRSC and to the preparation of an MTEF which is the focus of recent TA. But there is little effect of PGBS on changes of traditional patterns in institutional behaviour with regard to greater involvement of relevant stakeholders as well as promotion of increased accountability to civil society.</li> </ul>	<ul style="list-style-type: none"> <li>As a strong sign of support to the current Executive, PGBS has reduced its openness to key actors (civil society and local government) in the dialogue over the reform agenda agreed with GON, and in the mechanisms to monitor and assess progress. The history of the country in the last 15 years shows that political instability and a reduced sense of representativeness and inclusion have been a strong risk factor. So far, few funds have been devoted to reducing this risk and promoting an effective dialogue with all actors (¶¶B1.34, ¶¶B5.13–¶¶B5.15).</li> <li>Despite its holistic and systemic approach PGBS has not focused on the link between policies in order to ensure their effectiveness in poverty reduction (¶¶B5.15).</li> </ul>	<ul style="list-style-type: none"> <li>PGBS dialogue should involve a wider cross-section of the state (including local authorities) and civil society, and thereby promote wider ownership (¶¶D2.6, ¶¶D2.7).</li> </ul>	<ul style="list-style-type: none"> <li>GON and Donors ST–MT</li> </ul>

General Budget Support in Nicaragua

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><b>EQ6 Macroeconomic Performance</b></p> <ul style="list-style-type: none"> <li>PGBS is too recent to have made any contribution yet to macroeconomic performance. The macroeconomic stability is under the responsibility of the reforms agreed between the GON and the IMF in the framework of the PRGF. PGBS dialogue and conditionality of PGBS have been structured in such a way to offer a leverage effect for the implementation of the reforms included in the PRGF.</li> </ul>	<ul style="list-style-type: none"> <li>It is appropriate for PGBS to reinforce the PRGF. However, the challenge is to develop graduated responses, so that sector funding does not automatically become more volatile than under other modalities (¶B3.18, ¶B6.3, ¶B6.15).</li> </ul>	<ul style="list-style-type: none"> <li>Donors should avoid all-or-nothing disbursement of PGBS and revise the system of conditionality accordingly, making their criteria fully transparent to the GON (¶D2.10).</li> </ul>	<ul style="list-style-type: none"> <li>Donors ST–MT</li> </ul>
<p><b>EQ7 Delivery of Public Services</b></p> <ul style="list-style-type: none"> <li>It is too early to evaluate the effects of PGBS on the delivery of public services as it is only since 2004 that it has been possible to distinguish specific links between PGBS and pro-poor services (with the funds and sector conditionality of the PRSC 1 and EC PAPSE).</li> </ul>			
<p><b>EQ8 Poverty Reduction</b></p> <ul style="list-style-type: none"> <li>There are no clear indications about results of poverty reduction in the period covered by PGBS, and the presence of HIPC and FSS funds in pro-poor expenditure further complicate the analysis and attribution. In addition, the limited funds and time period of PGBS in Nicaragua mean that no definite effects are attributable to PGBS to date.</li> </ul>	<ul style="list-style-type: none"> <li>It is not clear that national policies are especially effective in income poverty reduction, and helping to develop, as well as to support, such policies will be a challenge for PGBS donors (¶B8.11).</li> </ul>	<ul style="list-style-type: none"> <li>Donors and the GON should support national M&amp;E of both PND and PAM, with a view to strengthening analysis of poverty incidence and impact of related policies (¶D2.13).</li> <li>Donors and the GON should review the definitions of pro-poor expenditures, including discussion of constitutional earmarking (¶D2.13).</li> </ul>	<ul style="list-style-type: none"> <li>Donors and GON ST–MT</li> <li>Donors and GON ST–MT</li> </ul>

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><b>EQ9 Sustainability</b></p> <ul style="list-style-type: none"> <li>National M&amp;E systems are rather patchy and systematic feedback to policy making is limited. Monitoring reports for the first national PRSP (ERCERP) have lapsed.</li> <li>There is no evidence of a formal, structured and open discussion on the content of evaluations. While there are many data that are collected, there is little ownership of the current monitoring systems set up at central level, such as the ERCERP monitoring system, since they are fully funded by external resources as projects.</li> <li>The presentation of results of the JFA periodic reviews remains within a restricted circle of people among the donors and the central government despite the implications for the political economy of the country.</li> <li>The procedure and instruments for dialogue and monitoring around PGBS appear very relevant, but there is a danger that they become an additional, and over-ambitious, donor requirement rather than being embedded in national systems.</li> </ul>	<ul style="list-style-type: none"> <li>The PAM has the merit to be a common framework for performance assessment and includes a mechanism for sharing and agreeing on results, something missing in the country till now and which the ERCERP reports did not manage to provide. However, it is still a work in progress and in its current structure it risks becoming a performance assessment instrument running in parallel to the GON system of monitoring overall development policy performance (¶B9.11–¶B9.14).</li> <li>Pro-poor targeting will depend on effective working of the participatory structure and a strengthened system of accountability; this was not covered by the PAM in 2005 (¶B9.21).</li> </ul>	<ul style="list-style-type: none"> <li>Donors and the GON should seek convergence between PAM and PND targets (¶D2.13).</li> <li>PGBS dialogue should involve a wider cross-section of the state (including local authorities) and civil society, and thereby promote wider ownership (¶D2.6).</li> <li>Strengthen analysis of poverty incidence and impact of related policies (¶D2.13).</li> <li>Establish joint monitoring of plan and budget implementation as well as support to developing monitoring and evaluation capacity in core government and sectors (¶D2.9).</li> </ul>	<ul style="list-style-type: none"> <li>GON and Donors ST–MT</li> <li>Donors ST–MT</li> <li>GON and Donors ST–MT</li> <li>GON and Donors MT</li> </ul>

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><b>C1 – Policy CCIs</b></p> <ul style="list-style-type: none"> <li>Gender is unevenly covered in the PGBS PAM. HIV/AIDS indicators are included in the PAM but there is little effort to ensure mainstreaming through sector and national policies. The PAM includes an area on governance focussing on justice, human rights and citizen security and participation, a clear indication of the importance that PGBS donors attribute to these issues in their partnership with GON.</li> </ul>	<ul style="list-style-type: none"> <li>The PAM does not pay enough attention to results chains and there is limited gender and regional disaggregation in the indicators (Chapter C1).</li> </ul>	<ul style="list-style-type: none"> <li>Donors and the GON should support national M&amp;E of both PND and PAM, with regard to annual progress and long-term results, spelling out results chains, increasing gender and regional disaggregation (¶D2.13).</li> </ul>	<ul style="list-style-type: none"> <li>GON and Donors MT</li> </ul>
<p><b>C2 – Public and Private Sector Issues</b></p> <ul style="list-style-type: none"> <li>The PND includes a very strong private sector development policy as part of the new PRS based on economic growth rather than social sectors (as the ERCERP). The JFA embraces the overall approach of the PND.</li> </ul>			
<p><b>C3 – Government Capacity and Capacity Building</b></p> <ul style="list-style-type: none"> <li>The JFA and in general PGBS fosters the use of government structures, especially at sector level in those areas such as education where the SWAp and sector roundtables are working well. The PGBS TA PSTAC is mostly used to pay staff within relevant ministries rather than increasing the ministries' capacity.</li> </ul>	<ul style="list-style-type: none"> <li>Sustainability and effectiveness of TA provided will remain at risk until practice of paying GON staff with aid funds is halted. (¶C3.4).</li> </ul>	<ul style="list-style-type: none"> <li>The practice of paying GON staff with aid funds should be brought to an end (¶D2.11).</li> </ul>	<ul style="list-style-type: none"> <li>Donors and GON ST–MT</li> </ul>

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><b>C4 – Quality of Partnership</b></p> <ul style="list-style-type: none"> <li>At best the situation in Nicaragua as regards conditionality is ambiguous: there is an appearance of greater GON ownership, but reservations about the depth and effectiveness of that ownership.</li> <li>The Nicaragua aid scene is characterised by a multitude of donors and the use of parallel aid modalities, though project aid represents the principal modality to deliver ODA. Both overall and for individual PGBS donors, PGBS remains part of a broader portfolio.</li> <li>GON transaction costs in using PGBS will be lower than for project aid because of the reliance on GON systems. The transaction costs of developing and introducing PGBS systems are high, and GON ownership inevitably makes demands on high-level skills within GON.</li> </ul>	<ul style="list-style-type: none"> <li>The high number of indicators framing the assessment of GON in the use of the JFA funds and the still strong policy conditionality on macroeconomic/finance management issues demonstrates that there is still some tension between GON ownership of the process and IP dominance of the relationship (¶C4.1–¶C4.2).</li> <li>Interplay of aid modality by same donor does not always correspond to a clear use of an aid modality for a given objective in a given sector (¶C4.5 - ¶C4.10).</li> </ul>	<ul style="list-style-type: none"> <li>Donors and the GON should treat SBS, project aid and PGBS approaches as complementary, ensuring that sector modalities do not undermine development of national systems (¶D2.7).</li> <li>There should be a more inclusive involvement of donors, to attain a critical mass of PGBS funding and a critical mass of donors committed to PGBS (¶D2.7).</li> </ul>	<ul style="list-style-type: none"> <li>GON and Donors MT–LT</li> <li>GON and Donors MT</li> </ul>

Findings	Conclusions	Recommendations	Implementation (who/when)
<p><b>Chapter C5: Political Governance and Corruption</b></p> <ul style="list-style-type: none"> <li>JFA focuses on financial accountability and transparency and those aspects strictly related to fiduciary risks. The fight against corruption is one of the JFA's fundamental principles and is very much on the political agenda.</li> </ul>	<ul style="list-style-type: none"> <li>The history of the country in the last 15 years indicates that political instability, reduced sense of representativeness and inclusion have been strong risk factors, and so far, few funds have been devoted to reducing this risk and promoting an effective dialogue with all actors. The JFA continues the traditional focus on fiduciary risk and there is little evidence so far that PGBS has helped set the basis for either a more inclusive dialogue or an increasingly transparent and shared performance assessment system. (¶C5.1–¶C5.3).</li> </ul>	<ul style="list-style-type: none"> <li>PGBS dialogue should involve a wider cross-section of the state (including local authorities) and civil society, and thereby promote wider ownership (¶D2.6).</li> </ul>	<ul style="list-style-type: none"> <li>GON and Donors MT–LT</li> </ul>

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**JOINT EVALUATION OF GENERAL BUDGET SUPPORT 1994–2004**  
*Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, Vietnam*

# **Nicaragua Country Report**

## **ANNEXES**

**April 2006**



## Joint Evaluation of General Budget Support NICARAGUA COUNTRY REPORT ANNEXES

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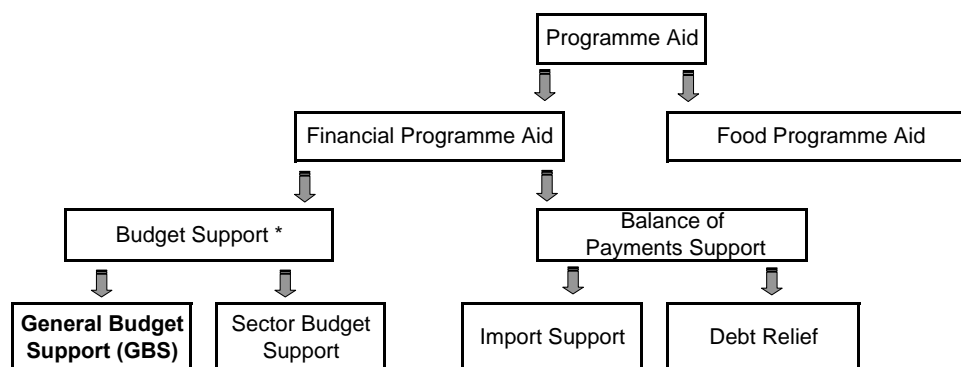
## ANNEX 1: APPROACH AND METHODS

### Annex 1A: Summary of the Evaluation Methodology

1. This Annex provides a short summary of the evaluation methodology. For full details please refer to the Inception Report (see also the Note on Approach and Methods which accompanies the Synthesis Report). Box 1A.1 shows how General Budget Support (GBS) relates to other forms of programme aid, while Box 1A.2 defines the Development Assistance Committee (DAC) evaluation criteria. Figure 1A.1 provides an overview of the Enhanced Evaluation Framework (EEF).

#### Box 1A.1: General Definition of Budget Support and GBS

As defined for the purpose of this evaluation, **programme aid** can be divided into food aid and financial programme aid. Financial programme aid includes both budget support and balance of payments support (such as debt relief and import support). Budget support in turn can be divided into sector budget support (SBS) and general budget support (GBS).



\*Referred to as direct budget support in the *Evaluation Framework*.

The general characteristics of **budget support** are that it is channelled directly to partner governments using their own allocation, procurement and accounting systems, and that it is not linked to specific project activities. All types of budget support include a lump sum transfer of foreign exchange; differences then arise on the extent of earmarking and on the levels and focus of the policy dialogue and conditionality.

**Sector Budget Support** is distinguished from **General Budget Support** by being earmarked to a discrete sector or sectors, with any conditionality relating to these sectors. Additional sector reporting may augment normal government accounting, although the means of disbursement is also based upon government procedures.

Source: IDD & Associates 2005: Box 2.1.

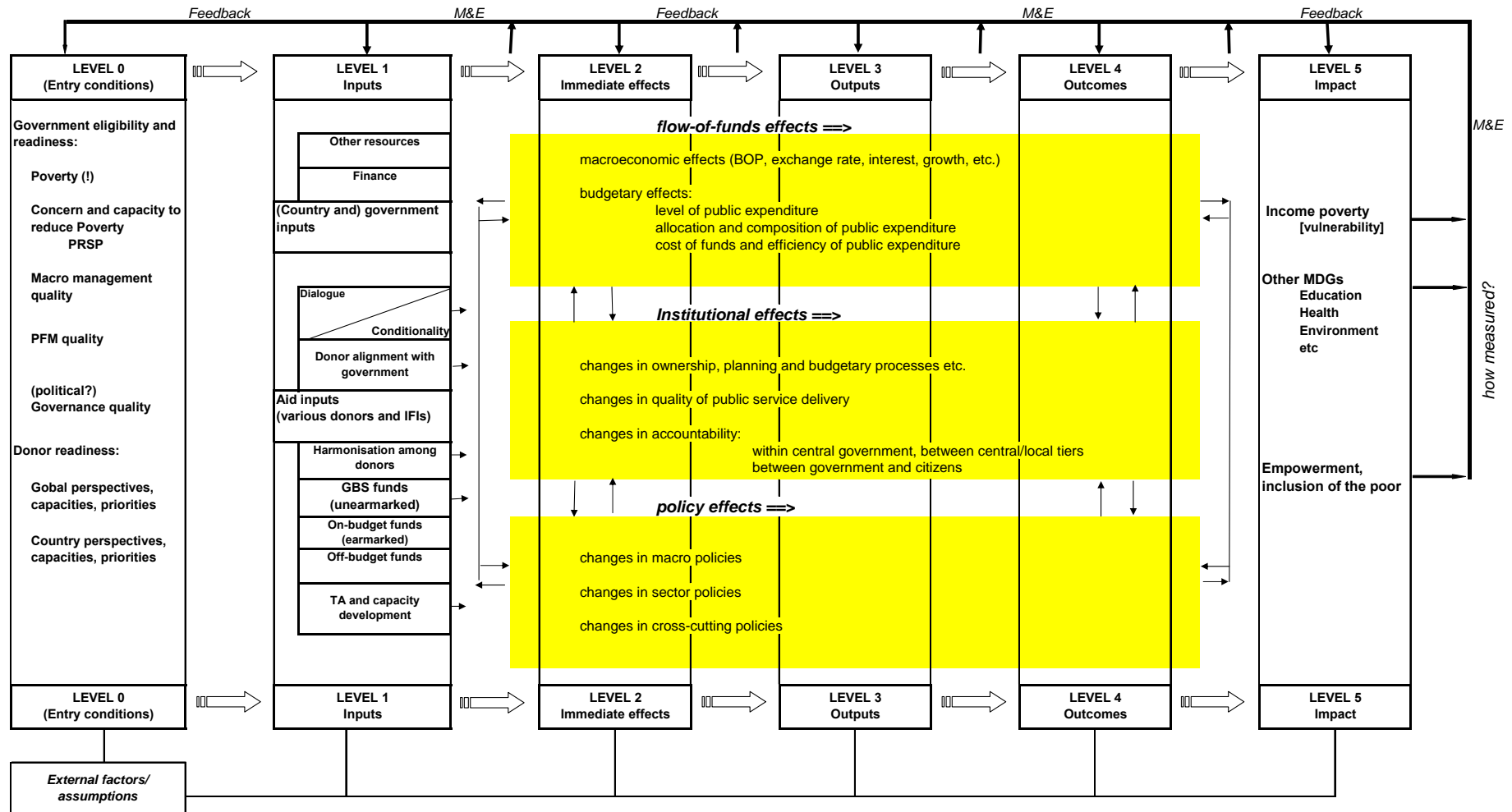
#### Box 1A.2: The DAC Evaluation Criteria

The five DAC evaluation criteria are:

- **Effectiveness:** The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance.
- **Efficiency:** A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted to results.
- **Relevance:** The extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, global priorities and partners' and donors' policies.
- **Impact:** Positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended.
- **Sustainability:** The continuation of benefits from a development intervention after major development assistance has been completed. The probability of continued long-term benefits. The resilience to risk of the net benefit flows over time.

Source: IDD & Associates 2005: Box 3.1.

Figure 1A.1: The Enhanced Evaluation Framework (schematic view)



2. Box 1A.3 shows, for each level of the logical framework, the main effects that are hypothesised to result from GBS. These hypothesised effects form the first column (the "logical sequence") of the detailed evaluation questions which are annexed to the Inception Report.<sup>1</sup>

**Box 1A.3: Enhanced Evaluation Framework – Logical Sequence of Effects**

<p><b>Level 1 (the design)</b></p> <p><b>1. Adequate quantity and quality of inputs are provided by new GBS:</b></p> <p><b>1.1 Funds</b></p> <p><b>1.2 Policy dialogue</b></p> <p><b>1.3 Conditionality</b></p> <p><b>1.4 TA/capacity building linked to</b></p> <ul style="list-style-type: none"> <li>• public finance management (PFM)</li> <li>• pro-poor sectoral policies and good governance</li> </ul> <p><b>1.5 Alignment and harmonisation</b></p> <ul style="list-style-type: none"> <li>• IPs' alignment to government goals and system</li> <li>• IPs' harmonisation</li> </ul>
<p><b>Level 2 (the immediate effects/activities)</b></p> <p><b>2.1 More external resources for the government budget (additionality)</b></p> <p><b>2.2 Proportion of external funds subject to national budget process increased (increased fungibility)</b></p> <p><b>2.3 Increase in predictability of external funding of national budget</b></p> <p><b>2.4 Policy dialogue and conditionalities focused on pro-poor policy framework and improved PFM</b></p> <p><b>2.5 TA/capacity building established to:</b></p> <ul style="list-style-type: none"> <li>• improve PFM processes including budgeting, accounting, financial control, audit</li> <li>• improve the linkage between PFM and pro-poor sectoral policies and good governance</li> </ul> <p><b>2.6 Actions to ensure IPs' alignment are in place</b></p> <p><b>Actions and agreements to improve IPs' harmonisation are in place</b></p>
<p><b>Level 3 (the outputs)</b></p> <p><b>3.1 Increased resources for service delivery:</b></p> <ul style="list-style-type: none"> <li>• external resources are treated as additional</li> <li>• cost of funding budget deficit reduced</li> </ul> <p><b>3.2 Partner government is encouraged and empowered to strengthen PFM and government systems to:</b></p> <ul style="list-style-type: none"> <li>• use the budget to bring public sector programmes into line with government goals, systems and cycles (Poverty Reduction Strategy Paper/Medium Term Expenditure Framework)</li> <li>• set up performance monitoring systems to measure the effectiveness of public expenditure at the level of the final beneficiaries</li> <li>• promote alignment and harmonisation by IPs</li> </ul> <p><b>3.3 Partner government is encouraged and empowered to strengthen pro-poor policies to:</b></p> <ul style="list-style-type: none"> <li>• establish and execute an adequate sequence of reforms to ensure macroeconomic stability and private sector development</li> <li>• establish and execute pro-poor policies and targeting in health, education, agricultural and rural development</li> <li>• enhance social inclusion policies, through decentralisation and participation of the civil society, reform of the administration of justice and respect for human rights</li> </ul> <p><b>3.4 Improved aggregate fiscal discipline:</b></p> <ul style="list-style-type: none"> <li>• More predictable funding flows</li> <li>• Incidence of liquidity shortfalls reduced, hence less use of Central Bank overdrafts and less accumulation of arrears</li> </ul> <p><b>3.5 Operational efficiency of public expenditure is enhanced by:</b></p> <ul style="list-style-type: none"> <li>• reductions in certain types of transaction costs to partner government (e.g., non-standard procurement systems, brain-drain effects of parallel project management structures)</li> <li>• better planning, execution and oversight reduces wasteful spending, controls corruption better, spreads positive lessons across the public sector</li> </ul>

<sup>1</sup> See IDD & Associates 2005 Annex G for the full set of detailed evaluation questions.

**3.6 Allocative efficiency of public expenditure is enhanced by:**

- a more effective budget process: multi-year, results oriented, transparent, participatory; with effective execution and audit; with an adequate tracking system
- increased capture of project funds in budget
- stakeholders taking the domestic budget more seriously (because that's where the money is)

**3.7 Intra-government incentives and capacities are strengthened:**

- official reporting lines are more respected (vertical through government to cabinet, not horizontal to IPs)
- public-service performance incentives are strengthened, so that policies are made and implemented, audit and procurement systems work, and corruption is reduced

**3.8 Democratic accountability is enhanced:**

- greater role of parliament in monitoring budget results
- accountability through domestic institutions for IP-financed spending is enhanced
- conditions for all-round democratisation are thereby improved, including the trust of people in their government and hence their level of expectations

**Level 4 (the outcomes)**

**4.1 Macroeconomic environment is favourable to private investment and growth:**

- inflation controlled
- realistic exchange rate attained
- fiscal deficit and level of domestic borrowing sustainable and not crowding out private investment

**4.2 Regulation of private initiative works to ensure business confidence, equity, efficiency and sustainability:**

- policies on corruption, property rights resolutely pursued
- market-friendly institutions developed

**4.3 More resources flowing to service delivery agencies**

**4.4 Appropriate sector policies include public actions to address major market failures, including those arising from gender inequalities**

**4.5 More effective and accountable government improves administration of justice and respect for human rights, as well as general confidence of people in government**

**4.6 More conducive growth enhancing environment**

**4.7 Public services effectively delivered and pro-poor:**

- service delivery targets met for key pro-poor services
- evidence of increased use of services by poor (including poor women)

**Level 5 (the impact)**

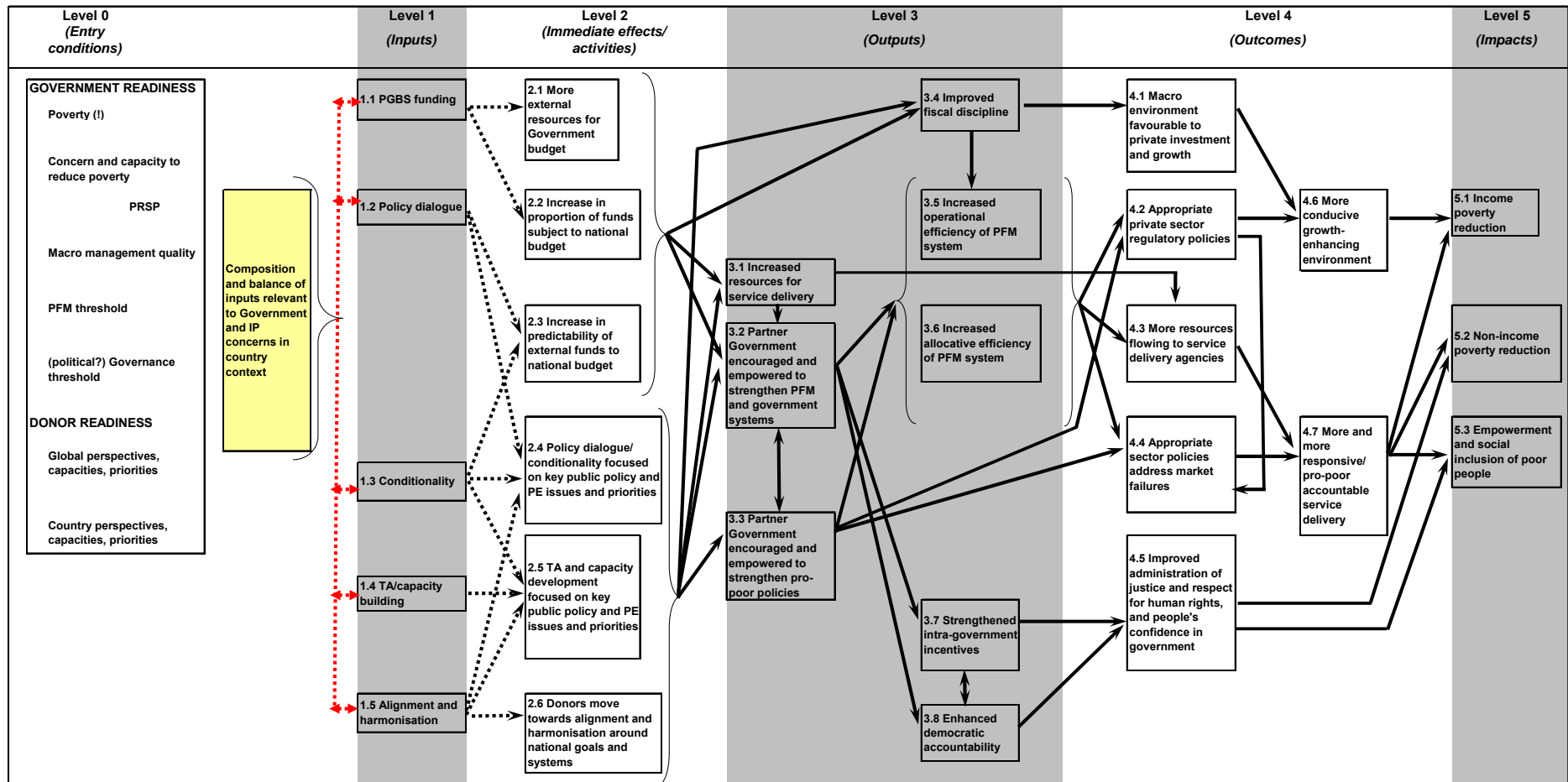
**5.1 Income poverty reduction**

**5.2 Non-income poverty reduction**

**5.3 Empowerment and social inclusion of poor people**

3. The main hypothesised links between inputs and subsequent effects at different levels are depicted on the causality map (Figure 1A.2). Note that these are not the only possible links; the evaluation teams also considered whether other links appeared important in particular countries.

Figure 1A.2: Causality Map for the Enhanced Evaluation Framework



4. A set of over-arching key Evaluation Questions (Box 1A.4) provides an organising framework for the country evaluation and a structure for the country reports.<sup>2</sup>

#### Box 1A.4: Key Evaluation Questions

1. How does the evolving Partnership GBS (PGBS) design respond to the specific conditions, strengths and weaknesses of the country, to government priorities and to the priorities and principles of the international partners?
2. Has PGBS contributed to greater harmonisation and alignment of the aid process?
3. How efficient, effective and sustainable has been the contribution of PGBS to the performance of the public expenditure process?
4. How efficient, effective and sustainable has been the contribution of PGBS to improving government ownership, planning and management capacity, and accountability of the budgetary process?
5. How efficient, effective and sustainable has been the contribution of PGBS to improving public policy processes and policies?
6. How efficient, effective and sustainable has been the contribution of PGBS to macroeconomic performance?
7. How efficient, effective and sustainable has been the contribution of PGBS to improving government performance in public service delivery?
8. How far has PGBS strengthened government impact on poverty?
9. Is the PGBS process itself sustainable?

5. Under each main evaluation question, a series of sub-questions (evaluation criteria) are posed (the shaded boxes within each of the chapters in Part B of the main report). To facilitate comparisons and consistency across the countries studied, symbols are used to give approximate ratings for the general situation and for the influence PGBS is judged to have had. The key to the ratings and symbols is as follows:

(a) Where the logic of the (implicit) question requires it – i.e. in Chapters B2–B8<sup>3</sup> – the ratings distinguish between the general situation to which the question refers and the influence of PGBS upon it. For the general situation, the rating is expressed as a *level* and a *trend*.

(b) PGBS influence is expressed in two ratings:

- For *effect*. This assesses the difference that PGBS makes to the general situation.
- For *efficiency*. It is perfectly possible that PGBS will be found to have a weak or null effect not because PGBS is inherently ineffective, but because it is relatively small ("a drop in a bucket") vis-à-vis the general situation. "Efficiency" therefore assesses whether PGBS has a significant effect relative to the resources deployed via PGBS. (Roughly, has PGBS been a "value for money" way of pursuing this effect?)

(c) For both the general situation and the PGBS influence, a separate *confidence* rating is given.

(d) The same symbols are used against "level", "effect", "efficiency" and "confidence" ratings:

***	<i>strong/high</i>
**	<i>medium/moderate</i>
*	<i>low/weak</i>

<sup>2</sup> See Inception Report Annex K for the full matrix of key Evaluation Questions, including judgement criteria, evidence, data sources, counterfactuals. The final *Note on Approach and Methods* will note minor amendments and assess the experience of using the Enhanced Evaluation Framework.

<sup>3</sup> The Evaluation Criteria in Chapters B1 and B9 refer directly to PGBS itself, so there is no separate "general effect" to consider.

null	<i>the level/effect is either zero or negligible</i>
nf [not found]	<i>we found no evidence either way</i>
na	<i>rating is Not Applicable to this question</i>

(e) The "trend" is the trend at the end of the evaluation period, and the options are:

+	<i>increasing/improving</i>
=	<i>stable (or no discernible trend)</i>
-	<i>declining/worsening</i>
na	<b>not applicable</b> if the accompanying level is rated null / not found / not applicable

(f) In the few cases where perverse effects are identified (a negative effect when the question implies a positive one is expected), this is shown as "perverse" (and is always be highlighted in the text explanation).

(g) As a rough guide to confidence ratings:

***	strong/high confidence: <i>We're sure what evidence is needed to answer this question, and the evidence we have appears robust and conclusive (so we would be surprised if more evidence changed the rating).</i>
**	medium/moderate confidence <i>There is some uncertainty whether the evidence we have is both robust and sufficient; more evidence might lead to a somewhat different rating.</i>
*	low/weak confidence: <i>There is uncertainty about what evidence is relevant to the question, and/or the evidence we have is limited or unreliable.</i>

(h) The ratings for "general situation" and "PGBS influence" may be based on different (though overlapping) sets of evidence; it is perfectly possible that confidence levels will differ, so they are rated separately.

(i) As a rough guide to ratings for effect

***	strong effect: <i>PGBS has made a definite and very significant difference to the general situation; it is not necessarily the only factor which has made such a difference, but it is an important one.</i>
**	moderate effect: <i>PGBS has made a definite and moderately significant difference to the general situation; but it may be a subsidiary factor, or one amongst a considerable number of significant factors.</i>
*	low/weak effect: <i>PGBS has made only a small difference to the general situation.</i>
null	<i>PGBS is assessed to have made no difference, or only a negligible difference, to the general situation..</i>
nf [not found]	<i>We did not find evidence either way of a PGBS effect.</i>
na	<i>The implied question is Not Applicable in this case.</i>

(j) As a rough guide to ratings for efficiency:

***	highly efficient <i>PGBS exerts a strong influence towards the effect in question, in proportion to the resources embodied in PGBS.</i>
**	moderately efficient <i>PGBS exerts a moderate influence towards the effect in question, in proportion to the resources embodied in PGBS.</i>
*	low efficiency <i>PGBS exerts only a weak influence towards the effect in question, in proportion to the resources embodied in PGBS.</i>
null	<i>PGBS is assessed to have exerted no influence, or only a negligible influence, towards the effect in question.</i>
not found	<i>We did not find evidence either way of a PGBS influence.</i>
na	<i>The implied question is Not Applicable in this case.</i>

6. The evidence used to assess ratings is explained in the text, and it follows general guidelines in Annexes G and K of the Inception Report (IDD & Associates 2005). The ratings have been checked for broad consistency across the country studies. At the same time, the study team recognises their limitations. It is neither possible nor desirable to reduce qualitative issues entirely to quantitative judgements. The ratings are only an adjunct to the text.



## Annex 1B: Approach and Methods in Nicaragua

### Introduction

1. This annex describes and comments on the approach and methods for the study in Nicaragua. It complements Chapter A1 which outlines the conceptual framework for the study as a whole.

### Team and Timetable

2. The study involved two visits to Nicaragua. A two week inception visit in November 2004, followed by another three week visit in May–June 2005.

3. Team members were Paola Gosparini (Team Leader), Andrew Nickson, Mike Hubbard, Lola Ocón Núñez (local consultant) and Rebecca Carter.

4. Sweden and Switzerland donor offices in Nicaragua were the co-ordinating IPs. The government contact point was the Government of Nicaragua (GON) Ministry of Finance (*Ministerio de Hacienda y Crédito Público*).

5. During the inception visit a first meeting with the Budget Support Group (BSG) was held to outline the purpose and approach of the study and a second meeting was organised at the end of the mission to present and discuss first findings. The second visit culminated in a dissemination workshop with over 50 participants from the GON, International Partners (IPs) and civil society representatives with the aim of discussing and validating findings of the second visit and sharing preliminary conclusions at the light of the EEF. The workshop included a MHCP presentation (introduction to the evaluation, overall aims and the team) and the Evaluation Team presentation (overview of the evaluation approach and methodology and the key preliminary findings of the country study). The afternoon session was split into two working groups which discussed the following areas:

- *Working Group 1 'The Present' Levels 1-3:* in what ways is the current PGBS model pertinent and relevant in order to contribute to poverty reduction and economic growth? Looking at the different inputs of PGBS, which need to be improved in Nicaragua? In what ways is the theoretical model applicable to Nicaragua?
- *Working Group 2 'The Future' Levels 3-5:* what are the necessary factors for PGBS to be able to contribute to sustainable poverty reduction and economic growth? In what ways is the theoretical model applicable to Nicaragua? Are the same results possible from other aid modalities?

In a follow-up exercise with the BSG, notes of the working group discussions were distributed and extra comments of the BSG in response were collected.

6. An Interim Note was produced in January 2005 to outline the preliminary findings of the visit. The Inception Report was submitted in January 2005 and the Draft Country Report in September 2005.

### Research Methods

7. A wide variety of literature was reviewed and a listing can be found in the bibliography at the end of the Nicaragua Country Report.

8. A series of interviews was undertaken in Nicaragua, which included both IPs, government ministries, representatives of the National Assembly (NA) and civil society representatives. A list is given in the table at the end of this Annex.

9. During the inception phase of the project a questionnaire was sent to all donors asking them to outline the aid instruments they had used over the study period with details of commitments and disbursements. 10 questionnaires were returned. It was not possible to use the questionnaire to provide financial data on GBS by donor.

10. In the second visit, the service provision of education and the process of decentralisation were chosen as the focus for case studies. Interviews were undertaken in the following departments and municipalities in order to get an overview of the case study areas of education and decentralisation.

<i>Department</i>	<i>Municipality</i>
Boaco	Camoapa San José de los Remates
Chontales	La Libertad Villa Sandino

11. Further feedback was obtained from IPs (Headquarters [HQs] and in-country), and in particular from the BSG in response to the second field visit workshop. The GBS Evaluation Steering Group provided feedback on both the Inception Report and the Draft Country Report.

### **Applying the Enhanced Evaluation Framework**

12. The main difficulty in applying the EEF was the difficulty in tracing separate and easily identifiable effects of PGBS in Nicaragua. Firstly, defining what PGBS is in Nicaragua was not straightforward due to the differing definitions of IPs applied to their programmes. In addition dialogue, conditionality, harmonisation and alignment 'inputs' are often shared with other instruments and modalities. We have adhered to the agreed definition of GBS as budget support that is not earmarked, or only notionally earmarked, to specific uses. In practice boundaries between GBS and SBS are imprecise.

13. Secondly, PGBS has only been operating very recently (from 2002). Thus it is too early for impacts from Level 3 to 5 of the EEF to be discerned with any certainty.

14. Finally, PGBS is a very small percentage of overall ODA and thus it is difficult to distinguish between PGBS and other influences in terms of flow of funds effects and policy dialogue.

15. It is important to note that the inconsistencies between government and IP data on PGBS have made it more difficult to assess the relative importance of PGBS, and to assess the extent to which aid is moving on-budget. Also, the lack of consistent annual data on all programme aid from 1994–2004 (comparable across the years) has limited detailed analysis of PGBS compared with previous years.

### **Reflections**

16. Overall the EEF provided a useful mechanism to look at the relevance of PGBS design in Nicaragua. The choice of Nicaragua in this evaluation has provided an opportunity to evaluate the start of a PGBS process for a country; however, as a consequence of the short time that

PGBS has been operating in Nicaragua, the evaluation has not been able to follow the EEF through the 5 Levels.

**Table 1B.1 Organisations Visited**

**GON**

FISE – Emergency Social Investment Fund  
INIFOM – Nicaragua Institute of Municipal Development  
MAGFOR – Ministry of Agriculture and Forestry  
MHCP – Ministry of Finance and Public Credit  
MIFIC – Ministry of Development, Industry and Commerce  
MECD – Ministry of Education, Culture and Sport  
MINREX – Ministry of Foreign Affairs (SREC – Secretariat for Economic Relations and Cooperation)  
SECEP – Secretariat of Strategy and Coordination of the Presidency  
SIGFA (MHCP) – Integrated Financial Management System  
SINASIP (SECEP) – National Monitoring System of Poverty Indicators  
SNIP – National System of Public Investment  
UCRESEP – Coordination Unit for the Public Sector Reform and Modernisation Programme.  
INEC – Nicaraguan Institute of Statistics and Census  
Central Bank of Nicaragua (BCN)  
National Assembly – Economic Commission  
PRODEP (Land Administration Project), MHCP

**Civil Society**

CONADES – National Council for Sustainable Development  
Coordinadora Civil –NGO  
CONPES – National Council for Economic and Social Planning  
Centre of Investigation and Communication, CINCO (NGO)  
Ética y Transparencia (NGO)  
UNAG – National Union of Farmers and Cattle Raisers  
NGO EDUQUEMOS (Education NGO)

**Other**

BCIE – Central American Bank of Economic Integration  
COSEP – Superior Council of Private Enterprise  
Nicaraguan Chamber of Commerce  
MSH – Management Sciences for Health (USAID international consultancy)  
Television Programme ‘This Week’

**International Agencies**

BSG – Budget Support Group  
Danida – Danish International Development Agency  
DFID – Department for International Development (UK)  
Embassy of Finland  
Embassy of France  
Embassy of the Netherlands  
Embassy of Japan

CIDA – Canadian International Development Agency  
European Commission (EC)  
IADB – Inter-American Development Bank  
International Monetary Fund  
NORAD – Norwegian Agency for Development Cooperation  
SDC – Swiss Agency for Development and Cooperation  
Sida – Swedish International Development Cooperation Agency  
UNDP – United Nations Development Programme  
USAID  
World Bank (WB)

**Departments and Municipalities**

Boaco CDD – Boaco Departmental Development Committee  
Camoapa CDM – Camoapa Municipal Development Committee  
La Libertad CDM – La Libertad Municipal Development Committee  
San José de los Remates CDM – San José de los Remates Development Committee  
Villa Sandino CDM – Villa Sandino Municipal Development Committee  
Acoyapa CDM – Acoyapa Municipal Development Committee

## ANNEX 2: COUNTRY BACKGROUND

### Annex 2A: Basic Country Data

Table 2A.1: Key Demographic Data

	1990–1995	1995–2000	2000–2005
<b>Fertility</b>			
Annual Births (in thousands)	157	168	175
Gross rate of births (per 1,000)	38.02	35.33	32.19
Rate of reproduction	4.82	4.32	3.82
Gross rate of reproduction	2.35	2.11	1.85
Net rate of reproduction	2.16	1.95	1.75
<b>Mortality</b>			
Annual deaths (in thousands)	26	27	28
Gross rate of deaths (per 1,000)	6.34	5.62	5.15
<b>Life expectancy at birth</b>			
Both sexes	66.05	67.95	69.48
Male	63.53	65.65	65.65
Female	68.7	70.36	70.36
Rate of infant mortality (per 1,000)	48	39.5	35.5
<b>Growth</b>			
Annual growth (in thousands)	131	141	147
Rate of natural growth (per 1,000)	31.68	29.72	27.03
<b>Migration</b>			
Annual migration (in thousands)	-10	-12	-6
Rate of migration (per 1,000)	-2.42	-2.53	-1.11
<b>Total Growth</b>			
Annual growth (in thousands)	121	129	141
Total rate of growth (per 1,000)	19.25	27.18	25.95

Source: National Institute of Statistics (INEC – *Instituto Nacional de Estadísticas y Censos*).

Table 2A.2: Key Development Indicators

	1999	2002	2003
<b>People</b>			
Population, total	4.9 million	5.3 million	5.5 million
Population growth (annual %)	2.7	2.6	2.6
National poverty rate (% of population)	..	..	..
Life expectancy (years)	..	68.7	68.8
Fertility rate (births per woman)	..	3.4	3.4
Infant mortality rate (per 1,000 live births)	..	..	30
Under 5 mortality rate (per 1,000 children)	..	..	38
Births attended by skilled health staff (% of total)	..	..	..
Child malnutrition, weight for age (% of under 5)	..	..	..
Child immunization, measles (% of under 12 mos)	97	98	93
Prevalence of HIV, total (% of population aged 15-49)	..	..	0.2
Literacy rate, adult male (% of males ages 15 and above)	65.9	..	..
Literacy rate, adult female (% of females ages 15 and above)	66.4	..	..
Primary completion rate, total (% age group)	70	75	..
Primary completion rate, female (% age group)	74	79	..
Net primary enrollment (% relevant age group)	79.4	85.5	..
Net secondary enrollment (% relevant age group)	..	39	..
<b>Economy</b>			
GNI, Atlas method (current US\$)	3.5 billion	3.9 billion	4.1 billion
GNI per capita, Atlas method (current US\$)	710	730	740
GDP (current \$)	3.7 billion	4.0 billion	4.1 billion
GDP growth (annual %)	7	1	2.3
GDP implicit price deflator (annual % growth)	9.2	4.7	5.6
Value added in agriculture (% of GDP)	17.8	18.1	17.9
Value added in industry (% of GDP)	24.7	25.5	25.7
Value added in services (% of GDP)	57.5	56.4	56.3
Exports of goods and services (% of GDP)	22	22.6	24.4
Imports of goods and services (% of GDP)	54.6	49	51.1
Gross capital formation (% of GDP)	39.6	36.3	37.6
Revenue, excluding grants (% of GDP)	18	19.3	20.9

Source: World Development Indicators database (World Bank 2005b).

Table 2A.3: Poverty Incidence

## National Poverty Incidence by Area and Region of Residence

Geographical Area		Non Poor	Poverty		Total
			General	Extreme	
<b>National Level</b>					
National	1993	49.7	50.3	19.4	100.0
	1998	52.2	47.9	17.3	100.0
	2001	54.2	45.8	15.1	100.0
<b>Area of Residence</b>					
Urban	1993	68.1	31.9	7.3	100.0
	1998	69.5	30.5	7.6	100.0
	2001	69.9	30.1	6.2	100.0
Rural	1993	23.9	76.1	36.3	100.0
	1998	31.5	68.5	28.9	100.0
	2001	32.2	67.8	27.4	100.0
<b>Region of Residence</b>					
Managua	1993	70.1	29.9	5.1	100.0
	1998	81.5	18.5	3.1	100.0
	2001	79.8	20.2	2.5	100.0
Urban Pacific	1993	71.9	28.1	6.4	100.0
	1998	60.4	39.6	9.8	100.0
	2001	62.8	37.3	5.9	100.0
Rural Pacific	1993	29.3	70.7	31.6	100.0
	1998	32.9	67.1	24.1	100.0
	2001	43.2	56.8	16.3	100.0
Urban Central	1993	50.9	49.2	15.3	100.0
	1998	60.6	39.4	12.2	100.0
	2001	62.4	37.6	11.1	100.0
Rural Central	1993	15.3	84.7	47.6	100.0
	1998	26.0	74.0	32.7	100.0
	2001	24.9	75.1	38.5	100.0
Urban Atlantic	1993	64.6	35.5	7.9	100.0
	1998	55.6	44.4	17.0	100.0
	2001	57.1	43.0	13.1	100.0
Rural Atlantic	1993	16.4	83.6	30.3	100.0
	1998	20.7	79.3	41.4	100.0
	2001	23.3	76.7	26.9	100.0

The general definition of poverty line and extreme poverty line used, are the following:

- **Extreme Poverty Line**, is defined as the total level of monthly food consumption per person, necessary to satisfy the defined minimum daily caloric intake.
- **The Poverty Line**, is defined as the level of monthly food consumption per person, necessary to satisfy the minimum daily caloric intake (*Extreme Poverty Line*), plus an additional amount to cover consumption of essential non-food goods and services such as: housing, transport, education, health, clothes, and daily use in the home.

The figures for the poverty line in 1993, 1998 and 2001 are:

Year	Poverty (monthly) (NIO)	Extreme Poverty (monthly) (NIO)
1993	214.47	101.32
1998	354.92	187.17
2001	429.75	224.25

Source: INEC 2003.

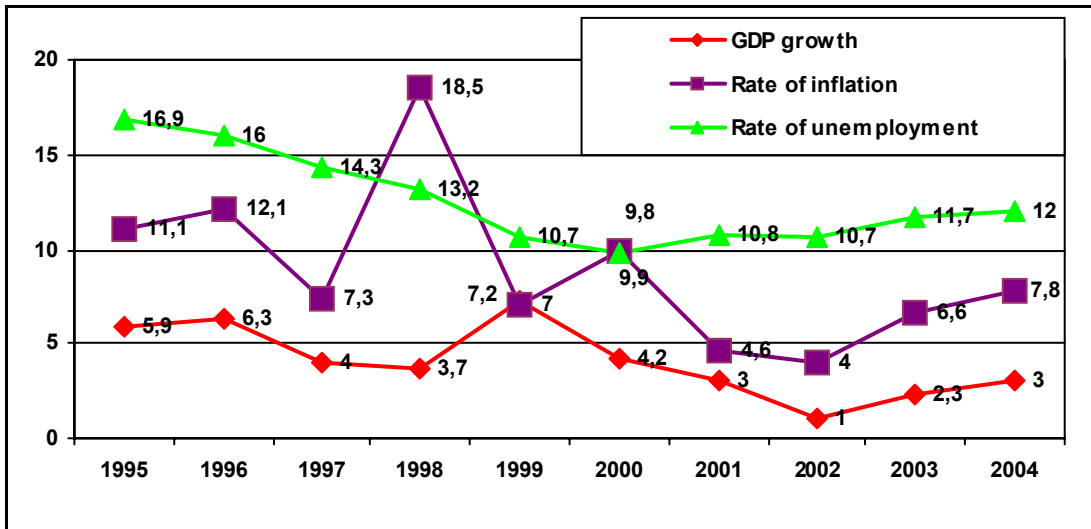
Table 2A.4: Key Economic Ratios and Long-Term Trends

	1983	1993	2002	2003
<b>GDP (USD billion)</b>	2.8	1.8	4.0	4.1
<b>Gross domestic investment/GDP</b>	22.5	19.5	32.1	31.2
<b>Exports of goods and services/GDP</b>	19.4	20.4	22.9	22.8
<b>Gross domestic savings/GDP</b>	11.9	-8.0	6.0	6.0
<b>Gross national savings/GDP</b>	5.5	-29.2	12.8	13.6
<b>Current account balance/GDP</b>	-21.3	-51.5	-19.6	-17.6
<b>Interest payments/GDP</b>	1.4	3.2	1.1	1.3
<b>Total debt/GDP</b>	148.9	643.5	162.0	166.6
<b>Total debt service/exports</b>	21.2	34.1	10.9	12.3
<b>Present value of debt/GDP</b>	..	..	71.5	..
<b>Present value of debt/exports</b>	..	..	205.9	..
	<b>1983-93</b>	<b>1993-03</b>	<b>2002</b>	<b>2003</b>
<b>average annual growth</b>				<b>2003-07</b>
<b>GDP</b>	-2.6	5.3	1.0	2.3
<b>GDP per capita</b>	-5.1	2.5	-1.6	-0.3
<b>Exports of goods and services</b>	1.2	3.6	-3.3	-5.1
				6.6

Source: World Bank Nicaragua at a glance (World Bank 2004d).

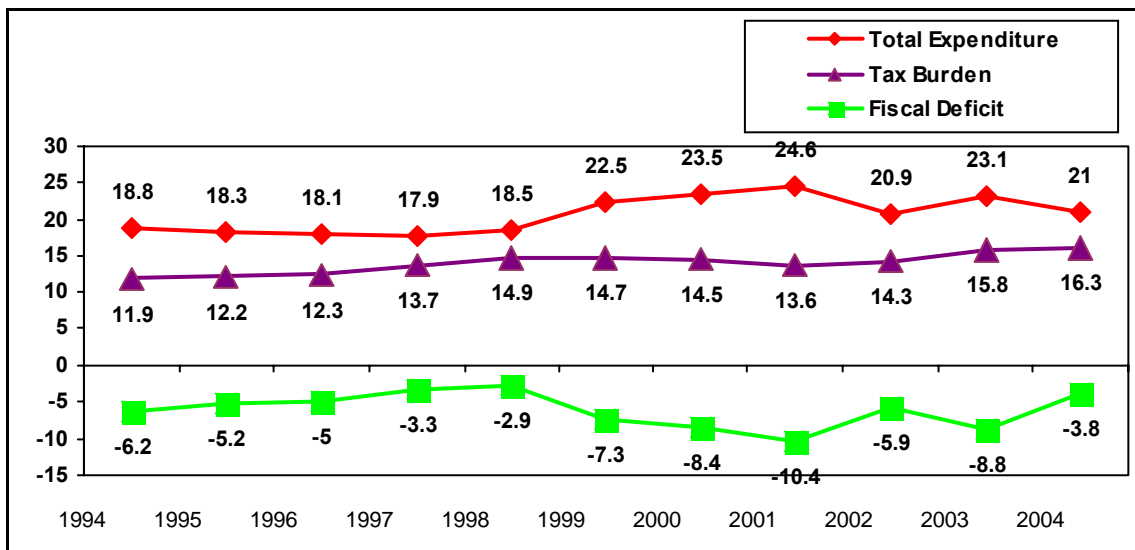


Figure 2A.1: Economic Growth, Inflation and Unemployment



Source: Avendaño 2004.

Figure 2A.2: Central Government Finances (% of GDP)



Source: Avendaño 2004.



## Annex 2B: Millennium Development Goals (MDGs)

Table 2B.1: Nicaragua MDG Profile

	1990	1995	2001	2002
<b>1 Eradicate extreme poverty and hunger</b>	<i>2015 target = halve 1990 \$1 a day poverty and malnutrition rates</i>			
Population below \$1 a day (%)	..	..	45.1	..
Poverty gap at \$1 a day (%)	..	..	16.7	..
Percentage share of income or consumption held by poorest 20%	..	..	3.6	..
Prevalence of child malnutrition (% of children under 5)	..	11.0	9.6	..
Population below minimum level of dietary energy consumption (%)	30.0	33.0	29.0	..
<b>2 Achieve universal primary education</b>	<i>2015 target = net enrolment to 100</i>			
Net primary enrolment ratio (% of relevant age group)	72.2	77.6	81.9	..
Percentage of cohort reaching grade 5 (%)	45.6	47.0	54.2	..
Youth literacy rate (% ages 15-24)	68.2	69.9	86.2	..
<b>3 Promote gender equality</b>	<i>2005 target = education ratio to 100</i>			
Ratio of girls to boys in primary and secondary education (%)	111.7	106.3	105.3	..
Ratio of young literate females to males (% ages 15-24)	101.4	101.6	106.2	..
Share of women employed in the non agricultural sector (%)	49.0	..	..	..
Proportion of seats held by women in national parliament (%)	..	16.0	..	..
<b>4 Reduce child mortality</b>	<i>2015 target = reduce 1990 under 5 mortality by two-thirds</i>			
Under 5 mortality rate (per 1,000)	66.0	54.0	45.0	41.0
Infant mortality rate (per 1,000 live births)	52.0	43.0	37.0	32.0
Immunization, measles (% of children under 12 months)	82.0	81.0	99.0	98.0
<b>5 Improve maternal health</b>	<i>2015 target = reduce 1990 maternal mortality by three-fourths</i>			
Maternal mortality ratio (modelled estimate, per 100,000 live births)	..	..	230.0	..
Births attended by skilled health staff (% of total)	..	..	66.9	..
<b>6 Combat HIV/AIDS, malaria and other diseases</b>	<i>2015 target = halt, and begin to reverse, AIDS, etc.</i>			
Prevalence of HIV, female (% ages 15-24)	..	..	0.1	..
Contraceptive prevalence rate (% of women ages 15-49)	44.0	..	..	..
Number of children orphaned by HIV/AIDS	..	..	2,000.0	..
Incidence of tuberculosis (per 100,000 people)	..	..	69.0	64.4
Tuberculosis cases detected under DOTS (%)	..	77.0	94.0	85.5

*General Budget Support in Nicaragua*

	1990	1995	2001	2002
<b>7 Ensure environmental sustainability</b>	<i>2015 target = various (see notes)</i>			
Forest area (% of total land area)	36.7	..	27.0	..
Nationally protected areas (% of total land area)	..	7.4	7.5	17.8
GDP per unit of energy use (PPP \$ per kg oil equivalent)	3.0	4.1	4.8	..
CO <sub>2</sub> emissions (metric tons per capita)	0.7	0.6	0.7	..
Access to an improved water source (% of population)	70.0	..	77.0	..
Access to improved sanitation (% of population)	76.0	..	85.0	..
Access to secure tenure (% of population)	..	..	..	..
<b>8 Develop a Global Partnership for Development</b>	<i>2015 target = various (see notes)</i>			
Youth unemployment rate (% of total labour force ages 15-24)	11.1	23.3	20.0	..
Fixed line and mobile telephones (per 1,000 people)	12.6	23.2	59.8	69.7
Personal computers (per 1,000 people)	..	10.3	24.9	27.9
<b>General indicators</b>				
Population	3.8 million	4.4 million	5.2 million	5.3 million
GNI (\$)	1.3 billion	1.5 billion	3.1 billion	3.8 billion
GNI per capita (\$)	340.0	350.0	600.0	710.0
Adult literacy rate (% of people ages 15 and over)	62.7	64.6	76.7	..
Total fertility rate (births per woman)	4.8	3.9	3.6	3.4
Life expectancy at birth (years)	64.5	67.3	68.5	68.7
Aid (% of GNI)	33.6	44.6	25.1	13.6
External debt (% of GNI)	1,087.8	709.6	173.1	170.2
Investment (% of GDP)	19.3	24.9	32.1	32.1
Trade (% of GDP)	71.3	91.6	72.8	71.9
Note: In some cases the data are for earlier or later years than those stated				
Goal 1 targets: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.				
Goal 2 target: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.				
Goal 3 target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.				
Goal 4 target: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.				
Goal 5 target: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.				
Goal 6 targets: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.				
Goal 7 targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.				
Goal 8 targets: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. Address the Special Needs of landlocked countries and small island developing states. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.				
<i>Source: World Development Indicators database (World Bank 2005b).</i>				

### Annex 2C: Key Events

	Aid Management	Governance	Public Sector	Privatization of Public Enterprises and Private Sector Development	Tax System	Financial Sector	Trade Policy	Social Security	Environment
1994		* Programme for judiciary modernisation (1990–1998)							
1995						* (1995–96) New Banking Law and Central Bank Law * Elimination of interest rate controls and administered credit * Management and recovery of bank assets			* 1996 Environmental and Natural Resources Law
1996		* Alemán elected President (November)	* Constitutional Reform	* Separation of regulative and operative functions in the public services					
1997	* 1st ESAF (IMF)	* Municipal Law * Reformed Urban and Rural Property Law		* Water sector: ENACAL. * Electricity: adjustments in the tariffs for public services	* Tax reform through the Law on Taxes and Commercial Justice				
1998	* Consultative Group (GON/IPs)					* Liquidation National Development Bank			* Hurricane Mitch
1999		* FSLN / PLC Pact * Land titles for rural and urban areas	* Sandinista and Liberal Pact: Restructuring Judicial, Audit and Electoral Bodies, government and the number of ministries	* Lease oil importing state-owned enterprise PETRONIC * Lease of Puerto Cabezas port facilities to the American company DELASA			* revised Foreign Investment Law	* Law for Reform of Social Security System	
2000	* I-PRSP presented	* Institutional strengthening for supervision of public funds, reform of the Comptroller's Law		* Electricity (ENEL): Privatization (PRGF requirement)	* Administrative and financial autonomy granted to Customs General Directorates for Revenue and Customs			* Pensions Law	* Mitigation and Prevention Disaster Law

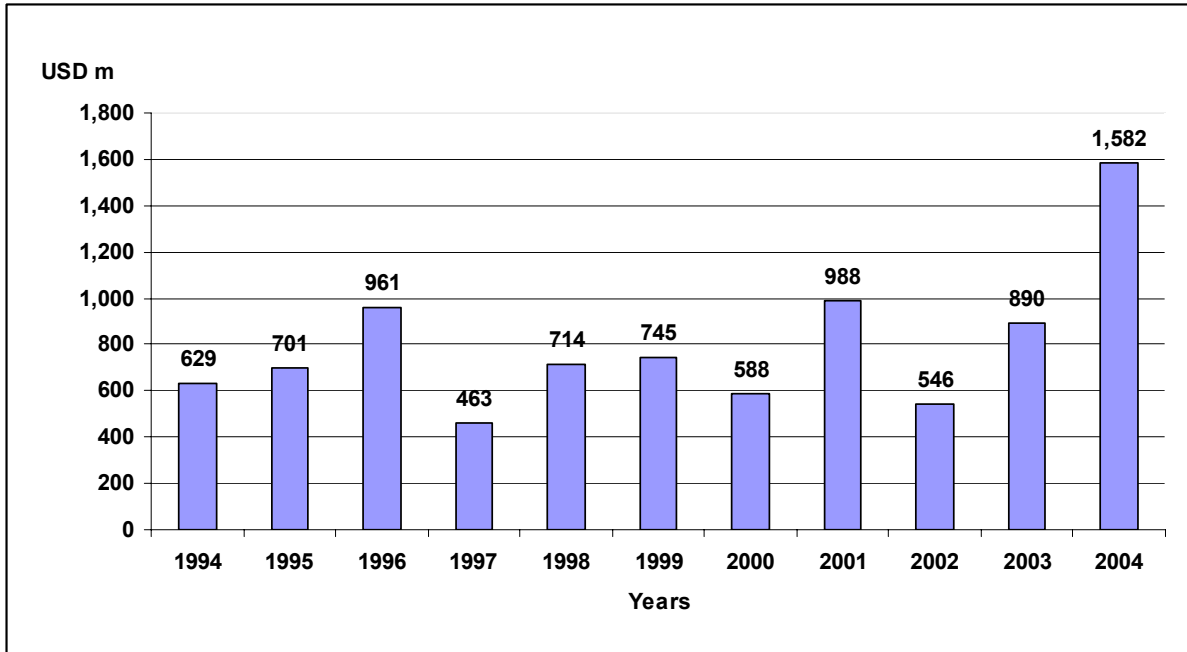
General Budget Support in Nicaragua

	Aid Management	Governance	Public Sector	Privatization of Public Enterprises and Private Sector Development	Tax System	Financial Sector	Trade Policy	Social Security	Environment
2001	* (Sept) PRSP approved by IMF/WB	* Bolaños elected President (Nov) * HIPC Decision Point reached (Dec) * GON presented National Development Plan (PND); * Law 290, Reforms to the Organization, Competences and Procedures of the Executive Body (Dec)						* Pension Superintendent Law	
2002	* Forum of "Coordination of International Cooperation" * 1st PRGF (IMF) signed	* Arnoldo Alemán accused of corruption and given prison sentence.				* Liquidation Nicaraguan Bank for Industry and Commerce * Deposits Guarantee Fund Law.			
2003	* Forum of "Coordination of International Cooperation" * (Decree 71-2003 Sector Roundtables established * Consultative Group - Managua Declaration * 1st PRSC signed	* Citizen Participation Law * Municipal Transferences Law * External and Internal Public Sector Indebtedness * Law for strengthening decentralized property registry * New Penal Code	* Civil Service Law	* Telecommunications (ENITEL): Privatization	* New tax reform	* Liquidation Banco Popular * Reform of Deposits Guarantee Fund Law * Submission to NA required legal amendments for effective bank supervision	* Tax incentives to attract relocating maquilas to free-trade zones * Participation (with El Salvador, Honduras and Guatemala) in US-Central American Free Trade Agreement (CAFTA)		
2004	* OECD DAC pilot country (1 of 4) in JCLA * Forum of "Coordination of International Cooperation" * H&A Action Plan (zero draft) presented	* HIPC Completion Point reached (Jan) * EC PAPSE signed * GON presented Operative National Development Plan (PND-O) * Law of Municipal Administration (October) * Judicial Service Law (Nov)	* Law of Municipal Administration (October)						
2005	* Paris High Level Forum - Presentation JCLA Nicaragua * Joint Financing Agreement signed (May) * To be presented in 2005: H&A action plan 2005-2007	* To be presented in 2005: PRSP II (2005-2009)				* Laws sent to National Assembly 2005: Law of Financial Administration and Budgetary Process Amendment to Banking Law Amendment to Deposits Guarantee Fund Law Amendment to Supervision of Banks/ other Financial Institutions Law			

### ANNEX 3: AID TO NICARAGUA

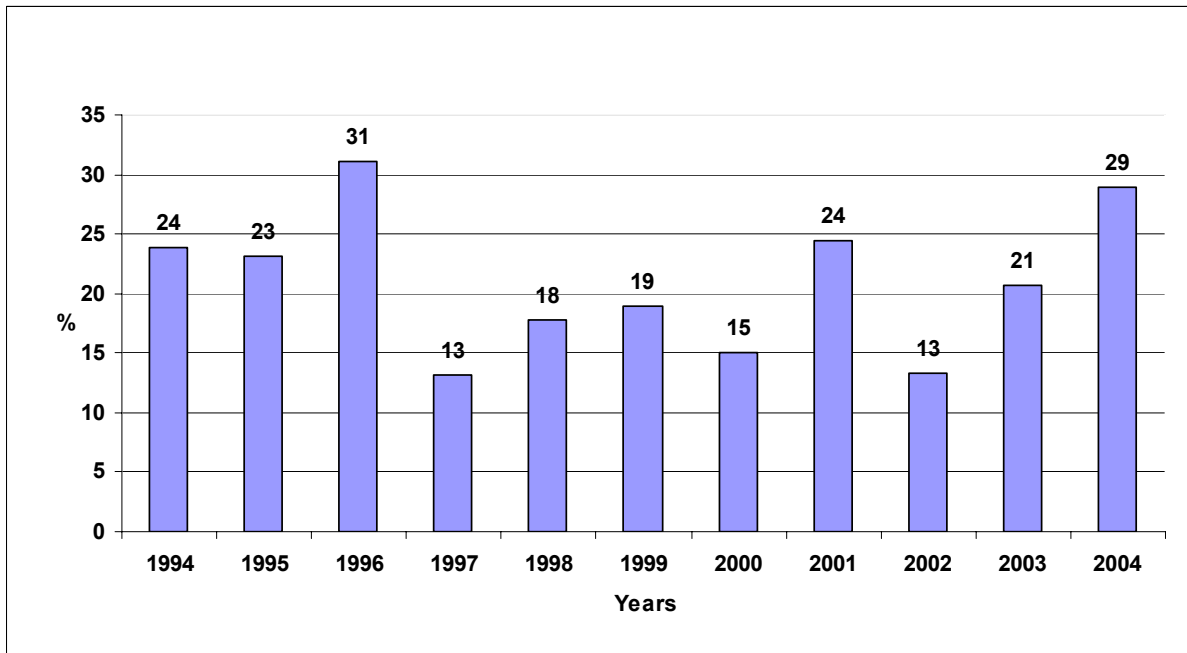
#### Annex 3A: Aid Data

Figure 3A.1: Total ODA Disbursements



Source: OECD DAC 2005–2006.

Figure 3A.2: Total ODA as % of GNI 1994–2003



Source: OECD DAC 2005–2006.

Table 3A.1: OECD DAC Destination of ODA and Official Aid Total Net 1994–2004

USD million	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Total	Av. 1994-2004
Germany	48.18	175.12	403.25	29.05	50.24	28.53	27.07	32.66	36.62	152.60	460.68	1,444.00	131.27
IDB Sp.Fund	66.37	90.73	55.40	67.43	108.48	85.22	70.07	112.51	107.45	101.60	144.11	1,009.37	91.76
IADB	52.07	18.13	68.80	50.48	104.62	120.27	87.26	68.27	79.74	120.73	136.13	906.50	82.41
Spain	12.85	34.34	31.68	17.44	40.20	22.05	19.67	399.47	24.98	76.01	207.75	886.44	80.59
United States	60.00	30.00	30.00	41.00	65.48	64.18	72.77	100.56	66.81	70.15	80.68	681.63	61.97
Japan	54.69	51.87	70.53	49.02	29.03	44.84	76.47	63.90	36.43	29.80	148.89	655.47	59.59
EC	22.33	31.77	43.87	30.18	30.73	26.81	42.76	31.21	33.77	52.67	61.31	407.41	37.04
Netherlands	30.18	53.00	42.01	27.03	29.37	22.59	18.42	52.31	26.01	22.26	40.84	364.02	33.09
Sweden	30.66	31.82	49.43	21.48	19.83	33.29	33.32	22.72	38.65	35.92	41.10	358.22	32.57
Denmark	20.59	44.41	33.56	25.76	28.47	24.42	27.17	27.97	24.99	32.04	37.70	327.08	29.73
SAF+ESAF+PRGF(IMF)	28.63				22.82	107.49	26.63		9.02	29.23	41.28	265.10	24.10
France	7.77	15.91	13.79	1.88	92.14	6.93	3.34	2.82	0.89	26.28	65.27	237.02	21.55
Italy	107.39	0.73	32.74	22.99	1.92	7.58	1.75	1.98	2.29	45.87	2.26	227.50	20.68
Norway	20.25	27.83	24.01	19.37	16.77	16.95	13.25	14.63	9.08	12.67	12.55	187.36	17.03
Austria	11.21	10.49	8.89	5.10	9.62	43.78	4.95	5.73	4.45	7.12	8.65	119.99	10.91
Switzerland	8.64	18.86	11.37	4.53	8.71	8.64	6.92	4.85	6.19	15.10	17.56	111.37	10.12
Canada	9.27	8.76	13.57	18.71	12.93	6.68	2.80	6.45	7.65	8.45	8.95	104.22	9.47
Finland	5.06	6.41	5.13	7.59	7.85	25.12	7.85	6.71	5.90	7.89	9.34	94.85	8.62
WFP	7.57	6.91	1.10	3.27	8.79	16.53	8.40	3.60	2.12	1.66	4.52	64.47	5.86
Luxembourg	1.86	1.49	3.15	2.15	4.77	9.34	7.90	5.12	3.21	7.13	6.91	53.03	4.82
Arab Agencies		12.00	0.10	3.96	1.44	1.14	3.72	5.79	2.93	10.87	2.92	44.87	4.08
Nordic Dev.Fund	0.80	6.48	2.48	1.07	2.50	1.10	8.01	3.25	1.26	3.01	6.70	36.66	3.33
United Kingdom	0.93	1.33	1.57	1.24	2.49	5.85	1.73	0.95	1.28	2.73	13.39	33.49	3.04
Belgium	2.40	3.35	2.88	3.01	2.73	4.49	3.11	1.86	2.00	1.94	3.24	31.01	2.82
UNDP	6.73	7.02	-0.13	-0.01	2.22	3.26	2.76	1.51	2.21	2.30	2.88	30.75	2.80
IFAD	1.18	1.10	0.64	2.09	3.13	3.00	5.06	3.74	2.07	1.41	1.67	25.09	2.28
UNFPA	1.52	1.76	2.03	2.71	2.24	1.76	1.20	2.43	2.03	2.12	3.42	23.22	2.11
UNICEF	3.40	2.03	3.45	1.60	1.57	0.94	0.77		0.68	0.72	0.84	16.00	1.45
UNTA	1.18	1.79	0.62	0.91	1.00	1.53	1.16	1.11	1.00	1.48	1.82	13.60	1.24
Other UN	3.56	3.75	2.94	0.04		0.05	0.34	0.70	0.38	0.24	0.06	12.06	1.10
Korea	0.14	0.11	0.07	0.73	0.57	0.05	0.22	0.04	2.25	4.26	0.32	8.76	0.80
GEF				0.30	0.31	0.35	0.81	1.11	0.98	1.77	1.95	7.58	0.69
Other Bilateral Donors	0.82	1.03	2.47	0.34	0.20	0.15	0.13	0.06	0.04	0.04	0.17	5.45	0.50
Ireland	0.15	0.37		0.33	0.29	0.39	0.25	0.23	0.48	0.98	0.97	4.44	0.40
Australia	0.22	0.01						0.11	0.11			3.81	0.39
Czech Republic					0.14	0.23	0.05	0.31		0.39	0.96	2.08	0.19
UNHCR	0.10	0.08	0.09	0.09	0.06			1.02				1.44	0.13
New Zealand		0.04		0.06		0.06	0.08	0.20	0.10	0.07	0.17	0.78	0.07
Greece					0.03						0.00	0.03	0.00
Poland					0.03				0.00			0.03	0.00
<b>TOTAL</b>	<b>628.70</b>	<b>700.83</b>	<b>961.49</b>	<b>462.93</b>	<b>713.72</b>	<b>745.59</b>	<b>588.17</b>	<b>987.89</b>	<b>546.05</b>	<b>889.51</b>	<b>1,581.77</b>	<b>8,806.65</b>	

Source: OECD DAC 2005–2006.



Table 3A.2: ODA by Sectors 1997–2003 (USD million)

Sector / Sub-Sector	1997-2003		1997-2001		2002	2003*	2002-2003		Rate of growth of the annual averages**
	Total	Annual Average	Total	Annual Average			Total	Annual Average	
<b>PRODUCTIVE</b>	<b>761,485.8</b>	<b>108,783.7</b>	<b>563,145.9</b>	<b>112,629.2</b>	<b>98,907.2</b>	<b>99,432.7</b>	<b>198,339.9</b>	<b>99,170.0</b>	<b>-12.00</b>
Agriculture	359,797.0	51,399.6	273,911.8	54,782.4	46,988.4	3,889.8	85,885.2	42,942.6	-21.61
Industry	27,704.9	3,957.8	24,641.8	4,928.4	1,891.0	1,172.1	3,063.1	1,531.6	-68.92
Mining Industry	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-73.08
Fishery	3,040.2	434.3	2,744.7	548.9	77.7	217.8	295.5	147.8	20.60
Natural Resources	119,991.8	17,141.7	80,943.9	16,188.8	16,527.3	22,520.6	39,047.9	19,524.0	-3.20
Other Productive 1/	250,951.9	35,850.3	180,903.7	36,180.7	33,422.8	36,625.4	70,048.2	35,024.1	
<b>ECONOMIC INFO.</b>	<b>815,768.7</b>	<b>116,538.4</b>	<b>594,277.0</b>	<b>118,855.4</b>	<b>116,679.8</b>	<b>104,811.7</b>	<b>221,491.7</b>	<b>110,745.9</b>	<b>-6.8</b>
Energy	95,782.7	13,683.2	64,555.1	12,911.0	18,001.5	13,226.1	31,227.6	15,613.8	20.93
Transport and Communications	453,909.3	64,844.2	318,891.5	63,778.3	66,324.8	68,693.0	135,017.8	67,508.9	5.85
Water and Sanitation	196,373.9	28,053.4	144,650.0	28,930.0	29,270.4	22,453.5	51,723.9	25,862.0	-10.61
Telecommunications	13,888.4	1,984.1	10,827.3	2,165.5	2,621.8	439.3	3,061.1	1,530.6	-29.32
Ports	17,200.0	2,457.1	17,200.0	3,440.0	0.0	0.0	0.0	0.0	-100.00
Other Economic info.	38,614.4	5,516.3	38,153.1	7,630.6	461.3		461.3	230.7	-96.98
<b>SOCIAL</b>	<b>1,128,033.0</b>	<b>161,147.6</b>	<b>741,869.6</b>	<b>148,373.9</b>	<b>176,144.3</b>	<b>210,019.1</b>	<b>386,163.4</b>	<b>193,081.7</b>	<b>30.1</b>
Education	256,382.5	36,626.1	172,045.5	34,409.1	44,795.8	39,541.2	84,337.0	42,168.5	22.55
Health	273,247.6	39,035.4	171,146.5	34,229.3	40,785.4	61,315.7	102,101.1	51,050.6	49.14
Social Programms	405,800.2	57,971.5	282,490.5	56,498.1	58,348.2	64,961.5	123,309.7	61,654.9	9.13
Municipal Programms	103,567.0	14,795.3	69,775.0	13,955.0	17,320.0	16,472.0	33,792.0	16,896.0	21.07
Culture	7,395.0	1,056.4	6,618.1	1,323.6	719.7	57.2	776.9	388.5	-70.65
Housing	23,055.2	3,293.6	14,305.8	2,861.2	4,670.6	40,078.8	8,749.4	4,374.7	52.90
Other Social	58,585.5	8,369.4	25,488.2	5,097.6	9,504.6	23,592.7	33,097.3	16,548.7	224.63
<b>FINANCIAL</b>	<b>548,752.7</b>	<b>78,393.2</b>	<b>425,512.2</b>	<b>85,102.4</b>	<b>52,845.1</b>	<b>70,395.4</b>	<b>123,240.5</b>	<b>61,620.3</b>	<b>-27.6</b>
<b>OTHER SECTORS 2/</b>	<b>288,543.5</b>	<b>41,220.5</b>	<b>165,521.5</b>	<b>33,104.3</b>	<b>65,900.7</b>	<b>57,121.3</b>	<b>123,022.0</b>	<b>61,511.0</b>	<b>85.8</b>
<b>GENERAL TOTAL</b>	<b>3,542,583.7</b>	<b>506,083.4</b>	<b>2,490,326.2</b>	<b>498,065.2</b>	<b>510,477.1</b>	<b>541,780.4</b>	<b>1,052,257.5</b>	<b>526,128.8</b>	<b>5.6</b>

Source: MINREX 2004b.

Notes:

\*: Preliminary figures

\*\*: Refers to the rate of growth of annual averages for 2002-2003 v. 1997-2001

1/ Includes the programmes managed by National Rural Development Programme (PNDR)/IDR.

2/ Includes Governance and Institutional Strengthening Programmes



## Annex 3B: Inventory of PGBS and Related Programmes

### Contents

Table 3B.1	Partnership GBS (PGBS) and Other Aid Flows
Table 3B.2	Inventory of PGBS and Other Related Programmes

#### PGBS

- Harmonised Joint Financing Arrangement (JFA)
- Details of Individual PGBS Programmes
- Other PGBS

#### Sector Budget Support (SBS)

- Supplementary Social Fund (FSS)
- Education Sector
- Health Sector

#### Other Programmes Relevant to the Evaluation

- Other Programmes post 2000
- Other Programmes pre 2000

#### Technical Assistance

- TA associated with PGBS
- Other TA 1994–2004

### Note on Data

Table 3B.1 provides an overview of PGBS and other aid flows 1994–2004 using internationally comparable data (OECD DAC, IMF International Financial Statistics [IFS]). Table 3B.2 uses national data. Unless referenced with an individual source, the funding data (commitments and disbursements) are taken from GON's SySODA (MINREX 2005–2006).

General Budget Support in Nicaragua

Table 3B.1: PGBS and other Aid Flows

(all in USD million unless indicated otherwise)	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Source
(A) Total ODA (actual) [1]	628.7	700.8	961.5	462.9	713.7	745.6	588.2	987.9	546.1	889.5	1,581.8	OECD DAC cited Annex 3A
(B) Total ODA excl. emergency and food aid (actual) [1]	624.6	683.4	929.8	432.6	651.5	684.2	547.7	951.6	504.3	854.4	1,546.8	OECD DAC cited Annex 3A
(C) Total Partnership GBS disbursements [2]	0	0	0	0	0	0	0	0	6.4	7.7	62.6	
	<i>Donors providing PGBS</i>								Sweden	Sweden	EC, Sweden, WB	Annex 3B.2 Inventory
(D) [ESAF programmes] followed by PRGF (disbursements)	[28.6]	0	0	0	[22.8]	69.3	15.5	0	5.1	14.0	17.9	OECD DAC 1994–1998 total loans extended and IMF 1999–2004
(E) Total other unearmarked programme aid disbursements [3]	217.0	72.0	84.0	47.0	unknown				52.6	79.0	50.4	1994–1997 Central Bank of Nicaragua, Dijkstra. 2002–2004 MINREX 2005.
	<i>Donors providing unearmarked programme aid</i>								WB and unknown	WB and unknown	unknown	
(F) HIPC funding	0	0	0	0	0	0	0	99.4	239.0	241.9	232.5	GON – ERCERP Progress Report
(G) Central Government Expenditure [4]	548.7	562.7	599.2	605.3	661.1	827.6	926.7	976.9	808.8	926.9	1,016.4	IMF International Financial Statistics (IFS)
(Ga) ODA as % of GNI	23.9%	23.1%	31.2%	13.2%	17.8%	19.0%	15.0%	24.4%	13.3%	20.7%	29.0%	OECD DAC
(H) PGBS as % total ODA (%)	0%	0%	0%	0%	0%	0%	0%	0%	1.2%	0.9%	4.0%	
(I) PGBS as % central government expenditure (%)	0%	0%	0%	0%	0%	0%	0%	0%	0.8%	0.8%	6.2%	

[1] OECD DAC data is in calendar years. OECD DAC data in nominal terms. OECD DAC total ODA data is new loans extended plus grants disbursed. OECD/DAC data for 2004 is provisional only.

[2] In line with Annex 3C (inventory), PGBS started in 2002 with Sweden GBS. In 2004 the WB (PRSC) and the EC (PAPSE) started disbursing GBS.

[3] Data on unearmarked programme aid pre-PGBS is not available by donor and by year for the evaluation period. Therefore this row remains incomplete.

[4] Summary statistics of government finance are given in IMF IFS section 80. Data generally are as reported for IFS. Data cover operations of the budgetary central government or of the consolidated central government (i.e., operations of budgetary central government, extrabudgetary units, and social security funds). The coverage of consolidated central government may not necessarily include all existing extrabudgetary units and/or social security funds. The data are flows and are on a cash basis. Expenditure (in IMF IFS section 82) comprises all nonrepayable payments by government, whether required or unrequired and whether for current or capital purposes. In nominal terms.

Memorandum items

(J) Emergency Aid	n/a	13.23	17.44	16.31	43.74	34.79	20.03	15.06	23.75	10.89	23.97	OECD DAC
(K) Development Food Aid	4.1	4.2	14.3	14.1	18.5	26.6	20.4	21.3	18.0	24.19	11.0	OECD DAC
(L) Government Expenditure (NIO scale millions)	3,688.7	4,245.9	5,054.8	5,719.3	6,995.4	9,773.8	11,754.5	13,062.9	11,527.1	14,000.0	16,199.2	IMF IFS
(M) OFFICIAL RATE (Units: National Currency per US Dollar)	6.7	7.5	8.4	9.4	10.6	11.8	12.7	13.4	14.3	15.1	15.9	IMF IFS

Table 3B.2: Inventory of PGBS and Other Related Programmes

## PGBS

## Harmonised Joint Financing Arrangement (JFA)

Donor / Programme Title	Funds <sup>4</sup> (USD million)					Intent and Earmarking	Alignment with Govt strategies	Disbursement procedures	Conditionality and performance indicators	Dialogue procedures	Donor H&A
	2005		2006		2007						
Joint Financing Arrangement (JFA)	(May 05)	(Oct 05)	(May 05)	(Oct 05)	(May 05)	To support in medium and long term poverty reduction and development targets as defined by the National Development Plan (PND).	With the National Development Plan (PND).	JFA establishes common disbursement procedures.  Donors and GON decide on quarterly schedule disbursements in Nov.  Credited in BCN current accounts in foreign currency and on basis liquidity needs GON, transfer of Córdoba equivalent to the single treasury account (CUT).  [See below for details individual programmes.]	JFA establishes the Fundamental Principles (political, macroeconomic stability, poverty reduction).  Overall performance defined as results against indicators and targets committed to in Performance Assessment Matrix (PAM).  (See over page for details of individual programmes.)	Budget Support Group: mid-year and Annual meeting. Chaired by MHCP.	Through Budget Support Group (BSG).
	109.2	89.0	103	88.0	66.1						
<b>Individual IP commitments:</b>											
<b>Finland</b>	3.9	1.8	2.6	2.4							
<b>Sweden</b>	8.5	7.7	8.5	9.0							
<b>Germany</b>	5.3	5.6	7.9	2.4							
<b>The Netherlands</b>	11.8	10.8	13.1	12.0	14.4						
<b>Switzerland</b>	5.5	5.1	5.5	5.1	5.5						
<b>Great Britain</b>	0.85	0	1.1	1.8	1.5						
<b>Norway</b>	3.3	3.1	3.1	2.9							
<b>EC</b>	35.1	19.9	36.1	32.4	44.7						
<b>WB</b>	35	35	25	20							

<sup>4</sup> Source: BSG (2005a, 2005b). Joint Financing Arrangement for General Budget Support between the Government of Nicaragua and the Donor Group.

General Budget Support in Nicaragua

Details of Individual PGBS programmes

Donor / Programme Title	Years	Funds (USD m)	Intent & Earmarking	Alignment with Govt strategies	Disbursement procedures	Conditionality and performance indicators	Dialogue procedures	Donor H&A
<b>WB</b> <b>Poverty Reduction Support Credit (PRSC)</b>	2004–2005	Total committed: 70m  Disbursed: 2004: 36m  To be disbursed: 2005: 34m	To support the implementation of Nicaragua's Poverty Reduction Strategy Paper (ERCERP) emphasizing Pillar IV: Building Public Institutions and Governance, as key factor in reducing corruption and achieving necessary fiduciary safeguards for policy-based lending.	With the ERCERP.	Requires International Development Association (IDA) Board approval and approval of each credit by National Assembly.  Multi-year indicative commitment under Country Assistance Strategy (CAS).  Disbursement determined under appraisal/negotiation of PRSC. Two tranches. First tranche disbursed on approval of the credit as pre-conditions were met. Second tranche for 2005 when conditions indicated in the performance matrix are met - not yet approved (June 2005).  WB disbursing arrangements: dedicated deposit account in USD maintained in BCN. Fully incorporated in GON accounting records/financial statements through Integrated System for Financial Management and Auditing (SIGFA). When Credit proceeds withdrawn and converted into Córdobas, all conversions by way of sale to BCN, and Córdobas equivalent amount paid into Treasury's Single Account.	Performance matrix based on a number of process indicators and overall outcomes developed around three main objectives a) basic premises: macroeconomic stability and protecting poverty expenditure; b) building public institutions and governance; c) Human capital of the poor and vulnerable population.  Use joint GON and donors performance assessment, particularly against prior actions selected from PAM and agreed with GON for inclusion in PRSC.  Identified triggers, selected from PAM and agreed with GON, to become prior actions for proposed credit for following year.	Based on the Ministry of Finance (MOF) Letter of Development Policy to the President of the Bank stating the development programme over 2 years, the commitment to maintain the macroeconomic framework supported by Poverty Reduction and Growth Facility (PRGF) and to use the PRSC Matrix as basis for the monitoring of the programme.	Co financing by German KfW Bank using the same policy matrix and WB's assessment of fulfilment of conditions. The accompanying World Bank Public Sector Technical Assistance Credit (PSTAC) co-financed by DFID, the Netherlands, Denmark and Sida. See <i>inventory entry -TA associated with PGBS</i>
<b>Germany</b> <b>PRSC – co-financier</b>	2005	Committed: 2005 4.4m  Disbused: 2005 5.2m	As PRSC/JFA	As PRSC/JFA	As PRSC/JFA.	Disburse either on basis of PAM or in context of PRSC financed jointly with WB.	As PRSC/JFA.	WB and BSG.

CONTINUED: Details of Individual PGBS Programmes

*Annex 3B: Inventory of PGBS and Related Programmes*

Donor / Programme Title	Years	Funds (USD m)	Intent & Earmarking	Alignment with Govt strategies	Disbursement procedures	Conditionality and performance indicators	Dialogue procedures	Donor H&A
<b>EC</b> <b>PAPSE – Programme of (General) Budget Support for the Education Sector</b>	2004–2006	Total committed: 72.54m  Disbursed: 2004 18.6m  To be disbursed: 2005 13.6m 2006 20.5m 2007 19.8m	To support the implementation of the Education Sector National Plan focussing on: four areas: i) decentralisation; ii) reforms of the secondary school system; iii) support to the teacher both in terms of salary and of their pedagogic skills; and iv) support to the Atlantic cost to increase school autonomy and available financial resources.  Not earmarked to specific activity.	With PND and Education Sector Plan.	One fixed tranche and two variable tranches.  2004: Fixed: 18.6m 2005: Fixed: 8.7m, Variable: 5m 2006: Fixed: 7.4m, Variable: 13m 2007: Fixed: 7.4m, Variable: 12.4m  Immediate conversion into national currency. Paid directly to the national budget.  Disbursements in Euros direct to special account at BCN, with stipulation that the funds are immediately converted to Córdoba and deposited in CUT.	Variable tranches based on achievement indicators for the education sector.  Amount to disburse for variable tranche established in September year n for disbursement n+1.	Guided by the JFA.	BSG.  Education Sector Wide Approach (SWAp).

*General Budget Support in Nicaragua*

*CONTINUED: Details of Individual PGBS Programmes*

Donor / Programme Title	Years	Funds (USD m)	Intent & Earmarking	Alignment with Govt strategies	Disbursement procedures	Conditionality and performance indicators	Dialogue procedures	Donor H&A
<b>EC</b> <b>PAP PND – Support to the National Development Plan</b>	2005–2009	Total committed: 86.4m <sup>5</sup>	Support to the PND with focus on rural development to reduce poverty and improve the living conditions of disadvantaged groups improving the production possibilities of poor farmers and access to land, in the framework of the overall objectives of the PND.	With PND.	Fixed tranche to be evaluated after first JFA revision (May 2005).  Variable tranche made with second JFA meeting August (n-1), with exact amount to disburse decided September.  2005: fixed: 8.9m 2006: fixed: 10.2m 2007: fixed: 12.7m, variable: 12.7m 2008: fixed: 12.7m, variable: 14.6m 2009: fixed: n/a, variable: 14.6m	Variable tranche (49% of programme budget) disbursed on evaluation of selected indicators from PAM.  Macroeconomic performance.  Indicators and annual goals decided through process agreeing the PAM of JFA through dialogue between EC and GON.	Guided by the JFA.	BSG.
<b>EC</b> <b>PAP Access to Justice</b>	2005–2009	Total committed: 21.6m. <sup>6</sup>	Support the implementation of the new Penal Process Code Codigo Procesal Penal focusing on the aspects of: - Access to justice - Inter-institutional coordination - Citizen security	With PND.	2005: fixed: 3.8m 2006: fixed: 3.8m 2007: fixed: 2.5m, variable: 2.5m 2008: fixed: 1.3m, variable: 3.8 2009: fixed: n/a, variable: 3.8m	Agreement with Ministry of Interior Affairs, Public Ministry, Supreme Court of Justice, Ministry of the Family (MIFAMILIA), National Police and MHCP – establish indicators and goals for variable tranches.  PAM and JFA.	Guided by the JFA.	BSG. Coordination with Sweden, IADB, USAID and Spain in the “Governance Sector Plan, Justice”.

<sup>5</sup> Source: EC (2004b). *DTA del Programa de Apoyo al Plan Nacional de Desarrollo.*

<sup>6</sup> Source: EC (2005b). *Acceso a la Justicia: Propuesta de Financiación.*



*Annex 3B: Inventory of PGBS and Related Programmes*

**Other PGBS**

Donor / Programme Title	Years	Funds (USD million)	Intent & Earmarking	Alignment with Govt strategies	Disbursement procedures	Conditionality and performance indicators	Dialogue procedures	Donor H&A
Sweden <sup>7</sup>  <b>General Budget Support</b>	2002–2004	Total disbursed: 22.1m  2002 6.4m 2003 7.7m 2004 8m	Support GON's ERCERP (belief that contribution to Supplementary Social Fund (FSS) only gives an apparent assurance about use of funds as money is fungible) (Sida 2004)	Supports GON's budget.	Bilateral agreement with GON.  1 tranche  Transferred to account at BCN held in the Bank for International settlements	Linked to implementation of the ERCERP, signature and implementation of the IMF programme and tied to the conditions of the WB PRSC.  Sweden followed up on Nicaragua's overall performance in relation to the programmes with IMF and the World Bank. This information was one of the bases for the decision on budget support. For the 2003 and 2004 support, information was taken from IMF and WB studies.	(for 2004 GBS) With Ministry of Foreign Affairs. Information to be provided on: (i) General info on economic, fiscal and debt developments and implementation of the budget; and (ii) available reports on the Poverty Reduction Strategy (PRS), as well as results achieved on indicators on poverty alleviation during 2004.	Leading up to the signing of the JFA – moved from separate agreement with GON to JFA harmonisation.

<sup>7</sup> Sida (2004). *Budget Support Agreement*; Sida (2003b) *Sweden Budget Support Memorandum*; *Evaluation team communication with Sida* (2005).

**Sector Budget Support (SBS)**

**Supplementary Social Fund (FSS) (See Annex 3C for further details on the FSS)**

Donor / Programme Title	Years	Funds (disbursed) (USD m) <sup>8</sup>	Intent & Earmarking	Alignment with Govt strategies	Disbursement procedures	Conditionality and performance indicators	Dialogue procedures	Donor H&A																																																				
<table border="1"> <thead> <tr> <th>Sources</th> <th>1998-2003</th> <th>2004</th> <th>1998-2004</th> </tr> </thead> <tbody> <tr> <td>A. HIPC alleviation</td> <td>230.70</td> <td>124.39</td> <td>355.09</td> </tr> <tr> <td>B. Grants</td> <td>42.50</td> <td>15.33</td> <td>57.83</td> </tr> <tr> <td>C. IADB programmes</td> <td>27.90</td> <td>23.03</td> <td>50.93</td> </tr> <tr> <td><b>TOTAL</b></td> <td><b>301.10</b></td> <td><b>162.75</b></td> <td><b>463.85</b></td> </tr> </tbody> </table> <p><i>Breakdown of bilateral donations:</i></p> <table border="1"> <tbody> <tr> <td rowspan="2"><b>Denmark</b></td> <td>2002</td> <td>1.3m</td> </tr> <tr> <td>2003</td> <td>1.4m</td> </tr> <tr> <td><b>Finland</b></td> <td>2004</td> <td>4.6m</td> </tr> <tr> <td rowspan="4"><b>The Netherlands</b></td> <td>2002</td> <td>Amount unknown</td> </tr> <tr> <td>2003</td> <td>9.3m</td> </tr> <tr> <td>2004</td> <td>9.3m</td> </tr> <tr> <td>2005</td> <td>0.8m</td> </tr> <tr> <td rowspan="2"><b>Norway</b></td> <td>2004</td> <td>1.7m</td> </tr> <tr> <td>2005</td> <td>1.8m</td> </tr> <tr> <td><b>Sweden</b></td> <td>2002</td> <td>Amount unknown</td> </tr> <tr> <td rowspan="3"><b>Switzerland</b></td> <td>2003</td> <td>6.7m</td> </tr> <tr> <td>2004</td> <td>7.2m</td> </tr> <tr> <td>2005</td> <td>7.1m</td> </tr> </tbody> </table>			Sources	1998-2003	2004	1998-2004	A. HIPC alleviation	230.70	124.39	355.09	B. Grants	42.50	15.33	57.83	C. IADB programmes	27.90	23.03	50.93	<b>TOTAL</b>	<b>301.10</b>	<b>162.75</b>	<b>463.85</b>	<b>Denmark</b>	2002	1.3m	2003	1.4m	<b>Finland</b>	2004	4.6m	<b>The Netherlands</b>	2002	Amount unknown	2003	9.3m	2004	9.3m	2005	0.8m	<b>Norway</b>	2004	1.7m	2005	1.8m	<b>Sweden</b>	2002	Amount unknown	<b>Switzerland</b>	2003	6.7m	2004	7.2m	2005	7.1m	Contribute to implementation ERCERP through Budget Support to the programmes/projects included in the ERCERP.	With the ERCERP.	Annual commitment / disbursement – through bilateral agreements. Donations in individual bank accounts in BCN – transferred to CUT with approval of supplementary budgets throughout the year.	Monitor through performance indicators reported by <b>National Monitoring System of Poverty Indicators (SINASIP)</b> , including the goals of the ERCERP.	FSS is directed by a coordinating committee – delegates of SECEP, line ministries, National Council for Economic and Social Planning (CONPES) and IPs.	Joint monitoring/ reporting procedure established through coordinating committee.
Sources	1998-2003	2004	1998-2004																																																									
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<sup>8</sup> Government of Nicaragua (2003b, 2004, 2005c). *Annual FSS reports 2002 –2004.*

CONTINUED: Sector Budget Support

**Education Sector**

Donor / Programme Title	Years	Funds (USD m)	Intent & Earmarking	Alignment with Govt strategies	Disbursement procedures	Conditionality and performance indicators	Dialogue procedures	Donor H&A
<b>Canada</b>  <b>Support to Basic Education Initiative</b>	2005–2012	Committed: est. 16.5m <sup>9</sup>  (in GON Database of Nicaragua's ODA - MINREX (SySODA) reports 0.05m disbursed for 2005, but no future commitment as of yet)	Financing for the Common Work Plan (CWP) of the education sector.  Assist GON in achieving Education for All strategy with emphasis on school improvement, increasing primary school enrolments, improving the quality of primary education, and improving the management capacities of community and education officials at all levels.	Implemented by Ministry of Education Culture and Sport (MECD – <i>Ministerio de Educación, Cultura y Deportes</i> ).		CIDA will be working closely with the MECD and the donor community involved in the education sector to support annual work objectives based on an agreed upon education strategy and activities in the context of a SWAp.  CWP agreed (2004–2006).	Through the SWAp – sector roundtable.	Common Fiduciary Framework.  (Includes WB Education project PASEN, which takes on board the spirit of the SWAp and its objectives are within the CWP.)
<b>Denmark</b>	2005–2009	Committed: 29.6m  2005 4.1m 2006 5.8m 2007 5.8m 2008 7m 2009 7m	Financing for the CWP of the education sector  1) BS to MECD (also financed by CIDA); 2) civil society; 3) implementation regional autonomous schools (SEAR) in Atlantic Coast.					

<sup>9</sup>CIDA (2005).

General Budget Support in Nicaragua

CONTINUED: Sector Budget Support

Health Sector

Donor / Programme Title	Years	Funds (USD m)	Intent	Alignment with Govt strategies	Disbursement procedures	Conditionality and performance indicators	Dialogue procedures	Donor H&A
Sweden	2005–10	Committed: 20m	Unearmarked budget support to the Ministry of Health (MINSa).	With ERCERP (MINSa – ten year National Health Policies released mid-2004 and accompanying 2004–2015 National Health Plan – outlines how plans achieve health goals set out in ERCERP, 2005 draft Five Year Implementation Plan (FYIP).	All donors contribute funds to Health Sector Support Fund (FONSALUD).	Common set of results and indicators agreed MINSa and SWAp partners – consistent with JFA PAM.  Memorandum of Understanding (MOU) calls for annual independent audit of SWAp targets fulfilment.	Health sector roundtable – SWAp.  SWAp coordinating committee meet at least twice a year.	Health sector roundtable is principal forum for cooperation, info exchange and dialogue (SWAp mechanisms for dialogue, supervision also include World Bank USD 11m committed 2005–2010 and IADB (Inter-American Development Bank) USD 30m committed 2005–2010.
Netherlands	2003  2005	Disbursed: 1m  Committed: 2m (and to continue inputting at least similar amounts on an annual basis).	To support prioritised activities to achieve the health indicators in the ERCERP, and to fund budget deficit of MINSa.  Unrestricted budget support to MINSa (previously 2003–05 gave BS for MINSa).					
Finland	2005–2009	Committed: 6.5m	Unearmarked budget support to MINSa.					

**Other Programmes Relevant to the Evaluation**  
**Other Programmes post 2000**

Donor / Programme Title	Years	Funds (USD m)	Intent & Earmarking	Alignment with Govt strategies	Disbursement procedures	Conditionality and performance indicators	Dialogue procedures	Donor H&A
<b>IADB</b>  <b>Support to Reforms for Poverty Reduction (policy based loan)</b>	2002–05	Committed: 30m  Disbursed: 2002 14.9m 2005 0.03m  To be disbursed: 2005 14.9m	To help the GON implement the ERCERP for social sector so to reach the HIPC completion point. a) Establishment of specific targets and annual monitoring of key performance indicators for the social sectors through 2005; b) prioritisation and monitoring of spending in social programmes; c) institutional reforms in social sectors: education, health and social welfare; d) Development of technology infrastructure.	ERCERP in the context of the HIPC initiative.	Policy-based loan.  Channelled through FSS.  Tranches based on fulfilment of conditions.	Based on matrix of conditions related to: (a) the economic environment; (b) ERCERP-related social indicators; (c) prioritisation and tracking of social spending on education, health, and social welfare; and (d) management by the MECD, Ministry of Health (MINSa), and MIFAMILIA associated with execution of the ERCERP.	Through monitoring and assessment of matrix of conditions, through dialogue between MHCP (implementing agency) and the Project Coordinating Unit (PCU), established in the SECEP as technical counterpart.	IADB, WB and IMF are working on coordinated programme: IMF on macroeconomic framework, WB on public sector reform, (incl. Civil service), and IADB on fiscal reform.
<b>IADB</b>  <b>Support to Fiscal Reform (policy based loan)</b>	2003–05	Committed: 25m <sup>10</sup>  Disbursed: 2004 15m 2005 9.9m	A policy-based loan consistent with the GON fiscal reform process to improve fiscal situation: involves strengthening legal/institutional tax collection framework and improving budget management.  Parallel TA (for USD 0.3m) mostly used to carry out data collection, evaluation and impact assessment.	Follows the ERCERP in the sense that looks after enabling conditions for Pillar I and IV of the ERCERP.	1 <sup>st</sup> tranche 15m 2 <sup>nd</sup> tranche 10m  Implementation is with the MOF.  No procurement rules.  The loan can be used as Balance of Payments (BOP) support.	Condition 1 <sup>st</sup> and 2 <sup>nd</sup> tranche – macroeconomic climate.  Conditions 1 <sup>st</sup> tranche: Fiscal Equity Act approved and enforced, draft revenue and custom career development started.  Conditions 2 <sup>nd</sup> tranche: Customs Act and the Revenue and Custom Carrier Service Act enforced and implemented. Custom management system in place, fiscal responsibility and budget restructuring act adopted.	MHCP to present consolidated accounts of the budgeted central government entities to the Comptroller General of the Republic (CGR) within 90 days after the end of fiscal year 2004.  For the preparation of the Fiscal Equity Act, a large national consensus building process has been undertaken.	

<sup>10</sup> IADB(2003). *Modernization of the State and Fiscal Reform Loan Proposal*.

*General Budget Support in Nicaragua*

*CONTINUED Other Programmes Relevant to the Evaluation*

Donor / Programme Title	Years	Funds (USD m)	Intent & Earmarking	Alignment with Govt strategies	Disbursement procedures	Conditionality and performance indicators	Dialogue procedures	Donor H&A
<b>WB</b>  Programmatic Structural Adjustment Credit <b>(PSAC)</b>	2003	Disbursed: 15m <sup>11</sup>	WB first programmatic loan:  Support implementation of ERCERP by: <ul style="list-style-type: none"> <li>• Addressing key structural obstacles to poverty reduction</li> <li>• Strengthen depleted international reserves position</li> <li>• Meet the agreed macroeconomic targets</li> <li>• Help reduce vulnerability to a possible balance of payments crisis</li> </ul>	Supporting Pillars I, II and IV of the ERCERP.	In compliance with stipulated single tranche release conditions. Disbursements not linked to any specific purchases/no procurement requirements. Dedicated deposit account USD in BCN - incorporated into GON's accounting records and financial statements, via the SIGFA.	Performance matrix – process indicators and overall outcomes.  Review the execution of total spending, together with a review of compliance with the PSAC conditionality.	Inter-ministerial task force that includes the Ministry of Finance, the BCN, and the Technical Secretariat of the Presidency.  Reporting on the use of total spending would take place through the FSS.	Coordination with IMF and IADB.
<b>HIPC relief for poverty spending</b> <sup>12</sup>	2001 2002 2003 2004	63.3m 70.8m 100.9m 125.5m	Implementation of the ERCERP with tracking mechanism of pro-poor expenditure through the FSS.	With the ERCERP.	The amount of HIPC relief destined to finance the ERCERP objectives is calculated for each year by the BCN according to a methodology agreed with the WB and the IMF. <sup>13</sup>	Associated conditionality: (i) implementation of the ERCERP, (ii) a tracking mechanism for HIPC funds (used FSS), (iii) maintenance of a stable macroeconomic framework supported by a PRGF arrangement, as well as the implementation of reforms to promote human capital development, social protection and strengthening of governance. In addition, (viii) the new government committed itself to reforming the judicial system.	Annual Progress Reports.	Coordination of IPs by IMF and WB.

<sup>11</sup> WB (2002a). *IDA Program Document for Proposed Programmatic Structural Adjustment Credit*.

<sup>12</sup> GON (2003d). *Second Progress Report – Strengthened Growth and Poverty Reduction Strategy*.

<sup>13</sup> See the Completion Point Document for HIPC 2004 for a detailed description of this methodology (IMF and WB 2004a:9).

CONTINUED Other Programmes Relevant to the Evaluation

**Other Programmes pre 2000**

Donor / Programme Title	Years	Funds (USD m)	Intent & Earmarking	Alignment with Govt strategies	Disbursement procedures	Conditionality and performance indicators	Dialogue procedures	Donor H&A
<b>WB</b> <b>Economic Recovery Credit (ERC II)</b>	1994	Disbursed: 60m <sup>14</sup>	Support GON structural adjustment programme and aimed at helping country adjust to lower levels foreign aid and establish conditions to revive the private sector. In parallel with IMF Enhanced Structural Adjustment Facility (ESAF) arrangement supported fiscal measures to strengthen macroeconomic stability.  Earmarking to following areas: <ul style="list-style-type: none"> <li>• Reform of the state;</li> <li>• Reform of the financial sector;</li> </ul> Private sector development.	Supported GON structural adjustment programme.	Annual disbursement – 3-year programme.  1995 tranche delayed until one year later – 2 tranches then disbursed in 1996.	Satisfactory macroeconomic framework, IMF ESAF on-track, and goals set for structural reform.	With MOF.	None.

<sup>14</sup> WB website: [www.worldbank.org](http://www.worldbank.org) [June 2005].

General Budget Support in Nicaragua

CONTINUED Other Programmes Relevant to the Evaluation

Donor / Programme Title	Years	Funds (USD m)	Intent & Earmarking	Alignment with Govt strategies	Disbursement procedures	Conditionality and performance indicators	Dialogue procedures	Donor H&A
<b>IMF</b> <b>ESAF 1</b>	1994		Key policies: <ul style="list-style-type: none"> <li>Interest-rate deregulation</li> <li>Unification of legal reserve requirements</li> <li>Privatisation</li> <li>Restriction of domestic credit</li> <li>Reduction in government spending and deficit</li> <li>Increase BCN reserves</li> </ul>	GON to this point had very little discretion over its capital expenditure since this was virtually all funded by donor projects.	Annual disbursement subject to performance review.  To BCN.	IMF agreement with GON.  Fiscal and monetary targets.	Dialogue led by IMF and World Bank, but with bilateral donors increasingly vocal regarding need to protect social expenditure and strengthen governance.	Some coordination with WB and IADB. De facto sets macroeconomic condition for IPs.
<b>IMF</b> <b>ESAF 2 / PRGF</b>  ( <i>ESAF negotiated March 1998. Name changed to PRGF after the introduction of this facility in late 1999.</i> )	1998–2001	Committed: 149m SDR (198m) <sup>15</sup>  Disbursed: 115m SDR (154m).	Strong fiscal component to reduce size of public sector and increase public savings by 6% of GDP over three years. Better governance and transparency and banking regulation, and exempted social spending from spending reductions.  Key policies: <ul style="list-style-type: none"> <li>Cuts in government spending</li> <li>Cuts in public-sector employment</li> <li>Improvements in tax collection</li> <li>Restriction of credit</li> <li>Resolution of property-rights issues</li> <li>Privatisation</li> <li>Reduction of state-owned bank operating costs</li> <li>Improvement in loan recoveries</li> <li>Labour-market flexibility</li> </ul>	There appears to have been no public investment plan.				
<b>IMF</b> <b>Staff Monitored Programme</b>	2001	No funds connected	Arrest the economic deterioration and establish a track record toward a new PRGF agreement.					

<sup>15</sup> IMF Annual Reports 1998–2002.



*Annex 3B: Inventory of PGBS and Related Programmes*

*CONTINUED Other Programmes Relevant to the Evaluation*

<b>Donor / Programme Title</b>	<b>Years</b>	<b>Funds (USD m)</b>	<b>Intent &amp; Earmarking</b>	<b>Alignment with Govt strategies</b>	<b>Disbursement procedures</b>	<b>Conditionality and performance indicators</b>	<b>Dialogue procedures</b>	<b>Donor H&amp;A</b>
<b>IMF PRGF 2</b>	<b>2002–5</b>	Committed: 98m SDR (131.3m). <sup>16</sup>  Disbursed: 42m SDR (56.3m).	IMF objective – embedding the PRGF in overall strategy for growth and poverty reduction. However, overall design not changed significantly from previous ESAFs  Key policies: <ul style="list-style-type: none"> <li>• Cuts in government spending</li> <li>• Increases in taxes and fees</li> <li>• Cuts in public-sector employment</li> <li>• Restriction of credit</li> <li>• Elimination of targeted credit</li> <li>• Closing of BANADES (National Development Bank)</li> <li>• Privatisation of state-owned enterprises</li> </ul> Improvement of quality of social spending.	PRGF targets aligned with ERCERP. Policy alignment limited, the link to the growth pillar was weak (PRGF focused on macro stability issues).	Annual, disbursement subject to performance review.  Direct to single Treasury Account at BCN.	Financial system reform, public sector, legal reform/governance.  Conditions primarily related to macroeconomic stability – notably budget deficit/GDP – and poverty related expenditures as % of budget. No specific explicit political conditions.	Mainly with the MHCP and BCN, with recourse to the President.	Some coordination with WB and IADB.  In practice other donors, World Bank and bilaterals; follow IMF conditionality on macro financial issues.

<sup>16</sup> IMF *Annual Reports 2003, 2004*.

CONTINUED Other Programmes Relevant to the Evaluation

Donor / Programme Title	Years	Funds (USD m)	Intent & Earmarking	Alignment with Govt strategies	Disbursement procedures	Conditionality and performance indicators	Dialogue procedures	Donor H&A
<b>IADB</b> <b>Debt Reduction Programme</b>	1995	Disbursed: 40m <sup>17</sup>	To support debt reduction operations that will stabilize the economy and lay the groundwork for future sustainable growth.				The loan complements other IADB programmes: (a) sector adjustment and reform operations (trade, finance and agriculture); (b) improvement of public enterprise management and State modernization; (c) investment sector operations; and (d) modernization of the healthcare system.	The programme was part of a concerted effort by the IADB, the World Bank and bilateral donors to help Nicaragua buy back a significant portion of its external debt to commercial banks.
<b>IADB</b> <b>Support Implementation of the Poverty Reduction Strategy</b>	2000	Committed: 10m <sup>18</sup>  Disbursed: unknown	Encourage coordinated and targeted effort by institutions in reaching quantitative goals established in agreement with civil society and international community.	With the poverty reduction strategy (PRS).			Technical Secretariat for the Presidency (SETEC) – executing agency.	Part of a concerted effort by the IADB, the World Bank and bilateral donors to help Nicaragua buy back a significant portion of its external debt to commercial banks.

<sup>17</sup> IADB website: <http://www.iadb.org/EXR/doc98/apr/ni951e.htm> [Accessed June 2005].

<sup>18</sup> IADB (2002). *Social Policy Reform Program to Support the Poverty Reduction Strategy*.

Technical Assistance

TA associated with PGBS

Donor / Programme Title	Years	Funds (USD m)	Intent & Earmarking	Alignment with Govt strategies	Disbursement procedures	Conditionality and performance indicators	Dialogue procedures	Donor H&A
<b>WB</b>  <b>PSTAC</b>	2004-2008	Committed: 23.5m  2004 Disbursed: 5.7m	Increase public sector labour productivity and improvements in management of public sector investments. Pillar IV of PND.	With ERCERP/PND.	Disbursed to Special Account maintained by Treasury at BCN in USD. Integrated financial management system for projects SIGFAPRO to process financial transactions	No specific conditionality is defined as the TA is linked to the PRSC. However, approval of the Project Action Plan for 2005 would be conditioned to Government submittal of a Civil Service Reform Implementation Strategy, satisfactory to the Bank.	Coordination Unit for the Public Sector Reform and Modernisation Programme (UCRESEP), the PCU will be in charge of the implementation and carry out with WB missions the monitoring of the different components.	Co-financing with basket fund
<b>Co-financiers:</b>								
<b>Denmark</b>	2004-2008	Committed: 3.6m  2004 Disbursed: 0.72m						
<b>DFID</b>		Committed: 1.7m						
<b>The Netherlands</b>		Committed: 3.5m 2004 Disbursed: 1.4m						
		<b>Sida</b>						

General Budget Support in Nicaragua

CONTINUED Technical Assistance

Donor / Programme Title	Years	Funds (USD m)	Intent & Earmarking	Alignment with Govt strategies	Disbursement procedures	Conditionality and performance indicators	Dialogue procedures	Donor H&A
<b>EC</b>  <b>Institutional Support to PND implementation</b>  Programme of Institutional Support for Nicaragua (PAI-NIC)	2005–2008	Committed 6.6m  Disbursed: 2005 0.85m  To be disbursed: 2006: 1.5m 2007 1.5m 2008 2.6m	1. Facilitate implementation of EC GBS 2. Support overall PND implementation  Provision of TA through 5 long term experts to support SECEP – planning and coordination of BS, MHCP – PFM, Ministry of Education (MECD) – management of SWAp through BS, Ministry of Agriculture – development of sector policy; Ministry of Justice – implementation of new Criminal Code and Citizen Security aspects.  Other short-term experts for ad hoc studies and inputs.	With the PND.	Standard EC disbursement procedures.	Disbursement based on approval of the overall work plan and annual plans by the EC Delegation and GON.  To be defined in the WP with the GON and the Delegation. Overall expected results indicated in the terms of reference for the TA.	Through SECEP.	Within the GBS Group and SWAp.
<b>Seco</b>	2006–2009	Committed 1.2m: Approx. disbursements foreseen: 2006: 300,000 2007 267,000 2008: 243,000 2009: 89,000	Consultancy and training services to assist introduction and institutionalisation of a MTEF approach to government budget preparation. The primary contribution – to facilitate the introduction and dissemination of the different techniques and procedures associated with the MTEF through the development of a manual and a set of training materials and through the delivery of targeted courses to planning and budgeting personnel within Nicaragua.	To be implemented by a consortium combining an established Nicaraguan-based training capacity with international and local expertise working with the Medium Term Budget Office (DPMP – <i>Dirección de Presupuesto de Mediano Plazo</i> ) of the MHCP.	By seco to the implementing consortium but supervised by the DPMP who will confirm the level and quality of inputs.	With a logical framework developed around eight outputs (MTEF sensitization and capacity building, National Budget Framework Paper, Enhanced Budget Analysis, etc). Progress under the project will be reviewed on an annual basis.	A progress report by the consortium every 6 months and an annual joint review by the DPMP steering group.	Seco is a member of the BSG and a signatory of the JFA.

*Annex 3B: Inventory of PGBS and Related Programmes*

*CONTINUED Technical Assistance*

**Other TA 2000 to present**

<b>Donor / Programme Title</b>	<b>Years</b>	<b>Funds (USD m)</b>	<b>Intent &amp; Earmarking</b>	<b>Alignment with Govt strategies</b>	<b>Disbursement procedures</b>	<b>Conditionality and performance indicators</b>	<b>Dialogue procedures</b>	<b>Donor H&amp;A</b>
<b>IADB</b>  <b>TA to SECEP</b>	2004–09	Committed: 7m  2005 0.45m 2006 2m 2007 2m 2008 2.6m	The project seeks to strengthen SECEP, National System of Public Investment (SNIP) and SIGFA.  Directly supporting the SECEP, considered a way to influence dialogue towards the achievement of ERCERP objectives.	With the ERCERP.	The programme will be carried out over a period of four years, and the disbursement period will be four and one half years, calculated in each case from the effective date of the loan contract.  Implementation through creation of small coordination unit within SECEP, using the Bank procurement rules for services, staff and equipment.	Annual performance review based on the report presented at the beginning of the project.  Mid-term evaluations foreseen after 25% of funds are disbursed. Final evaluation foreseen prior last disbursement.	SECEP will present semi-annual progress reports within two months after the end of the corresponding six-month period (30 June and 31 December).	Complements WB support to SECEP (PSTAC and Economic Management TA Credit [EMTAC]).
<b>IADB</b>  <b>Modernisation and Strengthening of the General Auditing Office</b>	2003–06	Committed: 5.4m  Disbursed: 2003 1.2m 2004 1.4m 2005 0.006m  To be disbursed: 2005 1.5m 2006 3.1m	To improve the efficiency and effectiveness of oversight in public administration by modernizing and strengthening the Comptroller General of the Republic (CGR).	With the ERCERP.	Procurement through Bank procedures, expenditure through a Project Management Unit (PMU) financed by the loan.	Disbursements require prior fulfilment of given agreements among the involved institutions.	The creation of a monitoring committee.	

General Budget Support in Nicaragua

CONTINUED Technical Assistance

Donor / Programme Title	Years	Funds (USD million)	Intent & Earmarking	Alignment with Govt strategies	Disbursement procedures	Conditionality and performance indicators	Dialogue procedures	Donor H&A
<b>Anticorruption Programme</b>	2002–2006	Total committed: 2.8 m	To support GON in its own efforts to fight corruption by financing key activities aimed at diminishing corruption, promoting national integrity and transparency with a focus on the promotion and establishment of a new culture of ethics, values and practices in public and civil society.	With ERCERP.	Establishment of a common fund among donors.		MOU signed by GON and donors June 2002.	Joint funding of GON strategy.
<b>Individual IPs:</b>								
<b>Germany</b>	2002–2004	Committed: 0.02m Disbursed: 0.02m						
<b>Denmark</b>		Committed: 0.03m Disbursed: 0.13m						
<b>Finland</b>		Committed: 0.07m Disbursed: 0.07m						
<b>DFID</b>		Committed: 0.08m Disbursed: 0.13m						
<b>The Netherlands</b>		Committed: 0.11m Disbursed: 0.11m						
<b>Norway</b>		Committed: 0.24m Disbursed: 0.45m						
<b>Sweden</b>		Committed: 0.02m Disbursed: 0.09m						
						Almost all donors delegate responsibility for administration of the like-minded joint donor anti-corruption basket fund to Norway.		

*Annex 3B: Inventory of PGBS and Related Programmes*

*CONTINUED Technical Assistance*

<b>Donor / Programme Title</b>	<b>Years</b>	<b>Funds (USD m)</b>	<b>Intent &amp; Earmarking</b>	<b>Alignment with Govt strategies</b>	<b>Disbursement procedures</b>	<b>Conditionality and performance indicators</b>	<b>Dialogue procedures</b>	<b>Donor H&amp;A</b>
<b>IADB</b>  <b>Efficiency and transparency in Procurement</b>	2000–2004	Committed: 18m <sup>19</sup>  Disbursement amount unknown	To improve efficiency and transparency in the government procurement system	Linked to the effort of an efficient public expenditure management system and complementary to the development of SIGFA.	Implemented by consulting firms.  Procurement according to Bank standards.	Agreement between on additional grant; inter-institutional agreement between SETEC and MOF; agreement on executing agency. Other conditions: MHCP agreement with all GON institutions involved; agreed Terms of Reference (TOR) for consulting companies and a monitoring and progress report system established.	Through the review of the progress reports.	Co-financing of donors for up to USD 4.5 m was a pre-condition for this loan (letters of commitments by donors received only up to USD 1.5 m).  In line with the commitment undertaken with IMF and the Consultative Group (CG) meetings.
<b>World Bank</b>  <b>Economic Management TA Credit (EMTAC)</b>	2000–2003	20.9m <sup>20</sup>	Expand public sector modernization, improve GON's economic planning, policy and execution capacity – includes – support SIGFA, civil service reform process, manage PRSP and debt relief processes, SNIP, streamlining public sector.	PRSP – Pillar I (broad-based economic growth and Pillar IV (good governance).	Yearly instalments.	PRGF and progress in PRSP.	Through the PCU.	Co-financing foreseen with USAID, SIDA, United Nations Conference on Trade and Development, IADB, IMF.

<sup>19</sup> IADB (2000a). *Executive Summary Program for Efficiency and Transparency in Government Procurement.*

<sup>20</sup> WB (1999). *Project Appraisal Document for an Economic Management Technical Assistance Credit.*

*General Budget Support in Nicaragua*

*CONTINUED Technical Assistance*

**Other TA 1994-2000**

Donor / Programme Title	Years	Funds (USD m)	Intent & Earmarking	Alignment with Govt strategies	Disbursement procedures	Conditionality and performance indicators	Dialogue procedures	Donor H&A
<b>IADB</b>  <b>Strengthening SETEC (now named SECEP)</b>	1999–01	Committed: 2.2m <sup>21</sup>  Disbursement amount unknown	To support integration of gov't's social and economic policy, monitor and evaluate its impact on poverty reduction. (Strengthening of SETEC.)	To support integration of the government's social and economic policy.	Creation of PCU in order to ensure management of funds according to the Bank's procurement procedures and increase absorption capacity.		Through the PCU.	Unknown
<b>WB</b>  <b>Institutional Development Credit (IDC) Project</b>  <i>(Programme continued under the name of EMTAC from 2000 to February 2003 with additional USD20m.)</i>	1995–2000	Disbursed: 23m <sup>22</sup>	Support Govt reform programmes for public sector modernisation.	Chamorro Presidency's programme public administration reform.	UCRESEP in charge. Based on statement of expenditure and IDA procurement procedures.	Periodic performance review by WB based on agreed activity action plans with defined targets.  Also annual external evaluations and mid-term evaluations.	Through Executive Committee for Public Administration Reform (CERAP) and national committee for public administration reform which includes relevant ministries. Supported by UCRESEP.	

<sup>21</sup> IADB (1999). *Executive Summary Program to Strengthen Institutional Framework of Technical Secretariat of the Office of the Presiden*).

<sup>22</sup> WB (1995). *Memorandum of the IDA President on the Institutional Development Project*.



## Annex 3C: HIPC and Supplementary Social Fund

### HIPC

1. Nicaragua arrived at the decision point of the Heavily Indebted Poor Countries (HIPC) initiative in December 2001 and completion point in January 2004. At completion point Nicaragua obtained a cancellation, in nominal terms, of USD 4,014m of its external debt - of the 38 countries that received HIPC assistance, Nicaragua received the second highest share (after the Democratic Republic of Congo). With traditional debt relief (USD 2,089m in nominal terms) and additional relief provided by the Paris Club (USD 225m), the total impact of the relief on the external public debt was USD 6,328m. Of this total, USD 3,652m has been formalized. This has resulted in a reduction of external debt service of around USD 199m per year since 2001. Table 3C.1 provides an estimation of the impact of total relief on public external debt in nominal terms and Table 3C.2 gives a breakdown of relief by funder (multilateral, Paris Club, other bilaterals and others):

**Table 3C.1: Impact of Total External Public Debt Relief (nominal terms)**

	Nominal Value	Net Present Value (NPV)
		(as at 12-31-99)
<b>External debt as at 12-31-99</b>	7,098 [1]	6,087
a) Traditional debt relief + HIPC:	6,103	
Traditional debt relief	2,089	
HIPC relief	4,014	
b) Additional relief provided by the Paris Club	225	
c) Total debt relief (a+b):	6,328	5,119
Debt relief applied as at 12-31-04	2,773 [2]	
Debt relief to be applied as at 12-31-04	3,555	
<b>Net external debt movement 1-1-00 - 12-31-04</b>	(820) [3]	
<b>External debt as at 12-31-04 (A+B)</b>	6,278 [4]	
<b>Debt relief to be applied as at 12-31-04</b>	-3,555	
<b>External debt after relief is applied</b>	2,723 [5]	968 [6]

Source: Central Bank of Nicaragua 2004a.

Notes: [1] Includes estimation of trade debt interest incorporated by the IFM and WB for the completion point, subject to total cancellation within the HIPC initiative framework.

[2] The nominal debt relief formalized as at 31 December 2004 totals USD 3,652m. However, to date only USD 2,773m have been applied. The difference of USD 879m will be entered in the books over the next 19 years.

[3] The net movement includes USD 2,773m in debt relief applied as at 31 December 2004, plus other movements such as disbursements, accrued interest on outstanding debt payable, exchange variance and amortizations.

[4] The difference of USD 5,391m between the external debt recorded in the books by Nicaragua as at 31 December 2004 and USD 6,278m corresponds, inter alia, to the estimation of the trade debt interests incorporated by the IMF and WB for purposes of the completion point, subject to total cancellation within the HIPC initiative framework.

[5] Does not include debt for USD 879m, which will be maintained in the balance per books and will be reduced over a 19-year period. However, the cancellation of this debt has already been approved and formalized.

[6] Only includes HIPC relief in terms of the NPV. Does not include debt turnover during the period comprised from 1 January 2000 to 31 December 2004.

**Table 3C.2: Total External Public Debt Relief under the HIPC Initiative (USD million)**

CREDITOR	NPV OF DEBT as at 31 December 1999	RELIEF IN NPV TERMS as at 31 December 1999	PERCENTAGE OF RELIEF IN NPV TERMS	NOMINAL RELIEF as at 31 December 1999
<b>Multilaterals</b>	1,556	1,140	73%	1,236
<b>Paris Club</b>	1,292	1,239	91%	1,703
<b>Other bilaterals</b>	2,455	1,977	91%	2,259
<b>Commercial, Providers and others</b>	784	763	91%	1,130
<b>Total</b>	<b>6,087</b>	<b>5,119</b>	<b>84% (1)</b>	<b>6,328</b>

Source: Central Bank of Nicaragua 2004a.

Note: 1) This percentage of relief in NPV terms is equal to approximately 87% in nominal terms.

2. From 2001 to 2004 Nicaragua received USD 764m in interim debt relief (Central Bank of Nicaragua 2005). Table 3C.3 gives a breakdown of this interim relief by multilateral and bilaterals:

**Table 3C.3: Interim Debt Relief 2001–2004 (USD million)**

Concept	2001	2002	2003	2004	Total
<b>Debt service before the HIPC initiative</b>	252	382	332	313	1,279
<b>Debt relief under the HIPC initiative</b>	99	224	234	237	794
<b>Multilaterals</b>	48	71	77	88	284
<b>Bilaterals</b>	51	153	157	149	510
<b>Debt service after the HIPC initiative</b>	<b>153</b>	<b>158</b>	<b>98</b>	<b>76</b>	<b>485</b>

Source: Central Bank of Nicaragua 2004a.

3. The amount of HIPC relief destined to finance the ERCERP objectives is calculated for each year by the Central Bank of Nicaragua (BCN) according to a methodology agreed with the WB and the IMF.<sup>23</sup> Table 3C.4 provides a breakdown of the allocation of HIPC relief between balance of payments and poverty expenditure:

<sup>23</sup> See the Completion Point Document for HIPC 2004 for a detailed description of this methodology (IMF and WB 2004a:9).

Table 3C.4: HIPC Debt Relief 2001–2004 (USD million and % GDP)

	2001	2002	2003	2004	2001	2002	2003	2004	
	USDm				% of GDP				
<b>1</b>	<b>Average service 1992–1998 [1]</b>	<b>216.6</b>	<b>216.6</b>	<b>216.6</b>	<b>216.6</b>	<b>5.4</b>	<b>5.4</b>	<b>5.3</b>	<b>5.1</b>
<b>2</b>	<b>Service after HIPC Relief</b>	<b>153.3</b>	<b>158.0</b>	<b>115.7</b>	<b>91.1</b>	<b>3.8</b>	<b>3.9</b>	<b>2.8</b>	<b>2.1</b>
<b>3</b>	<b>Relief cash (1–2)</b>	<b>63.3</b>	<b>58.6</b>	<b>100.9</b>	<b>125.5</b>	<b>1.6</b>	<b>1.5</b>	<b>2.5</b>	<b>2.9</b>
<b>4</b>	<b>Total HIPC Relief [2]</b>	<b>99.4</b>	<b>239.0</b>	<b>241.9</b>	<b>232.4</b>	<b>2.5</b>	<b>6.0</b>	<b>5.9</b>	<b>5.4</b>
<b>5</b>	<b>HIPC Relief for Balance of Payments</b>	<b>36.1</b>	<b>168.2</b>	<b>141.0</b>	<b>106.9</b>	<b>0.9</b>	<b>4.2</b>	<b>3.4</b>	<b>2.5</b>
<b>6</b>	<b>HIPC Relief for Poverty Spending [3]</b>	<b>63.3</b>	<b>70.8</b>	<b>100.9</b>	<b>125.5</b>	<b>1.6</b>	<b>1.8</b>	<b>2.5</b>	<b>2.9</b>
	Multilateral	48.1	70.8	76.0	80.3	1.2	1.8	1.9	1.9
	WB	5.7	8.0	8.4	10.1	0.1	0.2	0.2	0.2
	IADB	19.8	35.3	39.3	36.7	0.5	0.9	1.0	0.9
	Central American Bank for Economic Integration (CABEI)	22.6	22.9	25.3	24.0	0.6	0.6	0.6	0.6
	IMF	-	0.9	2.7	6.5	-	0.0	0.1	0.2
	Organization of the Petroleum Exporting Countries (OPEC)	0.0	3.7	0.3	1.9	0.0	0.1	0.0	0.0
	Others	-	-	-	1.1	-	-	-	0.0
	Bilateral	15.2	0.0	24.9	45.2	0.4	0.0	0.6	1.1
	Paris Club	15.2	0.0	24.9	45.2	0.4	0.0	0.6	1.1
	<b>A. HIPC Relief for Current Expenditure</b>	<b>49.9</b>	<b>47.9</b>	<b>67.0</b>	<b>83.4</b>	<b>1.3</b>	<b>1.2</b>	<b>1.6</b>	<b>2.0</b>
	Multilateral	34.7	47.9	42.1	38.2	0.9	1.2	1.0	0.9
	WB	2.5	0.0	0.0	0.0	0.1	0.0	0.0	0.0
	IADB	9.6	20.4	13.8	4.7	0.2	0.5	0.3	0.1
	CABEI	22.6	22.9	25.3	24.0	0.6	0.6	0.6	0.6
	IMF	-	0.9	2.7	6.5	-	0.0	0.1	0.2
	OPEC	-	3.7	0.3	1.9	0.0	0.1	0.0	0.0
	Others	-	-	-	1.1	-	-	-	0.0
	Bilateral	15.2	0.0	24.9	45.2	0.4	0.0	0.6	1.1
	Paris Club	15.2	0.0	24.9	45.2	0.4	0.0	0.6	1.1
	<b>B. HIPC Relief for Capital Expenditure</b>	<b>13.4</b>	<b>22.9</b>	<b>33.9</b>	<b>42.1</b>	<b>0.3</b>	<b>0.6</b>	<b>0.8</b>	<b>1.0</b>
	Multilateral	13.4	22.9	33.9	42.1	0.3	0.6	0.8	1.0
	WB	3.2	8.0	8.4	10.1	0.1	0.2	0.2	0.2
	IADB	10.2	14.9	25.5	32.0	0.3	0.4	0.6	0.7

Source: SECEP and Central Bank of Nicaragua in SECEP 2005a.

Notes:

[1] Average service 1992–1998 paid with domestic resources.

[2] Difference between service after a stock operation in Napoles's Terms (hypothetic) and service after implementation of Colonia's Terms. It is assumed the culmination point in December 2003.

[3] Calculated from the biggest amount that came out as a result of subtracting the service effectively paid during 1992–1998 and service to be paid after HIPC relief; or else the total HIPC relief coming from creditors.

4. Chapter B3 gives the total by year of poverty reduction related expenditure. Table 3C.5 gives a breakdown of poverty expenditure by financing sources, domestic and external:

**Table 3C.5: Financing Sources of Poverty Spending 2001–2003**

	2001	2002		2003 [1]
		Programme	Observed	
<b>Total Poverty Spending</b>	<b>361.8</b>	<b>400.2</b>	<b>401.1</b>	<b>450</b>
<b>Domestic Resources</b>	<b>215.7</b>	<b>236.6</b>	<b>229.4</b>	<b>244.1</b>
HIPC Relief	63.3	72.9	70.8	100.9
Treasury Resources	152.4	163.7	158.6	143.2
<b>External Resources</b>	<b>146</b>	<b>163.6</b>	<b>171.8</b>	<b>205.9</b>
Loans	<b>66.9</b>	<b>88.5</b>	<b>85.1</b>	<b>114.5</b>
<i>Multilateral</i>	<b>56.2</b>	<b>74.1</b>	<b>82.5</b>	<b>108.6</b>
WB	25	27.9	37.9	53.5
IADB	26	43.4	35.7	52.5
Others	5.2	2.8	8.8	2.5
<i>Bilateral</i>	<b>10.7</b>	<b>14.4</b>	<b>2.7</b>	<b>5.9</b>
Taiwan	10.7	0	2.7	2.6
Spain	0	12.3	0	3.3
Others	0	2	0	0
Grants	<b>79.1</b>	<b>75.1</b>	<b>86.7</b>	<b>91.4</b>
<i>Multilateral</i>	<b>26.9</b>	<b>22.4</b>	<b>23.2</b>	<b>32.9</b>
EC	7.2	10.2	11.4	20.1
World Food Programme (WFP)	10	8	6.7	7
Others	9.7	4.1	5	5.7
<i>Bilateral</i>	<b>52.2</b>	<b>52.7</b>	<b>63.5</b>	<b>58.6</b>
Japan	13.3	17	14.1	16.2
Germany	17.3	12.5	23.8	13.5
Others	21.7	23.2	25.6	28.8

Source: SECEP 2005a.

5. HIPC directly funded between 18 and 22% of the total expenditure in poverty reduction during this period. Table 3C.1 provides a breakdown of the allocation of HIPC funds to poverty spending:

Table 3C.6: Allocation of HIPC Funds

Programs	2001	2002	2003	2004		2001	2002	2003	2004	
				Executed programs					Executed programs	
				Millions of dollars					Structure	
<b>TOTAL</b>	<b>63.3</b>	<b>70.8</b>	<b>96.6</b>	<b>125.4</b>	<b>124.4</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Rural Primary Attendance	0.0	1.5	1.3	1.2	1.2	0.0	2.1	1.3	1.0	1.0
Social Protection Network	0.7	0.8	0.7	0.8	0.8	1.1	1.1	0.7	0.6	0.6
Coverage of Basic Social Services	57.5	58.3	81.7	95.7	94.8	90.8	82.3	84.6	76.3	76.2
Education	37.9	38.2	52.6	58.9	58.6	59.9	54.0	54.4	46.9	47.1
Health	14.4	12.3	20.1	27.7	27.3	22.7	17.4	20.8	22.1	22.0
Water and Sanitation	2.0	1.2	1.5	1.8	1.8	3.2	1.6	1.6	1.4	1.5
Housing	1.0	0.5	0.8	3.2	3.0	1.6	0.7	0.9	2.5	2.4
Municipal Infrastructure	2.2	6.0	6.7	4.2	4.1	3.5	8.5	6.9	3.3	3.3
Protection of vulnerable groups	3.4	5.8	3.8	3.9	3.9	5.4	8.1	3.9	3.1	3.1
Social Emergency fund	1.6	4.0	4.0	5.2	5.2	2.5	5.6	4.2	4.2	4.2
Development of the Atlantic Coast	0.1	0.2	0.1	0.1	0.1	0.2	0.3	0.1	0.1	0.1
Support Program for the implementation of the ERCERP		0.1	0.2	0.2	0.1	0.0	0.1	0.2	0.2	0.1
Support for Production		0.2	4.8	16.5	16.5	0.0	0.4	5.0	13.1	13.2
Environmental and Ecological Vulnerability Program				1.9	1.9	0.0	0.0	0.0	1.5	1.5

Source: Plan Nacional de Desarrollo 2005–2009 Draft, July 2005. (Government of Nicaragua 2005)

Note: there is a variance in sources for HIPC relief poverty expenditure for 2003 (variously 96.6 or 100.9).

### Supplementary Social Fund (FSS)

6. The main reform executed to improve the government's poverty reducing public expenditure (PRPE) tracking capacity was the restructuring of the Supplementary Social Fund (FSS – *Fondo Social Suplementario*), the tracking mechanism used by the government to address the immediate priorities of the PRS.

7. The FSS is a virtual fund, used to allocate resources to support the poverty reduction priorities of the ERCERP. The FSS Coordinating Council, presided over by SECEP and formed by representatives of the governmental departments and donor representatives (in 2005 the WB) and the National Council for Economic and Social Planning (CONPES – *Consejo Nacional de Planificación Económica Social*) (Government of Nicaragua 2005c), allocates the resources to the executing institutions. This is registered in the GON general budget by supplementary budgets throughout the course of the year. The funds are kept in individual bank accounts under the administration of MHCP and are transferred as required to the Single Treasury Account (CUT – *Cuenta Única del Tesoro*). The resources channelled in this way through the FSS are therefore not subject to the constitutional earmarking of the general budget.

8. The government had initially considered channelling the entire budgetary savings from HIPC debt relief through the FSS in the central government budget. This was decided against on the grounds that it would unnecessarily complicate the budget presentation, but the FSS as a 'virtual fund' remains responsible for monitoring the use of HIPC relief (IMF and World Bank 2004b). The other funds channelled through the FSS are made up from bilateral donations supporting the implementation of the objectives of the ERCERP and the IADB loans supporting progress in the social sector. The breakdown of the bilateral donations and IADB loans are shown in the inventory in Annex 3B and Table 3C.7.

9. The Operative Rules and Regulations of the FSS were modified in November 2003 to reflect its virtual character and improve the method of registration, presentation and classification of HIPC relief and HIPC poverty expenditure to facilitate tracking budgetary executions. These modifications establish: (a) recommended allocation of HIPC relief, (b) budget tracking through SIGFA, (c) reporting on poverty expenditure execution and HIPC relief, and (d) monitoring and tracking of poverty reduction performance indicators through the National System of Public Investment (SNIP – *Sistema Nacional de Inversión Pública*) and the National System of Development Indicators (SINASID – *Sistema Nacional de Seguimiento a Indicadores de Desarrollo*).

10. The FSS has presented tri-monthly and annual reports on poverty expenditure and HIPC alleviation during 2003–2004 (Government of Nicaragua 2003a, 2004, 2005c). The reports include information on total poverty reducing public expenditure (PRPE), by ERCERP pillar, executing institution, individual project and sources of financing (WB 2004c). Grants channelled through the FSS have contributed to finance programmes and projects prioritised by the ERCERP and PND, carried out by the Ministry of Education, Culture and Sport (MECD), the Ministry of Health (MINSAs), the Ministry of the Family (MIFAMILIA), the Nicaraguan Aqueduct and Sewerage Company (ENACAL), the Ministry of Agriculture and Forestry (MAGFOR), the Ministry of Transport and Infrastructure (MTI), the Institute of Rural Development (IDR), the Institute of Municipal Development (INIFOM) and the Institute of Urban and Rural Housing (INVUR), extending the allocation of resources to the productive and infrastructure sectors. In addition, during this period the FSS financed municipal investments through projects put forward by the Territorial Units for Public Investment, thus contributing to the decentralisation process (Government of Nicaragua 2005). Table 3C.7 lists the amounts from the different funding sources and the allocation of the bilateral donations and the detail of the IADB programme.

**Table 3C.7: Allocation of FSS Funds**

Sources	Executed	2004			Executed
	Accumulated	Programme	Execution	%	Accumulated
	1998–2003		Jan–Dec <sup>1/</sup>	Executed	1998–2004
USD million <sup>2/</sup>					
<b>TOTAL</b>	<b>301.10</b>	<b>169.78</b>	<b>162.75</b>	<b>96</b>	<b>463.85</b>
<b>A. HIPC alleviation</b>	<b>230.70</b>	<b>125.43</b>	<b>124.39</b>	<b>99</b>	<b>355.09</b>
<b>B. Grants</b>	<b>42.50</b>	<b>17.24</b>	<b>15.33</b>	<b>89</b>	<b>57.83</b>
MTI	1.90	0.91	0.91	100	2.81
ENACAL	0.00	1.70	1.70	100	1.70
INIFOM	0.10	3.33	3.31	100	3.41
MECD	21.20	3.05	2.93	96	24.13
MINSAs	16.00	2.55	2.23	87	18.23
MAGFOR	0.60	0.73	0.73	100	1.33
INVUR	0.90	2.70	1.87	69	2.77
MIFAMILIA	0.90	0.90	0.89	99	1.79
IDR	0.20	0.28	0.00	0	0.28
National Energy Commission (CNE – <i>Comisión Nacional de Energía</i> )	0.00	0.11	0.11	100	0.11
Nicaraguan Technical Institute (INTECNA – <i>Instituto Tecnológico Nacional de Nicaragua</i> )		0.25	0.25	100	0.25
INEC	0.00	0.12	0.00	0	0.00
SECEP	0.70	0.61	0.40	65	1.10
<b>C. IADB programmes in progress</b>	<b>27.90</b>	<b>27.11</b>	<b>23.03</b>	<b>85</b>	<b>50.93</b>
Social Protection Network	14.50	10.29	6.37	62	20.87
Local Development of the Atlantic Coast	0.30	2.20	2.20	100	2.50
Implementation support / ERCERP	4.10	4.09	4.09	100	8.19
Integral Attention of Nicaraguan Children	9.00	10.52	10.37	99	19.37

Source: GON communication 2005.

Notes:

1/: Preliminary financial execution accumulated 31 December 2004.

2/: Exchange rate established by the MHCP for annual budgetary formulation.

## ANNEX 4: PUBLIC FINANCE MANAGEMENT IN NICARAGUA

### Introduction

1. Budget support is always accompanied by a focus on public finance management (PFM). Donors considering disbursing through government systems have a special interest in the government's fiduciary standards. Moreover, one of the principal claims for budget support is that using government PFM systems can make a special contribution towards strengthening them. Hence a growth in the number of PFM diagnostic reports (Public Expenditure Reviews [PERs], Country Financial Accountability Assessments [CFAAs], Country Procurement Assessment Reports [CPARs] etc), as well as donor-specific fiduciary analyses. In six of the seven GBS study countries, the donor demand for tracking of HIPC relief funding was pivotal, with Assessment and Action Plans (AAP) as path-breakers; Vietnam, not in the HIPC group, is an exception.

2. The scope for collaboration and harmonisation in PFM analysis and PFM capacity development has been increasingly recognised. The second volume of DAC guidelines on *Harmonising Donor Practices for Effective Aid Delivery* (OECD DAC 2005) includes a chapter on capacity development for PFM. A PFM Performance Measurement Framework has been developed under the auspices of the multi-agency PEFA (Public Expenditure and Financial Accountability) programme (PEFA 2005).

3. The Performance Measurement Framework identifies the critical dimensions of performance of an open and orderly PFM system as follows:

1. **Credibility of the budget** – The budget is realistic and is implemented as intended.
2. **Comprehensiveness and transparency** – The budget and the fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public.
3. **Policy-based budgeting** – The budget is prepared with due regard to government policy.
4. **Predictability and control in budget execution** – The budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds.
5. **Accounting, recording and reporting** – Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes.
6. **External scrutiny and audit** – Arrangements for scrutiny of public finances and follow up by executive are operating.

4. A set of 28 high-level performance indicators has been developed, as a basis for assessing improvements in PFM performance over time. Three further indicators assess aspects of donor performance. PEFA has developed a detailed scoring methodology (fully described in PEFA 2005), in which the assessment for each high-level indicator is based on a number of specified components.

5. It is beyond the scope of this study to undertake a full PEFA-based analysis (and in any case the PEFA scoring system was not finalised until 2005). However, in the interests of standardisation and comparability, the PFM analysis of the GBS study has been oriented towards the PEFA indicator framework as far as possible. We have used a standard matrix to consider PFM issues against the principal dimensions defined by PEFA, drawing on the secondary sources available (these are listed at the end of this Annex). This matrix also shows

the HIPC AAP indicators and diagnostic results (although these do not apply in the case of Vietnam). Our main assessment is of the current state of PFM, although we also examine developments during the evaluation period and offer a judgement as to whether systems are improving. The resources available for the evaluation did not allow for collection of data needed for application of the PEFA methodology. Therefore we do not attempt the rigorous scoring prescribed by PEFA, but express our judgement as *good*, *moderate* or *weak* on the basis of available data. Where insufficient information was available, no such judgement is offered. In the future, rigorous assessment and reporting according to the PEFA guidelines should provide a much more robust and transparent basis for assessing the quality of PFM systems than was available during the evaluation period. It will also allow progress in capacity development to be more systematically monitored.

## Overview of PFM in Nicaragua

### *Current status and trends*

6. The PFM system remained weak for much of the reporting period from 1994, but displayed a remarkable improvement after 2002 in several areas. Many studies and relevant reforms have been carried out, including the Integrated Financial Management and Audit system (SIGFA), Government Procurement Reform Programme, the Public Sector Modernisation Project, and the Programme for Modernisation and Strengthening of the Comptroller General's Office. Current action plans are largely derived from the CFAA and CPAR, both conducted in 2003. But significant areas of weakness remain, particularly in auditing, predictability of funding, and medium-term planning and budgeting. The separation of the planning function from finance is a continuing obstacle. So too is the lack of adequate integration of "decentralised budgetary entities" into the national budget. Therefore on the AAP indicators of quality of PEM in the HIPC review, Nicaragua achieved the benchmark level for only 6 out of 16 indicators (IMF and World Bank 2005b: Figure 1).

7. Strengthening of PFM since 2002 is especially with regard to the control and public dissemination of up-to-date financial data on both fiscal revenue and expenditure. To a lesser extent there has also been improvement in public procurement practices. A major challenge for strengthening of PFM is to incorporate the expenditure priorities in the PND 2004–2009 in the annual budgetary cycle. This will be a crucial reform to ensure the implementation of the growth and poverty-reduction activities in the plan. At present, progress towards facing this challenge is slow.

8. For example, the Operational National Development Plan (PND-O) remains an extremely general document, consisting of little more than a collection of projects for foreign funding. It does not include any estimate of their respective local cost components and was written after the 2005 budget had been prepared. Consequently, as constituted in 2005, the PND-O does not enable MHCP to make adequate provision for annual local counterpart funding requirements associated with future public investment projects. These limitations of the PND are replicated in the associated sector development plans for 2004–2009. For example, the National Health Plan 2004–2015, published in September 2004, does not include any costing or prioritisation at all.

### *Aid and PFM*

9. Aid donors have been crucial in supporting reform of PFM. Major donor support has been in setting up the SIGFA, and in public procurement reform. The Planning Secretariat, SECEP, was set up with the intention of prioritising poverty reduction activities within the public investment programme (PIP), through its National Public Investment System, (SNIP – *Sistema Nacional de Inversión Pública*). At the local government level, the WB and Danida have



supported the Municipal Development Institute (INIFOM), to improve municipal financial audits by the National Audit Office, (*Contraloría General de la República*). Table E of Annex 3B Inventory of GBS and Related Programmes provides details of all major TA supporting public management reform.

10. There is little evidence yet that GBS as a flow of non-earmarked funds has contributed to improvements in PFM. However, there are strong expectations that it will do so. In particular, several respondents thought that Congress would be less likely to reject a GBS component within the budget than those budget components comprising identifiable projects. This is because GBS would not enable politicians to identify specific projects on which they may have a specific view, either in favour or against. Hence it was felt that a move towards GBS would help to speed up the overall budgetary approval process.

11. The wider process of dialogue regarding PFM and its relation to planning, with the objective of moving towards non-earmarked flows of donor funds, has been directly connected to the development of PGBS and has been integral to the cooperation between donors and government which has produced the recent improvements in PFM.

### **Key Source Documents on PFM in Nicaragua**

IMF and World Bank (2002). *Joint Staff Assessment of the PRSP Annual Progress Report*.

IMF and World Bank (2004a). *Joint Staff Assessment of the PRSP Second Progress Report*.

IMF and World Bank (2004b). *Enhanced HIPC Initiative – Completion Point Document*.

IMF and World Bank (2004c). *Evaluation of the PRSP process and arrangements under the PRGF*.

SECEP (2002). *Informe del Gasto en Pobreza 2001*.

SECEP (2003). *Informe del Gasto en Pobreza y Alivio HIPC 2002 y Enero-Junio 2003*.

SECEP (2004). *Informe del Gasto en Pobreza y Alivio HIPC 2003*.

SECEP (2005). *Informe del Gasto en Pobreza y Alivio HIPC 2004*.

World Bank (2001b). *Public Expenditure Review: Improving The Poverty Focus Of Public Spending*.

World Bank (2001c). *Nicaragua: Tracking Poverty Related Spending Assessment and Action Plan*.

World Bank (2003a). *Nicaragua Country Financial Accountability Assessment*.

World Bank (2003b). *Project Performance Assessment Report. Nicaragua Economic Recovery Credit (Credit No.2302-NI) and Second Economic Recovery Credit (Credit No.2631-NI)*.

World Bank (2003c). *International Development Association Program Document for a Proposed Credit in the amount of SDR 49m (USD 70m Equivalent) to the Republic of Nicaragua for a Poverty Reduction Support Credit*.

World Bank (2004a). *Project Appraisal Document on a Proposed Credit in the amount of SDR 15.8m (IUSD 23.5m equivalent) to the Government of Nicaragua for a Public Sector Technical Assistance Project*.

World Bank (2004c). *Nicaragua: tracking poverty related spending in Heavily Indebted Poor Countries (HIPC)*.

**Table 4.1: PEFA PFM Performance Measurement Indicators<sup>24</sup> for Nicaragua**

No.	Subject	Score 2001 <sup>25</sup>	Score 2004	Trend	Comments and Analysis
<b>A. PFM OUTTURNS: Credibility of the Budget</b>					
PI-1	Aggregate expenditure outturn compared to original approved budget.		Moderate	↑	Fiscal discipline has recovered after the fiscal disruption caused by Hurricane Mitch in late 1998. In recent years there has been less divergence of outturn from budget.  The budget is traditionally drawn up on the basis of historical trend growth and not by programme nor by a results-oriented approach. There is a long history of under-spend because of the continuing problems of administrative capacity. The level of under-spend varies among ministries and has been highest in the Ministry of Agriculture (MAGFOR), the Ministry of Health (MINSa) and the Ministry of Construction and Public Works. In the most recent period, 2002–2004, there has been a marked improvement on this count too. But the 2003 CFAA called for the budget execution report to be prepared to the same detail as the budget approval document.
	Composition of expenditure outturn compared to original approved budget.		Moderate	↑	Composition of expenditure is quite close to budget. But functional categories remain too broad to be usefully informative (see 5 below).
3	<i>Reliability of budget as guide to outturn (Are level and composition of outturn "quite close" to budget?).</i>		<i>Moderate</i>	↑	<i>Overall outturn and outturn by individual ministries is much improved [estimate: achieves the AAP benchmark]</i>
PI-3	Aggregate revenue outturn compared to original approved budget.		good	↑	Revenue outturn has varied little from the original approved budget, especially in the most recent period, 2001–2004. In 2003 aggregate revenue exceeded the approved budget by a margin of 2.3%.

<sup>24</sup> The PEFA indicators (PI-1 to PI-28 and D-1 to D-3) are taken from the June 2005 version of the PEFA PFM Financial Management Framework. The 16 HIPC AAP Indicators (2004 version) are included in Italics.

<sup>25</sup> In contrast to the other HIPC countries in this evaluation, the actual AAP ratings for Nicaragua do not appear to have been published, although assessment reports for 2001 and 2004 are available. The 2004 AAP ratings reflect our interpretation of the AAP report as per comments on the right most columns.

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No.	Subject	Score 2001 <sup>25</sup>	Score 2004	Trend	Comments and Analysis
PI-4	Stock and monitoring of expenditure payment arrears.		moderate	→	<i>The level of arrears in central government ministries is low. Some arrears exist in other branches of the government such as the National Assembly, Electoral Council due to weak managerial practices and cash flow programming [estimate: does not achieve the AAP benchmark].</i>
8	<i>Level of payment arrears . (Very few or no arrears accumulated.)</i>				
<b>B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency</b>					
PI-5	Classification of the budget.		moderate	↑	The accuracy, timeliness and level of disaggregation of the quarterly expenditure reports published by MHCP have improved considerably since the 2002 introduction of SIGFA. But the SIGFA system only includes ten of the many semi-autonomous public sector bodies and it does not track all foreign aid funded projects. Nor does it include expenditure by the 153 municipalities in the country.
5	<i>Classification of budget transactions (Is functional and/or programme information provided?)</i>		weak	→	<i>There is no functional classification which meets international standards and is integrated with the classifications by programme [estimate: does not achieve the AAP benchmark].</i>
PI-6	Comprehensiveness of information included in budget documentation.		weak	↑	A WB CFAA and CPAR 2003 noted there is no historical information on budgeted or executed expenditures and that the budget document does not fully encompass all state funds: much donor project funding is directly to individual budgetary institutions; too little incentive to comply with the 2003 Budget Law requiring incorporation of unbudgeted grant and loan disbursements into the budget; also too little incentive for “decentralised and autonomous entities” to submit their budgets (10.3% of national budget in 2003) to the National Assembly along with the national budget for information. The Single Treasury Account (CUT) under SIGFA should gradually increase the proportion of external and domestic revenues channelled through the Treasury, which should raise the revenue information available to the budget.

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No.	Subject	Score 2001 <sup>25</sup>	Score 2004	Trend	Comments and Analysis
1	<i>Composition of the budget entity. (Very close fit to government finance statistics (GFS) definition of general government?)</i>		weak	→	<p>"Function based classification of spending information in the Budget is of a very general nature" (CFAA – WB 2003a). No identification of administrative units within ministries responsible for implementing the different spending programmes.</p> <p>A large amount of donor disbursement is misclassified as capital expenditure, when it is actually recurrent. This is mainly because a large proportion of public administrators (<i>servidores</i>) are employed as consultants, whose salaries are paid from foreign aid sources, and are therefore classified under the capital budget. By contrast, a relatively smaller proportion of the total consists of permanent staff, <i>funcionarios</i>, with job stability. One reason for the rapid growth in the number of consultants in recent years has been the ban on the increase in the number of <i>funcionarios</i>.</p>
PI-7	Extent of unreported government operations.		moderate	↑	Although the HIPC tracking study (WB 2004c) claims that "All government's activities are financed through budgetary funds" this appears not yet to be entirely the case (see CFAA 2003 comments above), although funding should increasingly be channelled through the CUT.
2	<i>Limitations to use of off-budget transactions (Is extra (or off) budget expenditure significant?)</i>				<i>[Estimate: achieves the AAP benchmark.]</i>
PI-8	Transparency of inter-governmental fiscal relations.		moderate	↑	Budget Law of 2003 is an important advance though incentives for enforcement are inadequate. Scope for clarification of revenue and expenditure assignments.
PI-9	Oversight of aggregate fiscal risk from other public sector entities.		good	↑	Aggregate control of budget has strengthened in recent years.

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No.	Subject	Score 2001 <sup>25</sup>	Score 2004	Trend	Comments and Analysis
PI-10	Public access to key fiscal information.		moderate	↑	<p>The public service MHCP website (<a href="http://consultaciudadana.mhcp.gob.ni">consultaciudadana.mhcp.gob.ni</a>) which came on-line in 2003 contains monthly updates of public expenditure (by ministry and geographical location) and fiscal revenue (economic sector and by type of tax). The 2003 fiscal reform law required line ministries to place budget information on their websites.</p> <p>Government procurement information is available on-line through the MHCP website (<a href="http://www.hacienda.gob.ni">www.hacienda.gob.ni</a>) although it is not yet possible for suppliers to submit bids on-line. It is not common practice to publish external audit reports of public sector organisations.</p>
<b>C. BUDGET CYCLE</b>					
<b>C(i) Policy-Based Budgeting</b>					
6	<i>Identification of poverty-reducing expenditure (Identified through use of classification system).</i>		Weak	↑	<p><i>Identification of poverty-related expenditure in the budget is still imprecise and the issue is the subject of considerable debate in Nicaragua. The development strategy of the current government is premised on the assumption that faster economic growth is the best road to poverty reduction. Consequently, the prioritisation of poverty reducing expenditure is not addressed in the PND, 2004–2009 (see 13 above).</i></p> <p><i>[Estimate: does not achieve the AAP benchmark.]</i></p>

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No.	Subject	Score 2001 <sup>25</sup>	Score 2004	Trend	Comments and Analysis
PI-11	Orderliness and participation in the annual budget process.		weak	↑	<p>Increased effort in recent years to harmonise the budgetary process with the national planning exercise. Delays have occurred because of the need to ensure that the macroeconomic and sector expenditure ceilings are compatible with the national planning objectives. GON often faces severe delays in the implementation of foreign aid projects because of the so-called 'dam effect' under which the ceiling on total domestic expenditure enforced as part of the macroeconomic stabilisation programme imposed by the IMF means that counterpart funding cannot be released even when foreign funding is available for disbursement.</p> <p>The Economic Committee of the National Assembly does not play a major role in budget formulation. According to the 1995 budget law, the National Assembly may not raise the expenditure ceiling proposed by the executive. In subsequent years, it has tended not to contest these IMF-imposed budget ceilings. However it has sometimes altered the sector expenditure allocation proposed by the executive.</p>
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting.		Weak	→	<p>Several attempts to introduce a Medium Term Expenditure Framework (MTEF) during the reporting period have failed. There are plans to introduce an MTEF from 2006 but there is some scepticism regarding whether this will happen. The main reason is that planning and financial management are still separated. This is because the capital budget is not under the effective control of the MHCP – instead it is determined by the SNIP of the SECEP. This 'disintegrated' nature of responsibility for the recurrent and capital expenditure also calls into question the viability of SWAPs in education or health. This is because the respective sector ministry only has effective control of the recurrent budget, while capital expenditure priorities are determined by the SECEP.</p>
7	Quality of multiyear expenditure projections (Are projections integrated into budget formulation?)				<i>[estimate: does not achieve the AAP benchmark.]</i>

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No.	Subject	Score 2001 <sup>25</sup>	Score 2004	Trend	Comments and Analysis
<b>C(ii) Predictability and Control in Budget Execution</b>					
PI-13	Transparency of taxpayer obligations and liabilities		weak	↑	Tax administration has improved in recent years, although evasion of direct taxation remains high. Despite the introduction of a tax reform law, <i>Ley de Equidad Fiscal</i> , in 2003 evasion of company and personal taxation is still widespread. According to one leading private economic consultant, 60% of private companies have declared losses for eight consecutive years. In Managua, evasion of municipal property taxation is rife, with owners declaring properties in the name of retired relatives, who are tax exempt. Following widespread tax avoidance by private banks that had not paid tax for five consecutive years, a recent tax amnesty introduced a 1% tax on bank assets. However, banks circumvented this ruling by rapidly depreciating their assets. Membership of the Chamber of Commerce is not conditional on proof of compliance with the General Directorate of Revenue (DGI – <i>Dirección General de Ingresos</i> ) and many members are believed to be in arrears on tax liabilities. However in 2004, with the support of the Japanese government and USAID. The Chamber of Commerce organised seminars for its members on compliance with the new Fiscal Equity Law 2003.
PI-14	Effectiveness of measures for taxpayer registration and tax assessment				
PI-15	Effectiveness in collection of tax payments				
PI-16	Predictability in the availability of funds for commitment of expenditures		moderate/ weak	→	Unpredictabilities flow from on track/off-track history of relations with IMF and consequent unpredictability of donor funding which relies on government's status with IMF.
PI-17	Recording and management of cash balances, debt and guarantees				Not reviewed
PI-18	Effectiveness of payroll controls		moderate/ weak?		Employment ceilings evaded by employing public servants as consultants paid by aid via capital budget (see above). Payroll abuse (e.g. ghost employees) not reviewed.

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No.	Subject	Score 2001 <sup>25</sup>	Score 2004	Trend	Comments and Analysis
PI-19	Competition, value for money and controls in procurement		weak	→	The GON procurement system is still weak. The 2003 CPAR called for the following priority actions: revise standard bidding documents; strengthen government agencies' and municipalities' procurement units; and design and implement a systematic training programme on procurement, project planning and contract management.
16	<i>Effective procurement (Do procurement processes promote competition, transparency and value-for-money?)</i>				<p>As yet, suppliers are unable to bid openly and “on line,” an arrangement that would increase transparency and efficiencies in contract bidding and contract payment. However, some progress has been achieved, as evidenced by the first phase of <i>e-disclosure</i> contained in the web page (<a href="http://consultaciudadana.mhcp.gob.ni">consultaciudadana.mhcp.gob.ni</a>). This website provides up-to-date information on annual procurement plans and government tenders that are underway. Training and related modernization of government procurement units have also contributed to greater transparency and efficiency in government expenditure.</p> <p>New procurement rules inhibit the ability of public institutions to commit expenditures in accordance with budgets. This is a particular problem for local government. A new Public Procurement Law, <i>Ley de Contrataciones del Estado</i>, of 2003 is a major hurdle to disbursement of the fiscal transfers received by municipalities. Compliance with tender requirements involves obtaining a minimum of three bids. But in small municipalities the potential number of local bidders is extremely small. In addition, no bid is permitted from a relative of any member of the council or the mayor. Again, this is problematic in a small municipality, especially for fuel purchases. Bidders must also be registered in the Procurement Register, <i>Registro de Proveedores</i>, which is located in Managua. This is a major transaction cost for small rural companies wishing to bid for municipal contracts.</p> <p><i>[Estimate: does not achieve the AAP benchmark]</i></p>



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No.	Subject	Score 2001 <sup>25</sup>	Score 2004	Trend	Comments and Analysis
PI-20	Effectiveness of internal controls for non-salary expenditure		Weak	→??	There is minimal follow-up by the executive or by the audited entity of recommendations made by the Comptroller General of the Republic (CGR).  The CGR presents only intermittent and random audit reports of executive bodies to the legislative and the involvement of the legislature in post-hoc evaluation of the budget is minimal.
PI-21	Effectiveness of internal audit				
9	<i>Quality of internal audit (Effective internal audit function?)</i>				
<b>C(iii) Accounting, Recording and Reporting</b>			Moderate		
PI-22	Timeliness and regularity of accounts reconciliation			↑	Much improved. <i>[Estimate: achieves the AAP benchmark]</i>
11	<i>Quality of fiscal/banking data reconciliation (Satisfactory and timely reconciliation of fiscal and monetary data?)</i>				
PI-23	Availability of information on resources received by service delivery units		weak	→	"Function based classification of spending information in the Budget is of a very general nature" (World Bank 2003a) (see 1 above).
10	<i>Use of expenditure tracking surveys (Tracking used on regular basis)</i>		Moderate ?	→??	Tracking survey underway (for education services?) but results not yet known. See 13 above.
PI-24	Quality and timeliness of in-year budget reports		weak	→??	<i>Although improvements under SIGFA, not all ministries provide the complete information on time. [Estimate: does not achieve the AAP benchmark]</i>
12	<i>Timeliness of internal budget reports (Monthly expenditure reports provided within four weeks of end of month?)</i>				

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No.	Subject	Score 2001 <sup>25</sup>	Score 2004	Trend	Comments and Analysis
13	<p>Classification used for tracking poverty-reducing expenditures.</p> <p>(Good quality, timely functional reporting derived from classification system?)</p>		good	↑	<p>Much improved compared with 2001 [probably meets AAP benchmark]. The system (which was a HIPC condition) is based on a ring fenced FSS. The strengths of FSS are:</p> <ul style="list-style-type: none"> <li>- Improved tracking of poverty expenditure.</li> <li>- Faster disbursement of foreign aid (to pro-poor expenditure).</li> </ul> <p>Its weaknesses are:</p> <ul style="list-style-type: none"> <li>- Lack of transparency in selection of projects.</li> <li>- Lack of monitoring system to check donor funds to FSS are really additional.</li> </ul> <p>However, the expenditure tracking system has yet to deliver findings (See 13 below)</p> <p>[Estimate: does not achieve the AAP benchmark]</p>
PI-25	Quality and timeliness of annual financial statements				
14	<p>Timeliness of accounts closure</p> <p>(Accounts closed within two months of year-end)</p>				

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No.	Subject	Score 2001 <sup>25</sup>	Score 2004	Trend	Comments and Analysis
<b>C(iv) External Scrutiny and Audit</b>					
PI-26	Scope, nature and follow-up of external audit				
15	<i>Timeliness of final audited accounts (Audited accounts presented to legislature within one year)</i>				<p><i>CGR is both extremely weak in professional terms and highly politicised. It is now connected to the SIGFA but still does not have the technical capacity to carry out on-line audits. At the time of the visit it was engaged in a bitter dispute with the President, against whom it had started impeachment proceedings on the grounds of corruption, relating to the misuse of public money for election expenses. It is also to be remembered that the CGR is a highly politicised institution under the control of the National Assembly parties. The CFAA stated that the lack of external audit reports on government financial statements is a serious obstacle to transparency in public finance. The CGR carries out only intermittent and random audits of central government bodies. It has a purely legalistic approach to auditing and lacks an economic perspective in terms of ensuring 'value for money'. The new 2003 Public Debt Law does not clarify the role of the CGR in monitoring debt levels. Given the weakness of the CGR, at the insistence of foreign donors, international audit companies carry out external audit of many public sector bodies that receive aid inflows, including the FSS.</i></p> <p><i>[Estimate: does not achieve the AAP benchmark]</i></p>
PI-27	Legislative scrutiny of the annual budget law				
PI-28	Legislative scrutiny of external audit reports				As noted in PI-11 above, the Economic Committee of the National Assembly does not play a major role in budget formulation.
<b>D. DONOR PRACTICES</b>					
D-1	Predictability of Direct Budget Support		moderate?	→??	GBS very recent and already delayed. SBS more predictable?
D-2	Financial information provided by donors for budgeting and reporting on project and programme aid		moderate	↑	Much improved as a result of SysODA electronic system for aid data. Though aid data still comes in late from some donors

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No.	Subject	Score 2001 <sup>25</sup>	Score 2004	Trend	Comments and Analysis
4	<i>Data on donor financing (Donor-funded expenditures included in budget or reports?)</i>				<i>[Estimate: does not achieve the AAP benchmark]</i>
D-3	Proportion of aid that is managed by use of national procedures		weak	↑??	Should increase if/when GBS becomes established

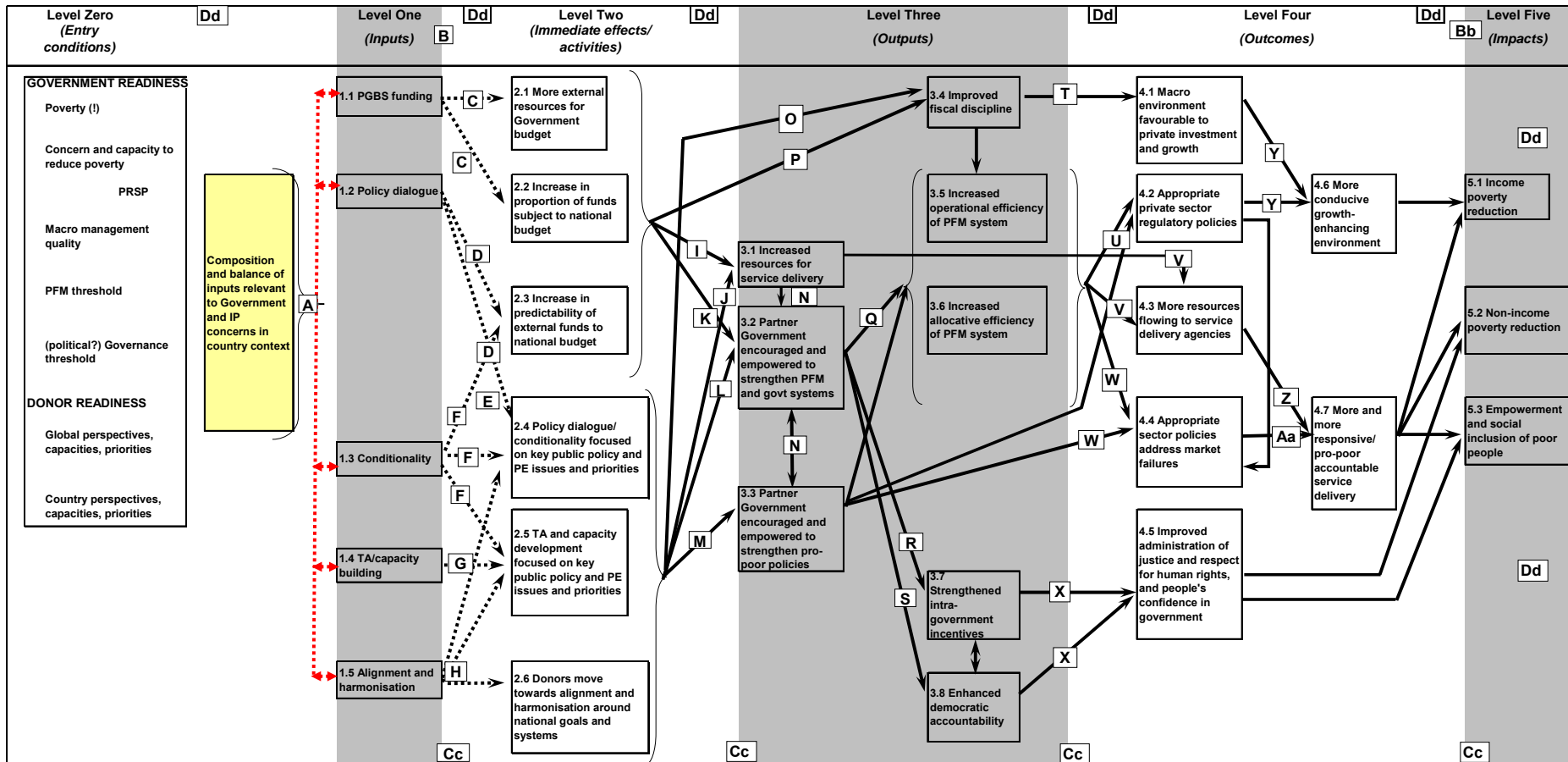
Note: this assessment is based on a review of secondary sources, not on a rigorous application of the PEFA diagnostic criteria; scores are indicative, with a moderate level of confidence.

## **ANNEX 5: SUMMARY OF CAUSALITY FINDINGS**

1. In the “Key to the Causality Map” (Figure 5.1), links between elements at the different levels have been “keyed”. The findings related to each link and PGBS effects on this link are recorded in Table 5.1 “Causality Map: Summary of Causality Findings” in an entry which refers to the “key” of the link on the map. Each entry in the table also indicates the chapters in which related findings are to be found (mainly in the “Principal Causality Chain” section of the chapters in Part B).

2. A few cross-cutting features affecting potentially all the causality chains have been “keyed” too, namely feedback loop and transaction costs. Corresponding entries in Table 5.1 present an overview of how these features have affected the causality chains and PGBS effects on these.

Figure 5.1: Key to the Causality Map



**Table 5.1: Causality Map – Summary of Causality Findings for Nicaragua Findings**

<b>A</b>	<b>Level 0 → Level 1</b> <i>The design and its relevance.</i>
	Design gradually more relevant to country policy but still affected by not adopting appropriate corrective measures for high political and institutional risk and by heavy use of conditionality in an old style. All inputs are present. Significant flow of funds started only in 2004; no other important disbursement occurred in 2005 by the end of the evaluation. Policy dialogue was in place before the other inputs, as continuation of HIPC dialogue. TA clearly associated but mostly used to pay staff in the GON in positions relevant to PGBS. PGBS is used along with other aid modalities but not necessarily in a complementary way. [B1]
<b>B</b>	<b>Level 1 → Level 2</b> <i>Overview of inputs to immediate effects</i>
	Main effects in terms of policy dialogue and alignment with the support provided to the President Bolaños (in 2003–04) and the adoption of the PND as reference point with the JFA in 2005. Flow of funds limited and late in evaluation period. TA just started but since the beginning focused on key PFM and sector issues. Donor harmonisation, started with HIPC and the FSS has been formalised in 2005 with inclusion of the different IPs under the same JFA umbrella. Only IADB and IMF participating in HIPC/FSS do not participate directly in the JFA. [B1, B2]
<b>C</b>	<b>1.1 → 2.1</b> <i>PGBS effect on total external resources and the proportion of funds subject to the national budget.</i>
	No major effects on total external aid since PGBS is more in substitution of project aid. Though PGBS represents between 11% and 15% of total ODA and 100% of loans and 80% of grants are registered in the CUT, only about 20% of ODA is fungible with GON domestic resources. [B1, B3]
<b>D</b>	<b>1.2/1.3 → 2.3</b> <i>Effects of dialogue and conditionality on predictability of external funding to the budget.</i>
	Though flow of funds increased substantially, its predictability has so far not been achieved since the assessment of key principles of partnership delayed disbursement and reduced its amount. [B3]
<b>E</b>	<b>1.2 → 2.4</b> <i>Increased focus of dialogue on key public policy and expenditure issues.</i>
	Dialogue on key policy and expenditure issues was already high in the context of HIPC and of the PRGF. PGBS is framing it in the context of the PND and of national mechanisms for sector policy coordination, and enlarging the dialogue to other donors and ministries outside MHCP. [B1, B2]
<b>F</b>	<b>1.3 → 2.3/2.4/2.5</b> <i>Influence of conditionality on predictability of funding, on focus of dialogue, and on TA/CB.</i>
	Negative assessment of key principles and unclear link between assessment and level of disbursement has reduced predictability of funds. The focus on macroeconomics and PFM in the conditionality, following the PRSC model, leads also in the use of TA/CB. [B1]
<b>G</b>	<b>1.4 → 2.5</b> <i>PGBS immediate (direct) effect on TA/CB</i>
	There is important TA/CB clearly linked to PGBS, but other significant TA effort in areas covered by PGBS reforms is outside the JFA framework, particularly IADB TA. TA covers mainly PFM aspects and is focused at core government level, mainly MHCP and SECEP. [B1]

<b>H</b>	<b>1.5 → 2.4/2.5/2.6</b> <i>Moves towards harmonisation and alignment with national goals and systems, reflected in dialogue and TA/CB work.</i>
	Strong effects on H&A with the signature of the JFA: it includes a single mechanism of performance review and a single performance matrix both accepted by 9 among the more important donors in the country. The JFA explicitly foresees the use of national systems and it is aligned to the nationally developed poverty reduction strategy (PND) and indicates among its aims the increase of H&A. However, potential JFA effects on H&A process at national level are reduced by the fact that IADB, JICA, USAID are outside the framework. [B2].
<b>I</b>	<b>2.1/2.2/2.3 → 3.1</b> <i>Increased resources for service delivery (flow-of-funds effects)</i>
	Pro-poor expenditure has increased and PGBS represents about 10% of it in 2004. But there is no evidence of increased resources for service delivery due to PGBS. HIPC resources to pro-poor service delivery are more than the total of PGBS funds. In education PGBS funds have substituted funds of completed projects. [B3, B7]
<b>J</b>	<b>2.4/2.5/2.6 → 3.1</b> <i>Increased resources for service delivery (dialogue/TA/H&amp;A effects)</i>
	PGBS conditionality related to service delivery (education) do not include minimum share of expenditure for the sector, but do include process indicators that have direct budget implications (i.e. more schools into the participatory and decentralisation system). Overall PGBS conditionality only establishes a minimum % of total pro-poor expenditure over GDP. Though the share of public expenditure (PE) for education sector has decreased since 2002, in 2005 it has moved to 16% of PE and it is expected to be kept at this level for the next 5 years. It is not clear to what extent this is due to PGBS, as other factors such as the readiness of a SWAp and a common work plan, and the existence of SBS could have influenced this new figure. [B3, B7]
<b>K</b>	<b>2.1/2.2/2.3 → 3.2</b> <i>Dialogue/TA/ H&amp;A effects on empowerment to strengthen PFM etc</i>
	No effects observed yet. The high number of indicators framing the assessment of GON in the use of the JFA funds and the still strong policy conditionality on macroeconomic/finance management issues demonstrates that there is still some tension between GON ownership of the process and IP dominance of the relationship. [B3, B4]
<b>L</b>	<b>2.4/2.5/2.6 → 3.2</b> <i>Flow-of-funds effects on empowerment to strengthen PFM etc systems</i>
	Discretion in the use of resources is limited by constitutional earmarking which has not yet been tackled by PGBS, and other types of earmarking in favour of sectors. [B3, B4]
<b>M</b>	<b>2.4 → 3.3</b> <i>Dialogue encourages and empowers strengthening of pro-poor policies</i>
	Positive link because PGBS supports the nationally developed PRS, but general definition of pro-poor expenditure may create problems. Empowerment in the definition/strengthening of pro-poor policies limited by the number of indicators in relation to sector policies, showing a strong influence of donors on the policy content. [B5]
<b>N</b>	<b>3.1 → 3.3</b> <i>PGBS funding encourages and empowers strengthening of pro-poor policies</i>
	PGBS is continuing pro-poor policy emphasis started by HIPC but with limited funding so far (see I above).
<b>O</b>	<b>2.2 → 3.4</b> <i>Non-flow-of-funds effects on fiscal discipline</i>
	This is part of the PRGF conditionality. The fact that PGBS refers to IMF programme for the assessment of the appropriate macroeconomic environment creates indirect effect of PGBS dialogue on fiscal discipline. [B6]
<b>P</b>	<b>2.2 → 3.4</b> <i>Flow-of-funds effects on fiscal discipline</i>
	The government includes in the budget only secured funds. Withholding of funds in the short period has resulted in reduction of activities, but not in new borrowing since external funds are covering mainly capital expenditure and there is a strong fiscal discipline linked to the programme with IMF. Nevertheless, it is too early to use the experience of 2005 as solid evidence of a clear effect. [B6]



*Annex 5: Causality Map – Summary of Causality Findings*

<b>Q</b>	<b>3.2 → 3.5/3.6 PFM empowerment of government → improved allocative &amp; operational efficiency</b>
	Reforms in PFM have improved registration of ODA on the budget and tracking system of PE, but only continued by PGBS not launched by PGBS. The link between SNIP (planning) and SIGFA (expenditure) through a MTEF is still to be done. Key semi-autonomous institutions (FISE, IDR) managing important parts of pro-poor expenditure, are not included in SIGFA and still negotiate bilaterally with the donors. Allocative and operational efficiency is more affected by the fact that aid is 80% project aid and by the autonomous behaviour of certain institutions than by the progress in PFM. [B3, B7]
<b>R</b>	<b>3.2 → 3.7 Government empowerment to strengthen systems → stronger intra-government incentives</b>
	There is positive effect of PGBS on intra-government dialogue via support provided to mechanisms of intra-ministry dialogue (such as roundtables) and creation of SWAps. However these effects are weakened by the still important practice of certain institutions to dialogue directly with donors over their own financing. At local level, intra-government incentives are still very weak. [B4, Annex 6A]
<b>S</b>	<b>(2.2 →) 3.2 → 3.8 Government empowerment to strengthen systems → enhanced democratic accountability</b>
	No major effect yet, except for the fact that NA and civil society organisations have possibility to access SIGFA and track PE use. More information, but not yet more accountability, particularly at local level. [B4, Annex 6]
<b>T</b>	<b>3.4 → 4.1 Link from fiscal discipline to growth-enhancing macro-environment.</b>
	No effects related to PGBS but rather to PRGF and the related package of laws approved 2005. [B6]
<b>U</b>	<b>3.3/3.5/3.6 → 4.2 Better PFM system and Government empowered to strengthen policies → Appropriate private sector regulatory policies</b>
	No evidence yet. Many policies foreseen within the PND, but this is the area where less progress has been made in the last period. Some of the conditions of PRGF also refer to the regulatory framework for private sector development. [C2]
<b>V</b>	<b>3.1/3.5/3.6 → 4.3 Increased resources for service delivery and better PFM → More resources flowing to service delivery agencies</b>
	(Education) The service delivery decentralisation policy supported by PGBS brings more resources to schools Funds to the service delivery agencies are limited by the constitutional earmarking and unit cost in primary education is still the lowest in Central America. [B7]
<b>W</b>	<b>3.3/3.5/3.6 → 4.4 Better PFM system and Government empowered to strengthen policies → Appropriate sector policies address market failures</b>
	Weak link: sector policy such as education was already elaborated when PGBS started. PGBS involved in the implementation, but only on one specific issue. Other policies such as rural development, land rights are included in the PGBS dialogue and PGBS IPs strongly involved in the elaboration of their content, but the policies are not yet finalised. [B5]
<b>X</b>	<b>3.7/3.8 → 4.5 Government incentives/democratic accountability → people's confidence in government, administration of justice and human rights</b>
	No improvement seen yet in this area which has been worsening since starting of PGBS. It is too early to see effects due to PGBS. [C1,C5]
<b>Y</b>	<b>4.1/4.2 → 4.6 Influence of macro-environment and private sector policies on environment for growth</b>
	No effects yet. [B5, B6]

<b>Z</b>	<b>4.3 → 4.7</b> <i>More resources reach service delivery agencies → more &amp; more responsive pro-poor service delivery</i>
	(Education) Increased responsiveness is not so far due to increased resources since the education sector received more resources only starting from the 2005 budget. In any case, more responsiveness to the poor would be limited as an effect of PGBS since PGBS directly targets decentralisation of education which deals only with some aspects of relevance for the poor. [B7]
<b>Aa</b>	<b>4.4 → 4.7</b> <i>Influence of sector policies on pro-poor service delivery</i>
	(Education) Weak effect, but it is too early to have comprehensive evidence: Where the policy existed for pro-poor services, such as in education, PGBS support has not particularly focused on pro-poor measures (improvement of school management, but not of access of the poorer). Other policies are under development. Though the PAM includes several sector indicators they show limited emphasis on tracking effects on the most vulnerable groups. [B7]
<b>Bb</b>	<b>Level 4 → Level 5</b> <i>PGBS outcomes → poverty impacts</i>
	No effects yet attributable to PGBS. [B8]
<b>Cc</b>	<b>(all levels)</b> <i>Transaction Costs</i>
	Reduction of costs related to identification up to negotiation of PGBS and aid management but new costs arise in this early phase linked to consensus building, negotiation over disbursement of funds, more complex monitoring and evaluation. [C4]
<b>Dd</b>	<b>(all levels)</b> <i>Feedback</i>
	PGBS review mechanism is potentially an important improvement in terms of performance assessment, but there is significant scope for further improvement of the system, and there is need to link it better to the national system for development monitoring. [B9]

## ANNEX 6: INSTITUTIONAL CONTEXT

### Annex 6A: Decentralisation

#### Introduction

1. This annex provides a brief background on decentralisation in Nicaragua. It draws on document review, on a meeting with the central government body charged with strengthening local government (the Municipal Development Institute – INIFOM) and on field visits to four municipalities in two departments (Chontales and Boaca). These included discussions with municipal mayors elected in November 2004 for a four year term of office.

#### Administrative framework

2. Nicaragua has a long history of centralised governance and local government has relatively weak roots. For administrative purposes, the national territory is divided into 15 departments, 2 autonomous regions of the Atlantic Coast (with regional councils, consisting of 45 members, serving as mini-legislatures on the Atlantic coast) and 153 municipalities. Decentralisation features prominently in the government's PRS and there was work under way in 2005 to develop and strengthen the functions of both departments and municipalities.

3. The 153 municipalities responsibilities are only vaguely defined by the Local Government Law (Ley de Municipios, No 40 of 17 August 1988). The first democratic local government elections did not take place until 1996. A decentralisation process emerged from the late 1990s and has been actively supported by bilateral donors, especially Denmark.

4. The Municipal Development Councils (CDM – Comité de Desarrollo Municipal) are corporative bodies designed to promote local development efforts and have the key task of preparing a municipal development plan. Their members include the municipal mayor, business and community representatives and local officials of major line ministries such as health and education.

#### Fiscal decentralisation and local responsibilities

5. Following a decade of lobbying, in 2003 a central government financial transfer to local government was introduced for the first time, starting at 4% of fiscal revenue in 2004, raised to 6% in 2005, and rising to a maximum of 10% by 2010 or earlier.<sup>26</sup> A representative study of 29 municipalities found that in 2004 this intra-government fiscal transfer accounted for 20% of total municipal revenue (GTZ 2005). The financial transfer is allocated between municipalities according to a formula that incorporates three main variables – population size, relative poverty and local revenue-raising effort. This financial transfer is not earmarked and its introduction was not accompanied by any corresponding transfer of new responsibilities to local government. The IMF and WB have expressed growing concern that this lack of vertical fiscal neutrality will have a negative impact on the overall fiscal balance.

6. The funds are transferred monthly and are monitored by the SIGFA system through Transmuni. This is an Internet-linked database through which municipal finance directors

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<sup>26</sup> Ley de Transferencia Municipales (Ley 466).

confirm that a required minimum of 65% of the monthly transfer has been disbursed, thereby justifying the transfer for the following month. In addition, SIGFA has trained 35 auditors to carry out external audits on behalf of the National Audit Office in 120 municipalities during 2005 that will examine the utilisation of the financial transfers.

7. Since GBS increases central government's revenues, it will also increase the amounts required to be transferred to municipalities.

### **Poverty focus of municipal expenditure**

8. In spite of growing intra-government fiscal transfers, local government service delivery responsibilities have not been increased. Municipalities do not even have responsibility for the maintenance of physical infrastructure for basic education and primary health care (See Annex 6B for more on the management of basic education). In rural municipalities, service delivery activities remain limited to core functions such as waste collection and disposal, civil registration, street lighting, and pavements. These activities remain highly concentrated in the urban headquarters, *cabecera*, of the respective municipality, where average incomes are invariably higher than in the surrounding rural areas.

9. Despite the considerable increase in total municipal revenue generated by the new fiscal transfer system, a representative study of 29 municipalities found that in 2004 70% of investment projects were concentrated in urban areas. The study was unable to identify any rural investment project that increased rural employment and agricultural productivity (GTZ 2005). Virtually all new investment in all municipalities that were visited was concentrated in the *cabecera* – particularly street paving and latrine construction. There was hardly any evidence of a 'pro-poor' focus to the allocation of municipal expenditure, the sole exception being the sale by a municipality of subsidised seed to farmers and the payment of a small number of teachers' salaries by two municipalities. The attitude of most municipal staff was that poverty-reduction remained primarily and central government responsibility.

### **Local government planning, budgeting and fiscal management**

10. Financial management procedures in local governments have improved since the mid-1990s. However, in spite of strong donor support, considerable untapped potential remains for local revenue generation in almost all municipalities. The main reason for this is the weak effort in collecting urban and rural property taxation, impuesto de bienes y inmuebles (IBI), which is the main source of local revenue. In several municipalities visited by this GBS study team there was no collection at all of rural property tax. In most others municipal leaders freely admitted that there was gross under-registration of the size of landholdings, resulting in a very low tax yield. Collection of urban property taxation was better in some municipalities but again several municipal leaders expressed great 'difficulty' in collection. In the case of both rural and urban property tax, municipal leaders invariably stated that their ability to collect the tax was constrained by the absence of a property tax. Yet there was little evidence that municipal leaders regarded the implementation of this tax as a priority activity.

11. A second source of untapped local revenue is a betterment tax. In several municipalities visited, urban property owners were receiving a windfall benefit – in the form of an increase in the market value of their property – from the paving of streets outside their homes as a result of an investment project financed by FISE or IDR. However, in no case did the municipality have plans to recoup some of this financial benefit in the form of a betterment tax. Given this marked reluctance of municipal leaders to increase local revenue from rural and urban property taxation, there is a danger that the inter-governmental fiscal transfers will contribute to the disincentive for local revenue generation.

12. In all municipalities visited, local leaders expressed a strong view in favour of the integration of the various central government local investment programmes – FISE, IDR, Ministry of Environment and Natural Resources (MARENA) and INIFOM – each of which has a different reporting system – into a single fund. They argued that this would greatly reduce the transaction costs for municipalities in accessing funding from central government for investment projects. FISE has recently introduced a classification system whereby high-performing municipalities may ‘graduate’ to a category of *municipios descentralizados*, whereby it grants them greater powers to allocate and manage the use of investment funds. In line with central government concerns over fiscal neutrality, both FISE and IDR now require a growing degree of co-financing of investment projects with local governments.

### **Role of line ministries**

13. The involvement of line ministries in the operation of the Municipal Development Councils (CDMs) remains limited. These corporative bodies are designed to encourage cross-sector linkages and ties between local and central government for improving local level governance. There is no explicit representation of the urban or rural poor on the CDMs. Although usually chaired by the municipal mayor, the CDMs were moribund in several municipalities visited, again suggesting the absence of a strategic municipal leadership over local development. The CDMs are supposed to be involved in drawing up the annual Municipal Investment Plan (PIM – Plan de Inversión Municipal). However in most municipalities visited, the PIM for 2005 had either not been drawn up or had been written by the municipal mayor without the involvement of the CDM. In contradiction of the national guidelines for the PIM, which are supposed to have a poverty reduction focus, the allocation of investment in the PIMs that were studied by INIFOM in 2005 gave priority to the urban centres.

14. Until recently central government investment activities in rural municipalities were carried out without any strong involvement by local government. The Municipality of Villa Sandino, Department of Chontales, was one of eleven municipalities where the IADB financed an USD 11m poverty focused project to support the Implementation of the ERCERP, *Programa de Apoyo a la Implementación del ERCERP* (PAI). Municipal leaders alleged that sector ministries worked separately from the municipal authorities for political reasons and that consequently the selection of beneficiaries was politically determined, undermining the original anti-poverty objectives of the PAI. However, in the Municipality of San José de los Remates, Department of Boaco, FISE had involved local communities in the decentralised management of small-scale investment projects financed by the IADB, an initiative known as *Proyectos Guiados por la Comunidad*. Nevertheless, these projects were confined to street paving in the urban cabecera.

### **Decentralisation and Poverty Alleviation**

15. There is a strong a priori case that increased fiscal transfers to local government will not have a significant effect in switching the municipal expenditure profile in a pro-poor direction. First, there appears to be no pressure from central government to push municipal leaders to spend the fiscal transfers in a ‘pro-poor’ direction. Unlike elsewhere in Latin America, there is absolutely no earmarking of these funds. The only ‘regulatory’ role exercised by central government is that the municipality must demonstrate that it has spent at least 65% of the monthly disbursement before the disbursement for the following month is approved. At present there appears to be little attempt by central government to evaluate the efficiency, equity and effectiveness of the use of these fiscal transfers to local government.

16. Second, the ‘urban’ focus of municipal expenditure reflects the prevailing power structure at the local level. In almost all municipalities visited by the GBS study team control of the municipality was retained by local elite families, whose wealth derived from coffee production

and/or cattle-ranching. Municipal leaders expressed no strong desire to assume new responsibilities in the key sectors – basic education and primary health care – that have most impact on poverty reduction.<sup>27</sup> Municipal authorities invariably justified this lack of social engagement on the convenient grounds that the current municipal legislation did not allow them to do so. Municipal leaders expressed the view that poverty reduction was a central government, not a local government, responsibility.

### **Aid and decentralisation**

17. Donors have provided extensive capacity building to local government over the decade to 2005, much of which has been channelled through INIFOM. However, there are strong indications that the long-term benefits of this effort have been severely reduced by extremely high staff turnover. For example, following the November 2004 elections, overall LG staff turnover reached 80% in the Departments of Matagalpa and Jinotega and some three quarters of the finance office staff of all municipalities in the country were similarly removed from office. On 1 June 2005 a new municipal career law, *Ley de Carrera Administrativa Municipal*, officially came into operation although there remains much doubt with regard to the financial capacity of the GON to enforce it.

18. TA to the decentralisation process since the mid-1990s has been considerable but it has operated outside the framework of the introduction of PGBS. The major bilateral donor that has supported the capacity-building decentralisation process to date (DANIDA) and the major bilateral donor that has provided physical infrastructure support to local government (Japan) are not signatories to the JFA.

19. The linkages between the SWAps in the education and health sectors and decentralisation policy are weak. This reflects the fact that local governments play a minimal role with regard to service delivery in general, and education and health in particular. The only exception is a pilot project for decentralisation of basic education in 20 municipalities (see Annex 6B on education).

20. PGBS began only in 2004 and hence its contribution to the decentralisation process to date has been minimal. In the future, by financing the central government budget, PGBS will indirectly finance municipality budgets through the earmarking of up to 10% of central government revenue to the municipalities.

21. Decentralisation does not figure prominently in the Performance Assessment Matrix (PAM) of the JFA for PGBS. The only decentralisation indicator appears under 'public finances'. This requires the executive to ensure greater vertical fiscal neutrality by transferring new expenditure responsibilities to local government in line with the increase in the volume of intra-governmental fiscal transfers.

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<sup>27</sup> The only exception was the Municipality of Villa Sandino, Department of Chontales, where the municipality funds the salaries of 14 out of 148 teachers (2005).

## Annex 6B: Service Delivery for Basic Education

### Introduction

1. General Budget Support potentially influences the whole range of public services. For practical reasons, the evaluation needs to be more narrowly focused. The evaluation questions that relate to service delivery are addressed with special reference to the education sector (with a secondary focus on health). This Annex provides background information to support the analysis of chapter B7 in particular. Education (basic education in particular) was selected because:

- a) It features strongly in the MDGs and in GON's anti-poverty strategies.
- b) The PGBS donors have a history of support to the sector and a continuing interest in its performance.<sup>28</sup>
- c) It is a focus for joint action by donors and government: there is an education sector policy complemented by an implementation plan agreed with donors (CWP 2005–2008) in the framework of a SWAp and an estimation of the financing needs to achieve the MDGs targets set in the PND-O.
- d) The education sector will be one of the pilot sectors included in the MTEF as from 2006.
- e) There has been a fiduciary risk assessment of using the systems for procurement and aid management of the MECD.
- f) It provides insights into decentralised service delivery.

2. The evaluation team focused in particular on the long-standing participatory education system and on the more recent municipal decentralisation of basic education. These were reviewed during the team visits to the departments of Chontales and Boaco between 30<sup>th</sup> May and 3<sup>rd</sup> June 2005.

### Sector Finance, Planning and Coordination

3. Like other sectors, basic education is funded by a multitude of donors, only a few of which belong to the BSG. Some of the costs, such as infrastructure, are not fully covered by the MECD budget, but are included also in FISE budget, or are directly taken on board by the municipal budgets through transfers, own resources or NGOs or direct contact with donors.

4. In 2004 MECD presented the Common Work plan (CWP) for the period 2005–2008 structured with actions, costs and financing needs, indicators of results and targets to be achieved. This CWP is based on three policy strategic lines:

- Structural change to increase the relevance of education.
- Expansion of education, with emphasis on stimulating demand for education and increasing the quality and equity of the education available.
- Institutional reform based on the principles of democratisation and efficiency.

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<sup>28</sup> Participatory education has been supported by the WB since the first programmatic credit, the PSAC. The PRSC includes for both tranches the extension of this regime as a triggering indicator. The EC PAPSE foresees, at least in its original formulation, the full 2004 tranche to support the education decentralisation process. The JFA PAM includes the PRSC indicators among the undertakings for 2005.

5. In the same year MECD, with the support of the donor community, prepared the first annual operational plan (POA). It is based on the CWP and includes:

- The activities foreseen under each of the above-mentioned policies.
- The yearly targets for the agreed indicators.
- The funds allocated to each activity with the source of funding.
- When the activities will be carried out, and which is the responsible directorate within MECD.

6. There will be quarterly monitoring in the framework of the sector table meeting. It is important to mention that for the first time the POA presents the yearly budget by activities in the framework of an agreed policy, combining national and external funds, rather than by projects funded by the different donors, as in the national budget.

## **Basic Education and Reforms**

### *Situation*

7. According to the state of education published in 2004 by the MECD (Porta et al 2005) there are about 800,000 children outside the education system. Based on the 1998 Living Standards Survey (INEC 1998), the MECD calculated that the reasons for absence from schools (at pre-school and primary levels) are mainly economic (about 50%), and lack of schools (17%). At secondary school level, economic (34%) and occupation in economic or household supporting activities (30%).

### *Autonomous schools*

8. In 1993 Nicaragua introduced a radical reform of basic education, unique in Latin America, based on the regime of 'autonomous schools'. This involves the deconcentration of responsibilities from the Ministry of Education to school directors and delegation to parents. This regime acquired legal status in 2002 under the Participatory Education System law, a triggering indicator of the WB PSAC.

9. Several studies carried out on the regime of the autonomous schools<sup>29</sup> indicate a limited incidence of this system on quality of learning; there was very little difference from other public schools, where generally learning, tested on knowledge of Mathematics and Spanish, is basic for the majority of students. Quality depends on the leadership of the directors, type of management and quality of the teachers (Arcia et al 2004a). On the other hand, the drop-out and repetition rates were lower for autonomous schools than for centrally administered ones over the total period covered (Arcia et al 2004b).

10. It is generally agreed that the autonomous school system has led to improved effectiveness in the management of the schools. The school receives the total budget and can administer it flexibly, responding to needs. Teachers have also benefited, because they can get their salary directly from the school, reducing the time and costs usually associated with the payment through the MHCP. On the other hand, school head-teachers are required to spend a considerable part of their time for management and financial issues, leaving little room for pedagogical support and monitoring of teachers' performance, especially in rural areas where schools are isolated and school teachers have to move on foot or by limited public transport.

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<sup>29</sup> See for instance the reports included in the MECD publication on the state of education in Nicaragua for 2004.



11. The school budget is calculated following a formula that relates to the number of enrolled students. This has resulted in higher enrolment, as directors and head teachers pay more attention to registering and keeping more children in their schools to increase their budget. Also, teachers receive economic incentives based on the number of students registered everyday, based on the assumption that children will go more often to school if their teacher is attending regularly and punctually. However, the current absence of monitoring and audit system from the central office of the MECD, has also led to several cases of enrolment of ghost children. There is room for irregularities because school heads are not able to visit all schools regularly and parents are not always in a position to exercise the monitoring function over the teacher.<sup>30</sup> As teachers' salaries have to be paid out of the capitation fee, there is an implicit incentive to employ teachers without formal training or with little experience to contain costs.<sup>31</sup> The use of a fixed capitation fee has been recently accused of discriminating against rural areas. Due to the distances involved, rural schools cannot attract so many students, resulting in a budget for the schools insufficient to pay the teachers. In May 2005 the National Association of Teachers complained that the capitation fee, of 91 Córdoba per student is not sufficient to allow regular payment of the teachers' national security contribution (La Prensa 13 May 2005).

12. The model of the autonomous school foresees a strong parental and student participation in the school management through representation on the local school management committee. This model should increase the parents' participation and responsibility for their children's education, thus improving attendance, but also leading to a better relationship based on partnership and accountability between the teachers and the parents. This on one side should improve the teachers' motivation and ensure their performance despite the difficult working conditions, and on the other side allow the parents to supervise the teachers and have a direct say in the activities carried out by the school.

13. In 2001 an evaluation of the system was carried out to assess in particular the dynamic of the school council and the parents' participation (Ascencio Florez et al 2001). Some of the conclusions of the study on the mechanism of the school government are:

- Parents rarely monitored the teacher's attendance.<sup>32</sup>
- Teachers have great influence within the school government and were the main promoter of activities.
- The autonomous school programme has not achieved its principal objective: that parents can determine the type of education that their children received, and that the government respects the parents' will and fulfils its obligation to provide the necessary resources for public education. Government has had a primarily financial-administrative focus regarding the reform.
- Regarding economic sustainability, in the medium term a new strategy may be needed.
- There is little interaction between the school and the other actors at local level that could participate in the educational community; the director's style has a big influence on the extent of participation and it is therefore important to invest in democratic leadership and capacity building.

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<sup>30</sup> Some of these points were confirmed during the field visits. Interviews with respondents operating in the sector and with representatives of the civil society have also indicated that the regime of the autonomous schools has improved the school administration, but not yet the quality of the education.

<sup>31</sup> Unqualified teachers are reported to be 30% of the primary and secondary school, while teachers have maximum 10 years on average of working experience (Arcia 2003).

<sup>32</sup> This was confirmed also in the visits to schools carried out in the field visits in the districts of Boaco and Chontales. Parents met were usually in a subordinate position compared to the teachers and showed little understanding of their duties, responsibilities and rights within the process and the implication of these for the quality of the service.

14. With regard to the role of the parents, during the field visit, interviews with the representatives of the parents confirmed the variety in the parents' participation and in their knowledge of the use of funds that the school receives and of the school costs. In some of the schools, the parents indicated high satisfaction with the participatory regime, giving them an increased opportunity to follow their children's progress, and also to dialogue with teachers and the mayor. All the schools visited reported the practice of "voluntary" contributions<sup>33</sup> for recreational activities or to celebrate special days. In some of the schools parents needed to contribute for textbooks and school materials, in others these were provided through projects with international NGOs (like Plan International).

#### *Municipal decentralisation*

15. Within the 'autonomous schools' programme an element of municipal involvement has been introduced since June 2004. The Education Municipalisation scheme began in 21 municipalities (14% of all municipalities), and included all six municipalities in the Department of Boaca. Under this scheme, municipalities will receive operational responsibilities and some other more substantial ones (such as possibility to change the curriculum) in addition to transfer of funds. Prior to the transfer of funds, municipalities have to sign an agreement with the MECD which includes the acquired responsibilities and also the indicators to be monitored and the targets to be achieved. According to the CWP 60% of municipalities should work under this decentralisation by 2006 and 100% by 2008.

16. Under this pilot project, the representative of the MECD at the municipal level, known elsewhere as the *Delegado Municipal de Educación*, is seconded to work inside the local government structure. Known as the *Secretario Técnico de Educación Municipal*, the salary of this official is still paid by the MECD, but s/he is effectively appointed by the municipal mayor. In two municipalities visited, the incoming mayor had appointed a new Secretario Técnico on patronage criteria. This suggests that 'educational decentralisation', as understood in Nicaragua, risks undermining the professional content of local pedagogic support, which is the main function of this official, and whose sole allegiance has previously been to the central MECD.

17. The only significant change resulting from this experiment to date is that the Department of Boaco has altered the school timetable to minimise absenteeism during the coffee harvest. There are also plans to change the school curriculum to reflect the training needs of the agricultural economy, which are under-represented in the national curriculum. Surprisingly, the experiment has not seen a move towards municipal involvement in the more 'traditional' role of monitoring and maintaining school buildings. This issue was never raised in discussions by municipal leaders. One possible reason for this is that the standard of construction (roofing, floors and latrines) and level of equipment (whiteboards, books and educational toys) of the rural schools visited was far above that found in most other countries in Latin America except for Chile. All of these schools had been rebuilt in the past ten years thanks to donor funding – either channelled through FISE or directly by bilateral donors, such as Japan and Germany, and international NGOs such as Plan International.

18. Another possible reason is the absence among the municipal authorities of any commitment towards increased engagement in 'pro-poor' service delivery (see the discussion in Annex 6A). The overall objective of this experiment in the educational decentralisation is to strengthen the commitment of local government as part of a wider pro-poor commitment. Yet,

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<sup>33</sup> A recent survey carried out on a representative sample of households by the Nicaraguan NGO *Ética y Transparencia*, shows that there is a widespread use of "voluntary charging" within schools which could represent a onerous burden for poor families and potentially affect school retention and attendance rate.

as shown above, the substantive content of the pilot project is limited to pedagogic supervision and support. Although it is early days, there is no evidence that the municipalities involved are devoting a larger share of their expenditure to basic education.



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