

Independent Evaluation of SDC's Bilateral Engagement in the Poverty Reduction Strategy Paper (PRSP) Process

Part 2: Case Studies

NICARAGUA

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2 April 2003

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1 Introduction

The Nicaragua case study is part of larger effort to evaluate SDC's involvement in the processes of elaboration of Poverty Reduction Strategy Papers (PRSPs).

SDC has commissioned an independent evaluation of its bilateral engagement in PRSPs. The evaluation is being carried out by Judith Randel and Tony German of Development Initiatives (UK) www.devinit.org and Richard Gerster and Sonja Zimmerman of Gerster Consulting (Switzerland) www.gersterconsulting.ch.

The evaluation comprises three major elements:

- An SDC-wide survey of SDC's experience of PRSPs to date;
- Case studies in four SDC partner countries (Kyrgyz Republic, Burkina Faso, Nicaragua, Vietnam) to look in detail how SDC, government, other bilaterals, multilateral agencies, NGOs and civil society interact on PRSP processes;
- A synthesis report, prepared based on the survey and the case studies, making recommendations to SDC on how to improve its role in the PRSP processes.

The **terms of reference** for the overall evaluation are described in SDC's approach paper. Concerning the case studies the approach paper mentions more specifically

- Detailed case studies of SDC engagement in the PRSP process in Nicaragua, Vietnam, Burkina Faso and the Kyrgyz Republic consisting of interviews with key actors, surveys of processes, interactions, results achieved and lessons drawn based on the key questions. Identification of successes and shortcomings. Interpretation of key determinants (analysis), recommendations.
- Interviews with similar bilateral donor COOFs in the four case study countries to determine what other similar donors are doing. Review of readily available information on donor practices in the PRSP context. Comparison with SDC activities and recommendations.
- End-of-Mission Workshop in each country conducted by the evaluator with the SDC evaluation officer, COOF staff, government representatives, NGOs, and representatives of like-minded donors.

In the **case of Nicaragua**, the evaluation was carried out by:

- Tony German (UK), partner in Development Initiatives (www.devinit.org)
- Professor Arturo Cruz-Sequeira of INCAE, Managua.

The **methodology** of the evaluation in Nicaragua was as follows:

- Preparation of the evaluation by analysis of relevant project documents and related studies (see references in Annex 2).

- A series of interviews in Nicaragua conducted between February 10 and 14, 2003. Interviewees included government Ministers and officials, representatives from civil society, bilateral donors and multilateral organisations, COSUDE staff, and individuals with a depth of perspective on Nicaragua's economic and political situation (see Annex 3). SDC staff were not present during the interviews.
- An end-of-mission workshop took place on February 15, 2002, with a presentation of preliminary findings by the evaluators to interview partners, SDC staff and other interested participants, providing feedback to the analysis and observations brought forward by the evaluation team. Fourteen representatives of Government, SDC, other donors, Swiss as well as local NGOs attended (list of participants in Annex 4).

Executive summary

Whilst recent years have seen Nicaragua making significant progress in the transition to political stability and modest economic growth, it remains a Low Income Country which is heavily dependent on aid and which faces major economic, social and political challenges.

GNP per capita at \$420 is very low. Around 46% of the population are below the poverty line and 15% of the population lives in extreme poverty. Income inequality is very marked. A fifth of the population lacks safe water and the same proportion of children are not in school. Whilst Nicaragua may compare well with some other countries in Central and South America in the position of women at an institutional level, women and girls remain vulnerable within the household and community.

Hurricane Mitch in 1998 is the latest reminder of Nicaragua's extreme vulnerability to natural disaster including earthquakes.

Whilst Nicaragua enjoyed a decade of growth in the 1990s, figures for 2002 show growth slowing to 1%. The Nicaraguan economy is heavily dependent on agriculture, which makes up over a third of exports. Coffee earnings (23% of export value) fell by about 38% between 2000 and 2001. Negotiations on the development of the Central American Free Trade Area (CAFTA) bring into sharp focus the issue of how Nicaragua's many small-scale producers can be articulated with a globalising economy.

Nicaragua has very large internal and external debts - though it is scheduled to receive HIPC relief during 2003. Overall the government faces a major challenge in trying to finance social spending whilst making the public investments needed to sustain growth.

The government of Mr Enrique Bolanos, which came to power in late 2001, has impressed donors with its commitment to address governance issues, including corruption. But Nicaragua's government has limited capacity and many challenges remain in terms of institutional reforms of the kind that will help to attract investment - and of the kind that will improve the accountability and effectiveness of institutions at department and municipal level.

The process of producing Nicaragua's PRSP was rather long and quite controversial. The process around the Interim PRSP was criticised for being rushed and flawed in its poverty analysis. Substantial effort by government, donors and NGOs to increase participation around the production of the PRSP itself were not enough to end criticism of the process and final content.

Eighteen months on from the approval of the PRSP, awareness of the document is weak even in central government and ownership is very limited, though the new government has endorsed the broad principles of the PRSP. Substantial efforts by the donor community now focus on monitoring, implementation and efforts to engage the wider community down to municipal level.

There is some evidence of the PRSP reinforcing donor interest in co-ordination, and certainly the PRSP is seen as a framework for dialogue on poverty and development issues. But given the capacity of government, substantial moves to sectoral approaches and genuinely government led cooperation are only at an initial stage. There is lots of talk but there are also some concrete steps: a cooperation forum was established in summer 2002; a presidential decree for setting up sectoral coordination round tables has been issued; the World Bank's Country Assistance Strategy foresees at least one SWAP during the 3 year CAS period; several donors, the Netherlands is an example, have made sectoral approaches explicit in their programming documents

Major themes that emerge from the overall picture are:

- The perceived weakness of the PRSP - and the view that it is all about welfare, when what Nicaragua needs is to increase productivity and growth. How to dovetail the PRSP and the government's new National Development Strategy for growth?
- Major challenges remain in increasing visibility, ownership, capacity and ensuring actual implementation both at the centre and at municipal level
- The difficulty of financing the poverty interventions that the PRSP requires in the face of Nicaragua's present economic circumstances
- Questions on participation - are there limits? How to strengthen civil society and representative democracy?
- The fact that the PRSP is important, but not the whole picture and a mechanism which evolves. This has implications for donors. They need to be flexible and creative in using the PRSP to foster local commitment to action on poverty that can be properly monitored.
- Overall Switzerland is respected for its role as a niche player and seems to be effective in making a contribution more than commensurate with the volume of aid it provides.
- SDC is an active player within the PRSP process, both bilaterally and with other donors (especially within the like minded group). In both approach and programming SDC priorities are aligning with the PRSP. It is active in transmitting local experience to Berne and Washington.

2 Context

2.1 *Nicaragua: Trends and Challenges*

Geography and political background

In order to understand the relationship between the Government of Nicaragua and external donors - and to appreciate the significance of Nicaragua's PRSP in the context of the country's development, it is important to look at Nicaragua's recent economic and political development.

Nicaragua is the largest of the six countries in Central America, bordered by Costa Rica to the South and Honduras to the North. Nicaragua's population of 5.2 million has had to endure many hardships in recent decades; repression and corruption during the Somoza regime, a short civil war followed by a decade of instability, natural disasters including earthquakes and most recently Hurricane Mitch in 1998.

After more than 40 years of dictatorship under the Somoza family, in July 1979 the Sandinista government of Daniel Ortega came to power. Throughout the 1980s, US sponsored destabilisation and mismanagement under the Sandinista government had a severe economic impact. Income per capita halved - from almost 12,000 Cordobas in 1979 (\$864) to under 6,000 (\$431) a decade later - back to the level reached in 1942. Since 1990, three presidential elections have been held, the most recent being in November 2001 when Mr Enrique Bolanos won the presidency with a convincing majority of 56% of the vote. The Parliamentary elections resulted in retained power for the Liberal Alliance with 46% of the vote, giving the party 42 seats in the 93 seat assembly, compared to 36 for the Sandinista FSLN and 15 others.

The legacy of the last 50 years means that Nicaragua's external partners have to work in a complex and highly politicised environment. Parallel with the transition to a more stable democracy, a slow transition is also occurring from traditional politics based on emotion and personality - the caudillo factor - to a more modern political approach where authority is derived from a population that is better informed and that has the chance to participate in the political process at all levels.

Economic issues

Whilst 56% of Nicaragua's population lives in urban areas, agriculture dominates the economy. In 2000 around 36% of Nicaragua's GNP was derived from agriculture, compared with 20% for Honduras and 11% for Costa Rica. Most production is in the hands of small scale producers who number between

300,000 and 350,000. Of these roughly 145,000 produce corn, 75,000 beans, 100,000 cattle/dairy and up to 50,000 coffee. Despite the numbers in farming, Nicaragua is self sufficient in white corn - and even exports some - but it imports yellow corn for animal and poultry feed from the USA where production is subsidised.

Nicaragua's main markets are the United States (38% of exports) Central America (27%) and the EU (20%). Main exports are coffee, beef, sugar and seafood. Nicaragua has not fared as well as its Central American neighbours in shifting from primary to manufactured exports. In 2000, only 8% of exports were manufactured compared to around one third in the case of Guatemala and Honduras, 48% in El Salvador and 66% in Costa Rica.

According to the Government of Nicaragua, in 2001 Nicaragua's exports amounted to \$592 millions, aid receipts were \$494 millions and remittances from migrant workers were \$336 millions. Debt servicing in 2001 stood at \$236 millions. The picture is clear: Nicaragua is currently depending on aid and remittances to bridge major financing gaps.¹

During the 1950, 1960 and 1970s, growth in the economy was 5.6%, 7.3% and 5.0% respectively. But over the decade 1985 to 1994, annual growth fell by more than 6%. Comparisons with Costa Rica show the major differences in progress that occurred between 1977 and 2000. Nicaraguan exports marginally declined whilst Costa Rica's increased more than sixfold; Nicaraguan GNP per capita is in the same range as it was in 1977 whereas Costa Rica's has more than quadrupled.

As the 1990's progressed, a combination of agricultural policy, the return of stability, high commodity prices and land availability resulted in substantial growth in the economy – growth sustained until recently by a post-Mitch reconstruction as can be seen below.

Growth in the Nicaraguan Economy				
1998	1999	2000	2001	2002 estimated
4.0%	7.4%	4.3%	3.0%	1.0%

Current challenges

Nicaragua has been successful over the past decade or so in dealing with major economic and social challenges: reducing inflation from 7000% in 1990 to 3.8%

¹ The Secretariat of Economic Relations and Cooperacion (SREC) INFORME: Cooperacion External 2001.

in 1992 is one; major demobilisation is another. But as at early 2003, Nicaragua continues to face several major economic challenges.

As noted above, the terms of trade have seen a major deterioration over recent years. Coffee for example provides 7.2% of Nicaragua's GNP and 23.3% of export value - but between 2000 and 2001 Nicaragua's earnings from the same volume of coffee exports fell from \$171 millions to \$105 millions. The country's balance of trade situation is difficult, with exports at \$610 million and imports at \$1.6 billion.²

In November 2002 the government's budget for 2003, showed that servicing of internal and external debt would absorb 38% of spending, compared with and social spending at 32%.

Nicaragua has a large internal debt. The collapse of five banks at the end of 2000 and start of 2001 left the government with liabilities of over \$500 millions. Added to this, the National Treasury has to redeem Bonds issued in compensation for the estimated value of confiscated property, at a cost of around \$900 millions, with most of the payments being due between 2006 and 2009. Commitments outstanding on CENIS instruments, devised to complement required private bank reserves, total \$600 millions. The Presidency estimates that payments on internal debt will cost well in excess of \$100 millions every year to 2011 - with payments in 2003 and 2004 being \$223 million and \$321 million respectively.

Nicaragua's foreign debt in June 2002 stood at \$6.4 billion or 262% of GDP. 60% is HIPC debt. Nicaragua's HIPC completion point has slipped from late 2002 to 2003, when the country should get debt relief totalling \$214 millions.

A new 3-year PRGF was agreed with by the IMF in December 2002.

Negotiations are currently underway on the development of CAFTA, the Central America Free Trade Area. Ensuring that Nicaragua's predominantly agricultural economy, dominated by small-scale production, can compete effectively is a major challenge. Many people say that reorienting the economy is especially difficult because during the 1980s when many countries were building infrastructure, Nicaragua's economy was suffering negative economic growth. .

The role of foreign aid in the Nicaraguan economy is discussed at point 2.4 below.

The World Bank estimates that Nicaragua's GDP is likely to grow at 3% during 2003 and 4.5% 2004. But a lot of assumptions in the PRSP are now regarded as

² 2001 estimate CIA: The World Factbook 2002 <http://www.cia.gov/cia/publications/factbook/prinVnu.html>

too optimistic as the post Mitch growth period has petered out. Growth in 2002 seems to have been only 1%.

Poverty and the social sectors

Nicaragua's population is growing rapidly at 2.7% a year. Almost 43% of the population are under 15. With GNP per capita around \$420, Nicaragua is a Low Income Country.

GDP per capita on a purchasing power parity basis is \$2,366 for Nicaragua compared to \$2,453 in Honduras, \$1,996 in Vietnam, \$2,711 in Kyrgyzstan, just \$976 in Burkina Faso and \$28,769 in Switzerland.

Nicaragua ranks at 118, out of 173 countries, in UNDP's Human development Index. Income distribution tends to be unequal in central and South America - and Nicaragua is highly unequal, with a Gini coefficient of 60.3.³

Around 46% of the population are below the income poverty line established by the 2001 Living Standards Measurement Survey and 15% of the population lives in extreme poverty. Whilst Nicaragua remains very poor, according to the Living Standards Measurement Survey, the number of people in extreme poverty has declined steadily from 19.4% of the population in 1993 to 15.1% in 2001. Nicaragua's illiteracy rate is 34%, 20% of the population do not have access to clean water and 20% of primary age children are not in school.

World Bank analysis finds that poverty reduction in Nicaragua is 'highly responsive to economic growth'. During the 1990s the Nicaraguan economy grew strongly. If the poverty reduction between 1993 and 2001 was sustained, the MDG of halving extreme poverty by 2015 would be reached easily.

The World Bank strategy paper for Nicaragua accords gender a relatively low priority for action on the basis that gender issues were not so bad here as in other countries in Central and South America. Many observers take little comfort from this comparison, pointing out that whilst some progress has been made in removing barriers to women's participation at institutional level the intra household picture remains problematic. According to SIDA, intrafamily violence is widespread in Nicaragua, with a combination of poverty and lack of security for girls leading to an extremely high rate of childhood pregnancies - 25% of girls under 19 either are, or have been pregnant. SDC acknowledges that addressing gender issues at family and community level (where deep seated attitudinal change is required, is often more challenging than encouraging institutional change.

³ Where 0 is perfect equality and 100 is perfect inequality. Switzerland's Gini coefficient is 33, Honduras 56.3 and Costa Rica 46.

2.2 The PRSP process

Nicaragua's PRSP process has been the subject of enormous debate, so here it is only useful to present the briefest summary.

The G7 decision in June 1999 to reinforce the HIPC initiative with a poverty reduction focus coincided with post-Mitch reconstruction activity in Nicaragua.

In November 1999 the government presented a Bank funded poverty diagnosis to CONPES, the National Commission for Economic and Social Planning.⁴ Some members of CONPES, notably the Coordinadora Civil (CCER), were critical of the diagnosis, which based the poverty line on daily consumption of \$1 and extreme poverty at \$0.50. Calls were made for consultation with stakeholders beyond CONPES and the international community.

Responsibility for the preparation of the PRSP, and now for its implementation and monitoring, lies with the President's Technical Secretariat, SETEC. In early 2000 the government presented the principles and pillars of a strategy to CONPES and the donor community. At this stage the strategy had 3 pillars, economic growth, social protection and vulnerable sectors. Both civil society and the donor community pointed to the lack of a focus on good governance and decentralisation, as well as issues such as environment and gender. Calls for wider consultation continued.

By May 2000 when the government presented its matrix of (mostly existing) programmes and projects to CONPES, a governance pillar had been added to the strategy, as well as cross-cutting themes relating to decentralisation, gender and environment. In June 2000 a meeting took place between government and other stakeholders to discuss a methodology for consultation beyond Managua, but before this could be progressed, an Interim PRSP (IPRSP) was submitted to the IMF/Bank boards in July 2000 and was endorsed. Criticism that the document was presented in Washington before being translated into Spanish really sums up many peoples' perception that the process was deficient.

Continued criticism of the IPRSP was followed by an agreement between government, CONPES and some donors to present the PRSP to the country (PROCONSULTA).

Through the first half of 2001, participation in PRSP discussions took various forms; a government consultation exercise in several departments of the country, which included focus groups with people from poor communities; an initiative by local government and organisations in the Leon Norte area which includes 5

⁴ CONPES is now the main channel for consultation between government and civil society on issues such as the PRSP. CONPES comprises representatives of the private sector, universities, guilds, trade unions, NGOs and civil society, the governments of the autonomous Atlantic regions and the Organisation of Nicaraguan Municipalities, AMUNIC.

municipalities; a range of civil society initiated meetings in regions, departments and with specialised groups to consider the strategy.

The results of these various processes provided feedback to government and to donors such as the World Bank. Both government and the Bank acknowledged many of the concerns raised - but also noted time pressure and made the point that the document was 'live' (a point repeated by SETEC in February 2003) and that implementation was key.

Nicaragua's PRSP, the Estrategia Reforzada de Crecimiento Economico y Reduccion de Pobreza, was approved in September 2001. The Strategy has four pillars:

- Broad based economic growth and structural reform
- Greater and better investment in human capital
- Better protection of vulnerable groups
- Good governance and Institutional development

The Strategy also has three cross cutting themes

- To reduce ecological vulnerability
- To promote social equity
- Decentralisation

Interpretations of the above process are decidedly mixed.

From the perspective of many people, including politicians, representatives from government departments, multilateral and bilateral donors and some people involved in CONPES, genuine efforts were made to consult - with many different meetings being organised.

Other observers, especially representatives of NGOs and civil society, feel that participation was deficient, (inter alia, being late and failing to ensure broad consultation at municipal level) and that the consultation that did take place, did not result in views expressed being adequately incorporated into the PRSP itself.

2.3 Key Issues of the PRSP

There are several issues surrounding the PRSP as at February 2003. It is important to run through these issues in order to see the background within which SDC is working and to understand how SDC's approach ties in with current need.

First plan

Inevitably when people are consulted, they find it easier to focus on problems rather than the positive. But on the positive side, people consulted at all levels (government, political, civil society etc) said that prior to the PRSP, Nicaragua had no development strategy at all.

So whilst there has been a lot of criticism on the PRSP process and a (rather smaller) amount of criticism on content, two major achievements of the PRSP are providing the focus for serious national debate as well as a central document which addresses many of Nicaragua's challenges. Even though a lot of work remains to be done on priorities and how to translate the PRSP into implementation, the PRSP must be seen as a substantial milestone.

Low visibility - low ownership

Outside the main ministries concerned central planning, there is low awareness of the PRSP. One estimate suggested that less than 50% of the political elite (government administration, the private sector, politicians etc) had any idea what the PRSP was - and that many people contributing to the debate on PRSP had never read it. If awareness is low even amongst senior figures in politics, central government and bureaucracy, and most people acknowledge the haste involved in the early stages of the process, it is hard to make the case that there is much genuine ownership. Certainly the perception at municipal level is that the PRSP was a top-down process with little meaningful consultation. The result is a feeling that the PRSP is mainly of concern to central government and donors - with little potential to make an impact on peoples' lives in the municipalities.

Misperceptions or miscommunication

Amongst those who know of the PRSP, including many members of CONPES, there is a widespread perception that PRSP is welfare oriented; all about safety nets and spending on the social sectors, when what Nicaragua needs is investment in production. One person commented that aid was being used to encourage people to access health and education but not to encourage or assist them to become more productive. Actually the PRSP itself recommends slightly larger share of public expenditure to productive investment – but that is not how it is perceived.

Concern that the PRSP does not focus enough on productivity and growth.

The emphasis on increasing productivity and the need for growth in the Nicaraguan economy came from many directions. There is a strong emphasis on the need for investment in basic infrastructure at all levels.

Though some aid comes in the form of grants, a lot does take the form of loans - and there is real concern that in practice, investment in social expenditures will not really produce the kind of economic returns that will enable Nicaragua to pay off the loans.

Views are split on whether available resources should be allocated to assisting people in areas with potential to be more productive, or whether spending should be directed to where need is greatest. Similarly views are split on the balance between production investment and social spending. On balance we heard more people arguing for productivity investment than social investment.

Concerns over participation

Differing views have already been noted on participation in the PRSP process, on whether consultation was adequate and whether views expressed were incorporated or ignored. The issue now is how the experience gained to date, and the processes now underway will both ensure that PRSP implementation is monitored effectively, and what the implications are for continuing efforts to decentralise and strengthen democratic governance.

The PRSP (ERCERP) and the Estrategia Nacional de Desarrollo (END).

The government of Enrique Bolanos has accepted the broad principles and priorities expressed in the PRSP. But in late 2002 the government published a new document, the Estrategia Nacional de Desarrollo (END) which highlights in particular the need for economic growth. The END focuses around the development of economic clusters seen as having potential in seven areas: energy, tourism, meat and dairy products, textiles, forestry products, agribusiness and fishing/aquaculture. As well as promoting economic growth potential, the government envisages that as people migrate towards the opportunities that these clusters offer, it will be easier to provide social services to these locations than it is to provide services to scattered or isolated populations of poor people - so the strategy sees synergies between promoting growth and efficiently delivering services to the poor.

Despite the fact that NGOs were amongst those who pointed to weaknesses in the first, economic growth pillar of the PRSP, some NGOs are concerned that the government may be shifting the focus away from the poorest and most vulnerable. Perhaps more significantly, the initial reaction of some donors to the END was concern that the PRSP was being eclipsed.

By February 2003 however, many people including donors, saw the potential for dovetailing the END and the PRSP, with the former beefing up pillar one of the PRSP which is generally perceived to be in need of strengthening, especially in view of Nicaragua's current economic predicament.

In the months remaining until the postponed Consultative Group meeting, work on ensuring that the PRSP and END are complementary and together provide an agreed agenda for action, will be important.

2.4 Overview of the donor community

According to World Bank and OECD figures, ODA to Nicaragua was \$580 millions in 1998, \$676 millions in 1999 and \$562 millions in 2000. Aid as a share of GNP/GNI has generally ranged from one quarter to one third. Aid per capita in 2000 was \$111. In 2002 aid was estimated at 14% of GNI - 34% of government expenditure.

Aid to Nicaragua has fluctuated quite significantly over the last two decades, reflecting changes in the country's circumstances and most recently Hurricane Mitch.

Between 40% and 50% of assistance to Nicaragua is from multilateral donors, especially the Inter American Development Bank (IDB) and World Bank (IDA). Among bilateral agencies over the period 1997 to 2001, the major OECD donors have been Japan, providing an average of almost \$50 million, the EU (\$46.5m), Sweden (\$21m), Denmark (\$20m), Germany (\$19m), Spain (\$14m), Netherlands (\$12m) and then Finland, Norway and Switzerland each providing around \$6 million a year, just over 1% each of the aid that Nicaragua receives annually.

The Secretariat of Economic Relations and Cooperacion (SREC) within Nicaragua's Ministry of Foreign Relations is the government body charged with coordinating donors. Altogether in its publication INFORME: Cooperacion External 2001, SREC lists 42 bilateral and multilateral donors as providing assistance over the 5 years to 2001. In addition 145 NGOs from OECD countries are known to be active in Nicaragua, providing assistance worth \$64 million in 2001.

In June 2002 SREC convened a major meeting that was to lay the foundations for greater coordination between GON and external agencies, including steps to establish sectoral round tables out of which sector wide approaches could develop. As of February 2003 donors were looking forward to this meeting being followed up.

At present there are no sector wide investment programmes (SWAs or SIPs) in Nicaragua, though several donors, such as Sweden are very supportive of the idea and looking for opportunities to build government capacity in a way that would enable it to take a lead in sectoral planning. Health seems to be the area in which donors think there is most potential for a sectoral approach.

SETEC are responsible for aggregating the funding requirements of line Ministries - and they stress the importance of each bilateral liaising closely with relevant line Ministries, as SDC is doing.

SDC is seen as an active player on donor co-ordination.

The main vehicle for overall donor co-ordination in Nicaragua is the Good Governance Group (GGG), which has thematic subgroups on issues such as poverty and decentralisation.

SDC is also very engaged with the like-minded group of donors, which meets every 2 or 3 weeks and includes the Nordic donors, the UK, Netherlands and Canada. Whereas the GGG helps at the level of information sharing, the like minded group aims to be more focused on efforts to monitor and follow up implementation of the PRSP.

This group has taken some useful initiatives in support of, and in line, with the spirit of the PRSP. The anti corruption fund which was the initiative of the like minded group seems to be widely welcomed. The like-minded group has agreed to share studies among donors. It provides a forum for identifying common positions. It is also looking at opportunities for co-financing and for helping to creating the conditions for sectoral approaches.

Donors in Nicaragua have a range of meetings on different sectors - for instance SDC is collaborating with group of donors on SME - meeting monthly and looking particularly at urban areas.

Even as people noted Nicaragua's high dependence on aid – many people were highly critical of the role aid has made in Nicaragua and cynical about the role of donor agencies. But the majority recognised that aid represented one third of GNP/GNI and that Nicaragua would be in a major fix without aid. For some, the PRSP was seen simply as the key to HIPC debt relief and continued aid - a 'donor focused instrument' that Nicaragua has little alternative but to go along with.

Please see Annex 6 for notes from the donors interviewed during the mission.

2.5 The Cooperation Programme Switzerland – Nicaragua

The Swiss cooperation programme in Nicaragua started in 1979 as the Somoza regime was replaced by the Sandinista led government. Swiss aid in real terms (2000 prices) grew steadily over the 1980s from less than \$1million to around \$10. In 1991 aid reached its highest level at over \$18 million. According to SREC, aid from Switzerland for the period 1997 to 2001 totalled \$30.5 millions - about \$6 millions per year. This makes Switzerland one of the smaller donors in volume terms coming about half way up the list of just over 20 bilateral donors and providing 1.2% of aid each year.

SDC has a rather long programme cycle. Most of the current SDC portfolio predates PRSPs. Unlike some donors, SDC does not have a formal annual dialogue with the government.

Switzerland's strategy in Nicaragua for the present period was explained in the document Programa Regional 1999-2005 America Central (PRAC) produced by the Agencia Suiza para el Desarrollo y la Cooperacion (SDC) and Secretaria de Estado para Asuntos Economicos (SECO).

While this document (dated September 1999) really predates Nicaragua's PRSP process, the PRAC does take as its principal objective the fight against poverty and the satisfaction of the basic needs of the poorer sections of the population. Nicaragua is SDC's main priority country 1997 to 1999 Programa Regional para America Central (PRAC), allocated 37% of Swiss resources for the region.

The main elements of the Swiss programme in Nicaragua are outlined below.

- **Agriculture**

Switzerland has provided a range of assistance to agricultural production in Nicaragua since 1980 - absorbing about one third of Swiss assistance. SDC's main focus is on poor, small scale, rural producers in hill areas. Switzerland's contribution to the agricultural sector in the foreseeable future will include support to the major Agricultural Technology Project (ATP) - which has elements of a sectoral approach. SDC will continue to support other agricultural projects and plans to bring them more into line with ATP and the evolving strategy of rural development. The ATP is a \$180 million programme, due to run from 2000 for 16 years and involving the Ministry of Agriculture (MAGFOR), the World Bank, IFAD, Netherlands as well as SDC.

- **Water and sanitation**

About 11% of spending is devoted to basic water and sanitation services in rural areas. SDC's programme is in line with the explicit priority to water and sanitation in rural areas stated in the PRSP. It has clear targets to increase coverage will be an important part of the coherent, overall effort in this sector.

- **Private sector development**

The focus here is on SME, including the provision of non-financial and financial services and strengthening associations of SMEs. SDC is emphasising the institutional development side of microfinance and of providers of non-financial services.

- **Governance/Decentralisation**

In line with Swiss commitment to participation, a strong theme running through SDC's work is promoting participation and decentralisation in order to improve the transparency and responsiveness of government. The objective of improving governance manifests itself in various ways in

the SDC programme: creating space for municipal level participation, dialogue and initiative; promoting access to justice - in particular action to resolve property conflicts⁵, such as the supporting the provision of legal advice; supporting the establishment of a civil society monitoring mechanism on decentralisation.

SDC's emphasis on governance and flexibility to work in this area is being substantially strengthened with the PASE initiative, which is discussed below in section 3.2.

- **Macro/financial support**

Support in the trade promotion and finance areas are crucial against the background of Nicaragua's financial crisis and the challenge of sustaining growth and entering the CAFTA agreement.

Switzerland has been very supportive of Nicaragua on the issue of debt. Back in 1991 Switzerland contributed with \$6.5 million to the financing of multilateral arrears of Nicaragua vis-à-vis the international finance institutions. In 1993, the Swiss government bought up commercial debt owed to Swiss companies valued at \$1.08 million. In 1995 Switzerland provided \$10 millions for buy back of international bank debt. At the end of 1998 Switzerland and Nicaragua entered into an agreement worth \$6 millions to support servicing of multilateral debt. Finally, Switzerland financed a debt advisor for Nicaragua and Honduras to strengthen national debt management capacity. The Central Bank also noted Swiss balance of payments support in late 1994 (in collaboration with Canada) for the renewal of power capacity, which assisted with the electrification of rural communities. SDC and SECO are currently examining further budget support for Nicaragua - the provision of which is closely tied in with the success of the PRSP and the PRGF.

- **Humanitarian assistance**

After the conclusion of the reconstruction work following Hurricane Mitch, the focus is now predominantly on disaster prevention. SDC works on different levels. At local/municipal level the focus is on risk mapping, awareness building and prevention. At national level SDC works on strengthening the national system for prevention and preparedness.

- **Swiss NGOs**

SDC has annual meetings with all Swiss NGOs in Nicaragua - for instance on GoN policies on NGOs. A smaller number are invited to the National Project Leader Meeting. SDC often meets with NGO missions from Switzerland. All NGOs operate under the bilateral agreement between the

⁵ Two thirds of units of production are said to have property rights problems.

governments of Nicaragua and Nepal and SDC supports them with administrative assistance for instance with tax exemption. Although SDC has some contact with Swiss NGOs,

While links with NGOs who are executing agents for SDC are necessarily very close, contacts with Swiss NGOs more widely could be strengthened.

According to SREC, there are 9 Swiss NGOs active in Nicaragua, providing assistance worth \$1.9 million in areas such as agriculture, health, education and gender.

- It is interesting to note that the SDC report 'Aide Suisse aux pays en developpement et aux pays en transition 1998-2000' lists over 20 Swiss NGOs providing assistance totalling CHF 6.78m (over US\$4m) to Nicaragua in 2000. Several reasons have been suggested for this difference: 5 or 6 volunteer organisations operate in Nicaragua under the umbrella of UNITE and are thus counted as 1; some NGOs may not be present in the country but may provide support to local organisations

Swiss aid has been sustained over a long period and government representatives seem genuinely appreciative of the role that Switzerland plays:

- The practical nature of Swiss aid - for example the financial and technical support on issues such as debt
- The style of support: long term, considered, careful to leave space for government initiative

Given the emphasis that donors are putting on PRSPs and shared commitment to achieving the MDGs, it will be unfortunate if donors, including Switzerland, are not able to at least sustain current levels of assistance given the very serious challenges facing the Nicaraguan authorities.

Unlike some bilateral donors, (for example Germany) SDC does not have an annual bilateral meeting with the Nicaraguan government to discuss the strategic direction of the SDC programme. This does not seem to be a handicap.

3 Mapping of the Swiss Involvement in the PRSP Process

3.1 Motivation

SDC takes the PRSP in Nicaragua seriously, seeing it as an important part of the national framework for engagement, an important tool for national planning - though not a comprehensive framework.

SDC views the PRSP as an important element in government efforts to focus policy and action on poverty reduction. The PRSP process is providing space for civil society engagement and dialogue. The PRSP process also offers greater scope for the development of a set of priorities that have been nationally determined and therefore over which there is a greater degree of ownership. These objectives are seen by SDC as being consistent with SDC's values and goals.

As a niche player in Nicaragua with very limited resources, SDC recognises that there is a high opportunity cost of involvement in any activity. By playing an active role in the PRSP process, SDC believes it can exert leverage - helping to shape the actions of larger players and the donor community collectively - and therefore having both a direct and indirect influence with government.

Engaging in the PRSP process gives SDC greater insights and a wider range of contacts - essential knowledge if Switzerland is to 'punch above its weight' and have a more strategic impact than would be the case if it focused more narrowly on its own programming.

The PRSP is seen as providing an impetus and potential framework for greater donor coordination and for sectoral approaches.

3.2 Activities & instruments

SDC is using several activities and instruments to contribute to the PRSP process in Nicaragua, acting alone and in collaboration with other donors.

Poverty review

Over the past 2 years, SDC has conducted a major internal reflection exercise involving 25 projects in Central America - to see how project staff saw their work in relation to poverty reduction.

This exercise *El Enfoque de COSUDE hacia la Reduccion de la Pobreza*, can be seen as a significant effort to take stock of the extent to which all staff were oriented towards poverty in the context of PRSP development.

Linked to this exercise SDC has taken two major initiatives:

- The first addressed the poverty focus of SDC projects and included agreements on measures of how to improve poverty orientation in projects, work on indicators, proxy measures and the chains of causation linking project results to poverty outcomes. All this served to

promote a common understanding of poverty reduction and methods for increasing the poverty focus.

- The second was an analysis of the SDC portfolio and PRSP Nicaragua, which concluded that SDC's programme was coherent with PRSP content. However, largely because the PRSP itself is at a relatively early stage, the analysis did not look at implications in terms of aid modalities or linking project outcomes to PRSP indicators.

In addition SDC had a regional project leader meeting and intensive internal discussions in the context of the elaboration and consultation on the new strategy for the SDC Latin America Division (strategy 2002-2012). Poverty reduction is the overall objective and is defined under three dimensions: creating opportunities, reducing vulnerability and empower.

Two case studies (2 projects) and corresponding workshops drew on expertise from SDC headquarters to provide methodology to look specifically at empowerment effects and approaches.

Three case studies (3 projects) focused on how to link project results to poverty outcomes. The method for this was a competitive grant, whereby 3 projects were selected to undertake a study on the poverty-reducing effects of their work. The study reports and conclusions were shared at a project leader meeting.

SDC reports that this served to

- sharpen common understanding of poverty
- enhance the poverty orientation of project work,
- strengthen links with the PRSP.

Feedback from this work shows that people focus on the proximate impact of their work - rather than any resulting impact on poverty: an example would be people involved in animal traction saying their work was not really about poverty reduction because the very poor do not have animals for haulage. This narrow interpretation of what constitutes poverty reduction activity mirrors the widespread perception in Nicaragua that because the PRSP focuses on poverty reduction, it is therefore about welfare and not boosting productivity.

Programming

Certainly the single most obvious way that Swiss programming expects to contribute to (as well as reflect) the ongoing PRSP process is through the PASE initiative (Sistema de Coordinacion para la Implementacion, Seguimiento y Evaluacion Participativa de la ECERP). This programme, developed by SETEC with assistance from UNDP and DFID, aims to promote the effective, decentralised and participatory implementation of the PRSP. PASE involves institution and capacity building efforts at all levels, central government (INIFOM), departmental/regional level, municipalities (about one third of the total). It will

strengthen participatory monitoring at all levels including CONPES and departmental councils. It will also provide additional resources for municipal level responses to the PRSP - and it will involve social communication efforts to increase awareness and ownership of the PRSP. Partners in PASE include central, departmental and local government, civil society organisations, CONPES and the private sector.

Washington connection

Aside from programming, SDC clearly places a high priority on using the Managua, Bern, Washington axis to influence development and poverty reduction in Nicaragua. Some examples are given below:

Date	Action
December 2000:	<ul style="list-style-type: none"> • Comments to SETEC on the substance and process for the Estrategia Reforzada de Reduccion de la Pobreza. • Brief to SECO and Bretton Woods Section of DEZA on HIPC Decision Point - covering economic and governance issues, as well as the developing PRSP.
September 2001	<ul style="list-style-type: none"> • Contribution to brief on PRSP and JSA - noting in particular the weakness of pillar 1, and especially the need for greater emphasis on agriculture-led growth and SME development.
July 2002	<ul style="list-style-type: none"> • Letter from SDC to SETEC with detailed comments on the Fondo Social Suplementario (FSS), focusing especially on the link to PRSP implementation and decentralised cooperation
December 2002	<ul style="list-style-type: none"> • Brief on PRSP progress and Joint Staff Assessment for Bank meeting

The government acknowledges that multilateral agencies have the greatest weight and that discussions on the PRGF are critical. Given the relatively small scale of Swiss resources, this involvement in macroeconomic and political issues represents an attempt to exercise leverage beyond its size.

Feedback from interviews suggests that SDC's role is seen as legitimate, measured and useful.

Donor coordination

Swiss involvement is covered in the above overview of the donor community - section 2.4.

Political dialogue

In addition to the way that Switzerland works in collaboration with other donors, any assessment of SDC's bilateral engagement has to look at how the relationships that SDC establishes work - how SDC makes and uses opportunities for political dialogue.

SDC's handling of this evaluation itself seems to provide a good illustration of both peoples' positive attitude toward Switzerland's role and SDC's intelligent use of its niche position. SDC managed to attract a key political analyst to contribute to the evaluation and despite the rather specialised focus of the study, many senior and very busy people were prepared to find time to contribute both on Switzerland's role and the wider political and economic context.

4 Effects of Swiss Interventions

4.1 Effects on PRSP contents and process

No evidence was presented during the course of 27 meetings, and there is nothing specific in any of the written material, to suggest that Switzerland acting bilaterally had any individual influence on the contents or process of the PRSP. There is no phrase in the PRSP and no particular meeting that can be clearly attributed to Swiss intervention. But it would be unrealistic to expect to see any chain of causation between an action by SDC and a specific impact - especially when the focus of the evaluation is a PRSP process which is supposed to involve many stakeholders and promote collaborative action and shared perspectives.

But two approaches can be used to make some assessment of the difference that Switzerland has made. The first is to make judgements on collective actions by donors - because as an active member of the donor community SDC has helped to shape these. The second is to synthesise the different perspectives that have been put forward, to present a range of views, and then make some subjective assessments of Switzerland's individual role.

The role of the donor community collectively on process

Many people consulted (even those who felt consultation went too far) did acknowledge the fact that donors were important in forcing the issue on consultation. The majority feeling is that though the IPRSP was pushed through with too little participation, in the end, the overall process was very consultative.

Where people have reservations on participation, these mostly revolve around the issue of what value each layer of consultation can add - and whether the quality of every decision is improved by wider consultation. The principle of a more participatory style is widely accepted, and donors can take some credit for this. The ongoing role of donors in continuing to promote participatory follow up is appreciated - though donors clearly need to give careful thought to the appropriate balance between participatory and representative democracy.

A major objective of the donor community as far as the PRSP process is concerned was to promote awareness and foster ownership. Donors seem to have had rather limited success in these areas. Awareness of the PRSP is very limited - in a sense the establishment of the PASE programme is tacit acknowledgement of this. Ownership of the PRSP even within the main ministries of central government is very low. The PRSP is seen as a document that the donors wanted, that has limited utility as a planning tool. However it has to be said that the PRSP has affected planning. It influenced the development of the national budget and investment programme, in parts through the PRSP financing mechanism (FSS), and the corresponding poverty expenditure tracking mechanism. It was also instrumental in protecting social spending in the budget reduction exercise.

Fundamentally though, the link between poverty reduction and equitable growth is very weak: Nicaragua's main need is to promote growth - and the PRSP is not seen as a growth document. Its main value to Nicaragua, (and this is a big value!) is seen as ensuring HIPC relief.

Since many people say that the PRSP is a process not a document, it is clear that most of the job of promoting awareness and moving from donorship to ownership on the PRSP remains to be done.

Donors and content

There is some irony in trying to assess what influence donors have had on a document that is meant to be a government's own vision!

As noted earlier, one of the very positive opinions frequently expressed about the PRSP was that it represents Nicaragua's first development plan. Donors collectively can take some credit for encouraging and assisting the government to incorporate into one document many of Nicaragua's needs - and particularly for putting poverty and the situation of the most vulnerable people high on the national agenda.

The surprising point on content is that right across the spectrum of opinion in Nicaragua today, the emphasis on growth and productivity in the PRSP is seen as weak. Several donors, including Switzerland, specifically noted the weakness of the broad based economic growth pillar in the IPRSP - and the fact that the

Strengthened Growth and Poverty Reduction Strategy (SPRGS) remained deficient in September 2001.

In the past, the donor community has frequently been criticised for advocating strategies that prioritised economic growth over poverty reduction and social welfare. But in the case of Nicaragua the opposite case is being made. Assuming that donors did play a substantial part in shaping the document is it worth asking some questions: has the concept of broad based economic growth in the first pillar of the PRSP been properly explained - have the synergies and cost/benefits of such an approach been well demonstrated? Did the consultation process result in too much emphasis on social issues (which are familiar ground for civil society) and too little on the more specialised and technical issues of growth and economics?

4.2 Swiss influence

Moving to more specific judgements on Switzerland's role within the continuing PRSP process there are several observations to make.

SDC is seen by other donors as having been active within the PRSP process, making a valuable contribution to donor co-ordination, having a clear perspective on how country offices can work effectively with colleagues in Washington to feed local experience into strategic decision making.

Special mentions were made of SDC's efforts on decentralisation, participation and corruption. Central government itself acknowledges its difficulty in engaging at municipal level - which highlights the importance of SDC's efforts to promote effective relations between municipal, department and central government level. SDC staff do not feel that the PRSP process has really resulted in significant progress on decentralised government. Evidence from AMUNIC shows that at present, the PRSP process is seen as being much more about the concerns of central government, than about effective steps to engage and assist people at municipal level in efforts to address poverty. Progress here is key to PRSP implementation and so a highly appropriate focus for Swiss efforts.

Working level contact with organisations such as SETEC, CONPES and MAG FOR all suggest that SDC is seen as having looked for opportunities to translate themes such as participation and decentralisation into practical interventions that will help embed the PRSP as well as influence programming.

4.3 Repercussions on the Swiss Programme

As noted above, Switzerland's long cycle for planning interventions means that most existing work predates Nicaragua's PRSP, so it is early days to be looking at the repercussions of the PRSP on Swiss programming.

Many people consulted observed that the PRSP is broad enough to encompass anything - so in that sense, it is easy to say that a programme reflects the PRSP.

However, it does seem clear that SDC is aligning its thinking with the PRSP - and that this is feeding through into both SDC's approach and its programming. The ATP project, whose gestation has gone along in parallel with PRSP development, and the PASE programme which is still being built, are clearly in line with the principles of the PRSP. The ATP programme for instance is a multi-donor, long term intervention that will involve investment in human capital and productivity (2 of the 4 PRSP pillars). In fact successful execution of the programme will count against indicators for PRSP implementation.

Aligning with PRSP is a process. The fact that only the ATP program is officially considered as part of the PRSP portfolio reflects the fact that many of our programmes work with civil society and private sector organisations, which are excluded from the PRSP, since it is a government strategy. SDC believes that the way forward is to develop broad sectoral strategies based on PRSP objectives that include government interventions but also those of other actors. It is argued that this would promote coherence and move the PRSP from being a government strategy to a national strategy, facilitating the alignment of all interventions

ATP is currently expanding its systems to offer a range of services to support increased production among some 200,000 small producers. The programmatic nature of the intervention should be helpful as MAG FOR (the Ministry of Agriculture) is developing its own strategic plan and capacity. Over time, the logic of the PRSP approach, accepted by the SDC office, is that Swiss support should gradually move further towards more long term programmatic support, including sectoral and balance of payments assistance.

Given current opinion on the PRSP, emphasis on the need to boost agricultural productivity and growth, and the emergence of the END as hopefully a complementary strategy - perhaps merged with the PRSP - SDC's choices of sectors seem well geared to current need.

SDC's Policy Programme Central America can be seen as a major initiative to gear Swiss programming the development of PRSP processes. The Programme provides SDC with the opportunity to co-finance (with donors such as UNDP and DFID) certain mechanisms for national dialogue and participatory implementation of strategies. In Nicaragua Switzerland will contribute \$300,000 to the PASE (programme for PRSP implementation, monitoring and evaluation). The total PASE budget is \$6 million. The rationale for supporting PASE is as follows:

- Involvement is seen by SDC as improving its ability to align programming with nationally defined strategies - an objective central to the PRSP approach.

- The growing interest of donors in undertaking joint activity necessitates having flexible resources that will allow Switzerland to become involved in collaborative action. PASE will provide this flexibility.
- PASE is expected to increase transparency, dialogue and national ownership - all objectives central to the PRSP.
- PASE is seen by government as important as a vehicle that can help bridge the gap from central government, through department to municipal level - tying in with the PRSPs decentralisation thrust.

4.4 Repercussions of PRSP approach on donors

One of the reasons why aid to Nicaragua is seen to have underperformed in macroeconomic terms is that the project based approach of donors gives government little opportunity to focus assistance where it believes investments will be most productive. There is little flexibility to change the mix of investment as results become visible.

The government sees project focused assistance as self-perpetuating, benefiting vested interest (including external consultants), fragmented and therefore very difficult to coordinate, not geared to building government capacity or very effective in providing sustainable response to real need. The government acknowledges that changing this situation is a major challenge for government and donors. The PRSP is seen as an opportunity to help the government of Nicaragua build its capacity to ensure that aid is demand, rather than supply led, and to ensure that there is an effective government managed framework within which external agencies can work.

Donors have been talking about co-ordination for many years. A donor co-ordination meeting in Feb 2003 was scheduled to focus on how to approach budget support in the light of the PRSP and PRGF. The logic of these approaches certainly challenges donors to take bolder steps towards shared programming.⁶ How like minded do donors have to be before they can do something very radical like entrusting funds to another donor? As government capacity and accountability develops, the logic of PRSPs is that donors will have to hand funds over to government control. Of course there are real political and administrative obstacles – but these seem relatively modest in comparison to the measures that the government of Nicaragua is being asked to implement!

5 Concluding Observations

SDC's work in Nicaragua is the product of many factors:

⁶ The World Bank says move towards programmatic lending would improve impact of public programmes through better donor co-ordination and stronger country ownership. The Bank believes that a shift in IDA towards programmatic lending will help promote sector approaches.

- SDC's principles and overall objectives
- more than two decades of practical experience in Nicaragua
- an existing portfolio which can only be evolved rather slowly
- SDC's current analysis of how to deploy limited resources in order to have an impact on poverty in the broad context of the country's political, economic and social development.

The PRSP has provided:

- an important analysis - many would say Nicaragua's first development plan
- a major focus for debate and some degree of consensus
- a modest sense of ownership within certain sections of government
- a basis for some agreed implementation and monitoring
- an important signal and potential discipline to encourage better donor coordination

But the PRSP remains:

- seen as mainly a donor inspired document
- too geared to social sectors at the expense of production and growth
- only as good as its implementation - overcoming obstacles to this will require the commitment and cooperation of stakeholders at every level.

A number of observations can be made in relation to the above:

It is important for both government and donors that the PRSP and the END are effectively dovetailed. SDC should continue to play what role it can to support the integration of these two documents. In other countries there seems to be more of an expectation that the PRSP will evolve. Of course the difficulty with an evolving PRSP is how you effectively and rigorously monitor progress against a moving target.

Government, civil society and donors need to work together to explore the synergies between broad based growth and poverty reduction. Whereas amongst donors the idea of broad based growth leading to poverty reduction is familiar - and spending on poverty is often seen as investment which contributes to growth, rather than welfare - these perceptions do not seem widely shared in Nicaragua. Is there more of a role for Switzerland in closing the gap in perceptions on the PRSP, in a way that will assist the government with its difficult decisions on investment.

A lot of comments around the PRSP focus on participation, with donors generally advocating more consultation in line with their interest in governance and accountability. But there are questions about the opportunity cost and added value of consultation, and also about the balance between participatory and

representative democracy. What for example, is the proper level of civil society participation in decisions on macroeconomic and political issues? As one bilateral donor pointed out, however much participation and consultation there is, for many NGOs it will never be enough.

In the prevailing development climate, it is difficult to be the one drawing limits to participation, and in Nicaragua's present situation there may be a long way to go, but independent minded donors like Switzerland (with its own traditions of participative, decentralised democracy) may have a particular role in taking a realistic view on this area. There is a real danger of devaluing the currency of participation. Each exercise in consultation raises expectations of change - and if that change is slow, disillusion can easily set in.

Two related observations: first, it is worth noting one slightly rueful comment: that in Nicaragua's PRSP process, everyone was consulted except government technicians. Second, a lot of people commented on scarce resources being 'wasted' on studies and evaluations.

Whilst many bilateral donors are now making PRSPs the central focus of their efforts, it is clear that the PRSP is only part of the complex economic and political background against which SDC needs to work in Nicaragua. The implication of this is that the PRSP needs to be seen as one tool – albeit one that may be increasingly useful. The PRSP is not the whole picture and does not provide a comprehensive framework for action by government or donors. This means that SDC centrally should be careful not to be prescriptive about approaches to PRSPs. Flexibility is important so that country offices can exercise discretion and judgement on how to engage.

The Managua office seems to be working effectively around the PRSP without much assistance. The experience of SDC's director in Washington gives the Nicaragua programme the advantage of first hand knowledge of the needs of Washington and the dynamics of IFI processes. But these may be absent in many country offices.

A high level statement underlining the opportunities that PRSPs can offer and encouraging offices to give PRSP process and content priority would be helpful in ensuring that time and resources are made available. In addition, SDC should consider an initiative to share experience, and should look into providing more technical information and if necessary, training on methodologies which might cover political dialogue/processes, SWAs and or different options on macroeconomic support.

As processes such as PRSPs encourage donor coordination and shared activity, there are substantial implications for evaluation, since it becomes increasingly difficult to attribute impact to one agency. Also there are important implications for donor ownership. Donors need ownership of their engagement in developing

countries in order to sustain domestic public and political support for aid and to respond to genuine public interest in reducing poverty, promoting equity and solidarity. Donors need to think about how to communicate their involvement as the nature of programmes shifts from a tangible project focus to a shared, programmatic or political approach.

Though Switzerland is a small donor in volume terms, many people were very positive about SDC's role before and within the PRSP process. Allowing for biases of politeness, SDC seems to be respected for its approach: modest, focused on areas that coincide with the PRSP and key national priorities, playing an honest and unflamboyant role. Our judgement is that SDC is playing an effective role and being a shrewd and constructive player.

ENDS

02/4/03

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Annex 1: Abbreviations

AMUNIC	Association of Municipalities
CCER	Coordinadora Civil de la Emergencia y la Reconstrucción (NGO umbrella)
CONADI	Corporacion Nacional de Desarrollo Industrial
CONAPI	Comision Nacional de la Pequena industria
CONPES	Consejo Nacional de Planificación Económica y Social
COSUDE	Agencia Suiza para el Desarrollo y la Cooperacion (SDC)
DFID	Department for International Development (UK)
ERCERP	Estrategia Reforzada de Crecimiento Economico y Reduccion de la Pobreza (the PRSP)
ENEL	Empresa Nicaragüense de Electricidad
ESAF	Enhanced Structural Adjustment Facility
FSLN	Frente Sandinista de Liberación Nacional
GDP	Gross Domestic Product
GNP/GNI	Gross National Product/Gross National Income
HIPC	Highly Indebted Poor Country
IDA	Asociacion Internacional de Desarrollo
IDB	Inter-American Development Bank
IFI	International Financial Institutions
IMF	International Monetary Fund
MAG-FOR	Ministerio Agropecuario y Forestal
MINREX	Ministerio de Relaciones Exteriores
ODA	Official Development Assistance (aid)
PERP	Programa de la Estrategia de Reducción de Pobreza
PLC	Partido Liberal Constitucionalista
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper (see ERCERP)
SIDA	Swedish International Development Agency
SETEC	Secretaria Técnica de la Presidencia
SDC	Swiss Development and Cooperation (see also COSUDE)
SETEC	Secretaria Tecnica de la Presidencia
SREC	Secretaria de Relaciones Economicas y Cooperacion
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

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Annex 3: List of people consulted

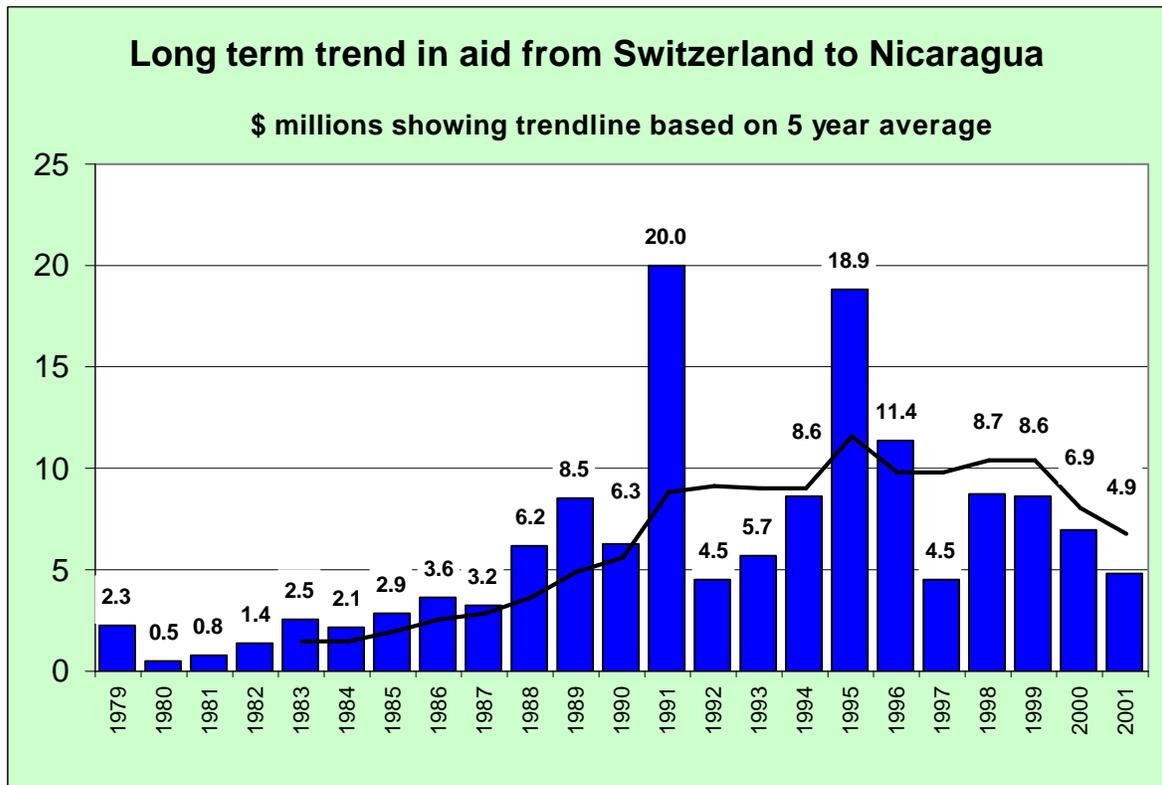
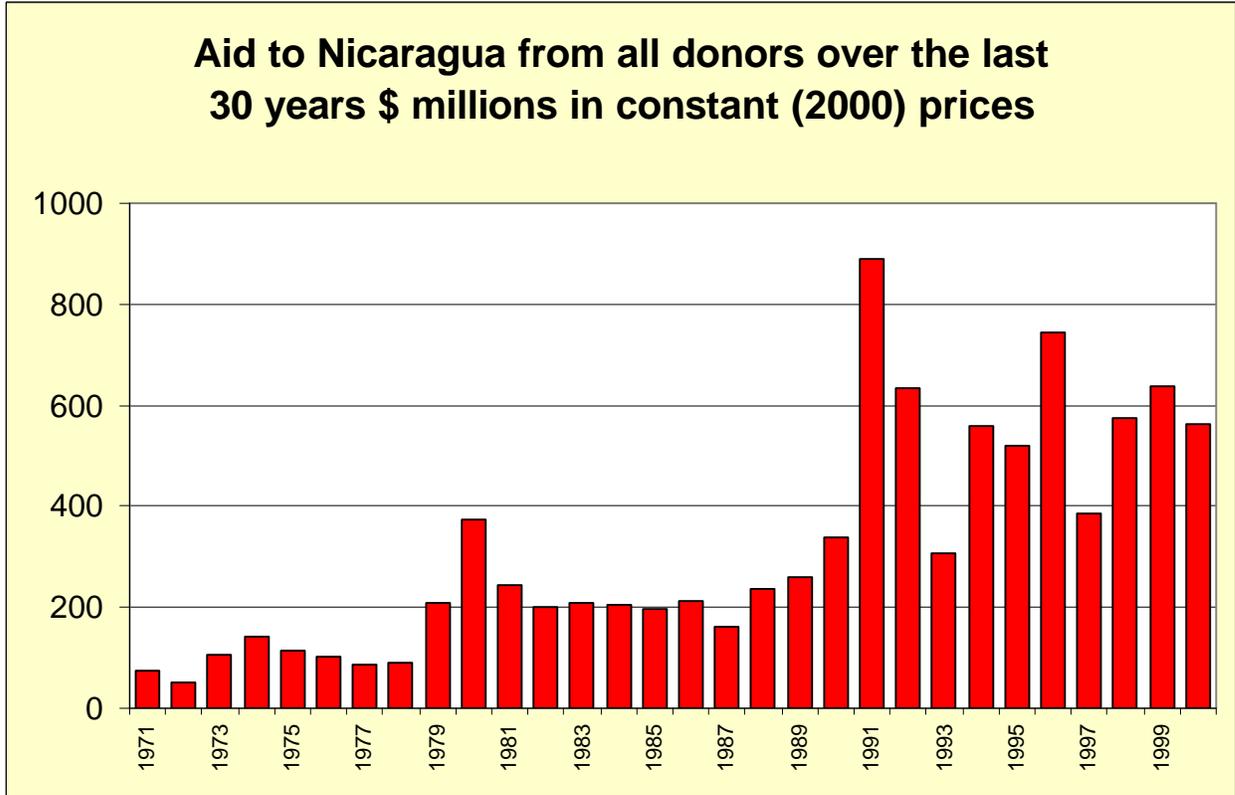
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Annex 5: Official Development Assistance to Nicaragua



Annex 6 Notes on selected donors in Nicaragua.

AUSTRIA

Austria has a substantially smaller budget than SDC, providing just under \$2m a year over the last 5 years. No central guidance on PRSP engagement is provided by Vienna and the Austrian support for SME, rural programming and interventions in health and education predate the PRSP. Nevertheless, Austria is engaging actively in the PRSP process, working alongside SDC and other donors in the GGG and in the SME group (following up a government initiative to increase support for enterprise in urban areas). The Austrian representative was heavily involved (through UNDP and SETEC) in the PRSP consultative process, and notes the complexity of the process, problems defining monitorable indicators and the lack of government capacity to manage the process. But Austria feels that with the PRSP in place and the END strategy offering the potential to remedy weaknesses in the PRSP itself, progress is being made in areas such as corruption - and the PRSP does offer important opportunities for donor coordination and to strengthen national planning.

The analysis of what some donors do may go to an annex. We plan to distribute the evaluation and do not want to raise questions (biased sample, incomplete...) at least you may say that these are the donors that were interviewed. But better: put it as an annex and keep a few generic statements in the text to illustrate a bit the range of positions: e.g. Sweden, Netherlands (and other Nordics) push for SWAPs, USAID is sceptical; or most donors have strong focus on governance....

NETHERLANDS

The Dutch programme in Nicaragua is about twice the size of the Swiss programme. It provides support in the areas of health, rural development (partnering SDC in the ATP programme), SME/private sector development (again working with SDC) and having a cross sectoral budget for governance work which supports human rights, institution building, public finance management and fostering an enabling environment.

No manual on Dutch involvement in PRSPs exists, but the Hague does provide some general guidance notes on PRSP involvement - and Ministerial statements have been very clear that Dutch programmes should not support activities which fall outside PRSP frameworks. The Netherlands sees the PRSP as important, (especially if the effect of the END is to strengthen pillar 1), but notes that it remains principally a donor inspired vehicle which needs to be more effectively grounded in sector policies and programmes of government and donors. It is clear that whilst the Dutch support participatory approaches, they feel that limitless participation does not mean limitless added value.

The Netherlands strongly supports SWAPs and is keen to support a programme to help the government build its own understanding and capacity to lead such an arrangement. During 2002 some donors made it clear that they were not ready to

engage in sectoral approaches, but the Netherlands feels that a key test of the PRSP is whether donors are willing to co-ordinate more and take a more integrated approach to programming.

The Netherlands provided US\$6m in budget support after the PRGF had been approved in December 2002. This willingness to use in-country funding for budget support is an indicator of their growing confidence in Nicaraguan budget management. Like SDC, the Dutch see direct inputs to their ED in Washington on issues such as the PRSP, CAS, and PRGF as being important.

GERMANY

Like the Netherlands, the German government places a high priority on PRSPs but provides no central guidance to country programmes on engagement. German support for Nicaragua has averaged just under £20 million a year for the last 5 years. Although Germany has a technical paper on sectoral approaches, the German programme in Nicaragua remains project focused. In its October 2002 to October 2004 planning cycle, in line with central policy, Germany will be narrowing its focus from four sectors to three, de-prioritising SME to concentrate on state modernisation (especially fiscal transparency), sustainable natural resource management, water and sanitation. All of these are seen falling within the PRSP (which is acknowledged to be very broad). German priorities for political dialogue are supporting the new government's efforts on democratic reform and fighting corruption, promoting decentralisation, supporting civil society participation in the PRSP, regional integration and donor coordination. Germany noted that the PRSP process was flawed because of deficiencies in consultation - but at the same time notes that on some issues - for example the technicalities of decentralisation - consultation has its limits.

UNITES STATES

The current USAID/Nicaragua development program, which covers the period 1998 through 2003, has a budget of \$177 million plus an additional \$55 million in food aid. This makes the US one of Nicaragua's largest donors. The programme focuses on strengthening democratic institutions and increasing citizen participation (\$43.6m), investments in health (\$55m) and basic education (\$17m) and economic growth through support to small producers (\$47.0m) and natural resources management (\$14m).

USAID's comments on the weakness of pillar one of the PRSP were more strongly expressed than other donors - summed up by the observation that the PRSP was a social development, rather than a poverty reduction strategy (the view expressed by many other interviewees beyond the donor community). The 'extremely' participatory nature of the process is clearly seen by USAID as having influenced the PRSP towards social rather than economic priorities - hence USAID's positive view of the END, and the prospects for greater attention to productivity, the private sector and exports. USAID notes that both bilateral and multilateral agencies now have a shared interest with government in the success

of the PRSP. USAID participates in the GGG. But it thinks that the donor community collectively has focused on process (participation) at the expense of content. The result is that the PRSP has ambitions for spending on areas such as health, education and microfinance that are beyond what Nicaragua can afford. Social investment will therefore crowd out public investment in infrastructure and productivity, reducing growth and therefore sustainable poverty reduction.

USAID believes that donor co-ordination meetings in the health sector are good - and that high aid spending in this sector has helped improve health indicators. USAID has helped fund the complementary social fund (FSS) set up under the PRSP, but does not feel that Nicaragua is ready for budget support. USAID notes the important thing about SWAPs is the establishment proper sectoral coordination - actual funding modalities being of less importance.

UK

The UK provided negligible assistance to Nicaragua prior to 1990 and it remains a small donor - the \$1.3 million annual support for the 5 years to 2001 being inflated by Mitch related assistance. DFID's aim is to use its resources strategically, focusing particularly on increasing participation around the PRSP. It tries to encourage participatory monitoring and implementation - hence DFID's interest in the PASE programme and efforts to support and strengthen the major parties, including SETEC, COMPES and CCER, as well as DFID's concern that the role of the National Assembly should be strengthened. DFID's analysis is that the PRSP has not provided a new framework for donor coordination - donors and government were in any case aware of the need for more effective cooperation - rather the PRSP's main value lies in the potential to strengthen institutions and participation.

SWEDEN

Sweden provides over \$20 millions a year for Nicaragua. During 2002 Sweden has provided budget support worth SEK 60 millions (about \$6 million), and following the December 2002 agreement between Nicaragua and the IMF, this support is likely to continue through 2003 and 2004. In addition, Sweden is involved in a range of work, under 3 headings:

- support for central governance institutions (increasing transparency in procurement, supporting to judiciary - including rural judicial facilitators to bring justice to poor and remote areas, support for the police including special police stations for women, support for NGO advocacy and a gender equality programme)
- local institution support to increase choice and opportunities for poor people - for example midwifery training, support to UNICEF's work with young people and in the water sector, municipality strengthening.
- Programming to increase economic opportunity for the poor

In line with the PRSP and Sida policy, Sweden expects to move towards longer term, larger scale support. In 2003 61% of disbursements go to 15 projects; this concentration is planned to increase. The Swedish programme covering the period to 2005 was drafted in 2001 but only finalised in 2002 after consultation with the new government and other donors.

Sida has prepared a draft policy advisory note entitled 'A Swedish approach to National Poverty Reduction Strategies, which along with Sweden's new poverty strategy is expected to orient Swedish aid closely with PRSPs.
