

Published by:

Deutsche Gesellschaft für
Technische Zusammenarbeit (GTZ) GmbH

Governance and Democracy Division
Mainstreaming Poverty Reduction Project
QVA@gtz.de

Dag-Hammarskjöld-Weg 1-5
Postfach 51 80
65726 Eschborn
Germany
Telephone: +49 (0) 61 96 79-0
Telefax: +49 (0) 61 96 79-11 15
Internet: <http://www.gtz.de>

On behalf of the

German Federal Ministry for
Economic Cooperation and Development
Division 310: Poverty Reduction, Social Development
Contact: Ms. Astrid Böhm
Astrid.Boehm@bmz.bund.de

Friedrich-Ebert-Allee 40
53113 Bonn
Germany
Telephone: +49 (0) 18 88 535-0
Telefax: +49 (0) 18 88 535-35 00
Internet: <http://www.bmz.de>

This study was conducted on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ). The views expressed are the independent conclusions of the authors. The BMZ views the study as a contribution to the international discussion on the monitoring of Poverty Reduction Strategy Papers (PRSPs). The complete study - the main report and the country cases - is available in German and English. The summary and the country cases studies of Burkina Faso and Nicaragua are also available in French and Spanish.

Study conducted by:

GFA - Management GmbH, Hamburg

Coordination:

Wolf M. Dio, GTZ GmbH

Design, Layout and Production:

Heidi Mohr, CrossLink, Frankfurt am Main

Eschborn, August 2004

Table of Contents

Volume 2: Country study Nicaragua

1.	Origin and Characteristics of Nicaragua's Poverty Reduction Strategy	1
1.1	Poverty reduction strategy and national development plan	1
1.2	Financing the poverty reduction strategy	2
2.	Poverty Monitoring in Nicaragua	3
3.	Monitoring Poverty Reduction Strategies	5
3.1	Monitoring instruments	5
3.2	Institutional responsibilities	11
4.	The Role of Donors in Supporting Monitoring	14
5.	Informational Value of the Monitoring System for the Donors	16
5.1	Expectations of the donors	16
5.2	Informational value of the data on inputs (poverty-relevant expenditures)	16
5.3	Informational value of the data on reform processes	18
5.4	Informational value of data on results (poverty reduction)	19
5.5	Use of monitoring information for the donor dialogue	19
6.	Evaluation of the Monitoring System in Nicaragua	21
6.1	Strengths	21
6.2	Weaknesses	22
6.3	Opportunities	23
6.4	Risks	23
7.	Conclusions for the Country Comparison	23
7.1	Model procedures and avoidable mistakes	23
7.2	Applicability to other countries	24
8.	Annex	26
	Bibliography	31

Acronyms and Abbreviations

CFAA	Country Financial Accountability Assessment
CC	Coordinadora Civil (NGO umbrella organization)
SDC	Swiss Agency for Development and Cooperation
CONPES	National Economic and Social Planning Council
DFID	Department for International Development
EFA	Education for All
EMNV	Living Standards Measurement Survey
ENDESA	Nicaraguan Demographic and Health Survey
ERCERP	Economic Growth and Poverty reduction Strategy (PRSP)
FISE	Emergency Social Investment Fund
FSS	Supplementary Social Fund (special virtual fund to administer HIPC funds)
IDB	Inter-American Development Bank
IEN	Institute of Nicaraguan Studies (research institute that works with the Coordinadora Civil)
INEC	Nicaraguan Statistics and Census Bureau
LSMS	Living Standards Measurement Survey
PAI	Program to Support Implementation (of the ERCERP)
PASE	Project of Support for Monitoring and Evaluation (of implementation of the ERCERP)
PER	Public Expenditure Review
PND	National Development Plan
PRSC	Poverty Reduction Support Credit (World Bank)
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PSAC	Programmatic Structural Adjustment Credit (World Bank)
PSIA	Poverty and Social Impact Analysis
PSMTAC	Public Sector Modernization Technical Assistance Credit (World Bank, to support implementation of the PRSP)
SECEP	Secretariat for Presidential Coordination and Strategies (formerly SETEC)
SIGFA	Integrated Financial Management and Auditing System
SINAID	National System of Development Indicators
SINASIP	National System for Monitoring Poverty Indicators
SNIP	National System for Public Investment (information system to collect data on public investment, including donor-financed projects)
SWAP	Sector-Wide Approach
UNDP	United Nations Development Program

1. Origin and Characteristics of Nicaragua's Poverty Reduction Strategy

1.1 Poverty reduction strategy and national development plan

With an annual per capita income of USD 480 (USD 730 according to newer calculation methods¹), Nicaragua is one of the poorest countries in Latin America and also has a very unequal distribution of income. The **Human Development Index** (2002) places Nicaragua in position 118 worldwide. Achieving the Millennium Development Goals is an urgent matter.

Poverty reduction approaches

Since the early 1990s, there have been donor-induced efforts to introduce **poverty-oriented policies** in Nicaragua. An Emergency Social Investment Fund (FISE) was set up, improving access by the poor to social services. These approaches were less successful in increasing income and employment for the poor.

Prompted by the Enhanced Highly Indebted Poor Countries (HIPC) Initiative, the Nicaraguan government (under leadership of then President Alemán) in 2000/01 drew up the Economic Growth and Poverty reduction Strategy (**ERCERP**), which contained four **strategic pillars**:

1. economic growth and competitiveness
2. development of human capital, above all that of the poor
3. social security, above all for vulnerable groups
4. good governance and institutional development.

According to the assessment of the donors, the new government of Bolaños, in office since the beginning of 2002, is seriously attempting to **operationalize** the strategy. The strategy contains a matrix with a plethora of indicators. In October 2003, the government presented a second progress report, oriented to this scheme. The Coordinadora Civil, an umbrella organization of several hundred civil-society organizations, responded with its own – dissenting – assessment.

Integrated development plan

The **National Development Plan** (PND), a supplement to ERCERP presented in 2003, provides details of the planned measures to promote economic growth (the first priority of the PRSP). Among other things, it proposes procedural simplifications to promote private investment, concentration of public investment on the development of medium-size cities and economically relevant infrastructure, and promotion of vertical clusters to diversify the economy. The measures to promote good governance named in pillar 4 of the ERCERP are also taken up in the

¹ The methodological differences are unknown.

PND. Transparency, citizen participation, fighting corruption, and accountability are explicitly mentioned.

1.2 Financing the poverty reduction strategy

Nicaragua is one of the most highly indebted countries. Its entire **foreign debt** is around 160 percent of GDP; in addition, public domestic debt is around 40 percent of GDP. Debt relief under the HIPC initiative is thus a central motivation for political reforms. From 2001 to 2003, USD 235 million of Nicaragua's foreign debt was forgiven, including EUR 145 million owed to Germany. In total, debt relief of USD 4.5 billion is expected. The freed-up HIPC funds are to be placed in a "virtual fund"² (Supplementary Social Fund) and then used for poverty reduction.

Budget deficit limits scope to maneuver

A particular challenge for poverty reduction is to secure the financial resources for social infrastructure and increased incomes while at the same time reducing the enormous **budget deficit**. In 2002, with economic growth of only 1 percent, the deficit peaked at over 10 percent of GDP, and in 2003 it was 8 to 9 percent (with economic growth of 2.3 percent). In view of this, Nicaragua negotiated a new stand-by agreement with the International Monetary Fund (IMF) in the form of a Poverty Reduction and Growth Facility (PRGF) for over USD 110 million, the payments of which were tied to strict budget discipline and the gradual elimination of tax preferences. The conditions of the PRGF are coordinated with the above-mentioned PND. Monitoring macroeconomic and fiscal development is poverty relevant because the enormous budget deficit limits the scope for policy formation, and thus for poverty reduction as well. Gaining room to maneuver also opens up the possibility of active poverty-related policy.

Structural adjustment credits with a new model

In the first half of 2003, the World Bank financed a first-time program-oriented **structural adjustment credit** with various reform conditions (Programmatic Structural Adjustment Credit - PSAC). Building on that, in 2004, a Poverty Reduction Support Credit I (PRSC I) in the amount of USD 70 million will explicitly support implementation of the poverty reduction strategy. This is a complex reform program that encompasses measures for budget reform, increased efficiency of the public administration, and decentralization. Also foreseen are measures to promote growth and improve basic services in the areas of education, health, and water / sewage.

The complete PRSC program, extended over several years, does not contain a **catalogue of objectives** that remains constant for each of the individual projects of one to two years (foreseen to date are PRSC I with two tranches and PRSC II). The overall goal of the PRSC is to make a

² "Virtual poverty funds" are funds that are earmarked for a particular purpose. In contrast to the "social funds", no organization is set up for the transactions; instead, the use of funds is documented through the accounts. Virtual funds are used as an interim solution in countries where the classification of budget items does not permit the drawing of clear conclusions about whether funds are used for poverty reduction.

contribution to poverty reduction in Nicaragua by supporting implementation of the ERCERP, which aims to reduce the percentage of extremely poor persons from 19.4 percent of the population in 1993 to under 15 percent initially by 2005 and then to 9.3 percent by 2015.

The PRSC will concentrate on selected areas of the above-mentioned strategic components of the ERCERP. The first tranche of PRSC I emphasizes measures in the area of good governance and institutional development; the second tranche stresses economic growth and competitiveness. Indicators are set out in a **policy matrix**. To a very great extent, they refer to the introduction of political reforms by the parliament; performance must therefore often be qualitatively evaluated.

There has been progress in finding **sources of finance** for the reform program. The program proposal for the PRSC I was approved by the World Bank Board of Directors on January 22-23, 2004. In the same week, the IMF Board met. Both bodies certified achievement of the HIPC Completion Point, which is relevant for debt relief, thus making the above-mentioned volume of funds available for poverty reduction. German Financial Cooperation (FC) will co-finance the PRSC with EUR 4 million.

Technical assistance supplements poverty reduction credits

Furthermore, the World Bank and various bilateral donors provide comprehensive **technical assistance** (USD 23.5 million) for implementation of the PRSC in the framework of the Public Sector Modernization Technical Assistance Credit (PSMTAC). The European Union (EU) is preparing sectoral budget assistance for the educational system (EUR 50 million), parts of which are directly relevant to the poverty reduction strategy (PRS), and this is flanked by an institutional support project. World Bank, bilateral, and EU technical assistance includes, among other things, support of PRS monitoring. The Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), the Department for International Development (DFID), and the United Nations Development Program (UNDP) are supporting implementation (and possibly also monitoring) of the ERCERP at the municipal level (see Section 4).

2. Poverty Monitoring in Nicaragua

Poverty maps show the regional distribution

Systematic poverty monitoring was introduced for the first time in Nicaragua – as in many other Latin American countries – at the beginning of the 1990s in connection with establishment of the FISE social fund. Building on data from the general census and the household survey, **poverty maps** were drawn up: these constituted the basis for the weighted allocation of FISE resources according to need. The poverty maps did and do entail serious methodological weaknesses: they often reflect only imperfectly the heterogeneous reality in smaller areas and are seldom updated; the prospect of funds allocation according to need does not create incentives for improved performance and efficient use of resources at the local level. However, without a doubt, the poverty maps are well known, understood, and accepted at all administrative levels in Nicaragua.

Household surveys are updated

Parallel to the creation of poverty maps, the methodology of **official statistics** has been substantially improved in Nicaragua since the 1990s with the help of various donors (Inter-American Development Bank – IDB, UNDP, Norwegian Agency for Development Cooperation – NORAD) under the leadership of the World Bank. This support is being continued. The Living Standards Measurement Survey and the sectoral surveys (e.g., the Nicaraguan Demographic and Health Survey - ENDESA) have benefited in particular from this support. There are now three high-quality household surveys from the years 1993, 1998, and 2001, which serve as a reference for government poverty reporting and World Bank reports. They provide geographically disaggregated data that permit conclusions to be drawn about the development of urban and rural differences, among other things.

The state of socio-economic time series data is considerably better in Nicaragua than in the **neighboring** Central American **countries**: it is comparable to the quality of data in the Andean countries, where statistical systems were reformed, in part, already in the 1980s. As in most Latin American countries, the Nicaragua Central Bank also has its own research department that generates reliable data on macroeconomic developments.

In the course of developing the ERCERP and the PND and in the accompanying donor dialogue, the interest of the Nicaraguan central government in poverty-related **analysis of processes and causes** increased significantly. With financial support from the World Bank, the government commissioned several analyses of the social and distribution results for two poverty-relevant themes (see Section 3).

The **line ministries** have also been collecting a great deal of often poverty-relevant data for a long time. However, evaluation and analysis are centralized; much of the data is not disaggregated or locally analyzed. Often, no conclusions are drawn from the findings, or there is no resulting local accountability. The derivation of regional responsibilities from the sectorally defined Millennium Goals (and analogously for local economic development) is among the greatest challenges in implementing the poverty reduction strategy.

Citizen participation still underdeveloped

Citizen participation in administrative activity is a relatively new concept in Nicaragua; it has no precedent in the political models of the 1970s, 1980s, and 1990s (dictatorship, Sandinism, formally democratic oligarchy). Discussion of civil-society participation as a creative resource has increased since Hurricane Mitch. Civil control mechanisms (*auditoria social* or *contraloria social*) are being promoted, but have not been operationalized. There has been no systematic survey of satisfaction with public services (e.g., through Citizen Report Cards).

3. Monitoring Poverty Reduction Strategies

3.1 Monitoring instruments

A number of monitoring instruments were developed for policy monitoring in Nicaragua or are already in use. Of these, the following have direct relevance to the ERCERP:

- the National System for Monitoring Poverty Indicators (SINASIP), a concept that has now been revised, but not yet implemented
- the progress reports of the government on ERCERP implementation and dissenting civil-society presentations.

Additional monitoring instruments, which are only indirectly relevant to the ERCERP, but are nevertheless fundamentally important, include:

- disaggregated, sector-specific monitoring systems, without which the development of sectoral strategies – direct components of the ERCERP – would not be possible
- the National System for Public Investment (SNIP) and the Integrated Financial Management and Auditing System (SIGFA), two instruments that aim to increase planning and transparency in regard to the public budget.

Other individual studies that are directly or indirectly relevant to the ERCERP are:

- Poverty and Social Impact Analyses (PSIA), which help to assess policy results
- various World Bank studies in conjunction with the PRS process and awarding of the PRSC.

These instruments will be described in detail below.

The SINASIP monitoring concept

In 2003, a four-part concept for monitoring the ERCERP, the National System for Monitoring Poverty Indicators (SINASIP), was drawn up with the assistance of the Inter-American Development Bank. It encompasses the following levels: (i) a monitoring plan with 33 intermediate indicators that are logically connected to the Millennium Goals (see the annex), (ii) institutional responsibilities (who supplies what information?), (iii) sectoral analyses and evaluations (to orient the sectoral strategies to the ERCERP), and (iv) incorporation of the civil society. Because IDB financing was extended only to the concept, this proposal was not systematically implemented. However, the indicators selected formed the basis for government progress reports to date (see below).

A comprehensive monitoring system is the goal

In December 2003, the unit in the Presidency concerned with PRS coordination presented a **revised monitoring system** for both the ERCERP and the now-available development plan. This is not a completely new approach, but an expansion of poverty monitoring to include economically-relevant indicators. Furthermore, the above-mentioned set of indicators are to be evaluated in order to determine if the level to be attained is still appropriate and if supplements are necessary or deletions are possible (e.g., of indicators that have already been achieved or no longer reflect a problem in Nicaragua, or the measurement of which is linked to disproportionate costs).

Furthermore, the proposal contains the general stipulation that part of monitoring data should be made available to the general public through the internet, while other parts should be reserved for the government's intranet. Details of implementation – like the financing – have yet to be arranged. It is expected that the additional costs of data collection and harmonization will be financed through technical assistance from the World Bank.

Government progress reports and the alternative perspective of the civil society

Annual progress reports

The government produces annual **progress reports** on implementation of the ERCERP and the PND (including the Millennium Goals). Two comprehensive reports have been produced to date. They refer to all priority areas and sub-themes of the ERCERP, the MDGs relevant to Nicaragua, and the intermediate indicators. Progress, setbacks, and outstanding activities / gaps in the availability of data are clearly described (see Section 5 for details of the informational value).

Progress reports on monitoring are not explicitly addressed to a specific **target group**. Nicaragua's extensive dependence on external financial assistance (for poverty reduction, among other things) automatically results in a certain compulsory orientation to the information needs of the donor community. Because of the private-sector orientation of the present government, circles around the Presidency also mention the private sector as a target group for monitoring information. Information about implementation of the PRS has not yet been widely disseminated.

Divergent assessments by NGOs

The umbrella organization of the civil-society organizations, the *Coordinadora Civil*, has attempted to present an alternative perspective on government monitoring in various opposing assessments and in the framework of the German-supported development-cooperation project *Fomento de la Participación de la Sociedad Civil en el Monitoreo, Seguimiento y Retroalimentación de la ERCERP* (promoting civil-society participation in monitoring, evaluation, and feedback). The results are generally considered to be modest and there are complaints that **the civil society** is not systematically involved in follow-up of the ERCERP. The publications contain a great many interesting suggestions, some of which have also been taken up. However, their operational usefulness is limited by the fact that the umbrella organization does not have complete information about what is going on in the government camp and does not

always correctly interpret data from micro-censuses and government progress reports.

Disaggregated sector-specific monitoring systems

Just as important as the link between central-government and local monitoring dimensions is support of national PRS monitoring through disaggregated, sector-specific monitoring systems, which throw light on the quality of government services in sectors closely related to basic needs, such as the educational system, the healthcare system, and water supply. The development of such systems is closely tied to the development of sectoral strategies and sector-wide approaches.

Heterogeneous approaches at the sectoral level

In Nicaragua, the educational system has not made much progress in this respect, despite inclusion in the Education for All (EFA) Fast-track Initiative. With respect to water supply and sewage disposal, the debate about the quality and efficiency of supply is still strongly overshadowed by fears of involvement with private operators. The greatest progress has been made in the health sector. In connection with passage of a new health care framework law, a demanding monitoring system was developed (see box) and the government initiated an evaluation of the various primary health care models promoted by donors.

Box 1: Avant-garde monitoring in the healthcare system

In 2002 and 2003, the Nicaraguan **Ministry of Health** developed a – for Nicaragua – very demanding monitoring system for primary health care in conjunction with the introduction of a new healthcare framework law. It encompasses the entire results chain of government interventions, including customer satisfaction. The service providers relevant at this level (healthcare stations and centers) must submit regular, detailed reports every three months. The following levels are included:

- inputs / resources: infrastructure, equipment, human resources, and income
- processes: e.g., planning and management information, quality control, mechanisms to analyze problems, and rectification of contradictions
- outputs: range and quality of services as well as user satisfaction (e.g., with waiting times and availability of medications)
- impacts: degree of local achievement of the Millennium Goals and related data (e.g., analysis of all cases of death at birth).

If it proves possible to apply the system throughout the country, important effects can be expected in terms of transparency. For example, it would be possible to explain why, despite rapid increases in expenditures for medication in the public healthcare system, the standard complaint (especially by poor citizens) is the unavailability of medications.

In the framework of its health program, the GTZ helped train staff members in the application of monitoring instruments.

SNIP and SIGFA: planning, information, and control systems for government financial management

Additional planning and information systems

Two new planning, information, and control systems for government financial management are intended to aid the planning and follow-up of poverty-oriented policies: (i) the SNIP system to collect data on public investment, and (ii) the more comprehensive information management system SIGFA.

The **SNIP** is supposed to help make overall public investment planning more rational and to balance costs against results. It is to be an initial filter for the usefulness, appropriateness and prioritization of investments, complementing the existing instruments such as feasibility studies but not replacing them. Furthermore, monitoring implementation should help to uncover procedural obstacles and introduce corresponding measures to speed things up. Representatives of the central government close to the private sector emphasize above all the latter aspect (“...should see that things finally happen”), while advisers to the affiliated Project of Support for Monitoring and Evaluation (PASE – see below) highlight, first of all, the opportunities for citizen participation at the decentralized level (“to know, at last, what is actually going on”). Because the system is under construction and the first budget to be prepared using the intended procedures will be in 2005, it is not yet possible to say anything about its effectiveness.

Furthermore, since 2002, the Integrated Financial Management and Auditing System (**SIGFA**) has gradually been introduced in all central government and public institutions in order to collect data on expenditures and public contracts timely and make it available to the public. SIGFA is to replace the multiplicity of existing manual and electronic systems and facilitate access to transparent information by citizens, government authorities, and investors through networking. Furthermore, SNIP and SIGFA are to prepare and facilitate the introduction of **medium-term financial planning**, slated to begin in 2005. To date, 33 central-government agencies are connected to the system (including 25 ministries); however, not all offices are linked with all modules.

Implementation still in preliminary stages

The **user-friendly design** of the systems is hindered by the fact that there is no exact information on which target groups are seeking what information and to what end and by the fact that the legislature has not yet specified the substance of the public sector's “obligation to be transparent.” Donors complain that access to SIGFA data is extremely slow and that data are not available in useful formats (e.g., the 2004 budget plan is available in Word, but not in Excel). Links and search functions that would make data search easier for laypersons are absent (e.g., on the homepage of the Education Ministry there is no “budget” category, even when this ministry has entered data into SIGFA).

Up to now, neither system can produce **specifically local** data (e.g., transfer to school x or project y in district z), although social control could become effective primarily at this level. Given the enormous technical difficulties accompanying the networking of all public agencies, the World Bank, as the most important donor, has up to now favored first

consolidating the connections between central agencies and SIGFA and then expanding to the decentralized levels.

**New possibilities
for the Audit
Office**

Nevertheless, SIGFA theoretically opens up a whole new vista of possibilities for the work of the **Audit Office**: while reports of the Audit Office are usually available quite a while after completion of the budget year (often too late for corrections), with the SIGFA system, the auditors could theoretically follow implementation of budget plans on their computer monitors as it occurs (real time). The effectiveness of these audits is directly dependent on the extent and quality of entered data and the number of deployed auditors.

As of yet, nothing can be said about the effectiveness of these methods of uncovering misappropriation of funds, as most queries currently concern incomplete data entries and logical inconsistencies (which in no way should always be equated with mistakes in the use of funds). The preliminary conclusion of the GTZ advisor assigned to the Audit Office is that the new technical possibilities can supplement, but not replace, on-site audits, although a preventative, deterrent effect may unfold in some cases (if the person misappropriating funds knows that s/he could easily be discovered).

PSIA to assess policy results

**Preventative
research into
policy results**

PSIA (Poverty and Social Impact Analysis) is recognized in Nicaragua as an instrument for preventative **assessment of policy results**. To date, three such analyses have been carried out, two under the conceptual leadership of the government and one under World Bank leadership. The available PSIAs deal with the following themes: (i) tax reform, (ii) the EFA plan for primary education, and (iii) structure of public investment. The results of the former studies should reduce resistance to the corresponding policy reforms; the results became part of the second ERCERP progress report. The third report is not yet available; it is supposed to be incorporated into the policy dialogue with the line ministries on poverty-oriented focusing of government investments.

World Bank studies

**World Bank
methods are
applied**

In addition to the above-mentioned PSIAs, in the course of preparing their PRS credit, the World Bank carried out a number of studies on specific aspects of public use of funds and an assessment of **fiduciary risks**. These include (i) a Public Expenditure Review at the end of 2001, (ii) a Country Financial Accountability Assessment in May 2003, and (iii) a Country Procurement Assessment Review in June 2003. Because these studies include action plans, which, in turn, became part of the conditionality of the PRSC, they are an important reference point, both for this area of government PRS monitoring and for the design of the accompanying Technical Assistance Loans.

The central criticisms and the agreements based on them are presented in the following boxes.

Criticisms from the World Bank's Country Financial Accountability Assessment (2003)

Given that there is as yet no medium-term financial planning, the costs in the current and upcoming years resulting from investment are not apparent in advance. Furthermore, not all development cooperation payments are included in the data, and not all income of local and regional governments and autonomous institutions (e.g., universities) is reported. These factors limit the informational value of the budget.

Effectiveness of control mechanisms: the Audit Office does not have adequate equipment and materials; there is a lack of external (non-governmental) audits; furthermore, the IMF has observed that reporting by the Nicaraguan Central Bank does not meet international standards in all methodological aspects.

Lack of transparency: despite the introduction of SIGFA, public access to budget information is difficult, as the data are not presented in a form that is accessible to laypersons; not all expenditures are entered into the system and not all institutions participate; expenditures can be functionally classified, but the spending behavior of individual offices cannot be easily compared with that of others with respect to the efficiency of funds use.

Agreements between Nicaragua and the World Bank concerning the PRSC

In order to improve transparency, the right of public access to budget information must be anchored in law. The government will continue to regularly (at least annually) report on implementation of the ERCERP and poverty-relevant expenditures. The form of reporting and the delineation of these expenditures will be agreed with the donors.

Additional agreements refer to consistent implementation of the decentralization process now underway, e.g., through guarantees for the financial transfers and preparation of implementing regulations for financial and investment planning by the municipalities.

The Policy Matrix takes account of the concerns expressed in the Country Financial Accountability Assessment (CFAA) through specific agreements on transparent financial management: in future, all donor payments are to be registered with the Finance Ministry and transacted by way of a single account. This should, on the one hand, complete the budget as a reflection of all available public resources; on the other hand, it should prevent overlaps and improve the predictability of resulting costs.

The foundation for improvement in the procurement system is agreement on a framework law to reform the civil service and a gradual adjustment of terms of reference and staffing to the new standards. Thus, this new law is one of the key conditions in the Policy Matrix.

In order to improve transparency, public contractors should use uniform tender documents in the medium term and public contracts should be recorded in the SIGFA information system.

3.2 Institutional responsibilities

Coordination in the Office of the President

Institutional responsibility for PRS monitoring is equally shared by the **Office of the President** and the Finance Ministry. According to the current division of tasks, overall coordination and reporting are coordinated by a unit in the Office of the President (Secretariat for Presidential Coordination and Strategies – SECEP, formerly SETEC). It does not collect any data itself but is supposed to gather information from primary sources (line ministries, regions, the Central Bank), harmonize it, and compile it for the progress reports. If needed, the SECEP can request additional data or studies from other ministries and government agencies.

The SECEP unit employs about 50 staff members, of whom 15 are trained **specialists**. They are assigned to the following areas:

- sectors closely related to basic needs (the "social sectors": education, health, social housing, water supply, segments of the population in precarious living conditions)
- SNIP planning system
- macro-economy
- Supplementary Social Fund for allocation of HIPC funds
- regional advisory services within the framework of PASE
- citizen participation, social control
- public relations.

The current staffing level is extremely tight in view of the breath and depth of the information required for monitoring. Around half of the entire staff is assigned to the above-mentioned SNIP information system, reflecting the priorities set by the current government. A core team of 25 people located in the Office of the President plus two or three people per province are setting up a poverty-oriented investment budget for this purpose, incorporating local priorities while taking into account financial limitations. In contrast, too little work is being done on the time-consuming mechanisms in the area of citizen participation and broad-based public relations. SECEP is presently being assisted by several donor-financed "staff consultants" and is to be further strengthened in the framework of the PSMTAC.

New role for the Finance Ministry

The **Finance Ministry** is responsible for the aspects of monitoring that deal with the budget, its implementation, creation of a medium-term financial plan, and the SIGFA system. Many of the agreements based on the CFAA (described in Section 3.1) concern the Finance Ministry and especially the SIFGA. At the encouragement of the World Bank during the PRS process, an economic department with nine people was set up to focus on securing income, internal controls, and coordination, among other things, in order to expand the ministry's limited expenditure horizon. Because of recent staffing changes, information about the effectiveness of this organizational reform is not yet available.

In the technology department concerned with setting up SIGFA, 65 consultants and 35 additional electronic-data-processing experts are working only on setting up and installing the system and on the related staff training in the affected government agencies. In addition, some staff are employed in a new call center, which is intended to answer the questions of citizens as part of the new transparency policy. However, the acute lack of qualified electronic-data-processing technicians who are familiar with the creation and maintenance of networks (or the migration of newly trained experts to the private sector) causes considerable difficulty. Hiring consultants raises costs and also entails a certain risk because they sometimes deal with large amounts of classified data. This situation hinders a rapid, widespread introduction of SIGFA.

Complaints department for citizens

The special role of the **Audit Office** in PRS monitoring results, on the one hand, from the networking of this office with the SIGFA system and, on the other hand, from the establishment of an ombudsman (complaints office) in which citizens can report any suspicious proceedings. So far, three auditors have begun processing the available SIGFA data, largely from several priority programs. It has become apparent that this plausibility check does not replace an on-site audit, but it increases the conscientiousness of the administration overall. Processing citizen reports (about 120 a year), which is important for the credibility of the transparency policy, has proven to be time consuming, as the complaints often concern relatively small amounts. The Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH – German technical cooperation – is helping the Audit Office design audits; other donors are contributing to travel costs.

The **division of labor** between SECEP and the Finance Ministry is basically adequate; however, there are interfaces that require intensive coordination – for example, public relations for SIGFA and the prevention of overlaps between SIGFA and SNIP. Previous experience has also shown that coordination between strategic aspects of the PRS approach (SECEP) and technical implementation in a poverty-oriented budget (Finance Ministry) must be learned and is a slow process of convergence.

Increased need for coordination

Because other government agencies deal with data relevant to monitoring and evaluation (e.g., the Ministry of Foreign Affairs with respect to donor pledges), the government set up its own special **task force**, coordinated by the Finance Ministry, to monitor the PRSC Policy Matrix. To date, members have been delegated by the following institutions: SETEC, the Ministry of Finance, the Central Bank, and the Association of Municipalities; these are primarily financial experts who will likely be supplemented by experts from the social sectors. A former Central Bank expert will head it up. A local expert underwritten by Financial Cooperation will support the task force. It is not yet possible to say anything about the effectiveness of this mechanism.

Future role of civil society is unclear

The civil society was involved in formulating the PND by means of a commission called **CONPES** (National Economic and Social Planning Council) comprised of 60 members, some of whom were appointed by the government. A series of consultations at the provincial level were organized, in which 1000 persons have already participated. This process

is almost completed. CONPES has the right to make proposals to the government, but it is not clear whether the body will play a role in monitoring or the integration of ERCERP and PND, through its specialized commissions. This lack of clarity is generally considered to be unacceptable.

Because all three instruments mentioned in Section 3.1, and also the task force, are in the process of being set up, no final evaluation can be made to determine whether the **structure and responsibilities** of the coordinating bodies are adequate. Tying SETEC to the Office of the President theoretically opens up real possibilities to balance special interests. The informational value and robustness of the monitoring data will ultimately depend on the extent to which it is possible to continue to enlist staff members for this task and to incorporate and harmonize the information available in various institutions.

Box 2: Decentralizing investment planning and monitoring

Poverty-related monitoring of funds allocation and results **at the provincial and municipal levels** is not yet being implemented, but will become increasingly important in the future. The law on financial transfers, passed by the parliament in July 2003, helps to improve good governance by introducing fiscal decentralization: in future, at least 4 percent of total tax revenue will be transferred to the 151 municipalities, more than double the previous amount. The transfer quota are supposed to be increased further (up to 10 percent of all tax revenue).

In order to establish feedback between the national priorities of ERCERP / PND and decentralized implementation, the government created the **PASE** project (Project of Support for Monitoring and Evaluation of the ERCERP). PASE is supposed to improve the quality of planning and monitoring at the provincial and municipal levels and employ the above-mentioned SNIP system at the decentralized level. The establishment of liaison offices has begun in a good third of the provinces; they are now supposed to focus primarily on prioritizing public investment (i.e., decentralizing the SNIP system) and thus work together with both the municipalities and the development councils at the provincial and municipal levels.

The objective is for local priorities to be taken into account in planning supra-local investments, but also for central-government priorities to be discussed and harmonized with subordinate agencies. Furthermore, the PASE teams are supposed to meet needs for information on pending global changes (e.g., discuss the effects of the new free-trade zone with the USA) and even concern themselves with prospects for sustainable investment. Their precise role in PRS monitoring has not yet been defined. External observers fear that concentration on the area of public investment could be accompanied by neglect of overall expenditure planning (above all of current costs) and failure to motivate the civil society.

4. The Role of Donors in Supporting Monitoring

In Nicaragua, the **World Bank** clearly plays the **leading role** in conceptual and financial support of the ERCERP / PND and thus in the accompanying monitoring activities. A poverty reduction specialist, who has for many years accompanied both the reform of official statistics and the emerging PRS monitoring and its components, is working in the World Bank office in Managua. German Financial Cooperation, which co-financed the World Bank PRSC, will provide an expert to support the work of the inter-institutional task force in the Finance Ministry, described in Section 3.2.

Ambivalent attitude towards the World Bank

Although the dominance of the World Bank is viewed with mixed feelings by the government, many donors, and civil-society organizations, its **methodological approaches** are widely recognized to be path-breaking. This refers, on the one hand, to the above-mentioned studies on fiduciary risk and, on the other hand, to the assessment of policy results. The World Bank guidelines for implementation of the PSIAs are also applied by German development cooperation in corresponding studies.

Coordination between the World Bank and other actors varies widely. Because the PRSC is co-financed by the Kreditanstalt für Wiederaufbau (KfW) – German financial cooperation – the evaluation was carried out jointly with that organization. The **exchange of information** usually functions quite smoothly, though sometimes with delays. Previous cooperation has shown that establishing networks of colleagues at the working level greatly facilitates cooperation, given that the World Bank does not automatically recognize German development cooperation as an equal partner.

Technical assistance in conjunction with bilateral donors

The **technical assistance** of the World Bank for the PRSC in the form of the PSMTAC, referred to above, will likely be co-financed by various **bilateral donors** (the Netherlands, Denmark, and Great Britain). At the end of January, there was a joint mission of these donors and the European Union (EU): the other donors were informed of the results. Several donors are expected to provide global financing assistance to this endeavor, while others will take over the financing of certain components. Details of the effects on PRS monitoring are not yet available.

participates

German Financial Cooperation plans to participate in the PSMTAC starting in 2004/2005. German technical cooperation (GTZ) is also supporting the establishment of several decentralized liaison offices of the above-mentioned PASE project as part of its decentralization program and could thus be more involved in future PRS monitoring at the local level. The UNDP, SDC (Swiss Agency for Development and Cooperation), and DFID are also helping to set up PASE infrastructure, although the financial contributions are small in comparison to PSMTAC. The German contribution is about EUR 1 million.

Besides GTZ, Oxfam, Catholic Relief Services, the Friedrich Ebert Foundation, and others have financially supported the **Coordinadora Civil** in its preparation of the evaluations mentioned above in order to strengthen the influence of the civil society in the PRS process through pressure on the government.

Since 2002, the **Budget Support Group**, an open working group of all donors interested in program-oriented approaches (e.g., the Nordic countries, the Netherlands, DFID) has been playing an informal or indirect role in PRS monitoring. The German embassy has periodically followed the meetings. Discussions have particularly concerned the advantages and disadvantages for smaller donors of various “aid modalities” in program assistance (e.g., basket financing independent of the World Bank, co-financing World Bank credits, payment of funds into a trust fund, delegation of funds management to the UNDP).

The role of the **IMF** in PRS monitoring is limited to observation of the macroeconomic framework and recommendations on Nicaragua’s debt capacity and total current costs. Questions concerning the poverty-related design of reform processes (e.g., reform of the civil service or the structure and distribution of investment) are left to the World Bank.

Despite the large financial volume in Nicaragua, the **IDB** is not perceived as a key conceptual actor in the PRS debate. According to available information, an IDB-financed program to support PRS implementation called PAI has concentrated on occasional local material donations; an evaluation expressed doubt about the effects of these donations. There is no information about suggestions for the monitoring system. Nevertheless, the IDB – with the World Bank, UNDP, and NORAD – is among the co-financiers of the project to improve official statistics.

Box 3: Suggestions for German development cooperation

In view of the increasing importance of multi-lateral Technical Assistance Loans that accompany the PRSCs, it has been suggested that, in the future, GTZ at least consider participating in such transactions instead of insisting, from the beginning, on a self-selected “niche position”. This might also facilitate the exchange of information with the World Bank at times.

With respect to the increasing importance of program assistance and widespread misgivings about the dominant position of the World Bank, German development cooperation should make use of all possibilities to discuss alternative forms of cooperation with other bilateral donors (basket financing among bilateral donors, mixed baskets of credits and grants, technical cooperation baskets...).

Support of civil-society and perhaps also private-sector participation in PRS monitoring, e.g., through alternative assessments or case studies, is an important corrective measure to the somewhat government-dominated PRS approach and should be pursued by German development cooperation. However, the GTZ should not limit itself to financial assistance alone, but should contribute its experience to the methodological design and presentation of the studies in order to promote the credibility of civil-society activities.

5. Informational Value of the Monitoring System for the Donors

5.1 Expectations of the donors

Gradual emergence of standards

Because the entire PRS approach is relatively new, only gradually is a common understanding arising among the donors concerning what is expected from PRS monitoring. While the overall framework is put in place by the Policy Matrices of the international financial institutions, only parts of these may be important to many bilateral donors or they may wish to also emphasize other areas. Common minimum requirements concern the following:

- extent of poverty-relevant expenditures and use of funds
- information on the implementation of political reform processes linked to the ERCERP / PND
- information on poverty results: attribution of results to inputs; several bilateral donors are explicitly pushing for gender-differentiated indicators.

Furthermore, it is particularly important to bilateral donors that the role of civil society in design and control be clearly recognizable. Since the events in Bolivia in autumn 2003 (fall of the president through a spontaneous uprising due to a controversial investment project with major effects on the budget deficit), this has also become clearer to the multilateral financial institutions.

5.2 Informational value of the data on inputs (poverty-relevant expenditures)

Budget reforms show results

The Nicaraguan **2004 budget plan** is clearly structured and largely transparent. The IMF principles of “fiscal transparency” have been followed. Planned expenditures are listed in detail according to the level where the spending occurs (central government versus regional or municipal governments), the purpose of the allocation and type of cost, department, and specific program. The funds received by the FISE social fund are also reported and it is clear which parts of which programs are being financed by the government budget or from external sources. Credits and grants from foreign donors are reported to the extent that they are known. Allocations of funds to the regional and municipal governments are also classified according to origin of the funds and intended use. Thus, it is immediately apparent to politicians and citizens which investment funds are available for which programs and measures. A comparison with the SIGFA information system, now being set up, would, ideally, provide a transparent overview of current implementation status. In reality, this has been achieved to only a limited degree, because only a few of the public agencies are connected to the system.

An extensive section of the budget plan is dedicated to HIPC funds and their use, as demanded in the **Public Expenditure Review**. There are details on the extent of debt relief granted by particular financial institutions (e.g., IDB) and the program to which these funds have been assigned. If timely reports on the implementation of the programs are submitted, then – again ideally – the amount and the purposes for which HIPC funds were spent will be known at the end of the year (as well as for which executing agencies this was not possible).

Poverty expenditures are still not sufficiently delineated

Particularly interesting with respect to poverty reduction are the **amount and structure of poverty-relevant expenditures**: in the budget for 2004 they are listed as separate entries and classified according to department and program. The classification criteria are explained in the ERCERP. According to this definition, 57 percent of primary government expenditures (i.e., government expenditures minus debt service and expenditures for capital infusions to financial institutions) in the current 2004 budget plan are allocated to poverty-relevant areas. This is a significant increase over the 52 percent in 2002, which also exceeded the 47 percent benchmark stipulated in the Policy Matrix. For the first time, a large percentage (initially 4 percent) of tax revenue will be transferred to the municipalities in the coming year, an important prerequisite for the decentralization of basic government services.

The **category** "poverty-relevant expenditures" is extremely broad and not always comprehensible. It includes, among other things, expenditures with, at best, an indirect poverty connection or which benefit the entire population. The following sub-categories are included: most of the education and healthcare budget; expenditures for the support of families and rural development; all social assistance and the entire budget of the FISE social fund; and transfers from the government budget to subsidiary agencies and institutions, such as, for example, the ordnance survey institute, the electricity agency, or the municipal development institute.

Box 4: Quality and appropriateness of monitoring

The government is making serious efforts in all thematic areas to track expenditures, processes, outputs, and impacts. However, the quality of the results in the individual thematic areas varies greatly. Thus, in the thematic priority area **Human Capital**, for example, it is often the case that there is no or only incomplete data from certain municipalities, because representatives of the line ministries at this level are not in the habit of evaluating data. The data on **Water Supply** are recognized as poor quality; those on the **Educational and Health Care Systems**, in contrast, are comparatively better. The thematic area **Good Governance** also encompasses a multiplicity of very different activities (e.g., financial information systems, fighting corruption), the overall impression of which can be evaluated very differently, depending on the point of view of the observer and how demanding s/he is: thus, the successful prosecution of former President Alemán can be viewed as either a breakthrough (because it is unique in Latin America to date) or a half-hearted show (other corrupt government officials were not prosecuted). Therefore, the annex provides the example of Millennium Goals and intermediate indicators for the thematic priority area Human Capital: Education, Health, Water so that readers can draw their own conclusions.

5.3 Informational value of the data on reform processes

Ownership of good governance...

The second progress report covers all thematic areas listed in the ERCERP Matrix. Especially with respect to the priority area Good Governance, the reports are detailed, process-oriented, and, in parts, very self-critical (e.g., the introduction of measures to fight corruption, range of the modernization projects...). The initiated processes, for example, in the area of citizen participation or various administrative reforms, are precisely documented with respect to status of the process and direct **outputs** (e.g., number of participants as a result of invitations to consultative discussions, number of institutions connected to the new information systems), which goes far beyond the extent of accountability in the other HIPC's in the region.

...but the evaluation is too optimistic

Nevertheless, the **qualitative progress** achieved through the measures introduced is frequently overvalued. Thus, the preparation of strategic development plans at the provincial level is presented as a success, even if in reality these plans have no strategic elements. The webpage of the SIGFA system is viewed as an achieved contribution to transparency, although citizens, NGOs, and even the Audit Office complain about the incompleteness of the entries and the slowness of data transfer (which considerably limits the page's usefulness for this purpose).

Government exaggeration of its reform achievements contrasts with the unmistakable negativism of the umbrella organization **Coordinadora Civil**: without reference to conditions in the neighboring countries or under previous governments, there are complaints, for example, that they were not informed in a timely manner about the details of credit negotiations

with the World Bank or were given too little time to draw up an opinion on the draft PND.

5.4 Informational value of data on results (poverty reduction)

Current data not available for all indicators

The government's second progress report makes detailed comments on the availability of data on fulfillment of the **Millennium Goals** and the intermediate indicators contained in the ERCERP (see the table in the annex). There are current data for less than half of the intermediate indicators (which the umbrella organization smugly describes as failure of the strategy). However, more thoroughly updated reporting on these indicators is almost impossible, because the necessary statistical studies are not carried out on a yearly basis. In this sense, the monitoring system is too ambitious. In contrast, it would be possible to improve processing and disaggregating data from the line ministries.

Except for the Millennium Goal concerning maternal mortality, **gender-disaggregated** indicators are not provided in either the ERCERP or the progress reports. This is justified by the claim that there is no apparent discrimination against girls in school enrolment, medical care, or nutrition and that the number of indicators must be kept manageable.

Numerous supplementary possibilities

The existing indicators reflect neither the development of **employment** nor citizen views on government services and economic developments, both of which are essential for capturing the subjective perception of poverty. The government plans to expand monitoring to include indicators on employment and migration.

The World Bank takes exception to the fact that the **effectiveness and efficiency** of the use of public funds cannot be sufficiently scrutinized, because details of planned expenditures (also poverty-oriented) are not directly linked to the achievement of certain results. Monitoring MDGs and macroeconomic parameters does not provide valuable information because it is not possible to draw conclusions about causality (Was the improvement achieved with this expenditure?) or alternative expenditure options (Could it have been done at a lower cost?). This is undoubtedly true, but is a very demanding attitude, which is very difficult to communicate to the administrations.

Statements of the Coordinadora Civil in its alternate assessment of the progress reports and parallel selective field research offer several suggestions on how to better incorporate **citizen perceptions** into monitoring. However, the methodology of the suggestions has not been carefully developed.

5.5 Use of monitoring information for the donor dialogue

The essential mechanisms through which monitoring information has been used for the donor dialogue in Nicaragua to date have been negotiations between the government and the World Bank about the **PRSC** and between the World Bank and bilateral donors about the

PSMTAC, which builds on it. Both the results of the PRS progress reports and the results of the above-mentioned studies to estimate fiduciary risk entered into these negotiations.

Agreements on the basis of monitoring information

The most important points of criticism from the fiduciary studies of the World Bank were incorporated into the PRSC Policy Matrix and linked with corresponding conditions. Furthermore, detailed **action plans** were prepared and corresponding implementation agreements (memorandum of understanding) were signed with the Nicaraguan government. The above-mentioned observations on the attribution gap in government results-based monitoring were the point of departure for the PSIA on the structure of public investments, initiated by the World Bank.

During the on-site visit to Nicaragua, it became apparent that these agreements are taken seriously by both sides: the World Bank has actively attempted to avoid contradicting the **conditions** of other donors and to enlist other donors in support of the agreed conditions. The SECEP unit, in turn, carefully and continually compares all the agreements with different donors in a thematic area.

At the encouragement of the donors, the government of Nicaragua established a working group in the Finance Ministry to revise the criteria for the definition of **poverty-relevant expenditures** in coordination with the World Bank and also to observe HIPC tracking.

At the time of the visit, the need for **technical assistance** to improve PRS implementation, including monitoring, was being negotiated with a joint mission of the World Bank and bilateral donors. Here, too, the key inputs were the bottlenecks described by the government in the progress report and the above-mentioned World Bank studies, and also the objections of the Coordinadora Civil.

Donors are interested in citizen participation

Numerous **civil-society** suggestions and observations found their way into the PND and also into the progress report by way of the consultations held by CONPES at the regional level. However, the government and the Coordinadora Civil evaluate very differently the extent to which such comments were taken into account. From the point of view of the government, one reason for the difficulties of “civil-society dialogue” is that objections are often not technically supported or carefully considered and that it is difficult to assess how representative the objection is. Although most bilateral donors view the loudly stated complaints of the NGO umbrella organization as exaggerated, they also recognize that the mechanisms for citizen participation in implementation and monitoring the ERCERP are not yet well developed.

The question of how, by which means, and with whom such mechanisms could be further developed is one of the priority areas in negotiations on the PSMTAC.

Demand for indicators must be reviewed

Furthermore, there is agreement between the government and donors that the current list of intermediate **indicators** should be reviewed again in the course of the PSMTAC.

The following aspects should be examined:

- Should indicators that cannot be regularly measured at this time be eliminated, or should the level of demands be lowered?
- Should the indicators (and which ones) be more gender disaggregated?
- Which indicators must be added for greater stress on economic development?
- Which indicators are particularly well suited for monitoring at the local level?
- How and where can social control of and citizen participation in monitoring be strengthened?

6. Evaluation of the Monitoring System in Nicaragua

6.1 Strengths

Clear responsibilities

A strength of the monitoring system in Nicaragua is, first of all, the fact that it exists and is being further developed by the government. With the unit in the Office of the President and the task force in the Finance Ministry, there are clear **responsibilities** and coordination mechanisms, which enjoy high-level support and are thus generally recognized and can encourage changes. Nevertheless, the same data are collected by various government institutions (e.g., the Central Bank, the Ministry of Foreign Affairs, the Finance Ministry) and according to different criteria, which leads to discrepancies during consolidation.

With respect to methodology, it must be viewed as positive that various **monitoring levels** are taken into account (inputs / expenditures, processes / modernization of the state, outputs, and impact indicators...). Quantitative and qualitative indicators are used and provide useful information; however, they could be optimized with respect to data availability.

Anchoring in official statistics

An additional strength lies in the now quite good quality of **official statistics**, particularly data on the standard of living; this does not yet apply to data on the labor market.

For the first time, an ex-president convicted of corruption

In comparison to many other countries, a considerable degree of **transparency** is being sought and has, in part, already been achieved. With the conviction of former President Alemán for embezzlement on the basis of an audit, a signal was sent to all of Latin America.

After the events in Bolivia and in view of the unstable majority in the parliament, it must be viewed as politically beneficial that **civil-society** organizations are fundamentally willing to carry on a constructive dialogue based on the PRS approach.

6.2 Weaknesses

Decentralization delayed	<p>An obvious weakness is the fact that much data and many control mechanisms have until now only been available at the national level and not at the provincial and municipal levels or for local service providers (e.g., schools). This limits the potential for fighting corruption and more efficient handling of public funds and delays the onset of these results. Furthermore, it hinders effective social control, which usually begins at the local level.</p>
Dependence on consultants in the PRS process as well	<p>Another weakness is Nicaragua's extremely high dependence on external aid. Whatever the content, new approaches in the broadest possible sense are always suspected of having been imposed by the World Bank or other "dark powers". The fact that, in addition to the "official" consultants, a large number of government "reform personnel" are also financed by the donors limits identification with the PRS approach. Available surveys indicate that the ERCERP and the PND are not well known at the local level and thus are not creatively implemented or further developed.</p> <p>As in most countries with expanded project experience, various programmatic approaches initiated by different donors exist alongside one other within sectoral agencies and have never been comparatively evaluated by the government. This is a weakness with respect to the integrated ideal of program assistance and also hinders unified monitoring.</p>
Citizen reports undervalued	<p>A further weakness in the monitoring system is that data on subjective perceptions of poverty, status, and the quality of government services are not collected. Citizen Report Cards, an opinion research instrument widely used in Asia, is completely unknown in Latin America. Only very slowly, in the framework of Sector-Wide Approaches (SWAPs), is there growing understanding that customer satisfaction is a good indicator of the quality of reform processes.</p> <p>The new information system SIGFA must be simultaneously further developed and applied by all government bodies if fiscal transparency is to be achieved. However, it is unlikely that both will occur at the same time. There is considerable risk that not all government agencies will be able to apply the system or that interested citizens will not obtain the desired information; in the worst case, both will obtain.</p>
Risks of rapid decentralization	<p>Fiscal decentralization should be viewed as fundamentally positive. However, if it does not prove possible to simultaneously increase planning and implementation capacity and accountability mechanisms in the weaker municipalities, the provision of public services and transparent use of public funds could worsen in the short term. This would very likely affect the quality of poverty reduction and the information available about it.</p>

6.3 Opportunities

Nicaragua as a pioneer in Latin America

If the now approved, extensive new credits for poverty reduction are employed and the existing approaches to improving accountability at all administrative levels are quickly implemented, Nicaragua could make a name for itself – with a calculated amount of effort, a small country could become a **pioneer** in transparent and honest governance. Relatively

simple measures such as the establishment of public ombudsmen (e.g., in the Finance Ministry and the Audit Office) can become a model for the region. Furthermore, the extraordinarily high degree of corruption and embezzlement under the previous government means that improvements can be effectively demonstrated.

6.4 Risks

Uncertainty about political developments

Given the very limited human resources and financial capacities of Nicaragua, there is the risk that **ownership** of the PRS approach, including monitoring, will ultimately remain with the donors and the consultants financed by them, without extending much further. If no appropriate mechanisms for sustainable incorporation of the civil society are found, the potential for social control will also be lost.

In the broad sense, the unstable majority in the parliament is also a specific factor of political uncertainty. It is quite likely that less popular reform elements will be politicized, impacting the reform capacity or reform will of the government. This will also affect PRS monitoring, since the ability to be self-critical decreases with sinking **sovereignty**.

7. Conclusions for the Country Comparison

7.1 Model procedures and avoidable mistakes

Model procedures...

In Nicaragua, the entire PRS debate, including the concept behind the M&E system, is highly nuanced in comparison to that of other countries of the region. However, implementation of the planned measures has not advanced to the point where robust conclusions are possible. In a broader sense, linking poverty reduction and economic growth in an integrated strategy, as promoted by the Bolaños government, can serve as a **model** for poor countries. With respect to PRS monitoring in the narrow sense, the following procedures are viewed as promising:

- operative improvement of official statistics and government information systems parallel to the PRS debate
- coordination of PRS monitoring in a unit of the Office of the President, which provides support at the highest level

- implementation of PSIA's on various controversial policy areas (with donor support)
- development of a sectoral strategy for primary health care (including the pertinent M&E system), in order to provide sectoral support for the PRSP
- donor support for "alternative assessments" of official PRS reports from the circle of NGOs and civil society, in order to stimulate discussion
- incorporation of several donors into PRSP financing and related technical assistance, in order to somewhat counteract the dominance of the World Bank, which is viewed as menacing.

These practices, which are worthy of emulation, stand in opposition to a number of suboptimal to **dubious procedures**. One cannot yet point to avoidable mistakes in connection with the relatively new PRS measures. The problems are reflected in the following phenomena:

...not yet developed in all areas

- A substantial number of PRS reforms are **credit financed**, but they do not directly increase productivity. Particularly noteworthy is the extent of (often international) consulting services required to maintain the pace of reform. Nicaragua is thereby in danger of again being overly indebted a decade after historical debt relief. Current expenditures are strictly controlled by the IMF, but many consulting services are classified as investments.
- The definition of **poverty-relevant expenditures** is a critical parameter for the credible documentation of government inputs to PRS implementation; if this category is much too broadly defined, then it is subsequently difficult to show progress in budget planning using a technically appropriate, but narrower definition.
- If the role of the **civil society** in monitoring implementation is not quickly defined after a phase of intensive consultations in connection with strategy development, a vacuum arises, which can be politically exploited – particularly if the economic situation is deteriorating; furthermore, communicating the opportunities of the PRS at the local level becomes more difficult. This was recognized relatively late in Nicaragua.

7.2 Applicability to other countries

Positive approaches are generally transferable

The monitoring procedures used in Nicaragua can generally be transferred to other countries, as they contain no elements specific to a single country or culture, but instead aim to implement international norms and standards in a coordinated manner.

The sought modernization of the public administration, which would also benefit the control of public spending, depends on a strong and credible president, who can overcome the resistance of the bureaucracy. It also

presupposes a parallel improvement in the education and remuneration of civil servants.

Controlled, limited participation of civil-society groups can only be implemented in cases where these groups are too weak to seriously oppose the government and thus accept limited consultation rights. If this balance does not exist because opposition groups are strong and / or fundamentalist (Bolivia), the extent of citizen participation can become a question of the government's survival.

8. Annex

Overview of selected poverty-relevant data

Nicaragua: Percentage of poor people 1993 – 1998 – 2001 (%)

National				Urban			Rural		
Year	Incidence ^b	Change	Annual change ^c	Incidence ^b	Change	Annual change ^c	Incidence ^b	Change	Annual change ^c
All Poor^a									
1993	50.3	..	..	31.9	..	..	76.1	..	..
1998	47.9	-2.4	-1.0	30.5	-1.4	-0.9	68.5	-7.6	-2.1
2001	45.8	-2.1	-1.5	28.7	-0.4	-0.4	64.3	-0.7	-0.3
Extremely Poor									
1993	19.4	..	..	7.3	..	..	36.3	..	..
1998	17.3	-2.1	-2.3	7.6	+0.3	+0.8	28.9	-7.4	-4.5
2001	15.1	-2.2	-4.4	6.1	-1.4	-6.6	24.7	-1.5	-1.8

Source: Nicaragua LSMS 1993, 1998, 2001. (a) "All poor" throughout this report includes the extremely poor; thus, the extremely poor are a subset of the poor. (b) Incidence measured by the Headcount Index (Po) is the share of the population whose total consumption falls below the poverty line. (c) Annual change is calculated as the geometric mean for three and five years, respectively.

Source: 2003 Poverty Assessment, World Bank.

Inter-temporal comparison of government expenditure, by department

1. Expenditure by department as a percent of total government expenditure

	2002	2003	2004
Education	12.2	11.6	11.0
Health	12.0	13.4	12.7
Transportation	7.0	6.2	7.0
Transfers to regional and local governments	22.8	20.1	23.5
Transfers to the Institute for Municipal Development	1.0	0.8	1.5
Debt service	17.7	22.5	18.8
Total	100	100	100

Source: World Bank calculations as part of the PRSC, expenditures for 2004 according to the budget plan (remainder to 100%: expenditures for other departments and the highest federal authorities).

2. Functional expenditures as a percent of gross domestic product

	2002	2003	2004
Education	4.4	3.9	4.0
Health	3.0	3.2	3.1
Economy	3.9	3.4	3.9
Housing and municipal development	0.8	0.8	1.5
Of this only transfers to municipalities	0.2	0.2	0.7
Defense / Internal security	2.6	2.6	2.5
Debt service	4.0	5.0	4.3
Total	22.4	22.1	23.0

Source: World Bank calculations as part of the PRSC, data for 2004 according to budget plan.

Progress toward achieving the Millennium Goals

Progress toward achieving the international goals

International goal	Base year ^{1/}	1998	2001	2002	Goal 2005	Goal 2015
Reduce extreme poverty by 50%	19.4	17.3	15.1		16.0	9.7
Increase net rate of primary school enrolment to 100%	75.0	75.0 ^{2/}	81.1	84.7	83.4	90.0 ^{3/}
Reduce rate of infant mortality per 1000 live births by 66%	58.0	40.0	31.0		32.0	20.0
Reduce rate of mortality of children under 5 per 1000 live births by 66%	72	50	40		37	24
Reduce rate of maternal mortality per 100,000 live births by 75% ^{4/}	88	118	114	100	93	22

^{1/}: The base year for the goals of international development is generally 1990. Nicaragua does not have all the data for 1990; therefore, the year closest to 1990 was used. For most goals, 1993 and 1994 were used.

^{2/} The figure for the net rate of primary school enrolment is for 1999.

^{3/}: Nicaragua set this goal at 90% instead of the international goal of 100%.

^{4/} Last year, maternal mortality rates were recalculated to include only direct obstetrical deaths; thus the figures have been adjusted.

Source: SECEP, cited in the second government progress report.

Progress toward achieving important process indicators

Progress toward the intermediate indicators of the ERCERP in 2002

Indicator (percentage)	Base year 1999	Goal 2002	Actual 2002	Attainment in percent ^{4/}
1. Central government expenditures for poverty		53.1	51.6^{3/}	97.0
2. GDP growth	7.4	3.7	1.0	27.0
3. Net rate of primary school enrolment	75.0	79.3	84.7	107.0
4. Rate of promotion from the third grade in rural schools	76.6	79.6	71.8	90.0
5. Pupils who complete primary school in six years	32.0	38.0	38.5	101.0
6. Implementation of National System of Academic Evaluation	...	in force	being implemented	
7. Net rate of preschool enrolment	26.0	29.0	27.9	96.0
8. Multi-grade rural schools with six grades	29.0	41.0	40	98.0
9. Annual construction or repair of primary school classrooms	977	490	663	135.0
10. Institutional births	47.0	55.9	49.9	89.0
11. Prenatal care	71.6	81.4	70.5	87.0
12. Early detection of pregnancy (prenatal care in the first trimester of pregnancy)	31.9	38.9	31.8	82.0
Vaccination coverage				
13. 1 dose of BCG	99.0	99.0	93.2	94.0
14. 3 doses of anti-polio	91.0	92.0	85.3	93.0
15. 3 doses of 5-in-1 (pentavalente)	7.0	91	84.7	93.0
16. Anti-polio vaccination, children 12-23 months ^{1/}	83.8		85.7	
17. Incidence of diarrhea, children under 5 years ^{1/}	21.9	n.a.	24.8	n.a.
18. Incidence of respiratory infections, children under 5 years ^{1/}	27.3	n.a.	23.7	n.a.
19. Unsatisfied demand for family planning services by women 15-19 with a partner ^{2/}	27.1	n.a.	19.8	n.a.
20. Unsatisfied demand for family planning by women 20-24 with a partner ^{2/}	19.7	n.a.	17.0	n.a.

Progress toward the intermediate indicators of the ERCERP in 2002

Indicator (percentage)	Base year 1999	Goal 2002	Actual 2002	Attainment in percent ^{4/}
21. Access to reproductive health services for women in childbearing age	21.0	22.0	24.7	112.0
22. Environmental Plan of Nicaragua	...	Approved	Approved	
23. Chronic malnutrition in children under 5 ^{1/}	19.9	n.a.	17.8	n.a.
24. Coverage of National Potable Water Plan	66.5	71.0	72.8	103.0
25. Access to safe water in rural villages	39.0	48.2	49.8	103.0
26. National access to waste water disposal ^{1/}	84.1		86.2	
27. Access to sewage system in urban settlements	33.6	35.8	32.7	91.0
28. Illiteracy rate (persons over 10) ^{1/}	19.0	n.a.	18.7	n.a.
29. Average number of years in school, children 10-19 ^{1/}	4.6	n.a.	4.9	n.a.

1/: This indicator has no established goal for 2002, since it comes from the EMNV. The data refer to 2001.

2/: This indicator has no established goal for 2002, since it comes from the ENDESA. The data refer to 2001.

3/: Includes poverty expenditures related to Hurricane Mitch.

4/: The indicator is considered to be met if the percentage is 97% or higher.

Note: Indicators 17 through 20, 23, and 28 show improvement when the rate is reduced.

Sources: SECEP, BCN, MINSA, MECD, INEC, ENACAL, and MAGFOR, cited in the second government progress report.

BIBLIOGRAPHY

There is a wide variety of publications on the subject of PRSP: someone new to the topic would hardly know where to begin. This bibliography, partially annotated, selects individual contributions that represent core documents or in-depth literature.

The PRSPs, JSAs, and progress reports of all countries are now available to the public on the IMF and World Bank websites. Typing the keyword "PRSP" and the name of the country concerned into the search engine of the respective website quickly leads the user to the desired documents. However, the download time is sometimes still relatively long, as the documents were often scanned and the document size thus may comprise several MB.

- Asche, Helmut 2003. Einige Fragen zur gesellschaftlichen Kontrolle von Armutsstrategien – Hintergrundpapier zum GTZ-Konzept PRSP-Monitoring, Eschborn 2003.
- BMZ, Ref. 120, Evaluierung – Wirkungsmonitoring in der EZ – Synthesebericht, Bonn, November 2002.
- BMZ/GTZ 2002 (Publ.). Beyond the Review: Sustainable Poverty Alleviation & PRSP – Conference Report – Berlin, May 2002. Eschborn, 2002.
- Booth, David & Henry Lucas 2002. Good Practice in the Development of PRSP Indicators and Monitoring Systems. ODI Working Paper 172. London: ODI.

The first comprehensive contribution discussing the indicators that should be used in PRSP monitoring. This includes types of indicators as well as a discussion of the "missing middle."

- Christiansen, Karin & Ingie Hovland 2003. The PRSP Initiative: Multilateral Policy Change and the Role of Research. ODI Working Paper 216. London: ODI.

Chronology of the short history of PRSPs, providing background on the institutional, human resources, and political situation in the donor countries and in the BWIs.

- Coudouel, A., J. Hentschel, and Q. Wodon 2001. PRSP Sourcebook – Chapter on Well-Being Measurement and Analysis – Draft for Comments.

These authors have also published other clear, professional summary articles on the topic of measuring poverty, which efficiently provide technical depth to someone new to the topic.

- DAC 2001. Glossary of Evaluation and Results-Based Management Terms. Draft. June, 2001.
- DAC 2002. Good Practice Reference Paper: Reporting and Monitoring.
- DAC 2002. Report: Meeting of Experts on Reporting and Monitoring.
- Department for International Development (DFID) 1997. Eliminating World Poverty: A Challenge for the 21st Century. White Paper on International Development. London: DFID.
- Department for International Development (DFID) 2001. Meeting DFID's Fiduciary Requirement When Providing Direct Budget Support. London: DFID.

Investigates the question of how budget assistance can meet the fiduciary criteria of British financial regulations given the lack of international standards and procedures and with which means DFID can fulfill the corresponding demands for control in order to support poverty reduction policies in beneficiary countries.

- European Commission (DG Development) 2002, PRSP Review: Key Issues, Brussels 2002.
- GTZ 2000 (publisher). Impact Assessment with a Poverty Focus in Policy Advisory Projects: Concepts, Questions and Cases, Alison Lobb-Rabe, Eschborn, September 2000.
- Heimans, Jeremy 2002. Strengthening Participation in Public Expenditure Management: Policy Recommendations for Key Stakeholders. OECD Development Centre Policy Brief 22.

Describes opportunities and risks of citizen participation in monitoring public expenditures within a PRSP.

- IMF & IDA 1999, Heavily Indebted Poor Countries (HIPC) Initiative – Strengthening the Link between Debt Relief and Poverty Reduction, August 26.

Works through proposals by NGOs on the form of HIPC.

- IMF & IDA 2002, Review of the Poverty Reduction Strategy Paper (PRSP) Approach: Early Experience with Interim PRSPs and Full PRSPs. Washington, March 26.
- IMF & IDA 2002, Actions to Strengthen the Tracking of Poverty-Reducing Public Spending in Heavily Indebted Poor Countries (HIPC), Washington, March 22.
- IMF & IDA 2003, Poverty Reduction Strategy Papers – Detailed Analysis of Progress in Implementation, Washington, September 2003.
- IMF & World Bank 1999. Heavily Indebted Poor Countries (HIPC) Initiative – Strengthening the Link Between Debt Relief and Poverty Reduction, August 26.
- IMF & World Bank (Development Committee) 1999. Building Poverty Reduction Strategies in Developing Countries (DC/99-29), Washington, Sept. 1999.
- IMF & World Bank (Development Committee) 1998, The Initiative for Heavily Indebted Poor Countries – Review and Outlook. (DC/98-15), Washington, Sept. 22, 1998.
- Laderchi, Caterina Ruggeri & Ruhi Saith and Frances Stewart 2003. Everyone agrees we need poverty reduction, but not what this means: Does this matter? Helsinki: WIDER.

Discusses typical problems of poverty measurement, with comments on individual procedures, e.g., PPA.

- Northover, Henry 2000. PRS – Poverty Reduction or Public Relations Strategies? Catholic Fund for Overseas Development (CAFOD).

A key technical contribution from the world of NGOs, one which has frequently been cited. It proposes, among other things, removing the IMF from evaluation / approval of the PRSP, as it has no jurisdiction to force the World Bank to stipulate ex ante the poverty results of policies through results-based analyses, and to separate the HIPC Initiative from the PRSPs in order to achieve rapid effects for debtor countries.

- Pain C. & Renate Kirch 2002. Document Review on the challenges in monitoring the PRSP – An input paper to the working group on poverty assessment, prioritization of political steps and monitoring in the PRSP, Draft for Comments, Berlin, May 8, 2002.
- Prennushi G., G. Rubio & K. Subharao 2001. Monitoring and Evaluation, World Bank PRSP Sourcebook, (Draft for Comments, April 2001).
This is the fundamental contribution of the World Bank to the creation of monitoring and evaluation systems for PRSPs. It serves as an introduction to building up systems and results measurement.
- United Nations 2002. The UN and the MDGs: A Core Strategy.
- United Nations Statistics Division 2004. Handbook on Poverty Statistics: Concepts, Methods and Policy Use. <http://unstats.un.org/unsd/methods/poverty>.
A work in progress, but at a high level. For anyone who wants an overview of poverty statistics.
- United States General Accounting Office 2001. IMF – Few Changes Evident in Design of New Lending Program for Poor Countries. GAO-01-581.
This report concludes, for example, that the transition from ESAF (Enhanced Structural Adjustment Facility) to PRGF did not result in any visible changes in the form of IMF programs.
- World Bank 1990. World Development Report. Oxford, etc.: OUP.
This is the first World Development Report that explicitly took poverty as its subject matter.
- World Bank 1993. Poverty Reduction Handbook. Washington: IBRD.
This is the first World Bank handbook on the topic of poverty reduction.
- World Bank 1998. Assessing Aid: What Works, What Doesn't, and Why, Oxford: Oxford University Press.
- World Bank 2001. Monitoring and Evaluation Technical Notes and Case Studies. World Bank PRSP Sourcebook, Draft for Comments, April 30, 2001.
Contains four technical annotations on various topics and 12 clear case studies in different countries, whereby two are more closely related to PRSP monitoring and others refer more directly to special measures.
- World Bank 2003. Targets and Indicators for MDGs and PRSPs: What Countries Have Chosen to Monitor. World Bank Development Data Group.
Compares monitoring indicators from 27 PRSP countries and makes observations on the realism of defining goal indicators.
- World Bank & DAC 2002. Harmonization of Operational Policies, Procedures, and Practices: Second Progress Report.
Describes various efforts to arrive at common procedures, including those for monitoring and evaluation, which might lessen the burden on recipient countries.
- World Bank & IMF 2001. Guidelines for Joint Staff Assessment of a Poverty Reduction Strategy Paper.

Brief suggestions for implementation and core questions that should be addressed by the JSA. There are similar suggestions for the JSA with respect to Interim PRSPs.

- World Bank & IMF 2002. Guidelines for Joint Staff Assessments of PRSP Annual Progress Reports on Implementation.

The BWIs are guided by these suggestions in their evaluation of the PRSP progress reports.

- World Bank / IMF, Review of the Poverty Reduction Strategy Paper (PRSP) Approach: Main Findings and Issues for Discussion, World Bank, Washington 2002.